**OFFERING MEMORANDUM**

# Klabin Austria GmbH

(*Incorporated in Austria*)

**U.S.$500,000,000**
**3.200% Notes due 2031**

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, is offering U.S.$500,000,000 in aggregate principal amount of 3.200% senior notes due 2031, pursuant to this offering, or the notes.

The notes will be 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.

Interest on the notes will initially accrue at a rate of 3.200% *per annum* and, from and including July 12, 2026, at a rate of between 3.2625% and 3.4500% *per annum*, unless the issuer has notified the trustee that each of the Sustainability Performance Targets has been satisfied, as confirmed by the External Verifier, in each case in accordance with the terms set forth and defined under the heading "Description of the Notes." Interest on the notes will be payable semi-annually in arrears on January 12 and July 12, commencing on July 12, 2021. Unless previously redeemed or purchased and in each case cancelled, the notes will mature on January 12, 2031.

The issuer may, at its option, redeem the notes, in whole or in part, at any time, prior to October 12, 2030 (which is the date that is three 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 12, 2030, 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 will be 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 will be 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 intends to apply for permission to list the notes offered hereby on the Official List of the Luxembourg Stock Exchange and for the notes to be admitted 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.

**An investment in the notes involves risks. See "Risk Factors" beginning on page 22 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 notes: 100.000% *plus* accrued and unpaid interest, if any, from January 12, 2021.**

The initial purchasers expect to deliver the 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 12, 2021.

This offering memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg law on prospectuses for securities dated July 16, 2019

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*Joint Book-Running Managers*

**BofA Securities** **Bradesco BBI** **Citigroup** **Itaú BBA** **J.P. Morgan** **Morgan Stanley**

The date of this offering memorandum is February 8, 2021.

# TABLE OF CONTENTS



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 are to BofA Securities, Inc., Banco Bradesco BBI S.A., Citigroup Global Markets Inc., Itau BBA USA Securities, Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC.

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 Jaguariaíva, 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, 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.**

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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 intends to apply for permission to list the notes offered hereby on the Official List of the Luxembourg Stock Exchange and for the notes to be admitted 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. 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 reserve 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.

None of us, the issuer, nor the initial purchasers is responsible for any third party social, environmental and sustainability assessment of the notes. The notes may not satisfy an investor's requirements or any future legal or industry standards for investment in assets with sustainability characteristics. Investors should conduct their own assessment of the notes from a sustainability perspective. Investors should note that the net proceeds of the issue of the notes will be used for repayment of certain indebtedness and general corporate purposes.

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.

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**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.

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.

**Prohibition of Sales to EEA 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. For these purposes a 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 EU MiFID II / Directive 2014/65/EU (as amended, EU MiFID II), or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (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.

**Prohibition of Sales to UK 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 United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA which were relied on immediately before exit day to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "UK PRIIPs Regulation") for offering or selling the notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**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.

## 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. In case the debtor's illiquidity (*Zahlungsunfähigkeit*) results from a natural disaster (including pandemics) the above mentioned 60 days period (upon which the opening of insolvency proceedings must generally be filed) is extended to 120 days. 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 (*Insolvenzedikt*) 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 (*Kuratorengesetz*) and the Austrian Bonds Trustee Supplementation Act (*Kuratorenergänzungsgesetz*), 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 (*Kuratorengesetz*) and the Austrian Bonds Trustee Supplementation Act (*Kuratorenergänzungsgesetz*). 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, 2020, the exchange rate for *reais* into U.S. dollars was R$5.6407 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$4.0307 to U.S.$1.00 as of December 31, 2019, 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. 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 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, 2020 of R$5.6407 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 and 2017, 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, 2020 and 2019, which is included elsewhere 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, 2020 and for the nine-month periods ended September 30, 2020 and 2019.

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 periods ended September 30, 2020 and September 30, 2019 and our audited consolidated financial information as of December 31, 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 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 financial information, see note 14 to our unaudited consolidated interim financial information as of September 30, 2020 and audited consolidated financial information as of December 31, 2019.

***IFRIC 23 - Uncertainty on the Treatment of Taxes on Profit***

Our unaudited consolidated interim financial information as of and for the nine-month periods ended September 30, 2020 and September 30, 2019 and our audited consolidated financial information as of December 31, 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 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.

Our management believes that disclosure of unit cash cost provides useful information to investors, financial analysts and the public in their review of our operating cost performance and their comparison of our operating cost performance to that of other companies in the same and other industries. However, not all companies use identical calculations and our presentation of unit cash cost may not be comparable to other similarly titled measures as it does not consider certain costs that maybe important for that specific business.

**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, regulatory, 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;
- changes in volumes and patterns of customer demand;
- 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;
- our ability to serve our customers on a satisfactory basis;
- our ability to execute our business strategy, including our growth strategy;
- 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;

- the effects of the novel coronavirus COVID-19 pandemic, or the COVID-19 pandemic, on the Brazilian and world economy and restrictive measures imposed by government authorities to fight the COVID-19 pandemic;
- our ability to implement, timely and effectively, any measure necessary to respond to, or mitigate the effects of, the COVID-19 pandemic on our business, operations, cash flows, prospects, liquidity and financial condition;
- our ability to anticipate and react to, in an effective way, temporary or permanent changes in the behavior of our customers as a result of the COVID-19 pandemic, even after it is sufficiently controlled;
- increases in costs, including but not limited to: (i) operational and maintenance costs; (ii) regulatory and environmental expenses; and (iii) contributions, fees and taxes;
- negative factors or tendencies that may affect our business, market share, financial condition, liquidity or results of operations;
- 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" and our audited consolidated financial statements and unaudited interim consolidated financial information. 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, based on our production capacity in 2019 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. Our Adjusted EBITDA was R$3,594 million and R$3,358 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$4,322 million, R$4,024 million and R$2,738 million for the years ended December 31, 2019, 2018 and 2017. We recorded cash flow from operating activities of R$4,251 million and R$1,902 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$2,953 million, R$2,787 million and R$1,793 million for the years ended December 31, 2019, 2018 and 2017.

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 54% of sales volumes of this business unit in 2019.

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 was built in 24 months, within budget. Total investment was approximately R$8.3 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. 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, which ended in 2019 by mutual agreement with Fibria. The process was designed to take place gradually with the migration of pulp volumes beginning in April and Klabin taking over full responsibility for sales starting in August. After that, we assumed marketing activities, initially mostly in Europe, and afterwards gradually entering new regions, such as Asia (mainly China).

Tetra Pak and Fibria were responsible for approximately 23%, or R$1,740 million of our net sales revenues for the nine-month period ended September 30, 2019, and 13%, or R$1,311 million and 33%, or R$3,261 million, of our net sales revenue in 2019 and 2018, respectively. Tetra Pak was responsible for 12%, or R$1,078 and 13 %, or R$959 million, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$1,311 million, or 13% and R$1,083 million, or 11%, of our net sales revenue in 2019 and 2018, respectively. Fibria was responsible for R$780 million, of our net sales revenue for the nine-month periods ended September 30, 2019, and R$780 million, or 8% and R$2,178 million, or 22%, of our net sales revenue in 2019 and 2018, respectively.

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$3,130 million, or 36% and R$2,542 million, or 34%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,510 million, or 34%, R$3,177 million, or 32% and R$2,951 million, or 35%, of our total net sales revenue in 2019, 2018 and 2017, respectively;

- *Conversion Unit*, which manufactures corrugated boxes and industrial bags, and accounted for R$2,443 million, or 28% and R$2,220 million, or 29%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,009 million, or 29%, R$2,852 million, or 28%, and R$2,675 million, or 32%, of our total net sales revenue in 2019, 2018 and 2017, respectively;

- *Pulp Unit*, which manufactures hardwood, softwood and fluff pulp, which accounted for R$2,920 million, or 34% and R$2,613 million, or 35%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,513 million, or 34% of our total net sales revenue in 2019; 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

- *Forestry Unit*, which produces both pine (softwood) and eucalyptus (hardwood) logs, and which accounted for R$176 million, or 2% and R$199 million, or 3%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$250 million, or 2%, R$316 million, or 3% and R$330 million, or 4%, of our total net sales revenue in 2019, 2018 and 2017, respectively.

For the nine-month period ended September 30, 2020 and for the year ended December 31, 2019, we sold 2,617 thousand tonnes and 3,327 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$8,657 million and R$10,272 million, respectively. Approximately 47% of our production is exported to approximately 85 countries on five continents and, as of September 30, 2020, we and our subsidiaries had 14,838 employees and generated approximately 22,682 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 85 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.

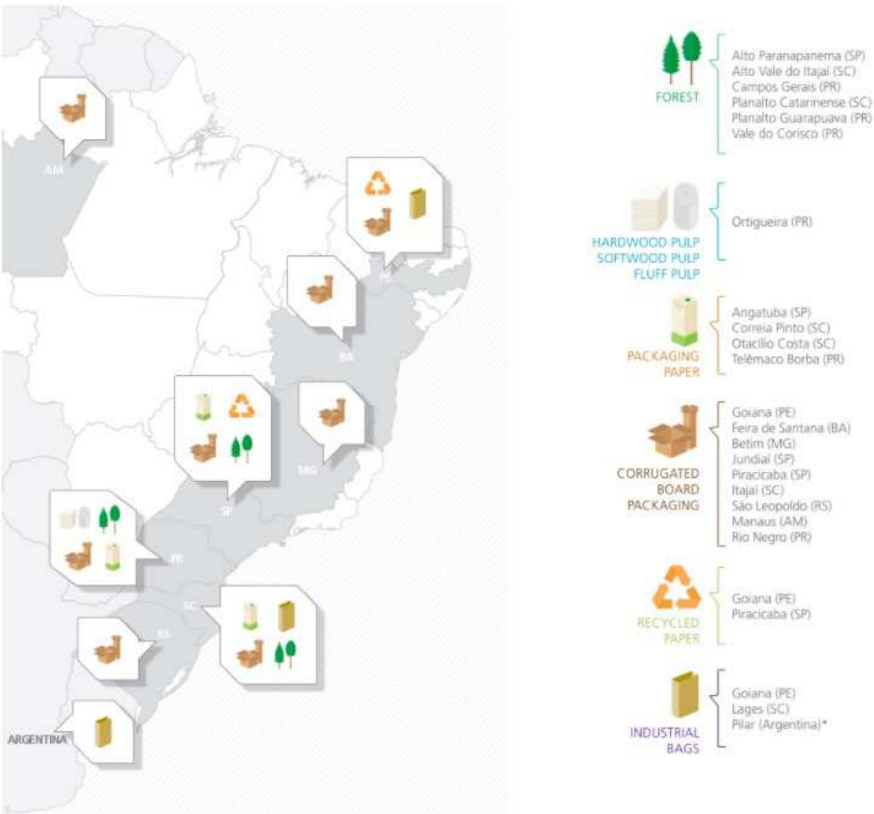
We believe that we are also a leader in the production of industrial bags, recognized for our quality and for serving our customers, and we have adapted our products to various market sectors, particularly civil construction, food, chemical products, and agri-business.

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, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | % | 2019 | % | 2019 | % | 2018 | % | 2017 | % |
| | *(in millions of reais, except percentages)* | | | | | | | | | |
| **Segment net sales revenue** ....... | 8,657 | 100% | 7,568 | 100% | 10,272 | 100% | 10,016 | 100% | 8,373 | 100% |
| Paper .......................................... | 3,130 | 36% | 2,542 | 34% | 3,510 | 34% | 3,177 | 32% | 2,951 | 35% |
| Conversion ................................ | 2,443 | 28% | 2,220 | 29% | 3,009 | 29% | 2,852 | 28% | 2,675 | 32% |
| Pulp ........................................... | 2,920 | 34% | 2,613 | 35% | 3,513 | 34% | 3,680 | 37% | 2,422 | 29% |
| Forestry ..................................... | 176 | 2% | 199 | 3% | 250 | 2% | 316 | 3% | 330 | 4% |
| Corporate/Eliminations ............. | (12) | 0% | (7) | 0% | (10) | 0% | (8) | 0% | (5) | 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. See also "Summary—Recent Developments" for more information regarding our operations.




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** | |

| Business Unit | Mill | Capacity (thousand tonnes) | Products |
|---|---|---|---|
| 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 |
| 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 | Pílar (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** |
|---|---|---|---|---|
| | | *(in thousands of hectares)* | | |
| Planted Forests | 189 | 65 | 7 | 261 |
| Eucalyptus | 90 | 7 | 7 | 104 |
| Pine | 99 | 58 | 0 | 157 |
| Preserved native forests | 186 | 72 | 5 | 263 |
| Others | 57 | 11 | 2 | 70 |
| **Total Lands** | **433** | **148** | **14** | **594** |

| **Average Hauling Distance to Mills** | **Km** |
|---|---|
| Paraná | 48 |
| Santa Catarina | 149 |
| São Paulo | 100 |

**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 15,626 thousand tonnes in the first nine months of 2020, up from 14,751 thousand tonnes in the first nine months of 2019. Brazilian production of pulp decreased to 19,691 thousand tonnes in 2019, down from 21,085 thousand tonnes in 2018. The Brazilian paper production decreased to 7,592 thousand tonnes in the first nine months of 2020, down from 7,826 thousand tonnes in the first nine months of 2019. Brazilian production of paper increased to 10,535 thousand tonnes in 2019, up from 10,433 thousand tonnes in 2018.

**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 cyclicality.***

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 2019, 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, 2020 and 2019 totaled R$3,809 million and R$3,056 million, respectively, and for the years ended December 31, 2019, 2018 and 2017 totaled R$4,158 million, R$4,483 million and R$3,353 million, respectively, accounting for 44%, 40%, 40%, 45% 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.

Our Adjusted EBITDA was R$3,594 million and R$3,358 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$4,322 million, R$4,024 million and R$2,738 million for the years ended December 31, 2019, 2018 and 2017. We recorded cash flow from operating activities of R$4,251 million and R$1,902 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$2,953 million, R$2,787 million and R$1,793 million for the years ended December 31, 2019, 2018 and 2017.

***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 594 thousand hectares, including 263 thousand hectares of planted forests and 331 thousand hectares of preserved native forests (as well as recently cut forests, forests waiting to be cleaned and other lands), as of September 30, 2020.

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$8.3 billion, including infrastructure, taxes and inflation adjustments.

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 July 2021, and the completion of the second phase is expected to occur in the third 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:

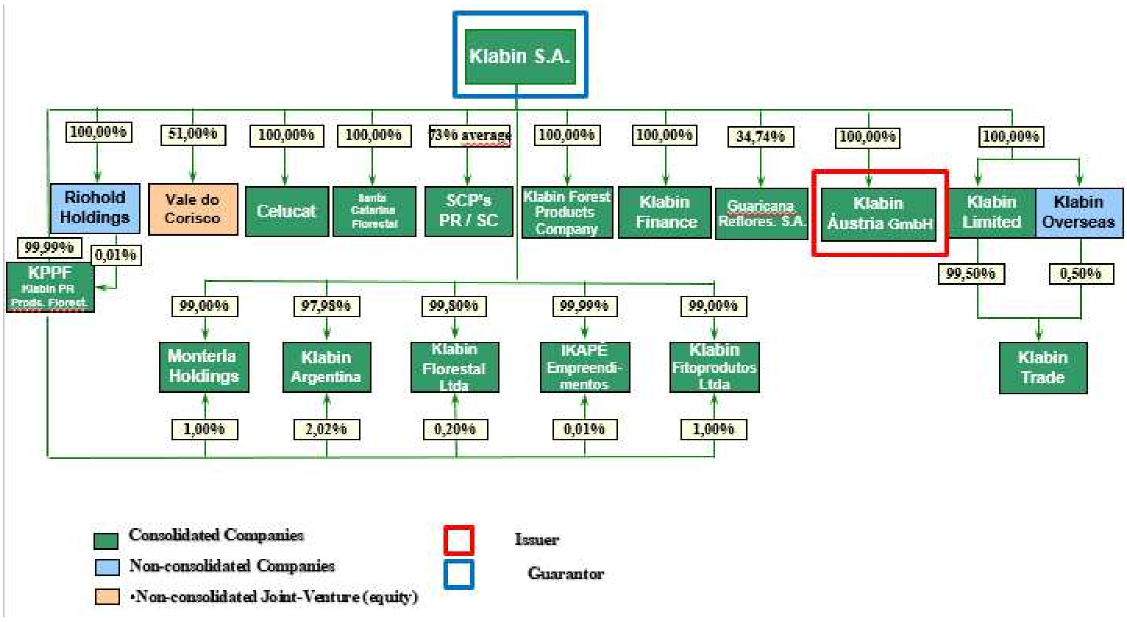
- reviewing all contracted services in order to increase third-party productivity and reduce our operating costs;
- improving logistics, through investments to improve the transportation of wood within and from our forests;
- enhancing our sales and marketing processes, by implementing new information 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, 2020**:**




## Recent Developments

### *Impact of the COVID-19 pandemic on our activities*

In late 2019, COVID-19 was detected in Wuhan, China. On March 11, 2020, the World Health Organization declared a pandemic due to COVID-19, and member countries were required to establish best practices for prevention and treatment plans for infected persons. Consequently, the COVID-19 pandemic resulted in restrictive measures related to the movement of people imposed by the governments of several countries in the face of the extensive and continuing spread of the virus, including quarantines and lockdowns around the world. As a consequence of such measures, countries imposed restrictions on travel and public transport, prolonged closure of workplaces, causing interruptions in the supply chain, closure of trade and reduction of consumption in general by the population, which resulted in price volatility of raw materials and other inputs, factors that when taken together have a material adverse effect on the global and Brazilian economies.

The COVID-19 pandemic and the social distancing measures taken since March 2020 across the country as a way to contain the spread of the virus have not materially affected our operations, financial condition, results of business and our cash flows. In order to reduce the impact of the COVID-19 pandemic on our operations, we have adopted a series of administrative and operational measures involving our employees, customers and suppliers.

In order to protect our employees, we implemented teleworking policies aiming to reduce activities in our offices, as well as social distancing measures within factories by alternating shifts, tracking and reducing the inflow of individuals in those facilities and by enforcing general health guidelines issued by authorities.

In aiming to extend these prevention measures, on March 23 we announced the temporary pause of the construction of Project Puma II which had, at the time, approximately 4,500 professionals on site. In mid-April, we began gradual reintegration of some of these professionals, most of them residents of the state of Paraná. During the remobilization of the workers at the construction site, we adopted measures such as: COVID-19 tests, a seven-day quarantine and a fresh test before clearance for resuming professional activities, daily measurement of the temperature of the employees, ozone tunnel at the entry and exit points of construction sites for cleaning external surfaces (clothing, shoes, bags and personnel protective equipment), among others. Following the temporary demobilization and subsequent remobilization during the second quarter of 2020 of the labor force involved in the project, operations are now expected to begin in July 2021 as opposed to the initial forecast of May 2020.

Buses and vans transporting workers are operating at 50% of their normal capacity to enable social distancing. There is alcohol gel available on the buses and vans which are cleaned between trips. The use of masks is mandatory on employee transports and masks have been distributed to all employees. The construction site cafeteria packs meals individually and is operating at 50% capacity, along with social distancing stickers on tables indicating where employees may sit. We have a dedicated radio station and WhatsApp messages to communicate information relating to the preventative measures we have in place.

We also postponed the general maintenance stoppages of our main plants. The original dates for maintenance of the Monte Alegre (PR), Correia Pinto (SC) and Ortigueira (PR) – Puma I units were changed in light of restrictions on the flow of raw material and personnel due to COVID-19. The maintenance stoppage at the Monte Alegre plant took place in August on a reduced basis and incorporating only shutdowns of critical areas responsible for guaranteeing the safety of the site. The comprehensive maintenance shutdown is scheduled for the first quarter of 2021. The stoppage at the Correia Pinto plant occurred in October while maintenance at the Ortigueira site occurred in the end of the fourth quarter 2021.

Our management believes that the measures adopted to date, which are constantly being reviewed, seek to maintain the levels of service and operating quality that we value in our operations, as well as to ensure the health and well-being of our employees, suppliers and clients, as well as society as a whole, via compliance with the measures imposed by public authorities. We will continue to operate with a focus on the above mentioned principles, always staying vigilant and prepared to adjust our initiatives according to the evolving situation.

The impacts caused by the COVID-19 pandemic are continuing, and therefore, we will continue to assess the changing effects on our revenues, assets, results, business and outlook. Our analyses will be made in line with Circular Letter CVM/SNC/SEP No. 02/2020, issued by the CVM on March 10, 2020, which instructs directors and independent accountants of publicly held companies to carefully consider the effects of the COVID-19 pandemic on their business and to report in the financial statements the principal risks and uncertainties derived from this analysis, in accordance with the applicable accounting standards. For more information on the impact of the COVID-19 pandemic on our activities, the resulting accounting policies and the measures we have taken as a result of the pandemic, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

From a commercial point of view, despite the challenges imposed by the pandemic, we delivered 9% growth in sales volume in the first nine months of the year, compared to the same period of the previous year. In addition to the strong relation of our products with necessary items (food, beverages, hygiene and cleaning, disposable diapers, among others), we were able to deliver relatively consistent results we believe in light of our integrated and flexible business model. Throughout this period there were moments of peak demand for some products such as liquid packaging board, which is easy to store at home (as it does not need refrigeration and has a long life), as well as sales growth resulting from the acceleration of some trends such as e-commerce and the pursuit of more sustainable products. In a moment of greater social isolation where the civil construction sector showed a sharp drop, as well as the demand for packaging for durable goods, we believe we were flexible, addressing production in the foreign market, and also benefiting from the sharp devaluation of the *real*.

From a financial point of view, the sharp devaluation of the *real* had a significant impact on the mark-to-market value of interest rate swaps, especially in the first quarter of 2020. These swaps are linked to financing contracted in *reais* and through these financial instruments has a similar effect to a liability contracted in Dollars. The strong devaluation of the *real* also generated a negative effect on the net exchange variation line, due to the impact on our Dollar debt, which represents 74% of total debt, as of September 30, 2020. On the other hand, in addition to these variations having no cash effect, the currency devaluation boosted our results given we export approximately half of our sales.

***Acquisition of Packaging Business***

On October 14, 2020, we announced the conclusion of the transaction acquiring the packaging business owned by International Paper do Brazil Ltda, or International Paper, for R$330 million. International Paper's assets consisted of four corrugated packaging operations, with an annual production capacity of 305 thousand tons, Manaus in the state of Amazonas, Paulínia and Suzano in the state of São Paulo and Rio Verde in the state of Goiás - the latter located in a region where the company has not previously operated, and three packaging paper operations, with annual production capacity of 310 thousand tonnes, two recycled paper plants with joint nominal production capacity of 148 thousand tonnes per year, Paulínia and Franco da Rocha, both in the state of São Paulo, and one virgin fiber paper plant with production capacity of 162 thousand tonnes per year, Nova Campina, also located in the state of São Paulo. According to data from the Brazilian Association of Corrugated Paper ("ABPO") in 2018 – International Paper's sales of corrugated boxes represented a market-share of approximately 6.6% of the domestic market.

As announced to the market on June 24, 2020, we executed the necessary documents for the sale of the unit located in Nova Campina (SP) to the Klingele Paper & Packaging Group for R$196 million, of which R$132 million is to be paid after the closing of the operation, which will be concluded in the first quarter of 2021, and the remaining amount in two annual installments.

After closing the deal, the Nova Campina unit was sold for R$196 million, resulting in a net acquisition price of International Paper's assets of R$134 million.

***Licensing Agreement***

On November 26, 2020 through an Extraordinary Meeting our shareholders deliberated on the acquisition of the trademarks of Sogemar - owner of the name "Klabin" and 6 (six) other brands, by means of a merger of the shares of Sogemar by Klabin - to further terminate the payment of royalties where the company was conditioned to pay 1.37% over the net sales of coated boards and corrugated boxes.

Due the approval of the EGM, Sogemar was incorporated into the Company along with the trademarks on its balance sheet, in a share exchange that resulted in a capital increase of R$144 thousand.

***Liability Management***

In October and November 2020, we voluntarily prepaid U.S.$146.2 million to satisfy certain credit lines, as part of the our debt profile management strategy, consisting of U.S.$142.2 million due to voluntary prepayment of our syndicated loan facility and U.S.$4 million due to voluntary prepayment of our export credit agreement.

***Sustainability Framework***

Since 2016, we are a voluntary supporter of the United Nations' Sustainable Development Goals (SDGs) and since 2019 we have aligned our sustainability strategy to the goals of the 2030 Agenda. Validated by our Permanent Sustainability Commission and Board of Directors, our sustainability work gained strength with specific targets such as water and waste management, climate issues, and biodiversity among other ESG themes. In December 2020, we announced our official set of public targets, available at kods.klabin.com.br, and the Sustainability-Linked Bond Framework was adopted. 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. For further information on our Sustainability Framework, see "Description of Relevant Sustainability Targets."

***Concurrent Tender Offer***

Concurrently with this offering of notes, on January 4, 2021, Klabin Finance, a wholly owned finance subsidiary of Klabin, commenced a concurrent tender offer for any and all of its outstanding 5.250% notes due 2024 of Klabin Finance and guaranteed by us, or the 2024 notes. The expected expiration date of the concurrent tender offer is January 8, 2021. The concurrent tender offer is subject to certain terms and conditions, including the completion of this offering. This offering memorandum does not constitute an offer to purchase the 2024 notes pursuant to the concurrent tender offer.

## 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. |
| **Notes Offered** | U.S.$500 million in aggregate principal amount of the issuer's 3.200% notes due 2031. |
| **Issue Price** | 100.000% of the principal amount of the notes, *plus* accrued and unpaid interest, if any, from and including January 12, 2021, if settlement occurs after that date. |
| **Maturity Date** | January 12, 2031. |
| **Concurrent Tender Offer** | Concurrently with this offering of notes, on January 4, 2021, Klabin Finance, a wholly owned finance subsidiary of Klabin, commenced a concurrent tender offer for any and all of its outstanding 2024 notes. The expected expiration date of the concurrent tender offer is January 8, 2021. The concurrent tender offer is subject to certain terms and conditions, including the completion of this offering. |
| **Interest** | Interest on the notes will initially accrue at a rate of 3.200% *per annum* (subject to an Interest Rate Step Up (as defined below)) and will be payable semi-annually in arrears on January 12 and July 12, commencing on July 12, 2021. |
| **Interest Rate Step Ups** | From and including July 12, 2026, the interest rate payable on the notes will increase by between 6.25 and 25 basis points to an annual rate between 3.2625% and 3.4500%, unless, in respect of the year ended December 31, 2025, each of the Sustainability Performance Targets has been satisfied, as confirmed by the External Verifier in accordance with its customary procedures, as follows:<br><br>• if the Water Consumption Intensity target is not met, by 12.5 basis points;<br>• if the Waste Reuse and Recycling target is not met, by 6.25 basis points; and/or<br>• if the Reintroduction and/or Reinforcement of Wild Species into the Ecosystem target is not met, by 6.25 basis points,<br><br>the satisfaction of, and the interest rate payable, which the issuer shall notify the trustee and DTC in writing at least 30 days prior to July 12, 2026, in each case in accordance with the terms set forth and defined under the heading "Description of the Notes—Interest." |

| | |
|---|---|
| **Ranking** | The notes will be senior unsecured obligations of the issuer. |

Klabin's guarantee will be 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, 2020, 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$28,893 million (or U.S.$5,122 million), of which R$6,409 million (or U.S.$1,136 million) was secured debt of Klabin.

As of September 30, 2020, 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, and (ii) the 5.750% Notes due 2029 and 7.000% Notes due 2049 issued by the issuer and guaranteed by us.

As of September 30, 2020, R$6,409 million of our Total Debt was secured.

**Optional Redemption**

The issuer may, at its option, redeem the notes, in whole or in part, at any time, prior to October 12, 2030 (which is the date that is three 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 12, 2030, 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.

For purposes of optional redemption, interest will be calculated for any interest payment date following the Interest Rate Step Up Date (as defined below) at the maximum applicable Subsequent Rate of Interest (as defined below), unless the Sustainability Performance Targets have been

| | |
|---|---|
| | satisfied and the issuer has provided the notice described in "Description of the Notes—Interest." |
| **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:<br>• create liens;<br>• enter into sale-leaseback transactions; and<br>• consolidate, merge or transfer all or substantially all of Klabin's assets on a consolidated basis.<br>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." |
| **Additional Notes** | We may from time to time, without the consent of the holders of the notes, issue additional notes on terms and conditions identical to those of the notes (potentially other than the issue price, issue date and first payment date), which additional |

notes shall increase the aggregate principal amount of, and shall form a single series and vote together with the notes.

| | |
|---|---|
| **Form and Denomination**................................ | The notes will be issued in fully registered form without interest coupons. The global notes will be 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 will be 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**............................................... | We estimate the net proceeds from the sale of the notes will be approximately U.S.$497 million, after deducting the initial purchasers' discounts and estimated offering expenses payable by us.<br><br>We intend to use these net proceeds to repay or refinance existing indebtedness and the remainder (if any) for general corporate purposes. |
| **Settlement**........................................................ | The notes will be 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 intends to apply for permission to list the notes on the Official List of the Luxembourg Stock Exchange and for the notes to be admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange. |
| **Governing Law**............................................... | The indenture, the notes and related guarantee will be 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. |
| **Sustainability Structuring Agent to the Issuer** .......................................................... | J.P. Morgan Securities LLC. |
| **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 FINANCIAL AND OTHER INFORMATION

The summary financial and other information as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019 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, 2019, 2018 and 2017 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" and our consolidated financial statements or unaudited interim consolidated financial information, including the notes thereto, included elsewhere in this offering memorandum.

| **Statement of Operations Data** | **For the nine-month period ended September 30,** | | | **For the year ended December 31,** | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** | **2019** | **2018** | **2017** |
| | *(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 | 1,751,517 | 9,879,782 | 8,766,037 | 2,107,124 | 11,885,656 | 11,516,247 | 9,727,021 |
| Sales deductions[2] | (216,847) | (1,223,170) | (1,198,444) | (286,102) | (1,613,817) | (1,499,786) | (1,353,643) |
| **Net sales revenue** | **1,534,670** | **8,656,612** | **7,567,593** | **1,821,022** | **10,271,839** | **10,016,461** | **8,373,378** |
| Domestic market | 859,328 | 4,847,210 | 4,511,105 | 1,083,896 | 6,113,933 | 5,533,578 | 5,019,971 |
| Export market | 675,342 | 3,809,402 | 3,056,488 | 737,126 | 4,157,906 | 4,482,883 | 3,353,407 |
| Variation in the fair value of biological assets | 56,258 | 317,336 | 314,539 | 69,150 | 390,053 | 628,367 | 789,661 |
| Cost of products sold | (990,242) | (5,585,660) | (5,293,655) | (1,283,747) | (7,241,234) | (6,342,406) | (6,427,492) |
| **Gross profit** | **600,686** | **3,388,288** | **2,588,477** | **606,424** | **3,420,658** | **4,302,422** | **2,735,547** |
| **Operating expenses** | | | | | | | |
| Sales | (147,623) | (832,697) | (629,288) | (161,396) | (910,388) | (764,348) | (656,844) |
| General and administrative | (83,690) | (472,072) | (442,926) | (106,540) | (600,959) | (558,205) | (528,398) |
| Other, net | 9,664 | 54,509 | 645,845 | 108,112 | 609,826 | (2,228) | (11,877) |
| | **(221,650)** | **(1,250,260)** | **(426,369)** | **(159,824)** | (901,521) | **(1,324,781)** | **(1,197,119)** |
| Equity in the results of joint ventures | 4,799 | 27,071 | 6,182 | 1,283 | 7,237 | 5,964 | 13,624 |
| **Profit before finance result and taxes** | **383,835** | **2,165,099** | **2,168,290** | **447,883** | **2,526,374** | **2,983,605** | **1,552,052** |
| **Finance result** | **(1,410,753)** | **(7,957,634)** | **(2,036,795)** | **(294,617)** | **(1,661,848)** | **(3,052,186)** | **(713,384)** |
| **Profit (loss) before taxes on income** | **(1,026,918)** | **(5,792,535)** | **131,495** | **153,266** | **864,526** | **(68,581)** | **838,668** |
| **Income tax and social contribution** | | | | | | | |
| Current | (73,100) | (412,334) | 138,347 | 10,304 | 58,123 | (322,236) | (299,948) |
| Deferred | 441,147 | 2,488,379 | (186,329) | (36,880) | (208,031) | 577,635 | (6,551) |
| | **368,047** | **2,076,045** | **(47,982)** | **(26,576)** | **(149,908)** | **255,399** | **(306,499)** |
| **Profit (loss) for the year/period** | **(658,870)** | **(3,716,490)** | **83,513** | **126,690** | **714,618** | **186,818** | **532,169** |

(1) Solely for the convenience of the reader, Brazilian real amounts have been translated into U.S. dollars at the selling rate of R$5.6407 to U.S.$1.00 as of September 30, 2020.

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

| **Balance Sheet Data** | **As of September 30,** | | **As of December 31,** | | | |
|---|---|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** | **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)* | | |
| Cash and cash equivalents and marketable securities | 1,389,981 | 7,840,468 | 1,725,125 | 9,730,915 | 7,047,204 | 8,271,595 |
| Accounts receivable (including allowance for doubtful debts) | 353,279 | 1,992,740 | 329,659 | 1,859,505 | 2,040,931 | 1,754,063 |
| Inventory | 244,555 | 1,379,460 | 236,184 | 1,332,244 | 1,206,353 | 933,161 |
| Taxes recoverable | 153,687 | 866,902 | 89,601 | 505,411 | 269,728 | 567,079 |
| Other assets | 31,314 | 176,632 | 43,588 | 245,869 | 297,718 | 277,691 |
| **Total current assets** | **2,172,816** | **12,256,202** | **2,424,157** | **13,673,944** | **10,861,934** | **11,803,589** |
| Deferred income tax and social contribution | 237,200 | 1,337,976 | - | - | - | - |
| Judicial deposits | 21,831 | 123,144 | 20,774 | 117,179 | 86,658 | 83,381 |
| Taxes recoverable | 145,613 | 821,362 | 344,754 | 1,944,656 | 1,280,811 | 1,287,669 |
| Other assets | 36,516 | 205,977 | 48,011 | 270,817 | 300,757 | 344,233 |
| Interests in subsidiaries and joint venture and others | 47,182 | 266,137 | 30,255 | 170,657 | 173,259 | 173,446 |
| Property, plant and equipment | 2,755,890 | 15,545,148 | 2,347,436 | 13,241,181 | 12,262,472 | 12,619,495 |
| Biological assets | 775,182 | 4,372,570 | 835,425 | 4,712,381 | 4,582,631 | 4,147,779 |
| Right of use | 148,538 | 837,856 | 87,649 | 494,399 | - | - |
| Intangible assets | 12,781 | 72,093 | 13,805 | 77,868 | 85,221 | 89,949 |
| **Total non-current assets** | **4,180,733** | **23,582,263** | **3,728,108** | **21,029,138** | **18,771,809** | **18,745,952** |
| **Total assets** | **6,353,549** | **35,838,465** | **6,152,265** | **34,703,082** | **29,633,743** | **30,549,541** |
| Borrowings | 123,212 | 695,000 | 124,414 | 701,783 | 1,913,779 | 2,230,624 |
| Debentures | 11,369 | 64,130 | 101,540 | 572,759 | 61,686 | 239,276 |
| Trade payables and trade payables (Forfait) | 274,595 | 1,548,908 | 181,583 | 1,024,256 | 903,752 | 713,612 |
| Tax payables | 23,010 | 129,790 | 11,892 | 67,079 | 50,832 | 55,673 |
| Social security and labor obligations | 66,280 | 373,868 | 53,413 | 301,288 | 300,379 | 281,466 |
| Related parties | 1,085 | 6,121 | 948 | 5,347 | 4,692 | 4,346 |
| Dividends and interest on shareholders' equity payable | - | - | 35,457 | 200,000 | 250,000 | - |
| Enrollment in Tax Recovery Program (REFIS) | - | - | - | - | 73,862 | 71,467 |
| Lease Liability | 26,132 | 147,400 | 17,819 | 100,509 | - | - |
| Other payables and provisions | 31,188 | 175,922 | 23,313 | 131,502 | 149,334 | 150,869 |
| **Total current liabilities** | **556,870** | **3,141,139** | **550,379** | **3,104,523** | **3,708,316** | **3,747,333** |
| Borrowings | 4,648,370 | 26,220,060 | 3,818,567 | 21,539,392 | 16,869,217 | 16,444,917 |
| Debentures | 339,333 | 1,914,073 | 225,387 | 1,271,338 | 600,990 | 634,594 |
| Deferred income tax and social contribution | - | - | 203,001 | 1,145,069 | 959,906 | 1,544,578 |
| Provisions for tax, social security, labor and civil contingencies | 9,833 | 55,464 | 10,729 | 60,519 | 64,118 | 65,377 |
| Payables – Investors in Special Partnership Companies (SPCs) | 58,009 | 327,210 | 59,068 | 333,183 | 301,583 | 272,938 |
| Enrollment in Tax Recovery Program (REFIS) | - | - | - | - | 265,587 | 307,476 |
| Lease Liability | 124,214 | 700,654 | 70,332 | 396,720 | - | - |
| Actuarial liabilities | 30,449 | 171,754 | 29,781 | 167,984 | 119,571 | - |
| Other payables and provisions | 23,597 | 133,101 | 32,457 | 183,081 | 211,225 | 298,177 |
| **Total non-current liabilities** | **5,233,804** | **29,522,316** | **4,449,321** | **25,097,286** | **19,392,197** | **19,568,057** |
| **Total liabilities** | **5,790,674** | **32,663,455** | **4,999,700** | **28,201,809** | **23,100,513** | **23,315,390** |
| Share capital | 793,427 | 4,475,481 | 722,612 | 4,076,035 | 4,076,035 | 2,516,753 |
| Capital reserves | (64,849) | (365,791) | (62,159) | (350,622) | (361,231) | 1,187,329 |
| Revaluation reserve | 8,635 | 48,705 | 8,635 | 48,705 | 48,705 | 48,705 |
| Profit reserves | 268,946 | 1,517,044 | 268,946 | 1,517,044 | 1,748,219 | 2,699,577 |
| Other comprehensive income | 164,484 | 927,803 | 167,177 | 942,994 | 977,122 | 987,916 |
| Retained earnings | (679,077) | (3,830,468) | - | - | - | - |
| Treasury shares | (31,533) | (177,871) | (33,200) | (187,274) | (196,615) | (206,129) |
| **Shareholders' equity of Klabin** | **460,032** | **2,594,903** | **1,072,009** | **6,046,882** | **6,292,235** | **7,234,151** |
| **Non-controlling interest** | **102,843** | **580,107** | **80,556** | **454,391** | **240,995** | **-** |
| **Consolidated shareholders' equity** | **562,875** | **3,175,010** | **1,152,565** | **6,501,273** | **6,533,230** | **7,234,151** |
| **Total liabilities and equity** | **6,353,549** | **35,838,465** | **6,152,265** | **34,703,082** | **29,633,743** | **30,549,541** |

(1) Solely for the convenience of the reader amounts in Brazilian real as of September 30, 2020 and as of December 31, 2019 have been translated into U.S. dollars at the selling rate of R$5.6407 to U.S.$1.00 as of September 30, 2020.

| Other Financial Data | For the nine-month period ended September 30, | | | For the year ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2020 | 2019 | 2019 | 2019 | 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)* | | |
| Profit (loss) for the year/period | (658,870) | (3,716,490) | 83,513 | 126,690 | 714,618 | 186,818 | 532,169 |
| Income tax and social contribution | (368,047) | (2,076,045) | 47,982 | 26,576 | 149,908 | (255,399) | 306,499 |
| Finance result | 1,410,753 | 7,957,634 | 2,036,795 | 294,617 | 1,661,848 | 3,052,186 | 713,384 |
| Amortization, depreciation and depletion | 314,339 | 1,773,093 | 1,510,310 | 388,855 | 2,193,414 | 1,673,347 | 1,940,487 |
| Variation in the fair value of biological assets | (56,258) | (317,336) | (314,539) | (69,150) | (390,053) | (628,367) | (789,661) |
| Equity in results of investees and joint venture | (4,799) | (27,071) | (6,182) | (1,283) | (7,237) | (5,964) | (13,624) |
| Adjusted EBITDA of a jointly-controlled subsidiary | - | - | - | - | - | - | 9,124 |
| Realization of deemed costs following revaluations of sold lands | - | - | - | - | - | 1,798 | 39,801 |
| **Adjusted EBITDA**[(2)] | **637,117** | **3,593,785** | **3,357,879** | **766,305** | **4,322,498** | **4,024,419** | **2,738,179** |

| Other Financial Data | As of September 30, | | As of December 31, | | | |
|---|---|---|---|---|---|---|
| | 2020 | 2020 | 2019 | 2019 | 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)* | | |
| Borrowings | 123,212 | 695,000 | 124,414 | 701,783 | 1,913,779 | 2,230,624 |
| Debentures | 11,369 | 64,130 | 101,540 | 572,759 | 61,686 | 239,276 |
| **Short-term debt** | **134,581** | **759,130** | **225,955** | **1,274,542** | **1,975,465** | **2,469,900** |
| Borrowings | 4,648,370 | 26,220,060 | 3,818,567 | 21,539,392 | 16,869,217 | 16,444,917 |
| Debentures | 339,333 | 1,914,073 | 225,387 | 1,271,338 | 600,990 | 634,594 |
| **Long-term debt** | **4,987,702** | **28,134,133** | **4,043,954** | **22,810,730** | **17,470,207** | **17,079,511** |
| **Total Debt** | **5,122,283** | **28,893,263** | **4,269,908** | **24,085,272** | **19,445,672** | **19,549,411** |
| (-) Cash and cash equivalents and marketable securities | (1,389,981) | (7,840,468) | (1,725,125) | (9,730,915) | (7,047,204) | (8,271,595) |
| **Total Net Debt**[(3)] | **3,732,302** | **21,052,795** | **2,544,783** | **14,354,357** | **12,398,468** | **11,277,816** |
| **Total Net Debt /Adjusted EBITDA**[(4)] | **5.9** | **5.9** | **3.3** | **3.3** | **3.1** | **4.1** |

(1) Solely for the convenience of the reader, amounts in Brazilian real as of and for the nine-month period ended September 30, 2020 and as of and for the year ended December 31, 2019 have been translated into U.S. dollars at the selling rate of R$5.6407 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

***The development of the COVID-19 pandemic declared by the World Health Organization ("WHO"), the perception of its effects, or the way in which the pandemic will affect our businesses depend on future developments of contingency measures and external factors, which might adversely affect the predictability and stability of our businesses, financial status, results of operations, cash flows, and delivery of expected results.***

In December 2019, the first case of the coronavirus disease ("COVID-19") caused by the severe acute respiratory syndrome 2 (SARS-CoV-2) was reported in Wuhan, China. On March 11, 2020, the WHO declared a pandemic with respect to COVID-19 due to its rapid spread to other continents, such as Europe, the Middle East and the Americas. The WHO also declared that WHO member countries should establish the efficient measures to contain the spread and treat the infected population.

As a response to the COVID-19 pandemic, governmental authorities implemented severe restrictive measures, including in the locations where we operate. The measures were adopted in order to protect the population, which resulted in constraints on the flow of people, quarantines and lockdowns, restrictions on travel and public transportation, prolonged closure of workplaces, interruptions in supply chains, closure of stores and the overall reduction of consumption by the population.

There is the risk of material interruptions in our business and operations as a result of, for example, quarantines, cyber attacks, worker absences as a result of illness or other factors such as social distancing measures, limited travel or other restrictions. If a significant percentage of our workforce is unable to work, including due to illness, travel or government restrictions related to the pandemic, our operations may be adversely affected. A long period of remote work can also increase our operational risks, including, but not limited to, cyber security risks that may impair our ability to manage and operate our business.

Any outbreak of disease affecting the behavior of the population or requiring public policies that restrict the flow of movement and/or social contact may adversely affect our business and the Brazilian economy. Disease outbreaks may also make it impossible for workers to move to our facilities (including due to restrictions or large-scale contamination of our workforce), which would hinder the routine development of our business. The full extent of the COVID-19 pandemic's impact on our business and operating results depends on future developments, including the pandemic's duration and scope, which are uncertain and unpredictable, especially in Brazil. These factors include its impact on the capital and financial markets, any new information that may arise about the severity of the virus, its spread to other regions and the measures taken to contain it, including the efficacy of any vaccine, among others.

We cannot guarantee that other regional and/or global outbreaks will not occur, nor can we guarantee that there will be no new waves of COVID-19. Should either of these situations occur, we cannot assure that we will be able to take the necessary measures to prevent a negative impact on our business equal to, or of even greater dimension than, the impact caused by the COVID-19 pandemic.

Finally, the impact of the COVID-19 pandemic may also precipitate or worsen other risks presented in this section. As of the date of this offering memorandum, we cannot guarantee that this assessment might be adversely affected or the extent of such losses, or that there will be no material uncertainties related to our ability to continue running our businesses, which might adversely affect us, our businesses and results.

***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, 2020, our Total Debt was R$28,893 million and we may 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, 2020, the amount claimed under these legal proceedings totaled approximately R$5,279 million, for which we have recorded a provision for contingencies totaling R$55.5 million. Based on the individual analysis of the lawsuits filed against the Company supported by the opinion of its legal advisors, provisions were set up in non-current liabilities, for risks with losses considered probable.

***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 2020 and 2019, respectively, totaling R$1,597 million and R$1,566 million and for the years ended December 31, 2019, 2018 and 2017, totaling R$1,668 million, R$1,635 million and R$1,489 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, 2020 and 2019, respectively, and for the years ended December 31, 2019, 2018 and 2017, our sales to this customer of this product accounted for 12%, 13%, 12%, 11% and 15%, 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 Iguaçu. 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.

***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, 2020, 53.9% 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, 2020 and 2019 and for the years ended December 31, 2019 and 2018, our exports accounted for 44%, 40%, 40% and 45% 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.

For more information regarding recent capacity developments, see "Summary—Recent Developments—Acquisition of Packaging Business."

***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.

**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.

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 14.40% for the nine-month period ended September 30, 2020, and 7.30%, 7.55% and -0.53% for the years ended December 31, 2019, 2018 and 2017, respectively. Inflation measured by the IPCA index was 1.34% for the nine-month period ended September 30, 2020, and 4.31%, 3.75% and 2.95% for the years ended December 31, 2019, 2018 and 2017, 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, 2020 and December 31, 2019, 2018 and 2017, the SELIC rate was 2.00%, 4.50%, 6.50% and 7.00%, 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, 2020, we had, among other debt obligations, R$4,557 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, 2020 and December 31, 2019, 2018 and 2017 was 1.90%, 4.40%, 6.40% and 9.93%, 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. 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. During 2019, the Brazilian *real* depreciated by 4% to R$4.0307. The exchange rate as of September 30, 2020 was R$5.6407 per U.S.$1.00, a 3% increase relative to the end of the second quarter of 2020, with a negative impact of R$285 million on the value of interest rate swaps. These swaps are linked to loan and financing agreements in *reais* and through these financial instruments has a similar effect to a liability contracted in Dollars. The devaluation of the *real* also negatively impacted the foreign exchange variation line net, R$547 million during the period due to the impact on our Dollar debt. These variations, which represent a total of R$832 million had little cash effect in the period.

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.

For more information regarding certain variation in our cash flows, see "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources."

***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 Politica Fazendária*), or the CONFAZ, a federal agency composed of the state treasurers of each state. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 intend to apply 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, 2020, 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$28,893 million, of which R$6,978 million was secured debt of Klabin. As of September 30, 2020, 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, 2016 and 2018 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 notes are not "green bonds" and may not satisfy an investor's requirements or future standards for assets with sustainability characteristics.***

Although the interest rate in respect of the notes is subject to upward adjustment if we fail to satisfy the Sustainability Performance Targets, the notes may not satisfy an investor's requirements or any future legal or quasi-legal standards for investment in assets with sustainability characteristics. The notes are not being marketed as green bonds. We expect to use the net proceeds of this offering for general corporate purposes, including the repayment of debt as they become due and therefore we do not intend to allocate the net proceeds specifically to projects or business activities meeting environmental or sustainability criteria or be subject to any other limitations associated with green bonds.

Although we intend to satisfy the Sustainability Performance Targets, there can be no assurance of the extent to which we will be successful in doing so or that any future investments we make in furtherance of this target will meet investor expectations or any binding or non-binding legal standards regarding sustainability performance, whether by any present or future applicable law or regulations or by our own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact. Adverse environmental or social impacts may occur during the design, construction and operation of any investments we make in furtherance of this target or such investments may become controversial or criticized by activist groups or other stakeholders. It will not be an event of default under the notes nor will we be required to repurchase or redeem the notes if we fail to satisfy the Sustainability Performance Targets.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion of any third party (whether or not solicited by us) that may be made available in connection with our Sustainability-Linked Securities Framework or the notes. For the avoidance of doubt, any such opinion is not and shall not be deemed to be incorporated into and/or form part of this prospectus and the accompanying prospectus. Any such opinion is not, nor should be deemed to be, a recommendation by us or any underwriter, or any other person to buy, sell or hold the notes. Any such opinion is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion and/or the information contained therein and/or the provider of such opinion for the purpose of any investment in the notes. Currently, the providers of such opinions are not subject to any specific regulatory or other regime or oversight. Any withdrawal of any such opinion or any additional opinion or statement that we are not complying in whole or in part with any matters for which such opinion is opining may have a material adverse effect on the value of the notes and/or result in adverse consequences for certain investors with mandates to invest in securities to be used for a particular purpose.

***The notes may not be a suitable investment for all investors seeking exposure to assets with sustainability characteristics***

Although the notes will be issued as sustainability-linked notes, with the interest rate relating to the notes being subject to an upward adjustment in the event that we fail to achieve the Sustainability Performance Targets, the notes may not satisfy an investor's requirements or any future legal, quasi legal or other standards for investment in assets with sustainability characteristics. In particular, the notes are not being marketed as "green bonds", "social bonds" or "sustainability bonds" as the net proceeds of the issue of the notes will be used for general corporate purposes, which may include the refinancing of existing indebtedness. Neither we nor the issuer commits to (i) allocate the net proceeds specifically to projects or business activities meeting sustainability criteria or (ii) be subject to any other limitations or requirements that may be associated with green bonds, social bonds or sustainability bonds in any particular market.

In addition, any interest rate adjustment in respect of the notes as contemplated in "Description of the Notes—Interest." will depend on us achieving, or not achieving, the Sustainability Performance Targets, which may be inconsistent with or insufficient to satisfy investor requirements or expectations. Prospective investors in the notes should have regard to the information set out herein and must determine for themselves the relevance of such information for the purpose of any investment in the notes, together with any other investigation such investor deems necessary.

Klabin's Sustainability Performance Targets are aimed at reducing water consumption, increasing waste reuse and recycling, and the reintroduction (making a formerly occupied area available to a formerly native species that has become extinct) and/or reinforcement (release of new animals to supplement a remaining population of) wild species into the ecosystem. Our Sustainability Performance Targets are therefore uniquely tailored to Klabin's business, operations and capabilities, and it does not easily lend itself to benchmarking against similar sustainability performance targets, and the related performance, of other issuers. No assurance is or can be given to investors by the us, the issuer the initial purchasers, any second party opinion providers or the External Verifier that the notes will meet any or all investor expectations regarding the notes or our Sustainability Performance Targets qualifying as "green", "social", "sustainable" or "sustainability-linked" or that any adverse environmental, social and/or other impacts will not occur in connection with Klabin striving to achieve the Sustainability Performance Targets or the use of the net proceeds from the offering of notes.

***No assurance or representation is given by us, the issuer, the initial purchasers, the second party opinion providers or the External Verifier as to the suitability or reliability for any purpose whatsoever of any opinion, report, certification or validation of any third party in connection with the offering of the notes or the Sustainability Performance Targets to fulfil any green, social, sustainability, sustainability-linked and/or other criteria. Any such opinion, report or certification is not, nor shall it be deemed to be, incorporated in and/or form part of this Prospectus.***

The second party opinion providers and providers of similar opinions, certifications and validations are not currently subject to any specific regulatory or other regime or oversight. Any such opinion or certification is not, nor should be deemed to be, a recommendation by us, the issuer the initial purchasers, any second party opinion providers, the External Verifier or any other person to buy, sell or hold notes. Noteholders have no recourse against us, the issuer, any of the initial purchasers or the provider of any such opinion or certification for the contents of any such opinion or certification, which is only current as at the date it was initially issued. Prospective investors must determine for themselves the relevance of any such opinion, certification or validation and/or the information contained therein and/or the provider of such opinion, certification or validation for the purpose of any investment in the notes. Any withdrawal of any such opinion or certification or any such opinion, certification attesting that Klabin is not complying in whole or in part with any matters for which such opinion, certification or validation is opining on or certifying on may have a material adverse effect on the value of the notes and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Although we intend to meet the Sustainability Performance Targets, there can be no assurance of the extent to which we will be successful in doing so, that we may decide not to continue with the Sustainability Performance Targets or that any future investments we make in furtherance of the Sustainability Performance Targets will meet investor expectations or any binding or non-binding legal standards regarding sustainability performance, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact. Although, if the Sustainability Performance Targets are not met, it will give rise to an upward adjustment of the interest rate relating to the notes as described in "Description of the Notes—Interest.", it will not be an Event of Default under the notes nor will the issuer be required to repurchase or redeem any notes in such circumstances.

***Achieving the Sustainability Performance Targets or any similar sustainability performance targets will require us to expend significant resources, while not meeting any such targets would result in increased interest payments and could expose us to reputational risks***

Achieving the Sustainability Performance Targets will require us to reduce our water consumption, increase waste reuse and recycling, and reintroduce and/or reinforce wild species into the ecosystem, as set out under "Description of Relevant Sustainability Targets." As a result, achieving the Sustainability Performance Targets or any similar sustainability performance targets we may choose to include in future financings or other arrangements will require us to expend significant resources.

In addition, if we do not achieve our Sustainability Performance Targets or any such similar sustainability performance targets we may choose to include in any future financings, it would not only result in increased interest payments under the notes or other relevant financing arrangements, but could also harm our reputation, the consequences of which could, in each case, have a material adverse effect on us, our business prospects, our financial condition or our results of operations.

***Our ability and autonomy to accurately calculate performance indicators may be hindered***

The Sustainability Performance Targets are calculated and are not a measured number. The calculations are carried out internally, i.e. by us, based on broadly accepted standards and reported externally. Those standards are discussed by expert groups and include contributions from industry bodies. The standards and guidelines mentioned above may change over time and investors should be aware that the way in which we calculate performance indicators may also change over time.

## USE OF PROCEEDS

We estimate the net proceeds from the sale of the notes will be approximately U.S.$497 million, after deducting the initial purchasers' discounts and estimated offering expenses payable by us.

We intend to use these net proceeds to repay or refinance existing indebtedness and the remainder (if any) for general corporate purposes.

## CAPITALIZATION

*You should read this section in conjunction with "Use of Proceeds," "Summary Financial and Other Information," "Selected Consolidated Financial Data and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited interim consolidated financial information as of and for the nine-month period ended September 30, 2020, included elsewhere 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, 2020, on an actual historical basis, derived from our unaudited consolidated financial information as of September 30, 2020, included elsewhere in this offering memorandum;
- as adjusted to give effect to U.S.$146.2 million due to voluntary prepayment of certain credit lines, as part of the our debt profile management strategy, consisting of U.S.$142.2 million due to voluntary prepayment of our syndicated loan facility and U.S.$4 million due to voluntary prepayment of our export credit agreement, and the approval of the termination of the license agreement with Sogemar, resulting in Sogemar's incorporation into the company with a capital increase of R$144 thousand; see "Summary—Recent Developments;" and
- as further adjusted to give effect to U.S.$497 million in net proceeds from this offering, excluding accrued interest payable by purchasers of the notes, after the deduction of estimated expenses and commissions payable by us.

| | As of September 30, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Actual** | | **As adjusted(2)** | | **As further adjusted for this offering(3)** | |
| | *(in thousands of U.S.$) (1)* | *(in thousands of* reais*)* | *(in thousands of U.S.$) (1)* | *(in thousands of* reais*)* | *(in thousands of U.S.$) (1)* | *(in thousands of* reais*)* |
| Short-term debt(4) | 134,581 | 759,130 | 130,610 | 736,734 | 130,610 | 736,734 |
| Long-term debt(5) | 4,987,702 | 28,134,133 | 4,845,449 | 27,331,723 | 5,342,458 | 30,135,203 |
| **Total Debt** | **5,122,283** | **28,893,263** | **4,976,059** | **28,068,457** | **5,473,068** | **30,871,937** |
| Total equity | 562,875 | 3,175,010 | 562,901 | 3,175,154 | 562,901 | 3,175,154 |
| **Total capitalization(6)** | **5,685,158** | **32,068,273** | **5,538,960** | **31,243,611** | **6,035,969** | **34,047,091** |

(1) Solely for the convenience of the reader, amounts in Brazilian real as of September 30, 2020 have been translated into U.S. dollars at the selling rate of R$5.6407 to U.S.$1.00.
(2) Adjusted to give effect to U.S.$146.2 million due to voluntary early settlement of certain credit lines, consisting of U.S.$142.2 million due to voluntary prepayment of our syndicated loan facility and U.S.$4 million due to voluntary prepayment of our export credit agreement, as part of our debt profile management strategy, and the approval of the termination of the license agreement with Sogemar, resulting in Sogemar's incorporation into the company with a capital increase of R$144 thousand. See "Summary—Recent Developments."
(3) As further adjusted to give effect to U.S.$497 million in net proceeds from this offering, excluding accrued interest payable by purchasers of the notes, after the deduction of estimated expenses and commissions payable by us.
(4) Amounts of our current borrowings and debentures maturing within 12 months.
(5) Amounts of our non-current borrowings and debentures maturing after 12 months.
(6) 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, 2020.

## SELECTED CONSOLIDATED FINANCIAL DATA AND OTHER INFORMATION

The summary financial and other information as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019 has been derived from our unaudited interim consolidated financial information included elsewhere in this offering memorandum and for the years ended December 31, 2019, 2018 and 2017 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" and our audited consolidated financial statements and unaudited interim consolidated financial information, including the notes thereto, included elsewhere in this offering memorandum.

| **Statement of Operations Data** | **For the nine-month period ended September 30,** | | | **For the year ended December 31,** | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** | **2019** | **2018** | **2017** |
| | *(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 | 1,751,517 | 9,879,782 | 8,766,037 | 2,107,124 | 11,885,656 | 11,516,247 | 9,727,021 |
| Sales deductions[2] | (216,847) | (1,223,170) | (1,198,444) | (286,102) | (1,613,817) | (1,499,786) | (1,353,643) |
| **Net sales revenue** | **1,534,670** | **8,656,612** | **7,567,593** | **1,821,022** | **10,271,839** | **10,016,461** | **8,373,378** |
| Domestic market | 859,328 | 4,847,210 | 4,511,105 | 1,083,896 | 6,113,933 | 5,533,578 | 5,019,971 |
| Export market | 675,342 | 3,809,402 | 3,056,488 | 737,126 | 4,157,906 | 4,482,883 | 3,353,407 |
| Variation in the fair value of biological assets | 56,258 | 317,336 | 314,539 | 69,150 | 390,053 | 628,367 | 789,661 |
| Cost of products sold | (990,242) | (5,585,660) | (5,293,655) | (1,283,747) | (7,241,234) | (6,342,406) | (6,427,492) |
| **Gross profit** | **600,686** | **3,388,288** | **2,588,477** | **606,424** | **3,420,658** | **4,302,422** | **2,735,547** |
| **Operating expenses** | | | | | | | |
| Sales | (147,623) | (832,697) | (629,288) | (161,396) | (910,388) | (764,348) | (656,844) |
| General and administrative | (83,690) | (472,072) | (442,926) | (106,540) | (600,959) | (558,205) | (528,398) |
| Other, net | 9,664 | 54,509 | 645,845 | 108,112 | 609,826 | (2,228) | (11,877) |
| | **(221,650)** | **(1,250,260)** | **(426,369)** | **(159,824)** | **(901,521)** | **(1,324,781)** | **(1,197,119)** |
| Equity in the results of joint venture | 4,799 | 27,071 | 6,182 | 1,283 | 7,237 | 5,964 | 13,624 |
| **Profit before finance result and taxes** | **383,835** | **2,165,099** | **2,168,290** | **447,883** | **2,526,374** | **2,983,605** | **1,552,052** |
| **Finance result** | (1,410,753) | (7,957,634) | (2,036,795) | (294,617) | (1,661,848) | (3,052,186) | (713,384) |
| **Profit (loss) before taxes on income** | **(1,026,918)** | **(5,792,535)** | **131,495** | **153,266** | **864,526** | **(68,581)** | **838,668** |
| **Income tax and social contribution** | | | | | | | |
| Current | (73,100) | (412,334) | 138,347 | 10,304 | 58,123 | (322,236) | (299,948) |
| Deferred | 441,147 | 2,488,379 | (186,329) | (36,880) | (208,031) | 577,635 | (6,551) |
| | **368,047** | **2,076,045** | **(47,982)** | **(26,576)** | **(149,908)** | **255,399** | **(306,499)** |
| **Profit (loss) for the year/period** | **(658,870)** | **(3,716,490)** | **83,513** | **126,690** | **714,618** | **186,818** | **532,169** |

(1) Solely for the convenience of the reader, amounts in Brazilian real for the nine-month period ended September 30, 2020 and for the year ended December 31, 2019 have been translated into U.S. dollars at the selling rate of R$5.6407 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,** | | | |
|---|---|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** | **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)* | | |
| Cash and cash equivalents and marketable securities | 1,389,981 | 7,840,468 | 1,725,125 | 9,730,915 | 7,047,204 | 8,271,595 |
| Accounts receivable (including allowance for doubtful debts) | 353,279 | 1,992,740 | 329,659 | 1,859,505 | 2,040,931 | 1,754,063 |
| Inventory | 244,555 | 1,379,460 | 236,184 | 1,332,244 | 1,206,353 | 933,161 |
| Taxes recoverable | 153,687 | 866,902 | 89,601 | 505,411 | 269,728 | 567,079 |
| Other assets | 31,314 | 176,632 | 43,588 | 245,869 | 297,718 | 277,691 |
| **Total current assets** | **2,172,816** | **12,256,202** | **2,424,157** | **13,673,944** | **10,861,934** | **11,803,589** |
| Deferred income tax and social contribution | 237,200 | 1,337,976 | - | - | - | - |
| Judicial deposits | 21,831 | 123,144 | 20,774 | 117,179 | 86,658 | 83,381 |
| Taxes recoverable | 145,613 | 821,362 | 344,754 | 1,944,656 | 1,280,811 | 1,287,669 |
| Other assets | 36,516 | 205,977 | 48,011 | 270,817 | 300,757 | 344,233 |
| Interests in subsidiaries and joint venture and others | 47,182 | 266,137 | 30,255 | 170,657 | 173,259 | 173,446 |
| Property, plant and equipment | 2,755,890 | 15,545,148 | 2,347,436 | 13,241,181 | 12,262,472 | 12,619,495 |
| Biological assets | 775,182 | 4,372,570 | 835,425 | 4,712,381 | 4,582,631 | 4,147,779 |
| Right of use | 148,538 | 837,856 | 87,649 | 494,399 | - | - |
| Intangible assets | 12,781 | 72,093 | 13,805 | 77,868 | 85,221 | 89,949 |
| **Total non-current assets** | **4,180,733** | **23,582,263** | **3,728,108** | **21,029,138** | **18,771,809** | **18,745,952** |
| **Total assets** | **6,353,549** | **35,838,465** | **6,152,265** | **34,703,082** | **29,633,743** | **30,549,541** |
| Borrowings | 123,212 | 695,000 | 124,414 | 701,783 | 1,913,779 | 2,230,624 |
| Debentures | 11,369 | 64,130 | 101,540 | 572,759 | 61,686 | 239,276 |
| Trade payables and trade payables (Forfait) | 274,595 | 1,548,908 | 181,583 | 1,024,256 | 903,752 | 713,612 |
| Tax payable | 23,010 | 129,790 | 11,892 | 67,079 | 50,832 | 55,673 |
| Social security and labor obligations | 66,280 | 373,868 | 53,413 | 301,288 | 300,379 | 281,466 |
| Related parties | 1,085 | 6,121 | 948 | 5,347 | 4,692 | 4,346 |
| Dividends and interest on shareholders' equity payable | - | - | 35,457 | 200,000 | 250,000 | - |
| Enrollment in Tax Recovery Program (REFIS) | - | - | - | - | 73,862 | 71,467 |
| Lease Liability | 26,132 | 147,400 | 17,819 | 100,509 | - | - |
| Other payables and provisions | 31,188 | 175,922 | 23,313 | 131,502 | 149,334 | 150,869 |
| **Total current liabilities** | **556,870** | **3,141,139** | **550,379** | **3,104,523** | **3,708,316** | **3,747,333** |
| Borrowings | 4,648,370 | 26,220,060 | 3,818,567 | 21,539,392 | 16,869,217 | 16,444,917 |
| Debentures | 339,333 | 1,914,073 | 225,387 | 1,271,338 | 600,990 | 634,594 |
| Deferred income tax and social contribution | - | - | 203,001 | 1,145,069 | 959,906 | 1,544,578 |
| Provisions for tax, social security, labor and civil contingencies | 9,833 | 55,464 | 10,729 | 60,519 | 64,118 | 65,377 |
| Payables – Investors in Special Partnership Companies (SPCs) | 58,009 | 327,210 | 59,068 | 333,183 | 301,583 | 272,938 |
| Enrollment in Tax Recovery Program (REFIS) | - | - | - | - | 265,587 | 307,476 |
| Lease Liability | 124,214 | 700,654 | 70,332 | 396,720 | - | - |
| Actuarial liabilities | 30,449 | 171,754 | 29,781 | 167,984 | 119,571 | - |
| Other payables and provisions | 23,597 | 133,101 | 32,457 | 183,081 | 211,225 | 298,177 |
| **Total non-current liabilities** | **5,233,804** | **29,522,316** | **4,449,321** | **25,097,286** | **19,392,197** | **19,568,057** |
| **Total liabilities** | **5,790,674** | **32,663,455** | **4,999,700** | **28,201,809** | **23,100,513** | **23,315,390** |
| Share capital | 793,427 | 4,475,481 | 722,612 | 4,076,035 | 4,076,035 | 2,516,753 |
| Capital reserves | (64,849) | (365,791) | (62,159) | (350,622) | (361,231) | 1,187,329 |
| Revaluation reserve | 8,635 | 48,705 | 8,635 | 48,705 | 48,705 | 48,705 |
| Profit reserves | 268,946 | 1,517,044 | 268,946 | 1,517,044 | 1,748,219 | 2,699,577 |
| Other comprehensive income | 164,484 | 927,803 | 167,177 | 942,994 | 977,122 | 987,916 |
| Retained earnings | (679,077) | (3,830,468) | - | - | - | - |
| Treasury shares | (31,533) | (177,871) | (33,200) | (187,274) | (196,615) | (206,129) |
| **Shareholders' equity of Klabin** | **460,032** | **2,594,903** | **1,072,009** | **6,046,882** | **6,292,235** | **7,234,151** |
| **Non-controlling interest** | **102,843** | **580,107** | **80,556** | **454,391** | **240,995** | **-** |
| **Consolidated shareholders' equity** | **562,875** | **3,175,010** | **1,152,565** | **6,501,273** | **6,533,230** | **7,234,151** |
| **Total liabilities and equity** | **6,353,549** | **35,838,465** | **6,152,265** | **34,703,082** | **29,633,743** | **30,549,541** |

(1) Solely for the convenience of the reader, amounts in Brazilian real as of September 30, 2020 and as of December 31, 2019 have been translated into U.S. dollars at the selling rate of R$5.6407 to U.S.$1.00.

| Other Financial Data | For the nine-month period ended September 30, | | | For the year ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2020 | 2019 | 2019 | 2019 | 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)* | | |
| Profit (loss) for the year/period | (658,870) | (3,716,490) | 83,513 | 126,690 | 714,618 | 186,818 | 532,169 |
| Income tax and social contribution | (368,047) | (2,076,045) | 47,982 | 26,576 | 149,908 | (255,399) | 306,499 |
| Finance result | 1,410,753 | 7,957,634 | 2,036,795 | 294,617 | 1,661,848 | 3,052,186 | 713,384 |
| Amortization, depreciation and depletion | 314,339 | 1,773,093 | 1,510,310 | 388,855 | 2,193,414 | 1,673,347 | 1,940,487 |
| Variation in the fair value of biological assets | (56,258) | (317,336) | (314,539) | (69,150) | (390,053) | (628,367) | (789,661) |
| Equity in results of investees and joint venture | (4,799) | (27,071) | (6,182) | (1,283) | (7,237) | (5,964) | (13,624) |
| Adjusted EBITDA of a jointly-controlled subsidiary | - | - | - | - | - | - | 9,124 |
| Realization of deemed costs following revaluations of sold lands | - | - | - | - | - | 1,798 | 39,801 |
| **Adjusted EBITDA**[(2)] | **637,117** | **3,593,785** | **3,357,879** | **766,305** | **4,322,498** | **4,024,419** | **2,738,179** |

| Other Financial Data | As of September 30, | | As of December 31, | | | |
|---|---|---|---|---|---|---|
| | 2020 | 2020 | 2019 | 2019 | 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)* | | |
| Borrowings | 123,212 | 695,000 | 124,414 | 701,783 | 1,913,779 | 2,230,624 |
| Debentures | 11,369 | 64,130 | 101,540 | 572,759 | 61,686 | 239,276 |
| **Short-term debt** | **134,581** | **759,130** | **225,955** | **1,274,542** | **1,975,465** | **2,469,900** |
| Borrowings | 4,648,370 | 26,220,060 | 3,818,567 | 21,539,392 | 16,869,217 | 16,444,917 |
| Debentures | 339,333 | 1,914,073 | 225,387 | 1,271,338 | 600,990 | 634,594 |
| **Long-term debt** | **4,987,702** | **28,134,133** | **4,043,954** | **22,810,730** | **17,470,207** | **17,079,511** |
| **Total Debt** | **5,122,283** | **28,893,263** | **4,269,908** | **24,085,272** | **19,445,672** | **19,549,411** |
| (-) Cash and cash equivalents and marketable securities | (1,389,981) | (7,840,468) | (1,725,125) | (9,730,915) | (7,047,204) | (8,271,595) |
| **Total Net Debt**[(3)] | **3,732,302** | **21,052,795** | **2,544,783** | **14,354,357** | **12,398,468** | **11,277,816** |
| **Total Net Debt /Adjusted EBITDA**[(4)] | **5.9** | **5.9** | **3.3** | **3.3** | **3.1** | **4.1** |

(1) Solely for the convenience of the reader, amounts in Brazilian real as of and for the three months ended September 30, 2020 and as of and for the year ended December 31, 2019 have been translated into U.S. dollars at the selling rate of R$5.6407 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, 2020 and 2019 and as of and for the years ended December 31, 2019 and 2018 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*) 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 consolidation financial statements of Klabin and the notes thereto included elsewhere in this offering memorandum. 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, | | |
|---|---|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** | **2019** | **2018** |
| | *(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 | 469,868 | 2,650,387 | 1,216,712 | 362,843 | 2,046,686 | 694,257 |
| Cost of products sold | (464,104) | (2,617,869) | (1,119,281) | (343,205) | (1,935,915) | (643,029) |
| **Gross Profit** | **5,765** | **32,518** | **97,431** | **19,638** | **110,771** | **51,228** |
| Operating income (expenses) | (11,959) | (67,455) | (20,962) | (6,955) | (39,232) | (19,104) |
| **Profit before finance result and taxes** | **(6,194)** | **(34,937)** | **76,469** | **12,683** | **71,539** | **32,124** |
| Finance result | 24,636 | 138,967 | 54,696 | 16,323 | 92,072 | (1,967) |
| **Profit before taxes on income** | **18,443** | **104,030** | **131,165** | **29,005** | **163,611** | **30,157** |
| Income tax | 0 | 0 | (19,512) | (2,417) | (13,636) | (9,617) |
| **Profit for the year** | **18,443** | **104,030** | **111,653** | **26,588** | **149,975** | **20,540** |

| | As of September 30, | | | As of December 31, | | |
|---|---|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** | **2019** | **2018** |
| | *(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 | 115,657 | 652,387 | 402,365 | 33,010 | 186,199 | 31,083 |
| Accounts receivable | 75,422 | 425,432 | 475,982 | 104,797 | 591,127 | 222,832 |
| Inventory | 32,546 | 183,580 | 99,374 | 18,184 | 102,573 | 50,238 |
| Other assets | 123 | 694 | 401 | 54 | 303 | 189 |
| **Total current assets** | **223,748** | **1,262,093** | **978,122** | **156,045** | **880,202** | **304,342** |
| Related parties | 1,618,750 | 9,130,883 | 7,708,304 | 1,322,677 | 7,460,826 | - |
| Other assets | 61 | 343 | 308 | 52 | 296 | 326 |
| **Total non-current assets** | **1,618,811** | **9,131,226** | **7,708,612** | **1,322,729** | **7,461,122** | **326** |
| **Total assets** | **1,842,558** | **10,393,319** | **8,686,734** | **1,478,774** | **8,341,324** | **304,668** |
| Trade payables | 2,728 | 15,390 | 5,816 | 1,933 | 10,906 | 1,649 |
| Tax obligations | 1,381 | 7,790 | 27,156 | 2,216 | 12,499 | 7,941 |
| Other payables and provisions and related parties | 174,949 | 986,837 | 826,409 | 125,457 | 707,665 | 260,598 |
| **Total current liabilities** | **179,059** | **1,010,017** | **859,381** | **129,606** | **731,070** | **270,188** |

| | As of September 30, | | | As of December 31, | | |
|---|---|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** | **2019** | **2018** |
| Borrowings | 1,529,468 | 8,627,268 | 6,565,898 | 1,126,408 | 6,353,731 | - |
| Related parties | 66,250 | 373,696 | 1,106,065 | 189,362 | 1,068,136 | - |
| Other payables and provisions | 213 | 1,199 | 373 | 99 | 558 | 349 |
| **Total non-current liabilities** | **1,595,930** | **9,002,163** | **7,672,336** | **1,315,869** | **7,422,425** | **349** |
| **Total liabilities** | **1,774,989** | **10,012,180** | **8,531,717** | **1,445,475** | **8,153,495** | **270,537** |
| | | | | | | |
| Share capital | 797 | 4,495 | 4,495 | 797 | 4,495 | 4,495 |
| Retained earnings | 31,172 | 175,832 | 25,856 | 4,584 | 25,856 | 9,096 |
| Revenue reserves | 35,601 | 200,812 | 124,666 | 27,918 | 157,478 | 20,540 |
| **Total equity** | **67,569** | **381,139** | **155,017** | **33,299** | **187,829** | **34,131** |
| **Total liabilities and equity** | **1,842,558** | **10,393,319** | **8,686,734** | **1,478,774** | **8,341,324** | **304,668** |

(1) Solely for the convenience of the reader, amounts in Brazilian *real* as of and for the nine-month period ended September 30, 2020 and as of and for the year ended December 31, 2019 have been translated into U.S. dollars at the selling rate of R$5.6407 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, 2019, 2018 and 2017 and our unaudited interim consolidated financial information as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019, included elsewhere in this offering memorandum, as well as with the information presented under "Presentation of Financial and Other Information," "Summary 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."*

### Overview

We are the largest producer, exporter and recycler of packaging paper in Brazil according to IBÁ and internal estimates, based on our production capacity in 2019 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. Our Adjusted EBITDA was R$3,594 million and R$3,358 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$4,322 million, R$4,024 million and R$2,738 million for the years ended December 31, 2019, 2018 and 2017. We recorded cash flow from operating activities of R$4,251 million and R$1,902 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$2,953 million, R$2,787 million and R$1,793 million for the years ended December 31, 2019, 2018 and 2017.

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 54% of sales volumes of this business unit in 2019.

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 was built in 24 months, within budget. Total investment was approximately R$8.3 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. 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, which ended in 2019 by mutual agreement with Fibria. The process was designed to take place gradually with the migration of pulp volumes beginning in April and Klabin taking over full responsibility for sales starting in August. After that, we assumed marketing activities, initially mostly in Europe, and afterwards gradually entering new regions, such as Asia (mainly China).

Tetra Pak and Fibria were responsible for approximately 23%, or R$1,740 million of our net sales revenues for the nine-month period ended September 30, 2019, and 13%, or R$1,311 million and 33%, or R$3,261 million, of our net sales revenue in 2019 and 2018, respectively. Tetra Pak was responsible for 12%, or R$1,078 and 13 %, or R$959 million, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$1,311 million, or 13% and R$1,083 million, or 11%, of our net sales revenue in 2019 and 2018, respectively. Fibria was responsible for R$780 million, of our net sales revenue for the nine-month periods ended September 30, 2019, and R$780 million, or 8% and R$2,178 million, or 22%, of our net sales revenue in 2019 and 2018, respectively.

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$3,130 million, or 36% and R$2,542 million, or 34%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,510 million, or 34%, R$3,177 million, or 32% and R$2,951 million, or 35%, of our total net sales revenue in 2019, 2018 and 2017, respectively;

- *Conversion Unit*, which manufactures corrugated boxes and industrial bags, and accounted for R$2,443 million, or 28% and R$2,220 million, or 29%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,009 million, or 29%, R$2,852 million, or 28%, and R$2,675 million, or 32%, of our total net sales revenue in 2019, 2018 and 2017, respectively;

- *Pulp Unit*, which manufactures hardwood, softwood and fluff pulp, which accounted for R$2,920 million, or 34% and R$2,613 million, or 35%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,513 million, or 34% of our total net sales revenue in 2019; 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

- *Forestry Unit*, which produces both pine (softwood) and eucalyptus (hardwood) logs, and which accounted for R$176 million, or 2% and R$199 million, or 3%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$250 million, or 2%, R$316 million, or 3% and R$330 million, or 4%, of our total net sales revenue in 2019, 2018 and 2017, respectively.

For the nine-month period ended September 30, 2020 and for the year ended December 31, 2019, we sold 2,617 thousand tonnes and 3,327 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$8,657 million and R$10,272 million, respectively. Approximately 47% of our production is exported to approximately 85 countries on five continents and, as of September 30, 2020, we and our subsidiaries had 14,838 employees and generated approximately 22,682 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, 2020 and for the years ended December 31, 2019, 2018 and 2017, respectively:

| | For the nine-month period ended September 30, 2020 | For the Year Ended December 31, | | |
|---|---|---|---|---|
| | | 2019 | 2018 | 2017 |
| GDP growth | -3.4% | 1.14% | 1.10% | 1.30% |
| Inflation rate (IGP-M)[1] | 14.40% | 7.32% | 7.55% | (0.52%) |
| Inflation rate (IPCA)[2] | 1.34% | 4.31% | 3.75% | 2.95% |
| CDI[3] | 1.90% | 4.40% | 6.40% | 9.93% |
| SELIC rate[4] | 2.00% | 4.50% | 6.50% | 7% |
| Appreciation (depreciation) of *real* against the U.S. dollar | 39.94% | 4.02% | 17.06% | 1.99% |
| Exchange rate of *reais* against U.S.$1.00 | R$5.64 | R$4.03 | R$3.87 | R$3.31 |
| Average exchange rate – *reais* against U.S.$1.00[5] | R$5.38 | R$3.95 | R$3.66 | R$3.19 |

*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, 2020 and 2019 and for the years ended December 31, 2019, 2018 and 2017, net sales revenue derived from exports denominated in foreign currency represented 44%, 40%, 40%, 45% 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, 2020, our short-term and long-term borrowings and debentures denominated in foreign currency were R$23,169 million, or 80% 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, 2020 and September 30, 2019, 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.$668.24 per tonne and U.S.$680 per tonne, respectively, during the nine-month period ended September 30, 2020 compared to U.S.$681.12 per tonne and U.S.$750.80 per tonne, respectively, during the nine-month period ended September 30, 2019. This decrease has adversely affected and we expect it will continue to adversely affect our results of operations. In 2019, the international prices for kraftliner and pulp decreased according to FOEX. On December 27, 2019, the kraftliner price in Europe was U.S.$670 per tonne, a decrease of 19.7% compared to the price on December 27, 2018.

In the pulp segment, on September 30, 2020, the hardwood pulp price was U.S.$680 per tonne in Europe, remained stable compared to the price on December 27, 2019. In the pulp segment, on December 27, 2019, the hardwood pulp price was U.S.$680.03 per tonne in Europe, a decrease of 33.7% compared to the price on December 27, 2018.

***Our Export Levels***

For the nine-month periods ended September 30, 2020 and 2019 and for the years ended December 31, 2019, 2018 and 2017, we exported 47%, 46% and 47%, 50% and 51%, 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, 2020 and 2019 and for the years ended December 31, 2019, 2018 and 2017, respectively:

| | Net Sales Revenue | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | For the Nine-month period Ended September 30, | | For the Year Ended December 31, | | | | | |
| | 2020 | 2019 | 2019 | | 2018 | | 2017 | |
| | | | (in millions of reais, except percentages) | | | | | |
| Domestic Market | 4,847 56% | 4,511 60% | 6,114 | 60% | 5,534 | 55% | 5,020 | 60% |
| Export Market | 3,809 44% | 3,056 40% | 4,158 | 40% | 4,483 | 45% | 3,353 | 40% |
| **Total net sales revenue** | 8,657 100% | 7,568 100% | **10,272** | **100%** | **10,016** | 100% | **8,373** | 100% |

| | Sales Volume[(1)] | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | For the Nine-month period Ended September 30, | | For the Year Ended December 31, | | | | | |
| | 2020 | 2019 | 2019 | | 2018 | | 2017 | |
| | | | (thousand tonnes, except percentages) | | | | | |
| Domestic Market | 1,377 53% | 1,295 54% | 1,769 | 53% | 1,589 | 50% | 1,564 | 49% |
| Export Market | 1,240 47% | 1,105 46% | 1,558 | 47% | 1,600 | 50% | 1,656 | 51% |
| **Total sales volume** | 2,617 100% | 2,400 100% | **3,327** | **100%** | **3,189** | **100%** | **3,220** | **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, 2020 and 2019 and for the years ended December 31, 2019 and 2018, and Europe for the year ended December 31, 2017.

| | Sales Volume Export Market | | | | |
|---|---|---|---|---|---|
| | For the Nine-month period Ended September 30, | | For the Year Ended December 31, | | |
| | 2020 | 2019 | 2019 | 2018 | 2017 |
| | (thousand tonnes, except percentages) | | | | |
| Latin America | 231 | 215 | 272 | 258 | 248 |
| Asia | 604 | 664 | 976 | 998 | 943 |
| Europe | 264 | 120 | 162 | 222 | 286 |
| Africa | 48 | 34 | 63 | 13 | 42 |
| North America | 93 | 72 | 85 | 110 | 136 |

### *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 1,401,300, 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, 2020, the Puma Plant sold 1,161,016 tonnes of pulp, of which 835,808 tonnes were hardwood and 325,209 tonnes were softwood and fluff pulp. For the year ended 2019, the Puma Plant sold 1,484372 tonnes of pulp, of which 1,083,350 tonnes were hardwood and 401,021 tonnes were softwood and fluff pulp.

According to IBÁ, total Brazilian shipments of coated boards, excluding liquid packaging board, were 576,000 tonnes and 545,000 tonnes for the nine-month periods ended September 30, 2020 and 2019, respectively, compared to 740,000 tonnes in 2018 and 526,000 tonnes in 2017. Our market share in the coated boards market totaled approximately 40% for the nine-month period ended September 30, 2020 and 2019 and for the years ended December 31, 2019, 2018 and 2017.

For the nine-month period ended September 30, 2020, our kraftliner sales of 330,125 tonnes represented an increase of 15% compared to the same period in 2019, mainly due to the increased demand for virgin fiber paper and the devaluation of the Brazilian Real. In 2019, our kraftliner sales of 388,771 tonnes decreased 5% compared to 2018, mainly due to an increase in global demand for packing. Kraftliner net sales revenue was R$988 million in 2019, a decrease of 7% compared to 2018.

According to ABPO, for the nine-month period ended September 30, 2020, Brazilian shipments of corrugated boxes increased 4.75% compared to the same period in 2019, and in 2019, Brazilian shipments of corrugated boxes increased 2% compared to 2018. 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 an increase in sales volumes of corrugated boxes for the first nine months of 2020 against and for 2019.

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, 2020 increased by 4%, accompanied by a 10%

increase in revenues compared to the same period in 2019. Our sales volume in 2019 remained stable, accompanied by a 7% increase in revenues compared to 2018.

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, 2020, our wood sales volume to third parties decreased 10%, to 1,224 thousand tonnes, representing a decrease of 11% in our net sales revenue of wood for the period. In 2019, our wood sales volume to third parties decreased 19%, to 1,706 million tonnes, representing a decrease of 25% in our net sales revenue of wood in 2019.

***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, 2020 and 2019 and for 2019, 2018 and 2017:

| | **For the Nine-month period Ended September 30,** | | **For the Year Ended December 31,** | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2019** | **2018** | **2017** |
| | *(In millions of* reais*, except as otherwise indicated)* | | | | |
| **Sales volume – excluding wood (*thousand tonnes*)** | **2,617** | **2,400** | **3,327** | **3,189** | **3,221** |
| Cost of products sold | (5,586) | (5,294) | (7,241) | (6,342) | (6,428) |
| Sales and general and administrative expenses | (1,305) | (1,072) | (1,511) | (1,323) | (1,185) |
| Other net | 55 | 646 | 610 | (2) | (12) |
| Extemporaneous tax credit [(1)] | - | (631) | (631) | - | - |
| Depreciation, amortization and depletion of biological assets | 1,773 | 1,510 | 2,193 | 1,673 | 1,941 |
| **Total** | **(5,063)** | **(4,841)** | **(6,580)** | **(5,994)** | **(5,684)** |
| **Cash cost/volume – (*thousands of* reais *per tonne*)[(2)]** | **1.935** | **1.754** | **1.978** | **1.880** | **1.765** |

(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.

## 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, 2020 compared to the nine-month period ended September 30, 2019*

The table below sets forth certain statement of operations data for the nine-month periods ended September 30, 2020 and 2019:

| **Statement of Operation Data** | **For the nine-month period ended September 30,** | |
|---|---|---|
| | **2020** | **2019** |
| | *(in thousands of R$)* | |
| Gross sales revenue | 9,879,782 | 8,766,037 |
| Sales deductions[(1)] | (1,223,170) | (1,198,444) |
| **Net sales revenue** | 8,656,612 | 7,567,593 |
| Domestic market | 4,847,210 | 4,511,105 |
| Export market | 3,809,402 | 3,056,488 |
| Variation in the fair value of biological assets | 317,336 | 314,539 |
| Cost of products sold | (5,585,660) | (5,293,655) |
| **Gross profit** | 3,388,288 | 2,588,477 |
| Sales | (832,697) | (629,288) |
| General and administrative | (472,072) | (442,926) |
| Other net | 54,509 | 645,845 |
| **Operating expenses** | (1,250,260) | (426,369) |
| Equity in the results of joint venture | 27,071 | 6,182 |
| **Profit before finance result and taxes** | 2,165,099 | 2,168,290 |
| **Finance result** | (7,957,634) | (2,036,795) |
| **Profit before taxes on income** | (5,792,535) | 131,495 |
| Current | (412,334) | 138,347 |
| Deferred | 2,488,379 | (186,329) |
| **Income tax and social contribution** | 2,076,045 | (47,982) |
| **Profit (loss) for the year** | **(3,716,490)** | **83,513** |

### *Net sales revenue*

In the nine-month period ended September 30, 2020, net sales revenue increased 14% to R$8,657 million compared to R$7,568 million for the same period in 2019. This increase was mainly due to:

(i) a 23% increase in our paper net sales revenue (to R$3,130 million in the nine-month period ended September 30, 2020 compared to R$2,542 million in the same period in 2019), mainly due to new markets developed through technological improvements allowing us to launch new products, as well as the increase of our sales especially to the foreign market, benefiting from the sharp exchange devaluation;

(ii) a 11% increase in our pulp sales volumes (to 1,161 thousand tonnes in the third quarter of 2020, compared to 1,049 thousand tonnes in the same quarter of 2019), substantially due the unit's strong operating performance in 2020 and the positive impact provided by the devaluation of the *real* in the period, benefiting pulp sales, whose revenue is 100% U.S.$ indexed, including those generated in the domestic market. 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 10% increase in the sales revenue of conversion products, such as corrugated boxes and industrial bags, in the nine-month period of 2020 compared to the same period in 2019, mainly due to the growth in sales volume and price rises above inflation as a result of our expansion strategy in markets that operate with higher returns, such as e-commerce and food for export, as well as the important recovery of demand for industrial bags;

The table below sets forth the sales volumes of our products by market category for the nine-month periods ended September 30, 2020 and 2019:

| **Sales Volume** | | **For the nine-month period ended September 30,** | | **% Variation in period** |
|---|---|---|---|---|
| | | **2020** | **2019** | |
| | | *(in thousands of tonnes)* | | |
| Domestic market | Papers | 441 | 420 | 5% |
| | Pulp | 385 | 353 | 9% |
| | Conversion | 551 | 522 | 6% |
| | **Total (excluding wood)** | 1,377 | 1,295 | 6% |
| | Wood | 1,224 | 1,362 | -10% |
| Export market | Papers | 426 | 362 | 18% |
| | Pulp | 776 | 697 | 11% |
| | Conversion | 38 | 46 | -17% |
| | **Total (excluding wood)** | 1,240 | 1,105 | |
| **Total** | Papers | 867 | 782 | 11% |
| | Pulp | 1,161 | 1,050 | 11% |
| | Conversion | 589 | 568 | 4% |
| | **Total (excluding wood)** | 2,617 | 2,400 | 9% |
| | **Wood** | 1,224 | 1,362 | -10% |

***Variation in the fair value of biological assets***

In the nine-month period ended September 30, 2020, our variation in fair value of biological represented a gain of R$317 million, compared to a gain of R$315 million in the same period of 2019.

This gain was mainly due to the increase in the discount rate used to calculate the fair value of the biological assets for the nine-month period ended September 30, 2020.

***Cost of products sold***

In the nine-month period ended September 30, 2020, cost of products sold increased 6% to R$5,586 million, compared to R$5,294 million in the nine-month period ended September 30, 2019. Despite an increase of 9% in sales volume in the nine-month period ended September 30, 2020 compared to the same period of 2019, this was mainly impacted by the costs of the scheduled maintenance shutdown of the Monte Alegre unit totaling R$30 million. Given the risks related to the pandemic, Klabin chose to undertake a stoppage with a reduced scope and involving a lesser mobilization of outsourced labor.

The depletion of biological assets included within cost of products sold totaled R$914 million in the nine-month period ended September 30, 2020, and R$713 million for the same period in 2019.

The average unit cost of our products sold in the nine-month period ended September 30, 2020 was R$1,915 per tonne, representing a decrease of 2% compared to the nine-month period ended September 30, 2019 of R$1,958 per tonne.

***Gross Profit***

As a result of the foregoing, our gross profit increased 31% to R$3,388 million in the nine-month period ended September 30, 2020 compared to R$2,589 million in the nine-month period ended September 30, 2019.

***Operating expenses***

*Sales expenses*. In the nine-month period ended September 30, 2020, sales expenses increased 32% to R$833 million, compared to R$629 million in the nine-month period ended September 30, 2019, mainly due to increased sales volumes in the nine-month period ended September 30, 2020 and higher cost allocation to sales expenses due to the termination of the pulp sales agreement with Fibria. Sales expenses represented 10% and 8% of our net sales revenue in the nine-month period ended September 30, 2020 and 2019, respectively, with freight comprising 71% of our sales expenses in the nine-month period ended September 30, 2020, compared to 68% in the same period of 2019.

*General and administrative expenses*. General and administrative expenses increased 7% to R$472 million in the nine-month period ended September 30, 2020, compared to R$443 million in the nine-month period ended September 30, 2019. This increase was mainly due to higher expenses with information technology and engineering advisory services and projects.

*Other net.* In the nine-month period ended September 30, 2020, other, net represented an income of R$55 million, compared to R$646 million in the nine-month period ended September 30, 2019 mainly impacted by a non-current extemporaneous tax credit in 2019.

***Profit before finance result and taxes***

As a result of the foregoing, our profit before finance result and taxes decreased 0.1% to R$2,165 million in the nine-month period ended September 30, 2020 compared to R$2,168 million in the nine-month period ended September 30, 2019.

***Finance Result***

In the nine-month period ended September 30, 2020, financial income, excluding foreign exchange variations, decreased 66% to R$296 million, compared to R$881 million in the nine-month period ended September 30, 2019. This decrease was mainly due to a non-recurring revenue of R$383 million from the tax credits generated from excluding ICMS from the PIS/Cofins tax calculation base in 2019.

In the nine-month period ended September 30, 2020, our financial expenses, excluding foreign exchange variations, increased 68% to R$3,529 million, compared to R$2,103 million in the nine-month period ended September 30, 2019. This increase was mainly due to negative impact of the interest expense associated with swap operations due to exchange variations.

Net foreign exchange variation increased to an expense of R$4,725 million in the nine-month period ended September 30, 2020, compared to an expense of R$814 million in the nine-month period ended September 30, 2019. This increase was mainly due to the 35% appreciation of the U.S. dollar against the *real* in 2020, when compared to 2019. 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$7,958 million in the nine-month period ended September 30, 2020 compared to an expense of R$2,037 million in the nine-month period ended September 30, 2019.

***Income tax and social contribution (current and deferred)***

In the nine-month period ended September 30, 2020, our current and deferred income tax and social contribution represents a gain of R$2,076 million, mainly due to taxable results resulting from our increased operational results.

In the nine-month period ended September 30, 2019, our current and deferred income tax represented an expense of R$48 million, mainly due to our loss from financial result.

In 2019 we 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 loss for the nine-month period ended September 30, 2020 totaled R$3,716 million, compared to a profit of R$84 million in the nine-month period ended September 30, 2019, for the reasons explained above.

### *Year ended December 31, 2019 Compared to the Year ended December 31, 2018*

The table below sets forth certain statement of operations data for the years ended December 31, 2019, 2018 and 2017:

| **Statement of Operation Data** | **For the year ended December 31,** | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| | | *(in thousands of R$)* | |
| Gross sales revenue | 11,885,656 | 11,516,247 | 9,727,021 |
| Sales deductions[1] | (1,613,817) | (1,499,786) | (1,353,643) |
| **Net sales revenue** | **10,271,839** | **10,016,461** | **8,373,378** |
| Domestic market | 6,113,933 | 5,533,578 | 5,019,971 |
| Export market | 4,157,906 | 4,482,883 | 3,353,407 |
| Variation in the fair value of biological assets | 390,053 | 628,367 | 789,661 |
| Cost of products sold | (7,241,234) | (6,342,406) | (6,427,492) |
| **Gross profit** | **3,420,658** | **4,302,422** | **2,735,547** |
| Sales | (910,388) | (764,348) | (656,844) |
| General and administrative | (600,959) | (558,205) | (528,398) |
| Other net | 609,826 | (2,228) | (11,877) |
| **Operating expenses** | (901,521) | **(1,324,781)** | **(1,197,119)** |
| Equity in the results of joint venture | 7,237 | 5,964 | 13,624 |
| **Profit before finance result and taxes** | **2,526,374** | **2,983,605** | **1,552,052** |
| **Finance result** | **(1,661,848)** | **(3,052,186)** | **(713,384)** |
| **Profit (loss) before taxes on income** | **(864,526)** | **(68,581)** | **838,668** |
| Current | 58,123 | (322,236) | (299,948) |
| Deferred | (208,031) | 577,635 | (6,551) |
| **Income tax and social contribution** | **(149,908)** | **255,399** | **(306,499)** |
| **Profit for the year** | **714,618** | **186,818** | **532,169** |

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

### *Net sales revenue*

In 2019, net sales revenue increased 3% to R$10,272 million compared to R$10,016 million in 2018. This increase was mainly due to:

(i) a 10% increase in our domestic market net sales revenue (to R$6,114 million in 2019 compared to R$5,534 million in 2018), mainly due to new markets developed through technological improvements allowing us to launch new products;

(ii) a 6% increase in our pulp sales volumes (to 1,484 thousand tonnes in 2019, compared to 1,401 thousand tonnes in 2018) 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) a 5% increase in the sales revenue of conversion products, such as corrugated boxes and industrial bags, in 2019 compared to 2018, despite a decrease of 0.1% 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 years ended December 31, 2019 and 2018:

| Sales Volume | | For the year ended December 31, 2019 | 2018 | % Variation in year |
|---|---|---|---|---|
| | | *(in thousands of tonnes)* | | |
| Domestic market............... | Papers | 581 | 579 | 0% |
| | Pulp | 479 | 294 | 63% |
| | Conversion | 708 | 715 | -1% |
| | **Total (excluding wood)** | **1,768** | **1,589** | 1% |
| | Wood | 1,706 | 2,109 | -19% |
| Export market.................. | Papers | 495 | 441 | 12% |
| | Pulp | 1,005 | 1,107 | -9% |
| | Conversion | 58 | 52 | 12% |
| | **Total (excluding wood)** | **1,558** | **1,601** | -3% |
| **Total**................................ | Papers | 1,076 | 1,021 | 5% |
| | Pulp | 1,484 | 1,401 | 6% |
| | Conversion | 766 | 767 | 0% |
| | **Total (excluding wood)** | **3,326** | **3,189** | 4% |
| | **Wood** | **1,706** | **2,109** | -19% |

***Variation in the fair value of biological assets***

In 2019, our gain in the variation in fair value of biological assets changed 38% to R$390 million, compared to R$628 million in 2018.

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 and 2019.

***Cost of products sold***

In 2019, cost of products sold increased 14% to R$7,241 million, compared to R$6,342 million in 2018. This increase was mainly due to the 4% increase in our sales volume (excluding wood).

The average unit cost of our products sold in 2019 was R$1,788 per tonne, representing a decrease of 5% compared to 2018 of R$1,880 per tonne, mainly due to the good operational performance of Klabin with greater dilution of fixed costs and the generation and sale of energy. In addition, lower expenses with chemicals, fuel oil and discipline in controlling general and administrative expenses were important factors underpinning the reduction in cash costs during the period. The depletion of biological assets included within cost of products sold totaled R$1,065 million in 2019, compared to R$655 million in 2018.

***Gross Profit***

As a result of the foregoing, our gross profit decreased 20% to R$3,421 million in 2019 compared to R$4,302 million in 2018.

***Operating expenses***

*Sales expenses*. In 2019, sales expenses increased 19% to R$910 million, compared to R$764 million in 2018, 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 9% and 8% of our net sales revenue in 2019 and 2018, respectively, with freight comprising 68% of our sales expenses in 2019, compared to 64% in 2018.

*General and administrative expenses*. General and administrative expenses increased 8% to R$601 million in 2019, compared to R$558 million in 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.

***Profit before finance result and taxes***

As a result of the foregoing, our profit before finance result and taxes decreased 15% to R$2,526 million in 2019 compared to R$2,984 million in 2018.

***Finance Result***

In 2019, financial income, excluding foreign exchange variations, increased 106% to R$1,023 million, compared to R$495 million in 2018. This increase was mainly due to the booking of a non-recurring tax credit noticed to the market on August 22, 2019.

In 2019, our financial expense, excluding foreign exchange variations, increased 47% to R$2,274 million, compared to R$1,549 million in 2018. This increase is mainly due to impact of negative variation in the marking-to-market of interest rate swaps.

Net foreign exchange variation represents an expense of R$410 million, compared to an expense of R$1,999 million in 2018. This expense was mainly due to the 4% appreciation of the U.S. dollar against the *real* in 2019. In 2018, the appreciation of the U.S. dollar against the *real was* 17%. 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 decreased to an expense of R$1,662 million in 2019, compared to an expense of R$3,052 million in 2018.

***Income tax and social contribution (current and deferred)***

In 2019, our current income tax and social contribution converted into a gain to R$58 million, compared to expense to R$322 million in 2018. Deferred income tax and social contribution converted into a loss to R$208 million, compared to a gain of R$578 million in 2018. Both cases were driven by a change in the method chosen for tax recognition of the exchange variations of our rights and obligations to the accrual basis for the year 2019.

***Profit for the year***

As a result of the foregoing, our profit for the year totaled R$715 million in 2019, a 283% increase compared to R$187 million in 2018.

**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 and 2017:

| **Statement of Operation Data** | **2018** | **2017** |
|---|---|---|
| | *(in thousands of R$)* | |
| Gross sales revenue | 11,516,247 | 9,727,021 |
| Sales deductions[(1)] | (1,499,786) | (1,353,643) |
| **Net sales revenue** | **10,016,461** | **8,373,378** |
| Domestic market | 5,533,578 | 5,019,971 |
| Export market | 4,482,883 | 3,353,407 |
| Variation in the fair value of biological assets | 628,367 | 789,661 |
| Cost of products sold | (6,342,406) | (6,427,492) |
| **Gross profit** | **4,302,422** | **2,735,547** |
| Sales | (764,348) | (656,844) |

| | | |
|---|---|---|
| General and administrative | (558,205) | (528,398) |
| Other net | (2,228) | (11,877) |
| **Operating expenses** | **(1,324,781)** | **(1,197,119)** |
| Equity in the results of joint venture | 5,964 | 13,624 |
| **Profit before finance result and taxes** | **2,983,605** | **1,552,052** |
| **Finance result** | (3,052,186) | (713,384) |
| **Profit (loss) before taxes on income** | **(68,581)** | **838,668** |
| Current | (322,236) | (299,948) |
| Deferred | 577,635 | (6,551) |
| **Income tax and social contribution** | **255,399** | **(306,499)** |
| **Profit for the year** | **186,818** | **532,169** |

(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:

| | | For the year ended December 31, | | |
|---|---|---|---|---|
| **Sales Volume** | | **2018** | **2017** | **% Variation in year** |
| | | *(in thousands of tonnes)* | | |
| 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%)** |
| **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.

**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, 2020 and as of December 31, 2019, 2018 and 2017, were R$7,840 million, R$9,731 million, R$7,047 million and R$8,272 million, respectively.

| | For the nine-month period ended September 30, | | For the year ended December 31, | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2019 | 2018 | 2017 |
| | (in thousands of reais) | | (in thousands of reais) | | |
| Net cash provided by operating activities | 4,251,414 | 1,901,866 | 2,953,124 | 2,786,976 | 1,792,978 |
| Net cash used in investing activities | (3,067,004) | (1,711,933) | (2,367,896) | (858,222) | (838,817) |
| Net cash provided by (used in) financing activities | (2,989,912) | 4,861,170 | 2,021,304 | (3,223,322) | 201,541 |
| Increase (decrease) in cash and cash equivalents | (1,805,502) | 5,051,103 | 2,606,532 | 1,294,568 | 1,155,702 |

***Net cash provided by operating activities***

For the nine-month periods ended September 30, 2020 and 2019, net cash flow provided by operating activities were R$4,251 million and R$1,902 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, as well as increase in working capital, increasing the cash generated by operating activities.

For the years ended December 31, 2019, 2018 and 2017, net cash flow provided by operating activities were R$2,953 million, R$2,787 million and R$1,793 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, 2020 and 2019, net cash used in our investing activities totaled R$3,067 million and R$1,712 million, respectively. In the nine-month period ended September 30, 2020, the Company incurred capital expenditures of R$2,577 million for the new Puma II Project, to construct two new paper machines.

For the years ended December 31, 2018 and 2017, net cash used in our investing activities totaled R$858 million and R$839 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.

***Net cash provided by (used in) financing activities***

For the nine-month period ended September 30, 2020 we recorded net cash used by financing activities of R$2,990 million and for the nine-month period ended September 30, 2019, we recorded net cash used in financing activities of R$4,861 million. For the year ended December 31, 2019 we recorded net cash provided in financing activities of R$2,021 million and for the years ended December 2018 and 2017, we recorded net cash provided by financing activities of R$3,223 million and R$202 million, respectively.

For the nine-month period ended September 30, 2020, net cash reflected early repayment of less attractive loans in terms of maturity and/or at costs higher than new funding arranged during the period partially offset the increase. The transactions included a reopening of our 2049 Green Notes, for an additional amount of U.S.$200 million at a 6.10% yield *per annum*. The Company also repaid pre-export lines (PPE) amounting to U.S.$666 million and funding earmarked to the Puma II Project of R$2,577 million.

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, 2020, and as of December 31, 2019, 2018 and 2017, 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, | As of December 31, | | |
|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 |
| | | *(R$ million, except percentages)* | | |
| Local currency | 265 | 918 | 620 | 874 |
| Foreign currency | 494 | 357 | 1,356 | 1,596 |
| Short-term | 759 | 1,275 | 1,976 | 2,470 |
| ***% Short-term*** | **3%** | **5%** | **10%** | **13%** |
| | | | | |
| Local currency | 7,312 | 6,077 | 6,628 | 4,615 |

| | | | | |
|---|---|---|---|---|
| Foreign currency | 20,822 | 16,734 | 10,842 | 12,465 |
| Long -term | 28,134 | 22,811 | 17,470 | 17,080 |
| ***% Long -term*** | 97% | 95% | **90%** | **87%** |
| Total Local currency | 7,577 | 6,994 | 7,248 | 5,489 |
| ***% Local currency*** | 26% | 29% | 37% | 28% |
| Total Foreign currency | 21,316 | 17,091 | 12,197 | 14,061 |
| ***% Foreign currency*** | 74% | 71% | 63% | 72% |
| **Total Debt[(1)]** | **28,893** | **24,085** | **19,446** | **19,549** |
| (-) Cash and cash equivalents and marketable securities | (7,840) | (9,731) | (7,047) | (8,272) |
| **Total Net Debt[(1)]** | **21,053** | **14,354** | **12,398** | **11,278** |

(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, 2020 was R$28,893 million, comprising R$759 million of short-term debt (or 3% of our Total Debt) and R$28,134 million of long-term debt (or 97% of our Total Debt). As of September 30, 2020, our *reais*-denominated Total Debt was R$7,577 million (or 26% of our Total Debt), while our foreign currency denominated Total Debt was R$21,316 million (or 74% of our Total Debt) with nominal amounts in U.S. dollars. As of September 30, 2020, R$6,409 million of our Total Debt was secured.

Our Total Debt as of December 31, 2019 was R$24,085 million, comprising R$1,275 million of short-term debt (or 5% of our Total Debt) and R$22,811 million of long-term debt (or 95% of our Total Debt). As of December 31, 2019, our *reais*-denominated Total Debt was R$6,944 million (or 29% of our Total Debt), while our U.S. dollar Total Debt was R$17,091 million (or 71% of our Total Debt).

Our Total Debt as of December 31, 2018 was R$19,446 million, comprising R$1,976 million of short-term debt (or 10% 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.

As of September 30, 2020, 24% of our Total Debt was secured by assets consisting of financing from BNDES, Finnvera and export credit agencies. As of December 31, 2019, 20% 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 (borrowings and debentures (current and non-current)) as of September 30, 2020 (in thousands of *reais*, except percentages):

| In local currency | Annual interest rate – % | Current | Non-current | Total |
|---|---|---|---|---|
| Debentures | IPCA + 2.5 to 7.2 or 114% of CDI rate | 64,130 | 1,914,073 | 1,978,203 |
| BNDES – Project Puma II | TLP + 3.58 | 4,527 | 1,010,886 | 1,015,413 |
| BNDES – Other | TJLP | 1,165 | 121,381 | 122,546 |
| Export credit notes (in R$) | 102 of 105.50 or CDI | 114,798 | 587,500 | 702,298 |
| CRA | 95 to 102 of CDI or IPCA + 3.50% to IPCA + 4.51% | 92,225 | 3,762,228 | 3,854,453 |
| Other | 0.76 a 8.5 or TJLP | 6,892 | 6,994 | 13,886 |
| Cost of funding | | (18,767) | (90,904) | (109,671) |
| **Total** | | 264,970 | 7,312,158 | 7,577,128 |
| | | | | |
| **In foreign currency*** | | | | |
| BNDES – Other | USD + 5.86 | 1,394 | - | 1,394 |
| Export prepayments | USD + 5.40 | 12,057 | 705,088 | 717,145 |
| Finnvera | USD + Libor + 0.60 to 0.95 or USD + 3.38 | 223,981 | 1,314,781 | 1,538,762 |
| ECA | EUR + 0.45% | 7,633 | 34,294 | 41,927 |
| SWAP | 4.70 to 5.67 | - | 2,157,999 | 2,157,999 |
| Export credit notes | 4.70 to 5.67 | 24,556 | 3,004,373 | 3,028,929 |
| Term Loan (BID Invest e IFC) | Libor + 1.59 | 4,655 | 564,070 | 568,725 |
| Bonds (Notes) | 4.88% of 7.00% | 282,512 | 12,534,422 | 12,816,934 |
| Export prepayments (Notes) | | 1,279 | 846,105 | 847,384 |
| Cost of funding | | (63,907) | (339,157) | (403,064) |
| **Total** | | 494,160 | 20,821,975 | 21,316,135 |
| | | | | |
| **Total borrowings and debentures** | | 759,130 | 28,134,133 | 28,893,263 |

* U.S. dollars

Cash and cash equivalents and marketable securities as of September 30, 2020 was R$7,840 million, which exceeds the amortization of our debt falling due over the succeeding 65 months.

*Mandatorily Convertible Debentures – 6th Issuance*

In November 2013, we issued R$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 million 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, 2020, the outstanding balance of our 7th issuance of debentures (without deducting the effect of cost of funding) was R$800 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, 2020, the outstanding balance (without deducting the effect of cost of funding) of our BNDES credit facilities was R$1,139 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. As of the date hereof, we have drawn R$1 billion under the credit line.

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 Securatizadora 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 Securatizadora.

As of September 30, 2020, the outstanding balance (without deducting the effect of cost of funding) of our debentures backing CRAs was R$3,854 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, 2020, our export financing agreements (export prepayment) represented an outstanding balance (without deducting the effect of cost of funding) amount of R$3,731 million. See "Summary—Recent Developments," for a discussion of our prepayment of certain of our export prepayment agreements since September 30, 2020.

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).

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.

As of the date hereof, we have drawn U.S.$100 million under the credit line. 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. As of the date hereof, we have drawn U.S.$67 million under the credit line.

*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.$271 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.

In January 2020, we, through our wholly owned subsidiary Klabin Austria, issued another U.S.$200 million in aggregate principal amount of 7.000% senior notes due 2049. The proceeds of the third issuance were used to finance and/or refinance, in whole or in part, existing and new qualifying “Eligible Green Projects”.

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, 2020, the outstanding balance of U.S.-dollar denominated notes (without deducting the effect of cost of funding) totaled R$12,817 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, 2020 (in thousands of *reais*):

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 onwards | Total |
|---|---|---|---|---|---|---|---|
| Trade payables | (1,548,908) | - | - | - | - | - | (1,548,908) |
| Borrowings/Debentures | (1,530,868) | (2,425,773) | (3,036,604) | (3,032,732) | (3,003,909) | (29,324,138) | 42,354,024) |
| **Total** | **(3,079,776)** | **(2,425,773)** | **(3,036,604)** | (3,032,732) | **(3,003,909)** | **(29,324,138)** | (43,902,932) |

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, 2020 is as set forth below (in thousands of *reais*):

| | **As of September 30, 2020** |
|---|---|
| | *(in thousands of* reais*)* |
| Banks and financial investments | 1,041,901 |
| Trade receivables (net of provision for impairment of trade receivables) and other assets | 720,436 |
| Other assets and liabilities | (549,000) |
| Export prepayments (financing) | (21,280,507) |
| **Net exposure** | (20,067,170) |

For the nine-month periods ended September 30, 2020 and for the years ended December 31, 2019, 2018 and 2017, 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, 2020, the *real*/U.S. dollar exchange rate increased by 40%, to R$5.6407 per U.S.$1.00, compared to 2019 which generated a negative impact of R$4,725 million on net exchange variation.

In 2019, the *real*/U.S. dollar exchange rate increased by 4%, to R$4,0307 per U.S.$1.00, compared to 2018 which generated a negative impact of R$410 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 the nine-month period ended September 30, 2020, 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 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, 2020. For sensitivity analysis purposes, we have adopted as scenario I the future market rate in effect at the end of September 30, 2020 published by Central Bank. For scenarios II and III this rate was adjusted by 25% and 50%, respectively.

| | | Scenario I | | Scenario II | | Scenario III | |
|---|---|---|---|---|---|---|---|
| | U.S.$ | 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) |
| | *(in thousands of* reais *and U.S. dollars)* | | | | | | |
| Cash and cash equivalents | 184,711 | 5.54 | (18,730) | 6.92 | 236,301 | 8.31 | 493,050 |
| Trade receivables, net of allowances for doubtful accounts | 127,721 | 5.54 | (12,951) | 6.92 | 163,394 | 8.31 | 340,926 |
| Other assets and liabilities | (97,328) | 5.54 | 9,869 | 6.92 | (124,512) | 8.31 | (259,799) |
| Financing | (3,772,671) | 5.54 | 382,549 | 6.92 | (4,826,378) | 8.31 | (10,070,392) |
| **Net effect on financial result** | (3,557,567) | | 360,737 | | (4,551,195) | | (9,496,215) |

### *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, 2020 is set forth below (in thousands of *reais*):

| | As of September 30, 2020 |
|---|---|
| | (*in thousands of* reais) |
| Financial investments – CDI | 5,469,726 |
| Financial investments – SELIC | 623,022 |
| Financial investments – IPCA | 668,842 |
| **Asset exposure** | 6,761,590 |
| Financing – CDI | (4,556,751) |
| Financing – TJLP | (1,137,959) |
| Financing – Libor | (5,853,561) |
| Debentures – IPCA | (1,853,135) |
| **Liability exposure** | (13,401,406) |

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, 2020.

| | | 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 | 5,469,726 | 3.56% | 194,722 | 4.45% | 48,681 | 5.34% | 97,361 |
| LFTs[(2)] – SELIC | 623,022 | 3.56% | 22,180 | 4.45% | 5,545 | 5.34% | 11,090 |
| NTN-B[(3)] – IPCA | 668,842 | 2.12% | 14,179 | 2.65% | 3,545 | 3.18% | 7,090 |

| | R$ | Scenario I Rate | Scenario I R$ gain (loss) | Scenario II Rate | Scenario II R$ gain (loss) | Scenario III Rate | Scenario III R$ gain (loss) |
|---|---|---|---|---|---|---|---|
| | | | *(in thousands of* reais *and U.S. dollars, except percentages)* | | | | |
| **Financings** | | | | | | | |
| Export Credit Notes & CRA – CDI ..... | (4,556,751) | 3.56% | (162,220) | 4.45% | (40,555) | 5.34% | (81,110) |
| BNDES – TJLP .................................. | (1,137,959) | 4.91% | (55,874) | 6.14% | (13,968) | 7.37% | (27,937) |
| Debentures – IPCA.............................. | (1,853,135) | 2.12% | (39,286) | 2.65% | (9,822) | 3.18% | (19,643) |
| Export Prepayments & IDB – LIBOR. | (5,853,561) | 0.36% | (21,080) | 0.45% | (5,270) | 0.54% | (10,540) |
| **Net effect on financial result** ............ | | | (47,379) | | (11,844) | | (23,689) |

(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, 2020, we have 363 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 158,000 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, 2020:

| | As of September 30, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Type of Obligation**[1] | **2020** | **2021** | **2022** | **2023** | **2024** | **2025 onwards** | **Total** |
| | | | | *(In millions of R$)* | | | |
| Land lease agreements...... | 47 | 176 | 135 | 95 | 87 | 624 | 1,164 |
| **Total**................................ | 47 | 176 | 135 | 95 | 87 | 624 | 1,164 |

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

### *Off-Balance Sheet Arrangements*

As of September 30, 2020, 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, | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2019** | **2018**[1] | **2017** |
| | | | *(in millions of* reais*)* | | |
| Forestry .................................................. | 206 | 255 | 334 | 272 | 228 |
| Maintenance ........................................... | 340 | 522 | 731 | 462 | 399 |
| Special Projects and Growth................... | 43 | 228 | 237 | 222 | 121 |
| Project Puma | - | - | - | - | 177 |
| Project Puma II....................................... | 2,577 | 717 | 1,272 | - | - |
| **Total** ...................................................... | 3,166 | 1,722 | 2,574 | **956** | **925** |

(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, 2020, we incurred capital expenditures of R$3,166 million, mainly for forestry operations, R$340 million for investments in the operational uptime of the plants, and R$2,577 million for high-return special and expansion projects with the objective of improving operational performance in the various segments in which we operate. 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 2019, we incurred capital expenditures of R$1,722 million, mainly for maintenance. This included R$522 million for continuity of mill operations, R$255 million for forestry operations and R$717 million for special projects and Project Puma. 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.

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.

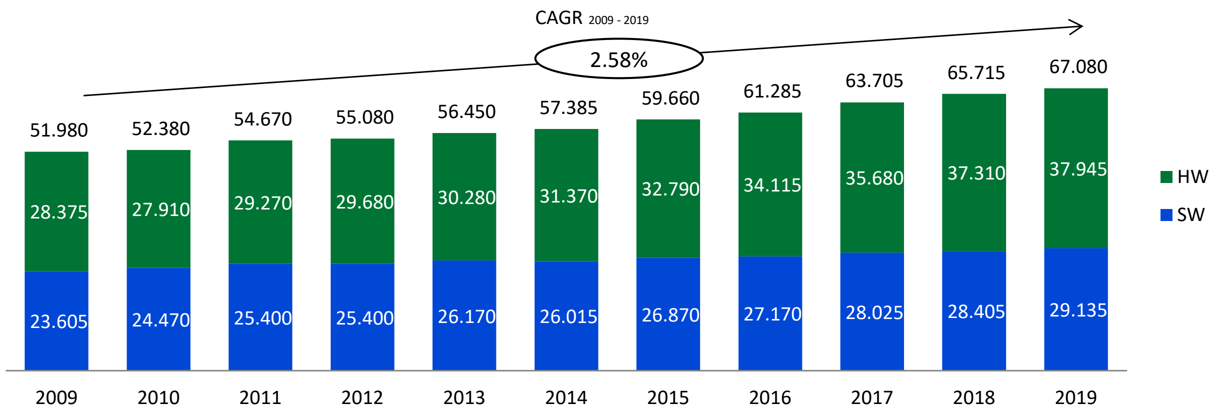
According to IBÁ, Brazilian production of pulp increased to 15,626 thousand tonnes in the first nine months of 2020, up from 14,751 thousand tonnes in the first nine months of 2019. Brazilian production of pulp decreased to 19,691 thousand tonnes in 2019, down from 21,085 thousand in 2018. The Brazilian paper production decreased to 7,592 thousand tonnes in the first nine months of 2020, down from 7,826 thousand tonnes in the first nine months of 2019. Brazilian production of paper increased to 10,535 thousand tonnes in 2019, up from 10,433 thousand in 2018.

## Operating markets

### *Pulp*

The global production of bleached pulp increased from 51.98 million tonnes to 67.08 million tonnes from 2009 to 2019, representing a compound annual growth rate of 2.51%.

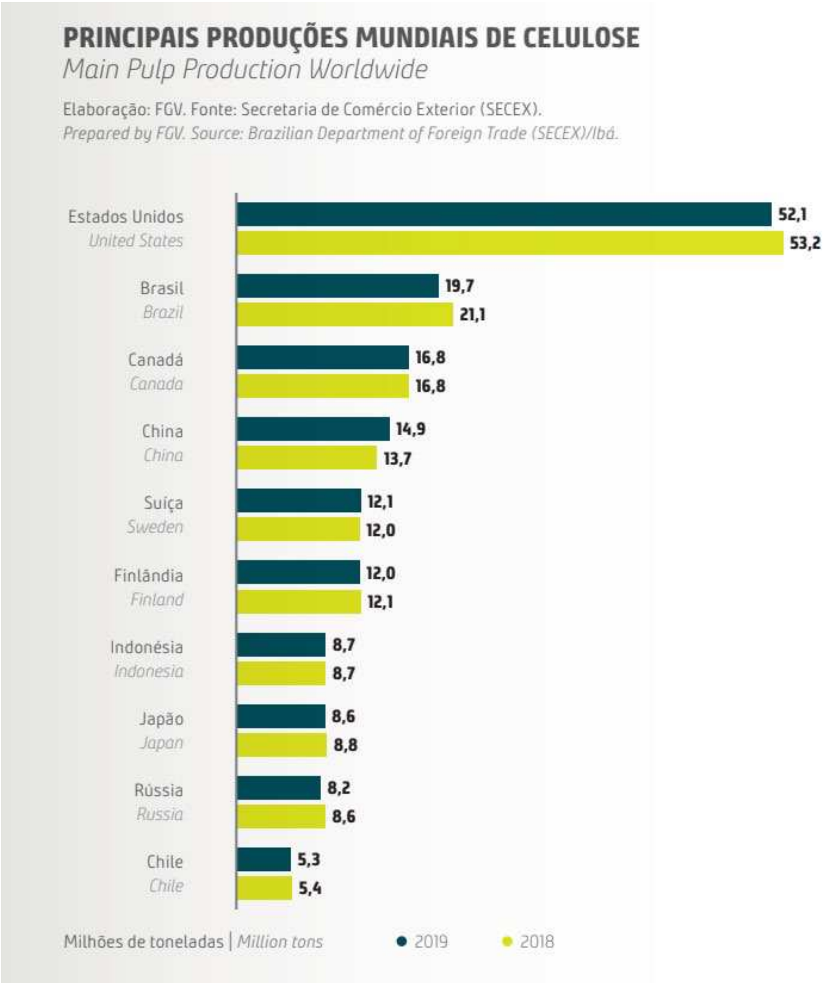
**Historical Global Production of Market Pulp, 2009-2019 (million tonnes)**




*Source: Hawkins Wright*

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.

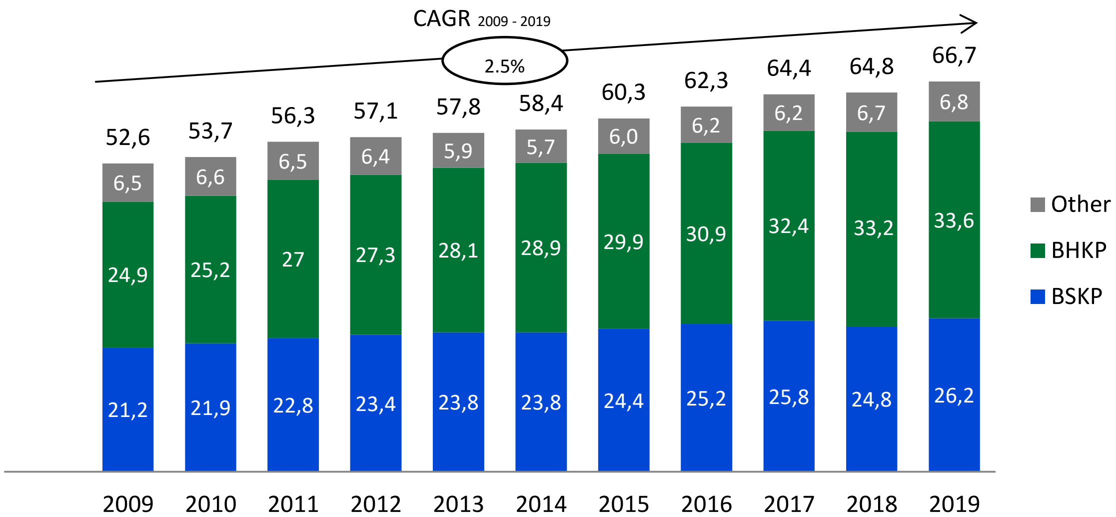
**Top Market Pulp Producing Countries (2019, million tonnes)**




*Source: IBÁ*

According to Hawkins Wright, the global demand for pulp reached 66.7 million tonnes in 2019, of which 50% was for hardwood pulp and 39% was for softwood pulp. During the last decade, the demand for pulp grew at an annual rate of 2.50%, with the demand for hardwood pulp and softwood pulp having grown at compound annual rates of 3.0% and 2.1%, respectively.

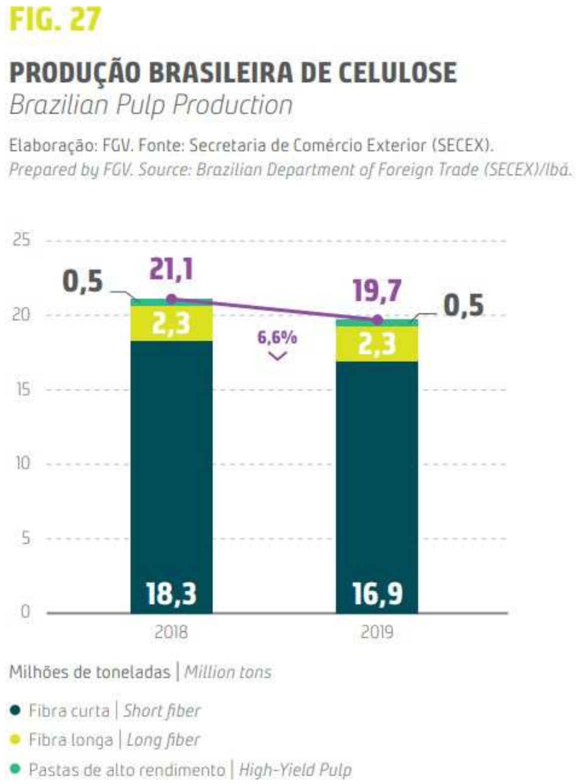
**Historical Global Demand for Market Pulp, 2009-2019 (million tonnes)**




*Source: Hawkins Wright*

In 2019, Brazilian pulp production, which includes hardwood pulp (from eucalyptus), softwood pulp (from pine), and high-yield pulp, was 19,691 thousand tonnes, 6.6% less than the value for 2018. Export volume reached 14,726 thousand tonnes, being stable compared to 2018, as shown in the graph below.

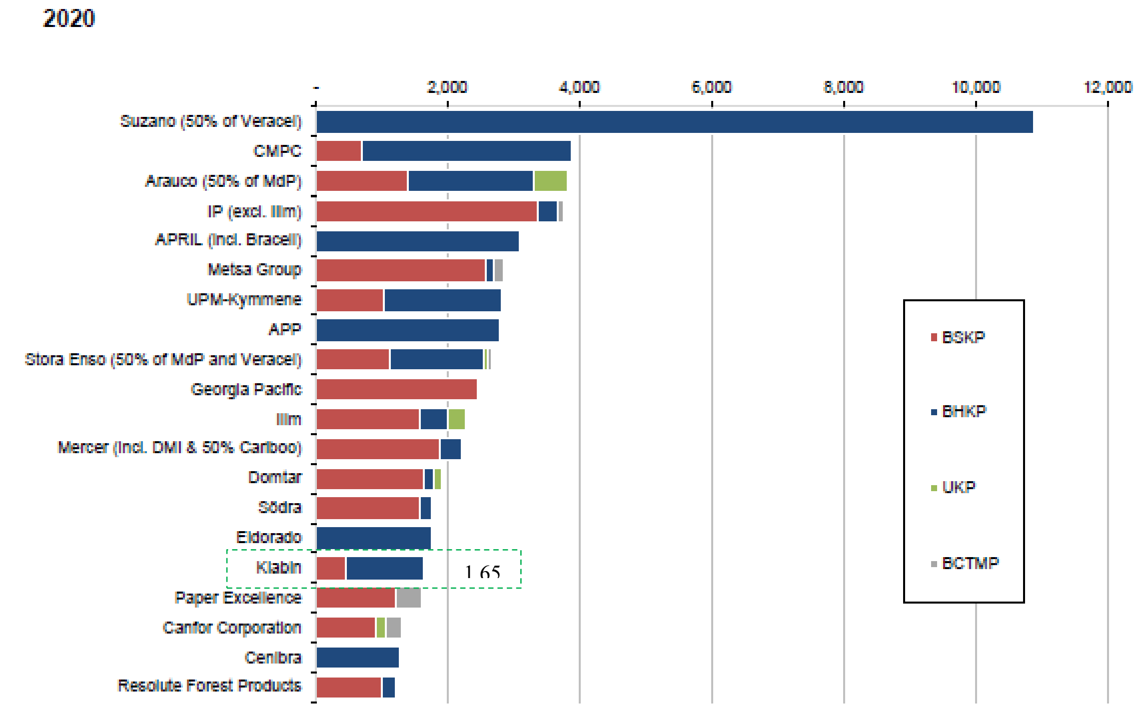
**Brazilian Production of Pulp, 2018-2019 (million tonnes)**




*Source: IBÁ.*

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 (2020, million tonnes)**




*Source: Hawkins Wright – December/2020*

***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.

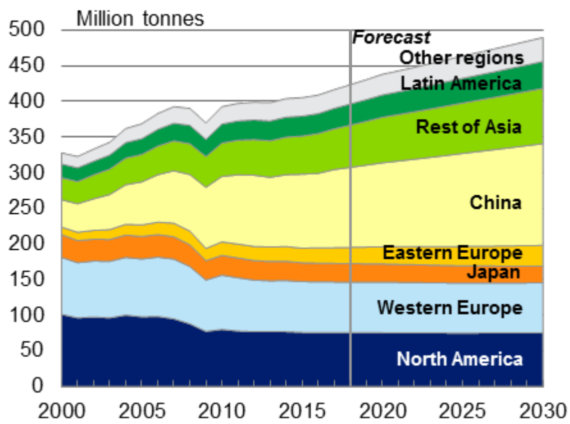
The process of transforming basic paper inputs into commercial-use products is known as conversion. It consists of two main activities: (i) cutting industrial-size reels of paper to consumer-oriented sizes, known as cut-size, and (ii) the assembly of higher-capacity paper products, such as corrugated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

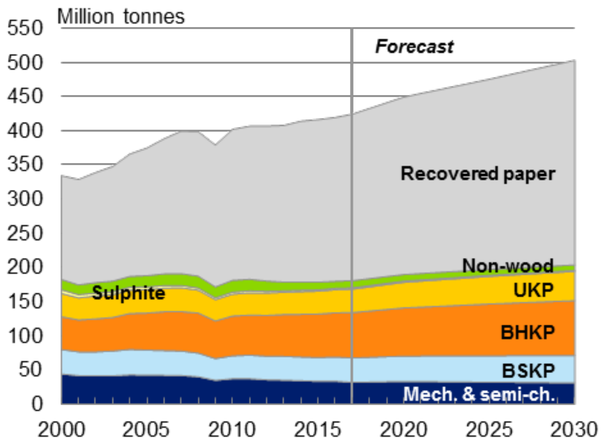
**(2000-2030)**




*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**

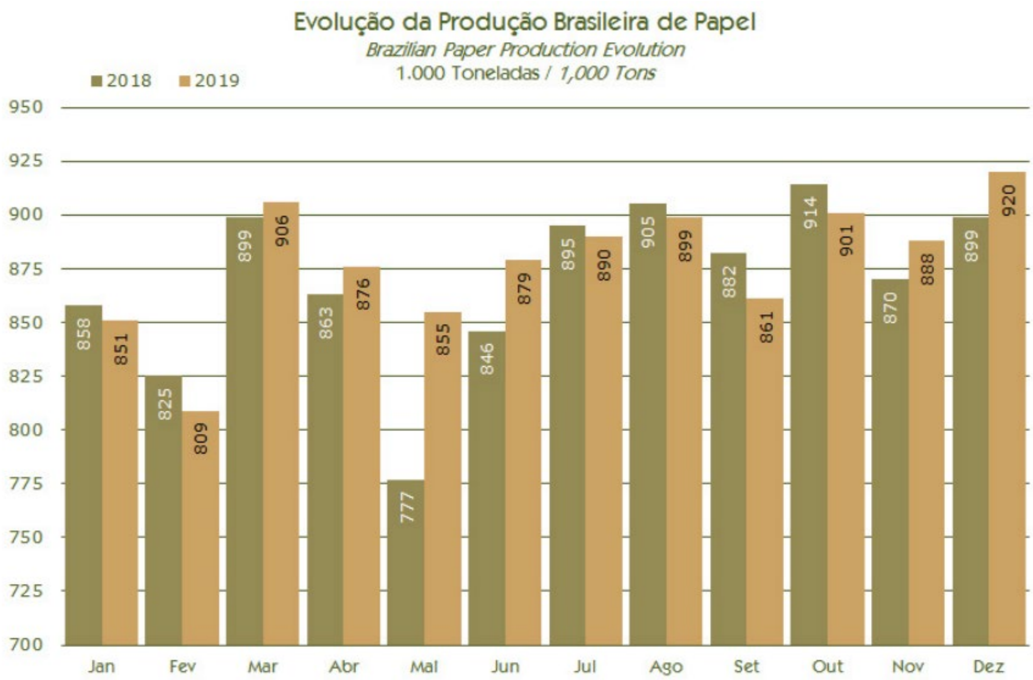



*Source: Pöyry*

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 2019 totaled 10,535 million tonnes, 1.0% higher than in the previous year. The main reason for the increase in the production is related to intrinsic demand growth.

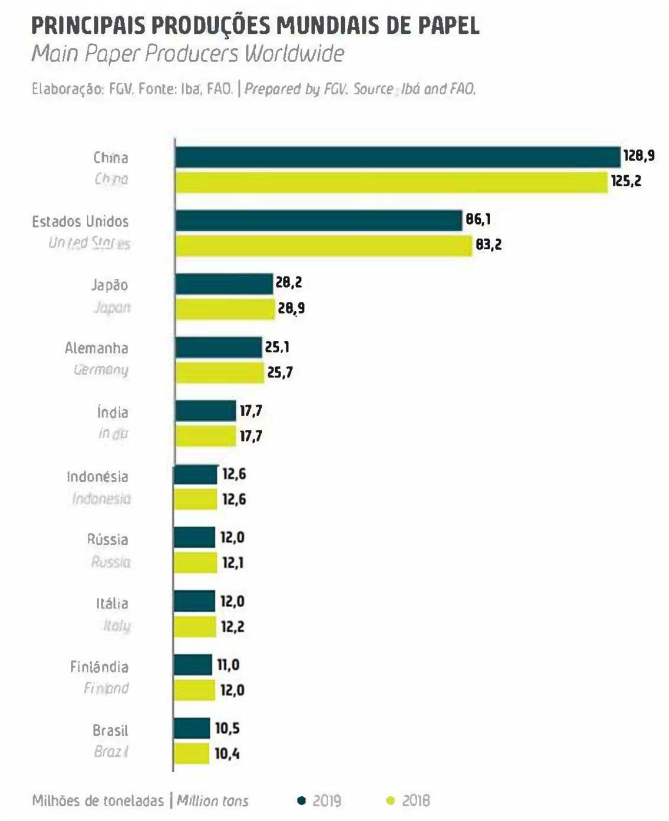
**Historical Production and Consumption of Paper in Brazil (million tonnes)**




*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 (2019, million tonnes)**

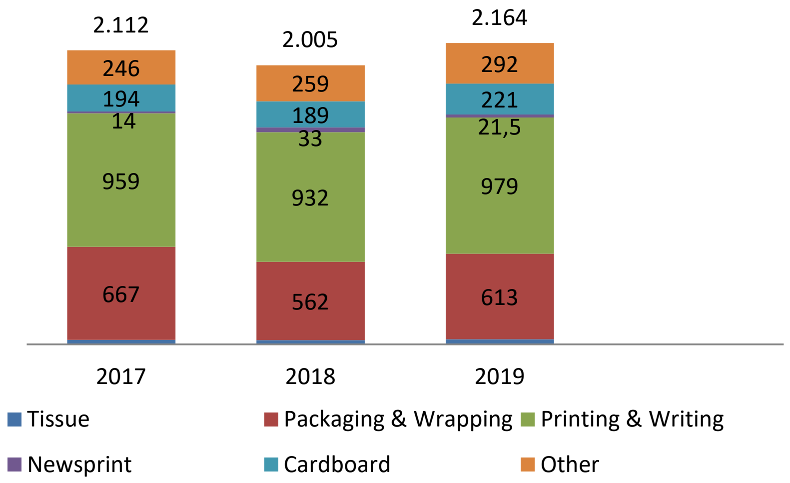



*Source: IBÁ*

The production of cartonboard paper in Brazil was 763 thousand tonnes for 2019, 2.69% higher when compared to the 741 thousand tonnes in 2018. Of these, 542 thousand tonnes were destined to the domestic market, 1.81% lower than the 552 thousand tonnes in 2018. The production for packaging and wrapping paper in Brazil was 5,502 thousand tonnes in 2019 and 5,554 thousand tonnes in 2018. Of these, 1,797 thousand tonnes were destined to domestic consumption, 0.3% lower than the 1,803 thousand tonnes in 2018.

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.

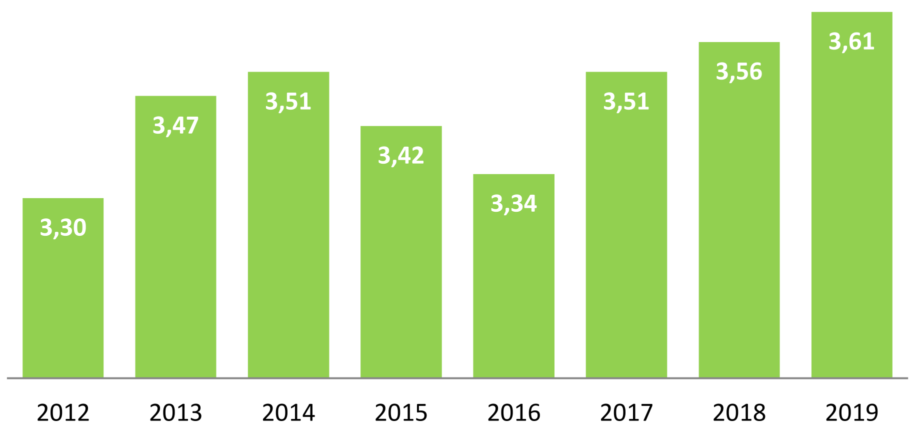
**Net Paper Exports by Product ('000 tonnes)**




*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 3,616 thousand tonnes in 2019, representing a 1.97% increase when compared to 2018.

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

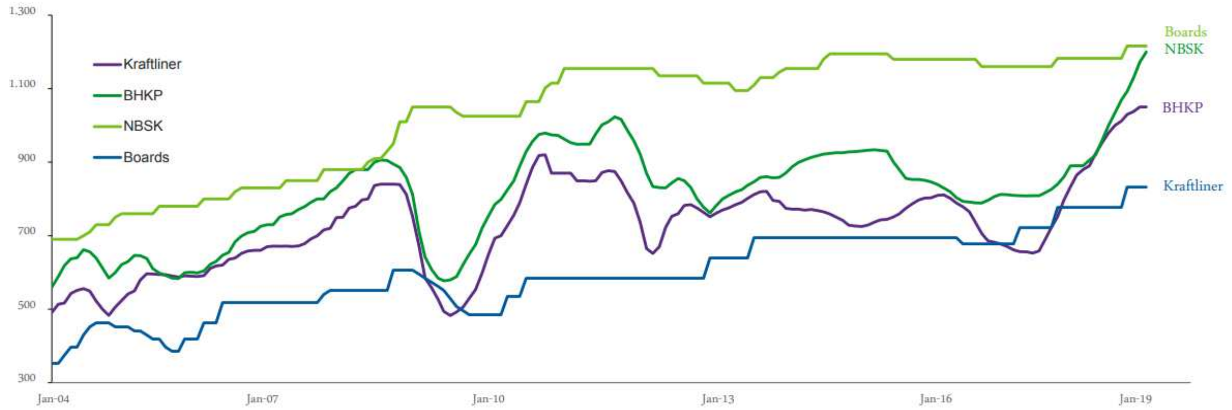



*Source: ABPO*

**Pulp and Packaging Grades Prices**

**Pulp, Kraftliner and Coated Board List Prices**

USD/t, jan/04 – apr/18




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

### Overview

We are the largest producer, exporter and recycler of packaging paper in Brazil according to IBÁ and internal estimates, based on our production capacity in 2019 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. Our Adjusted EBITDA was R$3,594 million and R$3,358 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$4,322 million, R$4,024 million and R$2,738 million for the years ended December 31, 2019, 2018 and 2017. We recorded cash flow from operating activities of R$4,251 million and R$1,902 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$2,953 million, R$2,787 million and R$1,793 million for the years ended December 31, 2019, 2018 and 2017.

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 54% of sales volumes of this business unit in 2019.

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 was built in 24 months, within budget. Total investment was approximately R$8.3 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. 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, which ended in 2019 by mutual agreement with Fibria. The process was designed to take place gradually with the migration of pulp volumes beginning in April and Klabin taking over full responsibility for sales starting in August. After that, we assumed marketing activities, initially mostly in Europe, and afterwards gradually entering new regions, such as Asia (mainly China).

Tetra Pak and Fibria were responsible for approximately 23%, or R$1,740 million of our net sales revenues for the nine-month period ended September 30, 2019, and 13%, or R$1,311 million and 33%, or R$3,261 million, of our net sales revenue in 2019 and 2018, respectively. Tetra Pak was responsible for 12%, or R$1,078 and 13 %, or R$959 million, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$1,311 million, or 13% and R$1,083 million, or 11%, of our net sales revenue in 2019 and 2018, respectively. Fibria was responsible for R$780 million, of our net sales revenue for the nine-month periods ended

September 30, 2019, and R$780 million, or 8% and R$2,178 million, or 22%, of our net sales revenue in 2019 and 2018, respectively.

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$3,130 million, or 36% and R$2,542 million, or 34%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,510 million, or 34%, R$3,177 million, or 32% and R$2,951 million, or 35%, of our total net sales revenue in 2019, 2018 and 2017, respectively;

- *Conversion Unit*, which manufactures corrugated boxes and industrial bags, and accounted for R$2,443 million, or 28% and R$2,220 million, or 29%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,009 million, or 29%, R$2,852 million, or 28%, and R$2,675 million, or 32%, of our total net sales revenue in 2019, 2018 and 2017, respectively;

- *Pulp Unit*, which manufactures hardwood, softwood and fluff pulp, which accounted for R$2,920 million, or 34% and R$2,613 million, or 35%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$3,513 million, or 34% of our total net sales revenue in 2019; 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

- *Forestry Unit*, which produces both pine (softwood) and eucalyptus (hardwood) logs, and which accounted for R$176 million, or 2% and R$199 million, or 3%, of our net sales revenue for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$250 million, or 2%, R$316 million, or 3% and R$330 million, or 4%, of our total net sales revenue in 2019, 2018 and 2017, respectively.

For the nine-month period ended September 30, 2020 and for the year ended December 31, 2019, we sold 2,617 thousand tonnes and 3,327 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$8,657 million and R$10,272 million, respectively. Approximately 47% of our production is exported to approximately 85 countries on five continents and, as of September 30, 2020, we and our subsidiaries had 14,838 employees and generated approximately 22,682 direct and indirect jobs.

**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 85 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.

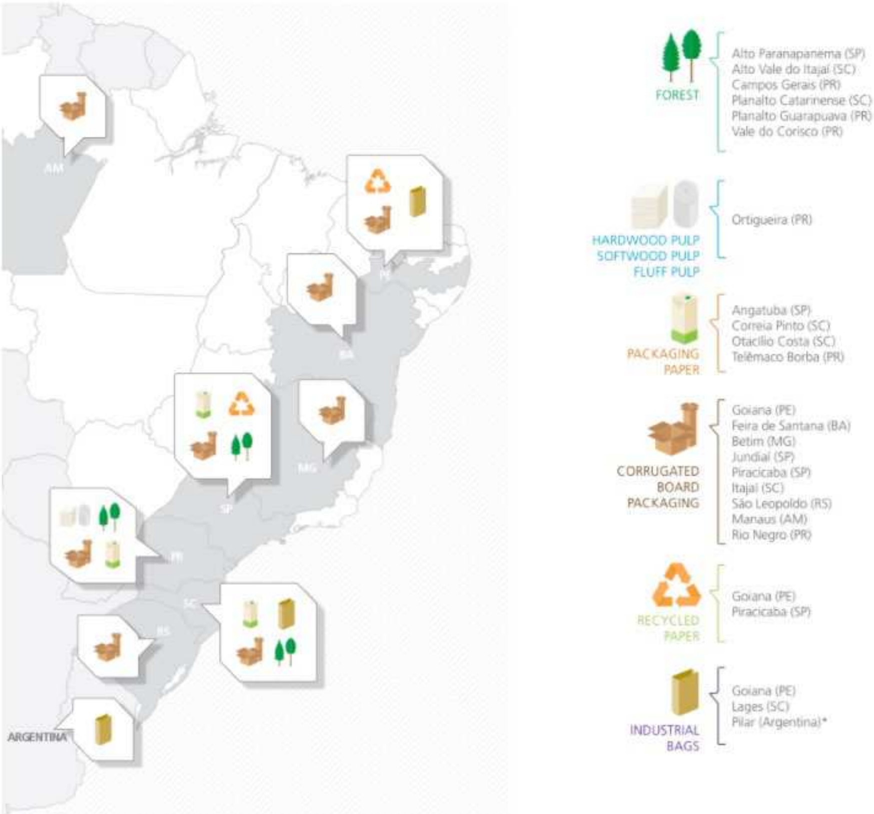
We believe that we are also a leader in the production of industrial bags, recognized for our quality and for serving our customers, and we have adapted our products to various market sectors, particularly civil construction, food, chemical products, and agri-business.

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,** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2020** | **%** | **2019** | **%** | **2019** | **%** | **2018** | **%** | **2017** | **%** |
| | *(in millions of reais, except percentages)* | | | | | | | | | |
| **Segment net sales revenue** | 8,657 | 100% | 7,568 | 100% | 10,272 | 100% | 10,016 | 100% | 8,373 | 100% |
| Paper | 3,130 | 36% | 2,542 | 34% | 3,510 | 34% | 3,177 | 32% | 2,951 | 35% |
| Conversion | 2,443 | 28% | 2,220 | 29% | 3,009 | 29% | 2,852 | 28% | 2,675 | 32% |
| Pulp | 2,920 | 34% | 2,613 | 35% | 3,513 | 34% | 3,680 | 37% | 2,422 | 29% |
| Forestry | 176 | 2% | 199 | 3% | 250 | 2% | 316 | 3% | 330 | 4% |
| Corporate/Eliminations | (12) | 0% | (7) | 0% | (10) | 0% | (8) | 0% | (5) | 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. See also “Summary—Recent Developments” for more information regarding our operations.




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 |
| Conversion | Jundiaí TP (São Paulo) | 75 | Corrugated Boxes |
| Conversion | Jundiaí DI (São Paulo) | 98 | Corrugated Boxes |
| Conversion | Piracicaba (São Paulo) | 104 | Corrugated Boxes |

| Business Unit | Mill | Capacity (thousand tonnes) | Products |
|---|---|---|---|
| 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 | Pílar (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 |
|---|---|---|---|---|
| | | *(in thousands of hectares)* | | |
| Planted Forests | 189 | 65 | 7 | 261 |
| Eucalyptus | 90 | 7 | 7 | 104 |
| Pine | 99 | 58 | 0 | 157 |
| Preserved native forests | 186 | 72 | 5 | 263 |
| Others | 57 | 11 | 2 | 70 |
| **Total Lands** | **433** | **148** | **14** | **594** |

| Average Hauling Distance to Mills | Km |
|---|---|
| Paraná | 48 |
| Santa Catarina | 149 |
| São Paulo | 100 |

## 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 15,626 thousand tonnes in the first nine months of 2020, up from 14,751 thousand tonnes in the first nine months of 2019. Brazilian production of pulp decreased to 19,691 thousand tonnes in 2019, down from 21,085 thousand tonnes in 2018. The Brazilian paper production decreased to 7,592 thousand tonnes in the first nine months of 2020, down from 7,826 thousand tonnes in the first nine months of 2019. Brazilian production of paper increased to 10,535 thousand tonnes in 2019, up from 10,433 thousand tonnes in 2018.

**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 cyclicality.***

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 2019, 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, 2020 and 2019 totaled R$3,809 million and R$3,056 million, respectively, and for the years ended December 31, 2019, 2018 and 2017 totaled R$4,158 million, R$4,483 million and R$3,353 million, respectively, accounting for 44%, 40%, 40%, 45% 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.

Our Adjusted EBITDA was R$3,594 million and R$3,358 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$4,322 million, R$4,024 million and R$2,738 million for the years ended December 31, 2019, 2018 and 2017. We recorded cash flow from operating activities of R$4,251 million and R$1,902 million for the nine-month periods ended September 30, 2020 and 2019, respectively, and R$2,953 million, R$2,787 million and R$1,793 million for the years ended December 31, 2019, 2018 and 2017.

***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 594 thousand hectares, including 263 thousand hectares of planted forests and 331 thousand hectares of preserved native forests (as well as recently cut forests, forests waiting to be cleaned and other lands), as of September 30, 2020.

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$8.3 billion, including infrastructure, taxes and inflation adjustments.

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 July 2021, and the completion of the second phase is expected to occur in the third 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:

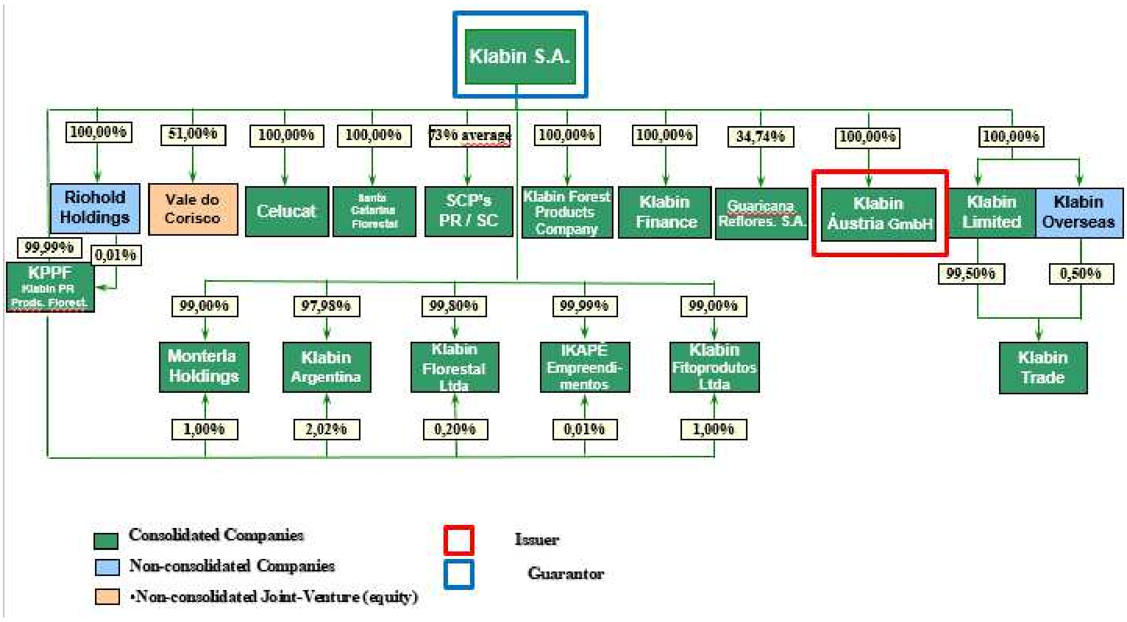
- reviewing all contracted services in order to increase third-party productivity and reduce our operating costs;
- improving logistics, through investments to improve the transportation of wood within and from our forests;
- enhancing our sales and marketing processes, by implementing new information 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, 2020:




### Recent Developments

*Impact of the COVID-19 pandemic on our activities*

In late 2019, COVID-19 was detected in Wuhan, China. On March 11, 2020, the World Health Organization declared a pandemic due to COVID-19, and member countries were required to establish best practices for prevention and treatment plans for infected persons. Consequently, the COVID-19 pandemic resulted in restrictive measures related to the movement of people imposed by the governments of several countries in the face of the extensive and continuing spread of the virus, including quarantines and lockdowns around the world. As a consequence of such measures, countries imposed restrictions on travel and public transport, prolonged closure of workplaces, causing interruptions in the supply chain, closure of trade and reduction of consumption in general by the population, which resulted in price volatility of raw materials and other inputs, factors that when taken together have a material adverse effect on the global and Brazilian economies.

The COVID-19 pandemic and the social distancing measures taken since March 2020 across the country as a way to contain the spread of the virus have not materially affected our operations, financial condition, results of business and our cash flows. In order to reduce the impact of the COVID-19 pandemic on our operations, we have adopted a series of administrative and operational measures involving our employees, customers and suppliers.

In order to protect our employees, we implemented teleworking policies aiming to reduce activities in our offices, as well as social distancing measures within factories by alternating shifts, tracking and reducing the inflow of individuals in those facilities and by enforcing general health guidelines issued by authorities.

In aiming to extend these prevention measures, on March 23 we announced the temporary pause of the construction of Project Puma II which had, at the time, approximately 4,500 professionals on site. In mid-April, we began gradual reintegration of some of these professionals, most of them residents of the state of Paraná. During the remobilization of the workers at the construction site, we adopted measures such as: COVID-19 tests, a seven-day quarantine and a fresh test before clearance for resuming professional activities, daily measurement of the temperature of the employees, ozone tunnel at the entry and exit points of construction sites for cleaning external surfaces (clothing, shoes, bags and personnel protective equipment), among others. Following the temporary demobilization and subsequent remobilization during the second quarter of 2020 of the labor force involved in the project, operations are now expected to begin in July 2021 as opposed to the initial forecast of May 2020.

Buses and vans transporting workers are operating at 50% of their normal capacity to enable social distancing. There is alcohol gel available on the buses and vans which are cleaned between trips. The use of masks is mandatory on employee transports and masks have been distributed to all employees. The construction site cafeteria packs meals individually and is operating at 50% capacity, along with social distancing stickers on tables indicating where employees may sit. We have a dedicated radio station and WhatsApp messages to communicate information relating to the preventative measures we have in place.

We also postponed the general maintenance stoppages of our main plants. The original dates for maintenance of the Monte Alegre (PR), Correia Pinto (SC) and Ortigueira (PR) – Puma I units were changed in light of restrictions on the flow of raw material and personnel due to COVID-19. The maintenance stoppage at the Monte Alegre plant took place in August on a reduced basis and incorporating only shutdowns of critical areas responsible for guaranteeing the safety of the site. The comprehensive maintenance shutdown is scheduled for the first quarter of 2021. The stoppage at the Correia Pinto plant occurred in October while maintenance at the Ortigueira site occurred in the end of the fourth quarter 2021.

Our management believes that the measures adopted to date, which are constantly being reviewed, seek to maintain the levels of service and operating quality that we value in our operations, as well as to ensure the health and well-being of our employees, suppliers and clients, as well as society as a whole, via compliance with the measures imposed by public authorities. We will continue to operate with a focus on the above mentioned principles, always staying vigilant and prepared to adjust our initiatives according to the evolving situation.

The impacts caused by the COVID-19 pandemic are continuing, and therefore, we will continue to assess the changing effects on our revenues, assets, results, business and outlook. Our analyses will be made in line with Circular Letter CVM/SNC/SEP No. 02/2020, issued by the CVM on March 10, 2020, which instructs directors and independent accountants of publicly held companies to carefully consider the effects of the COVID-19 pandemic on their business and to report in the financial statements the principal risks and uncertainties derived from this analysis, in accordance with the applicable accounting standards. For more information on the impact of the COVID-19 pandemic on our activities, the resulting accounting policies and the measures we have taken as a result of the pandemic, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

From a commercial point of view, despite the challenges imposed by the pandemic, we delivered 9% growth in sales volume in the first nine months of the year, compared to the same period of the previous year. In addition to the strong relation of our products with necessary items (food, beverages, hygiene and cleaning, disposable diapers, among others), we were able to deliver relatively consistent results we believe in light of our integrated and flexible business model. Throughout this period there were moments of peak demand for some products such as liquid packaging board, which is easy to store at home (as it does not need refrigeration and has a long life), as well as sales growth resulting from the acceleration of some trends such as e-commerce and the pursuit of more sustainable products. In a moment of greater social isolation where the civil construction sector showed a sharp drop, as well as the demand for packaging for durable goods, we believe we were flexible, addressing production in the foreign market, and also benefiting from the sharp devaluation of the *real*.

From a financial point of view, the sharp devaluation of the *real* had a significant impact on the mark-to-market value of interest rate swaps, especially in the first quarter of 2020. These swaps are linked to financing contracted in *reais* and through these financial instruments has a similar effect to a liability contracted in Dollars. The strong devaluation of the *real* also generated a negative effect on the net exchange variation line, due to the impact on our Dollar debt, which represents 74% of total debt, as of September 30, 2020. On the other hand, in addition to these variations having no cash effect, the currency devaluation boosted our results given we export approximately half of our sales.

***Acquisition of Packaging Business***

On October 14, 2020, we announced the conclusion of the transaction acquiring the packaging business owned by International Paper do Brazil Ltda, or International Paper, for R$330 million. International Paper's assets consisted of four corrugated packaging operations, with an annual production capacity of 305 thousand tons, Manaus in the state of Amazonas, Paulínia and Suzano in the state of São Paulo and Rio Verde in the state of Goiás - the latter located in a region where the company has not previously operated, and three packaging paper operations, with annual production capacity of 310 thousand tonnes, two recycled paper plants with joint nominal production capacity of 148 thousand tonnes per year, Paulínia and Franco da Rocha, both in the state of São Paulo, and one virgin fiber paper plant with production capacity of 162 thousand tonnes per year, Nova Campina, also located in the state of São Paulo. According to data from the Brazilian Association of Corrugated Paper ("ABPO") in 2018 – International Paper's sales of corrugated boxes represented a market-share of approximately 6.6% of the domestic market.

As announced to the market on June 24, 2020, we executed the necessary documents for the sale of the unit located in Nova Campina (SP) to the Klingele Paper & Packaging Group for R$196 million, of which R$132 million is to be paid after the closing of the operation, which will be concluded in the first quarter of 2021, and the remaining amount in two annual installments.

After closing the deal, the Nova Campina unit was sold for R$196 million, resulting in a net acquisition price of International Paper's assets of R$134 million.

***Licensing Agreement***

On November 26, 2020 through an Extraordinary Meeting our shareholders deliberated on the acquisition of the trademarks of Sogemar - owner of the name "Klabin" and 6 (six) other brands, by means of a merger of the shares of Sogemar by Klabin - to further terminate the payment of royalties where the company was conditioned to pay 1.37% over the net sales of coated boards and corrugated boxes.

Due the approval of the EGM, Sogemar was incorporated into the Company along with the trademarks on its balance sheet, in a share exchange that resulted in a capital increase of R$144 thousand.

***Liability Management***

In October and November 2020, we voluntarily prepaid U.S.$146.2 million to satisfy certain credit lines, as part of the our debt profile management strategy, consisting of U.S.$142.2 million due to voluntary prepayment of our syndicated loan facility and U.S.$4 million due to voluntary prepayment of our export credit agreement.

***Sustainability Framework***

Since 2016, we are a voluntary supporter of the United Nations' Sustainable Development Goals (SDGs) and since 2019 we have aligned our sustainability strategy to the goals of the 2030 Agenda. Validated by our Permanent Sustainability Commission and Board of Directors, our sustainability work gained strength with specific targets such as water and waste management, climate issues, and biodiversity among other ESG themes. In December 2020, we announced our official set of public targets, available at kods.klabin.com.br, and the Sustainability-Linked Bond Framework was adopted. 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. For further information on our Sustainability Framework, see "Description of Relevant Sustainability Targets."

***Concurrent Tender Offer***

Concurrently with this offering of notes, on January 4, 2021, Klabin Finance, a wholly owned finance subsidiary of Klabin, commenced a concurrent tender offer for any and all of its outstanding 5.250% notes due 2024 of Klabin Finance and guaranteed by us, or the 2024 notes. The expected expiration date of the concurrent tender offer is January 8, 2021. The concurrent tender offer is subject to certain terms and conditions, including the completion of this offering. This offering memorandum does not constitute an offer to purchase the 2024 notes pursuant to the concurrent tender offer.

**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.

**Brief History**

**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$8.3 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.

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.

**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.

*Governance of Sustainability*

One of our main commitments is the UN Sustainable Development Goals (SDG) 2030 Agenda, which we have been following since 2016. We used the guidelines of SDG Compass, a tool developed by the Global Compact to internalize the SDG agenda in company's strategies. The outcome of this process was the creation of a sustainability roadmap, called the 2030 Klabin Agenda for Sustainable Development, or KODS. Deriving from the company's expansion plan, the KODS formalizes ESG-related goals that will help us materialize our long-term ambitions towards a sustainable economy and a renewable future, capable of bringing prosperity to people and promoting innovation and new technologies. These ESG goals ensure that Klabin's growth is intertwined with major sustainability challenges facing society. The complete list of 2030 goals is available at kods.klabin.com.br.

The KODS 2030 goals were ultimately approved by Klabin's Board of Directors and its creation process driven by the Sustainability Management Committee for later referral and validation with the Permanent Sustainability Committee, the latter, made up of directors from five areas and the company's corporate sustainability manager.

## 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, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2019 | | 2018 | | 2017 | |
| | *(in millions of reais, except percentages)* | | | | | | | | | |
| **Net revenues to third parties by segment....** | 8,657 | 100% | 7,568 | 100% | 10,272 | 100% | 10,016 | 100% | 8,373 | 100% |
| Paper.............................. | 3,130 | 36% | 2,542 | 34% | 3,510 | 34% | 3,177 | 32% | 2,951 | 35% |
| Conversion .................... | 2,443 | 28% | 2,220 | 29% | 3,009 | 29% | 2,852 | 28% | 2,675 | 32% |
| Pulp ............................... | 2,920 | 34% | 2,613 | 35% | 3,513 | 34% | 3,680 | 37% | 2,422 | 29% |
| Forestry ......................... | 176 | 2% | 199 | 3% | 250 | 2% | 316 | 3% | 330 | 4% |
| Corporate/eliminations .. | 12 | 0% | (7) | 0% | 10 | 0% | (8) | 0% | (5) | 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, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2019 | | 2018 | |
| | *(in thousands of tonnes, except percentages)* | | | | | | | |
| Pulp ....................................................... | 1,161 | 44% | 1,050 | 44% | 1,484 | 45% | 1,401 | 44% |
| Paper (kraftliner and coatedboards) ....... | 867 | 33% | 781 | 32% | 1,076 | 32% | 1,021 | 32% |
| Conversion (corrugated boxes and industrial bags) .................................. | 589 | 23% | 568 | 24% | 766 | 23% | 767 | 24% |
| **Total.......................................................** | **2,617** | **100%** | **2,400** | **100%** | **3,326** | **100%** | **3,189** | **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.

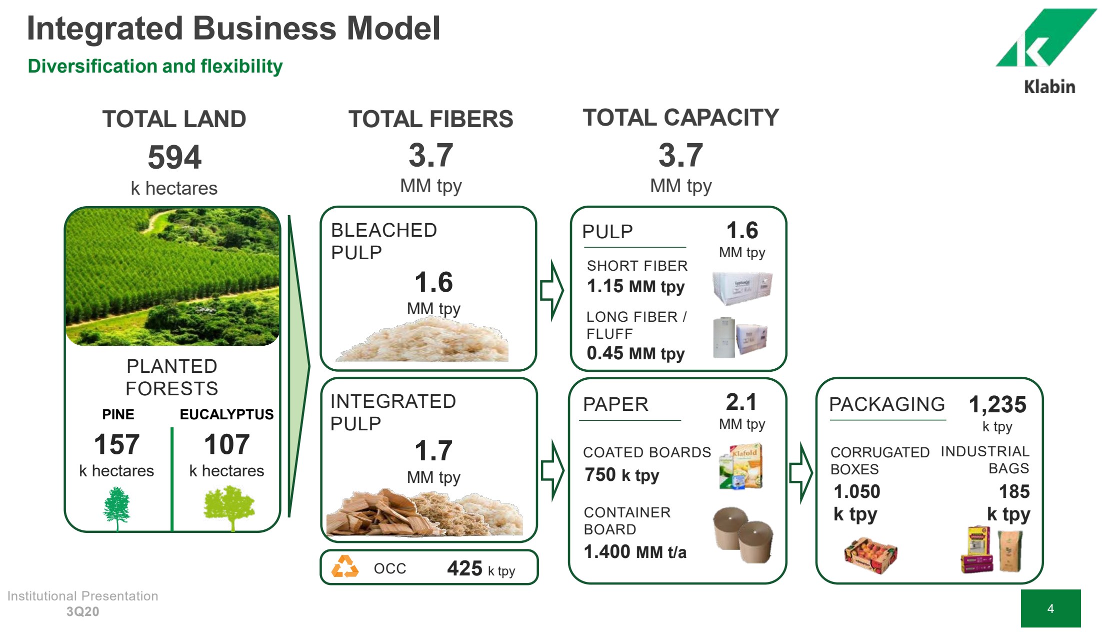
The global market for hardwood pulp is around 66 million tonnes, and the product is especially sustainable for sanitary purposes (toilet paper, paper towels, napkins), printing and writing (books, commercial printing, catalogues) and special papers.

***Project Puma II***

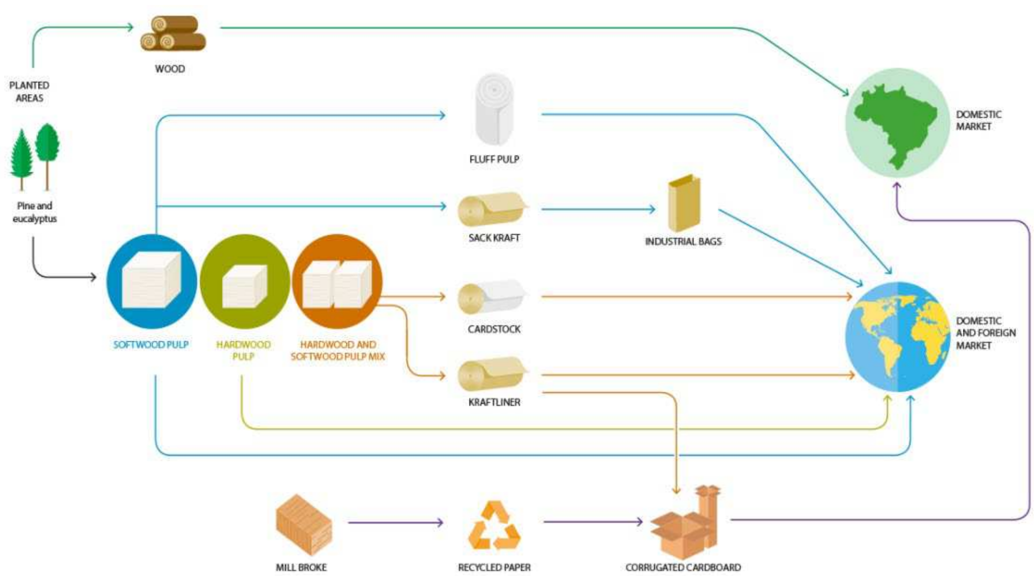
On April 16, 2019, we announced the Puma II Project consisting of the construction of two pulp integrated packaging paper machines (kraftliner) in parallel with the actual Puma Unit operations – pulp mill. With an estimated capex of R$9.1 billion, the new expansion cycle will be directed to the company's existing industrial unit within the municipality of Ortigueira (PR). The machines will have a total capacity of 920 thousand tons of paper per year. Klabin will continue to produce bleached pulp (short fiber, long fiber and fluff) at the Puma Unit and, which will continue to supply domestic and foreign markets with an annual output capacity of 1.6 million tons of bleached pulp.

Divided into two stages, the Puma II Project has an expected duration of 24 months for each stage. The first stage involves the construction of a principal fibers line for the production of unbleached pulp integrated in a kraftliner paper machine with a capacity of 450 thousand tons per year. The second involves the construction of a complementary fibers line integrated to another kraftliner paper machine, with a capacity of 470 thousand tons per year, with the option of choosing this second asset as a coated board machine. The two new paper machines will reflect Klabin's technological and cost competitiveness using forest-based benchmarks in productivity, by having one of the smallest production cash cost in the world and also introducing a 100% short fiber kraftliner, the Eukaliner, detaining the patent registry for this product. In addition, synergies with Klabin's existing industrial and forestry operations in the region and the Company's commercial positioning in the global packaging paper market, will also bring additional benefits to the Puma II project once installed.

**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, 2020, we had a total of approximately 594 thousand hectares of forests, including approximately 331 thousand hectares of preserved native forests (as well as recently cut forests, forests waiting to be cleaned and other lands) and 264 thousand hectares of planted forests, of which approximately 436 thousand hectares were in our own lands or held through partnerships, and approximately 158 thousand hectares were in third-party land.

In 2019, we had a total of 557 thousand hectares, including 299 thousand hectares of preserved native forests (as well as recently cut forests, forests waiting to be cleaned and other lands) and 258 thousand hectares of planted forests, of which approximately 431 thousand hectares were in our own lands and through partnerships, and approximately 126 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 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.

Our sales volume of wood logs for sawmills and plywood mills totaled 1,224 thousand tonnes for the nine-month period ended September 30, 2020, 10% less than for the same period in 2019. Our net sales revenue from the sale of wood logs in our forestry segment decreased 11% to R$176 million for the nine-month period ended September 30, 2020, compared to R$199 million for the nine-month period ended September 30, 2019.

Our sales volume of wood logs for sawmills and plywood mills totaled 1,706 tonnes in 2019, 19% less than in 2018. Our net sales revenue from the sale of wood logs in our Forestry segment decreased 21% to R$250 million in 2019, compared to R$316 million in 2018.

We produced approximately 11,541 thousand tonnes of pine and eucalyptus logs and chips and waste for energy production in the first nine months of 2020 and 11,366 in the same period of 2019. Of this total, 1,224 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 15,099 thousand tonnes of pine and eucalyptus logs and chips and waste for energy production in 2019 and 15,656 thousand tonnes in 2018. Of this total, 1,706 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$8.3 billion, including infrastructure, taxes and inflation adjustments.

The Puma Plant has a nominal production capacity of almost 1.6 million tonnes of pulp per year, considering the creep capacity, including bleached hardwood pulp (eucalyptus) and bleached softwood pulp (pine), a portion of which is converted into fluff pulp, being the only producer of such type of pulp in Brazil. The Puma Plant’s fluff pulp is relevant for the supply of diapers and similar sanitary products domestically and abroad, being one key market to be explored in the industry given the aging of the population and other demographic figures that positively impact this market.


### *Papers Unit*

We have a productive capacity of 2.0 million tonnes per year of paper and coated boards. Currently, we have four virgin 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. Puma II operation will add another virgin fiber plant to the portfolio, with nominal production capacity of 920 thousand tonnes of paper, located in the Municipality of Ortigueira in the state of Paraná. We expect to reach a paper production capacity of approximately 3.0 million tonnes per year, once gains from synergies arising from operational efficiency are fully assimilated. 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 2020, we sold approximately 866 thousand tonnes of paper, including papers for corrugated boxes and coated board, an increase of 11% compared to the same period in 2019.

In 2019, we sold approximately 1,076 thousand tonnes of paper, including papers for corrugated boxes and coated board, an increase of 10% compared to 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.

*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 Puma II project is set to increase our kraftliner capabilities, by producing 100% virgin short-fiber paper. 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 Pílar in Argentina.

In the first nine months of 2020, our sales of paper for corrugated boxes (kraftliner, white top liner and recycled paper) increased 15% to approximately 330 thousand tonnes, compared to the same period in 2019, comprising approximately 135 thousand tonnes sold in the domestic market and approximately 195 thousand tonnes sold in export markets.

In 2019, our sales of paper for corrugated boxes (kraftliner, white top liner and recycled paper) increased 6% to approximately 389 thousand tonnes, compared to 2018, comprising approximately 185 thousand tonnes sold in the domestic market and approximately 204 thousand 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 2020, the Brazilian coated boards market, excluding liquid packaging board, totaled 576 thousand tonnes, an increase of 4.6% from the same period in 2019, according to IBÁ. In the same period, our sales volumes of coated boards including liquid packaging board, increased 9% to 536 thousand tonnes, with 305 thousand tonnes sold in the domestic market and 231 thousand tonnes sold in the export market.

In 2019, the Brazilian coated boards market, excluding liquid packaging board, totaled 542 thousand tonnes, a decrease of 0.6% from 2018, according to IBÁ. In 2019 our sales volumes of coated boards including liquid packaging board, increased 12% to 687 thousand tonnes, with 396 thousand tonnes sold in the domestic market and 291 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 thousand tonnes, with 395thousand tonnes sold in the domestic market and 218 thousand 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, 2020, our sales volumes of converted products increased 4% to 589 thousand tonnes, compared to 568 thousand tonnes for the same period of 2019. The net sales revenue generated by our conversion unit increased 10% to R$2,443 million for the nine-month period ended September 30, 2020, compared to R$2,220 million on the same period of 2019.

In 2019, our sales volumes of converted products remained flat at 766 thousand tonnes, compared to 767 thousand tonnes in 2018. The net sales revenue generated by our conversion unit increased 5% to R$3,009 million in 2019, compared to R$2,852 million in 2018.

*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 2,797 thousand tonnes in the first nine months of 2020, which was 4.75% more than in the same period of 2019. Shipments totaled 3,616 thousand tonnes in 2019 which was 1.97% more than in 2018 and 3,546 thousand tonnes in 2018 which was 1.12% more than in 2017.

In the first nine months of 2020, our sales of corrugated boxes and sheets (by volume) increased 6% to 481 thousand tonnes, compared to 453 thousand tonnes in the same period of 2019. Our net sales revenue from the sale of corrugated boxes and sheets totaled R$1,763 million for the period, an increase of 11% compared to the same period in 2019.

In line with Klabin's consistent growth strategy, in 2020, we announced the acquisition of International Paper's packaging business in Brazil for R$330 million. This allowed us to increase our conversion capacity by 305 thousand tonnes per year by incorporating four new packaging operations, Manaus in the state of Amazonas, Paulínia and Suzano in the state of São Paulo and Rio Verde in the state of Goiás, the latter located in a region where we have not operated before. Aside from the packaging units, the operation also consisted of recycled paper plants with nominal production capacity of 148 thousand tonnes per year, Paulínia and Franco da Rocha, both in the state of São Paulo, as well as one kraftliner plant with nominal production capacity of 162 thousand tonnes per year, Nova Campina, also located in the state of São Paulo. Shortly after the closing the deal, the unit of Nova Campina was sold for R$196 million, meaning the net acquisition price of assets converged to R$134 million. 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.

In 2019, our sales of corrugated boxes and sheets (by volume) increased 1% to 615 thousand tonnes, compared to 610 thousand tonnes in 2018. Our net sales revenue from the sale of corrugated boxes and sheets totaled R$2,171 million in 2019, an increase of 8% over 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.

*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 increased by 3.5% in 2019 compared to 2018, according to SNIC, primarily as a result of the Brazilian *real* estate market retake.

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 2020, we sold an aggregate of approximately 109 thousand tonnes of industrial bags in Brazil and in international markets, a decrease of 6.0% compared to 115 thousand tonnes in the same period in 2019.

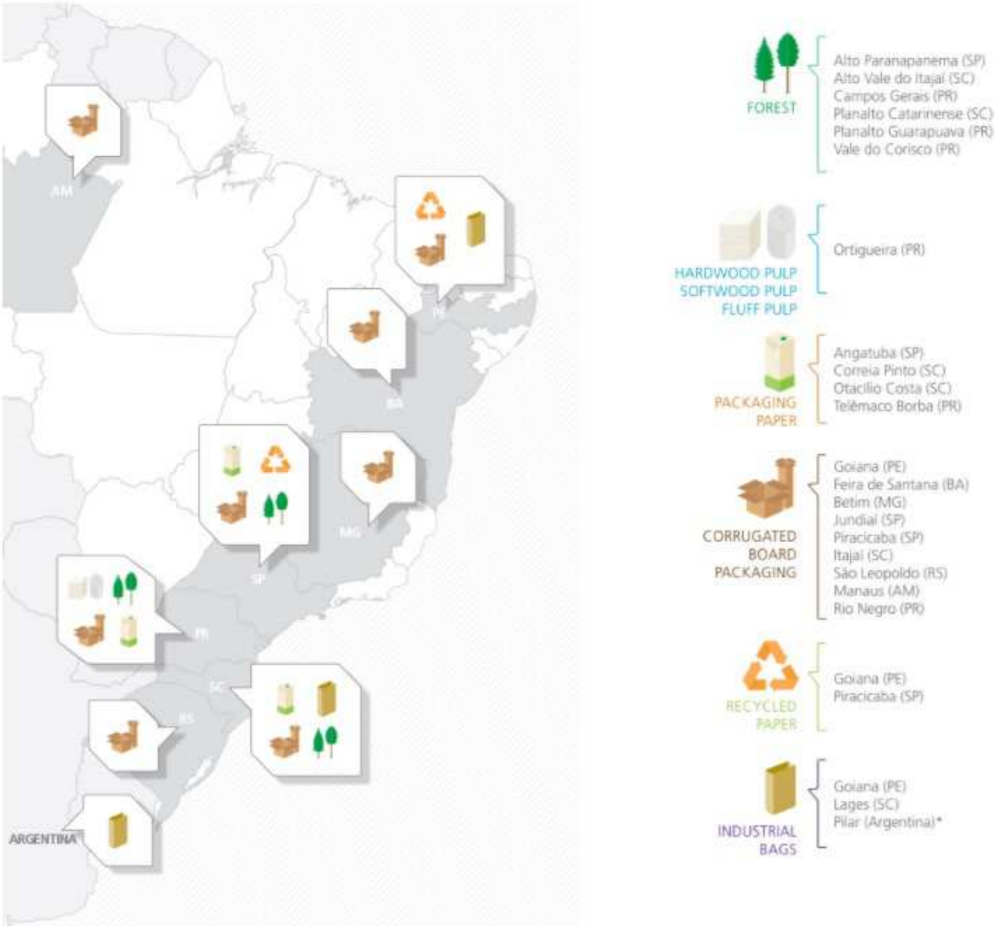
In 2019, we sold an aggregate of approximately 151 thousand tonnes of industrial bags in Brazil and in international markets, a decrease of 4% compared to 2018. In 2018, we sold an aggregate of approximately 157 thousand tonnes of industrial bags in Brazil and in international markets, an increase of 1% compared to 155 thousand tonnes in 2017. In 2019 and 2018, our net sales revenue from sales of industrial bags were R$811 million and R$795 million, respectively.

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. See also “Summary—Recent Developments” for more information regarding our operations.




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 | Pílar (Argentina) | 22 | Industrial Bags |
| | **Total** | **175** | |

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, 2020 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 |
|---|---|---|---|---|
| | | *(in thousands of hectares)* | | |
| Planted Forests | 189 | 65 | 7 | 261 |
| Eucalyptus | 90 | 7 | 7 | 104 |
| Pine | 99 | 58 | – | 157 |
| Native preserve forests | 186 | 72 | 5 | 263 |
| Others | 57 | 11 | 2 | 70 |
| **Total Lands** | **433** | **148** | **14** | **594** |

| Average Hauling Distance to Mills | Km |
|---|---|
| Paraná | 48 |
| Santa Catarina (Correia Pinto) | 78 |
| Santa Catarina (Otacílio Costa) | 71 |
| São Paulo | 100 |

## Our markets

In the first nine months of 2020, we produced 1,957 thousand tonnes of paper and coated boards, which accounted for 41% of Brazil's total production of packaging paper of 4,719 thousand tonnes. In 2019, we produced 1,956 thousand tonnes of paper and coated boards, which accounted for 31% of Brazil's total production of packaging paper of 6,260 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, | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2019 | 2018 | 2017 |
| | *(in thousands of tonnes)* | | | | |
| Total Brazilian Production of Paper | 7,592 | 7,829 | 10,535 | 10,433 | 10,471 |
| Brazilian Production of Paper for Packaging and Coated board | 4,719 | 4,635 | 6,260 | 6,110 | 6,206 |

*Source: IBÁ 2020*

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 2020 we sold 1,224 thousand tonnes of pine and eucalyptus wood logs in the domestic market. In 2019, we sold 1,706 thousand 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 is 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 542 thousand in 2019, 545 thousand in 2018, and 526 thousand in 2017. We achieved coated board market shares of approximately 31% 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 2020, shipments of boxes, sheets, and accessories increased 4.75% to 2,797 thousand tonnes compared to the first nine months of 2019. In 2019, shipments of boxes, sheets, and accessories increased 1.97% to 3,616 thousand tonnes compared to 2018. In 2018 shipments of boxes, sheets, and accessories increased 1.12% to 3,546 thousand tonnes, compared to 2017.

*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 2019, 2018 and 2017 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 serviced 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 Pílar 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

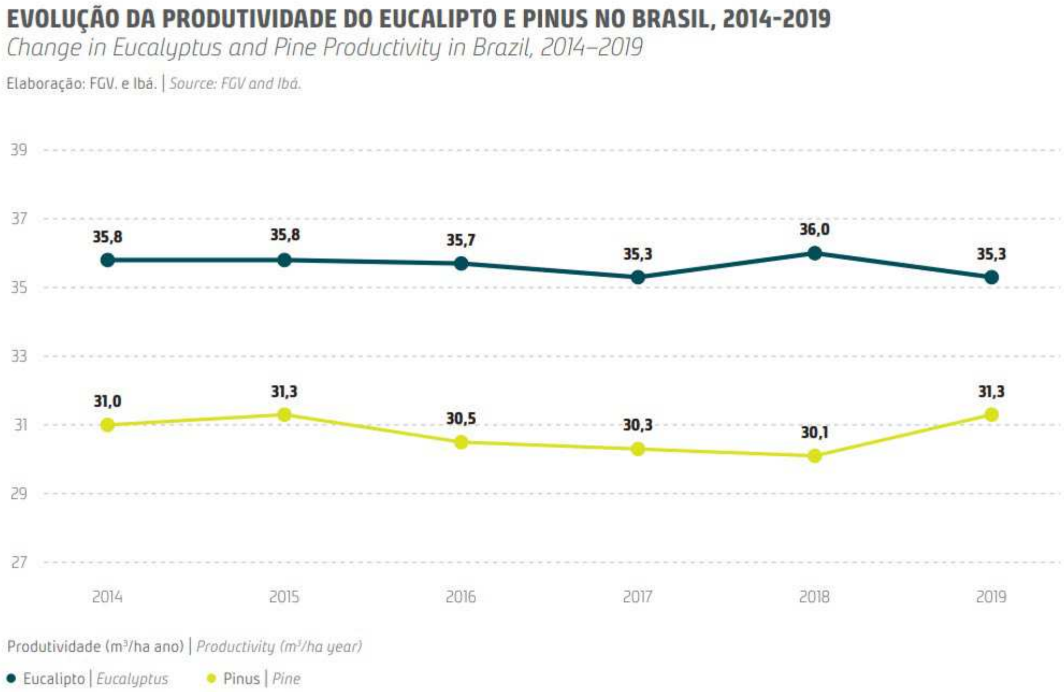
The table below shows a list of our main raw material suppliers and respective share in total raw material purchases as of September 30, 2020:

| 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 | 25.74% |
| Electric Energy | Copel, CPFL, Elektro, NC Energia, Comerc, Brennand, BTG Pactual, Tambaú, Casa de Pedra, Tamboril | 17.01% |
| Fuel Oil and Diesel | Petrobras Distribuidora S.A., RAIZEN COMBUSTIVEIS S.A., Braskem SA, Resitol | 16.09% |
| Caustic Soda/Chlorine | Olin Brasil, Tricon Energy | 6.07% |
| Starch | Cargill, Ingredion, CVale, Syral | 3.51% |
| Natural Gas | COMGAS, SULGAS, SCGás, GASMIG, COPERGAS, Sigás | 3.38% |

### 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 chart below shows the evolution in productivity of Brazilian wood producers from 2014 to 2019:




*Source: Annual Report 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, 2019, 494,925 hectares of properties under Klabin management are certified in the States of Paraná, Santa Catarina and São Paulo. Almost 2,803 hectares were restored in partner-producer areas in Paraná and Santa Catarina, while the total area destined for preservation is 18,237 hectares.

***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 264,000 hectares of pines, araucaria and eucalyptus. In the first nine months of 2020, we planted approximately 19,222 hectares on both our and third-party lands. In 2019, we planted approximately 28,667 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 263,000 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” for 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 IBÁ, 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 | 105 mil t/a |
| Paper Machine 17 ................. | Goiana (Pernambuco) | | 51 mil t/a |
| Paper Machine 24 ................. | Goiana (Pernambuco) | 2015 | 110 mil t/a |

**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 | 27.0 MWh/h |
| Turbo generator 8 .................................... | 2008 | | Siemens | 71.5 MWh/h |
| Paper Machine 7 ...................................... | 1979 | 1989/1997/1998/2000/2002 | Voith/Valmet | 900 t/d |
| Paper Machine 9 ...................................... | 2007 | 2014 | Voith | 1240 t/d |

### Otacílio 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/ | 32 MWh/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 | 23 MWh/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 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).

As of November 2019, the company renewed the investment plan for R$162 million to continue our research and development program until 2021. Klabin also successfully started up the Pilot Mill Complex, installing the process of lignin extraction as a promising resin for the replacement of fossil fuels. The second Pilot Mill installed is leading the research on micro fibrillated cellulose and in 2020 the company has already achieved good results by using it in the production of alcohol gel, which was instrumental in local donations during this year's health crisis caused by COVID-19. In addition to this initiative, other research involving barriers, resins and other projects to replace fossil fuels with renewable sources is under development with business partners.

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, hence the public 2030 goals recently released by the company, that guide those and more material issues. 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.

For 2020, the estimated reduction in non-renewable fuel consumption for energy generation is 1%, with a 4% reduction in heavy oil consumption and 7% reduction in stationary diesel consumption. This value is an estimate and may change; the actual value will only be calculated after the end of 2020.

In 2019, we had an 8% increase in the use of fuels from renewable sources (an increase of 6% and 10% in the consumption of biomass and black liquor, respectively), bringing the representativity of these renewable fuels in our energy matrix from 89.12% (2018) to 89.54% (2019).

In 2018, we reduced the consumption of non-renewable fuels for energy generation by 7%, mainly through ongoing efforts to reduce the consumption of heavy 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 99.7% 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 use of water (25.1 $m^3/t$) is consistent with the sector average: between 25 to 50 cubic meters per tonnes of product. In particular, our Puma Plant, which was designed with state-of-the-art technology and implements the concept of low consumption circuit, reuses 82.5% of the water in its operations. Our total water withdrawals in 2019 was 109,710,757 $m^3$, with more than 99.7% coming from surface water sources.

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. The estimated value of the recycled water flow in 2020 represented about 2.3 times the volume of water withdrawals. 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 2019 we reduced hazardous waste generation by approximately 10% when compared to 2018, driving the hazardous waste percentage down from 0.11% in 2018 to 0.04% in 2019. In addition, the percentage of non-hazardous waste reuse ratio is at 96.7%, reinforcing the commitment and focus on achieving the goal of maintaining waste reuse > 95% until 2022.

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 are one of the largest paper recyclers in Brazil. In 2019, the production of the recycling mills in Goiana and Piracicaba, was 335 thousand tons of recycled scraps.

In 2019, we increased by 54% the purchase of paper scraps compared to the previous year. Important result for reverse logistics of paper packaging scraps, as established by the national solid waste policy.

Furthermore, our solid waste central at the Puma Mill has the capacity to process approximately 23,000 tonnes monthly and recycle 81% of the waste from the Puma Mills's operations. In 2019, it recycled 89% of the waste produced by the Puma and Monte Alegre's mill's operations, while in 2018 it recycled 72%. Based on our goal of zero solid waste to landfill by 2030, the waste reuse forecast for 2020 is 95.5%.

***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 20% 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 consists of forming planted forests interspersed with native forests for conservation, forming ecological corridors that enable the coexistence and transit of native fauna in their natural habitat, in addition to directly contributing to protection of soil, water and biodiversity. Over 40% of Klabin's forest areas are designed to conservation.

We also have an RPPN located at our Fazenda Monte Alegre mill comprising 3,852 hectares. In the State of Santa Catarina, we have the Complexo Serra da Farofa RPPN, comprising 4,987 hectares.

In 2019, we maintained the use of raw materials and inputs from renewable sources above 98%. These materials include wood, wood chips, pulp and recycled scraps, also reinforcing the commitment of the use of renewable materials and circular economy.

***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, *suçuaranas*, small cats (*jaguatirica*, *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 and another RPPN In the State of Santa Catarina, named 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.

In addition, we have an 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 and Environmental Risks, to cover any claims involving property or physical damage from third parties. 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 1,434 administrative and judicial proceedings, mainly involving tax and contributions, indemnification and labor obligations. As of September 30, 2020, these proceedings represented a total contingency of approximately R$4,376 million, of which we have provisioned R$55.5 million, in accordance with the probability of loss as determined by our external counsel. Additionally, as of September 30, 2020, we also had a total of R$21.9 million in net liabilities.

The following is a summary of our material judicial and administrative proceedings:

***Labor Proceedings***

As of September 30, 2020, we were a defendant in approximately 1,302 labor claims, which represented a total contingency of approximately R$405 million, in respect of which we provisioned R$37 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, 2020, the total amount of the claim was approximately R$69 million, of which we believe R$1 million has a possible chance of loss and R$68 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, 2020, the total amount of the claim provisioned was R$300 thousand 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, 2020, we were a defendant in approximately 128 civil judicial suits and we are currently party to 1 arbitral proceedings, which represented a total contingency of R$110 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 proposed since 2009 filed by the Fishermen's Association of the State of Paraná (*Associação dos Pescadores Ambientais do Paraná*), or APAP, due to alleged damages to the Tibagi River (PR), for the disposal of burnt coal waste, used by the Company until 1998. Despite that there is no evidence of environmental damage, in December 2015 an unfavorable sentence was handed down to the Company, condemning it to the obligation to remove the burned mineral coal deposited in the riverbed. Currently, we are in the process of settlement, where the Company presented its defense alleging the technical unfeasibility of complying with the obligation to the manner determined by the court and, at the moment, is awaiting the appointment of an expert. Only with the end of the investigation and the settlement phase will it be possible to stipulate any contingency amount to be considered. 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.

***Tax Proceedings***

We are a party in approximately 297 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 232 lawsuits and a claimant in 65 tax proceedings, which represent a contingency of R$891.0 million.

Our tax and administrative proceedings as of September 30, 2020 totaled approximately R$4,376 million, in respect of which we provisioned R$10.8 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$103.7 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$237.9 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$368.9 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$91.3 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.

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$54.2 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$118.2 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$1,526 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$231.6 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 14,838 employees and generated approximately 22,682 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, | | |
|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 |
| Pulp | 1,243 | 1,076 | 830 | 815 |
| Forestry | 3,754 | 3,793 | 4,015 | 3,964 |
| Papers | 3,483 | 3,532 | 3,627 | 3,616 |
| Recycled Paper | 390 | 392 | 409 | 416 |
| Corrugated boxes | 3,685 | 3,593 | 3,707 | 3,834 |
| Industrial Bags (Brazil) | 1,140 | 1,148 | 1,134 | 1,152 |
| Industrial Bags (Argentina) | 126 | 125 | 137 | 125 |
| Corporate | 1,006 | 904 | 879 | 821 |
| Other | 11 | 10 | 8 | 7 |
| **Total** | **14,838** | **14,573** | **14,746** | **14,750** |

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, | | |
|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 |
| Pulp | 849 | 820 | 829 | 739 |
| Forestry | 3,547 | 2948 | 2,178 | 2,023 |
| Papers | 1,788 | 1844 | 1,412 | 1,646 |
| Recycled Paper | 74 | 68 | 78 | 21 |
| Corrugated boxes | 1,306 | 1032 | 356 | 338 |
| Industrial Bags (Brazil) | 216 | 163 | 163 | 129 |
| Industrial Bags (Argentina) | 14 | 0 | 3 | 1 |
| Corporate | 50 | 76 | 77 | 67 |
| Other | 0 | 0 | 0 | 0 |
| **Total** | **7,844** | **6,951** | **5,096** | **4,964** |

***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 2020, we improved current 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, engage 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, which is focused on innovation, operational efficiency and leadership skills. In line with Rumos 1.0, where the main focuses are alignment, business mindset and the company's value chain, more than 240 employees, in 10 different classes, were trained between 2018 and 2020 and other actions are already being planned to include all eligible managers.

In 2020, the leadership journey comes with the cultural evolution process of the organization that aims to have leadership and successors prepared for current and future challenges. We seek solutions that combine technical competencies with social and emotional ones that we wish to have more space in the company's culture, developing humanized leadership and therefore achieve better results in people management. Trainings designed by the company in conjunction with self-directed activities seek to stimulate the learning process. We continue building shorter solutions and opportunities for the leader to practice in his/her work environment, according to the leader's choice of study.

We have completed the International Paper's integration and we have developed online courses for employee onboarding (Knowing Klabin, Ethics and labor safety). In addition, we have taught 70 people to offer a backup to the trainings which must take place from day 30 to day 100.

We started designing competencies for Commercial Packaging. The project's objective is to develop a High Performance team integrated with a hybrid work model (virtual and face-to-face), so that the commercial team acts in a more entrepreneurial, collaborative way and create a perception for the customer as strategic partner for packaging solutions. To develop this program we will have a partnership with Fundação Dom Cabral, which we believe is one of the best schools in Brazil.

The Pandemic Learning Journey was a set of several Webinars and content made available on the company's online training platform during the year 2020. In order to support our employees and managers for this moment of great changes and uncertainties that has been the pandemic, we seek to bring content, both technical and behavior: Office 365 tools (Planner, OneDrive and Teams), Intelligence Emotional and Remote Work and Self-Management were some of the more than 20 topics covered.

In 2019 we started the Performance Evaluation process. The stages are: self-assessment, assessment of managers, career committees, feedback and individual development plan to improve the development of our people and feed the organization's pipeline.

In addition, we have Fast Track, a development acceleration program dedicated to 20 high potential and potential managers mapped as successors to the last Performance Evaluation.

In relation to our e-learning platform, from September 2019 to September 2020, we had more than 12,800 active users and access by 8,079 employees. In addition, the platform was accessed approximately 120 thousand times, with 60,930 completed trainings. There are more than 1,082 items available in various media, with videos, courses, polls, forums and articles.

During 2019, we invested approximately R$15 million in training programs and from September 2019 to September 2020 more than 386,520 training hours were held.

In 2018 we developed diversity and inclusion at Klabin by building and implementing the strategy and governance between leadership and the plants. In 2020 we brought the subject to an higher level with several programs and actions:

1) Diversity Corporate Committee: every other week we have a meeting with all those responsible for diversity at the plants to communicate the actions we're planning to the organization and also to hear from them their needs and ideas.

2) Affinity groups: we opened for enrollment and formed four groups: Race, LGBT, Women and Generations. The groups are not only to discuss the matters but also to support the corporate diversity team to implement the diversity action plan. Also, we formed a Men's group, to think and discuss masculinity and the new role of man. The groups are led by employees that don't belong to HR, but the diversity area is always in the meetings and frequently schedule meetings with the leaders to deliberate the actions.

3) Social Internship: we brought 34 students from low-income families to the company. The selective process was thought to include a diverse team of students and we hired more than 55% of black students. We hold several meetings with the leaders to make them aware of the difficulties that these students may have.

4) Gender Leadership Program: in 2019 we had a class of 20 women to learn more about female leadership. In 2020 we had a class of 40 people: 20 women and 20 men to discuss first separately and then together what they can do to bring more women to the company. It was a program with more than 30 hours of dedication and they not only discussed the matter, but also built together solutions to implement next year.

5) Unconscious Biases Online Training: in January 2020 we launched an online training that we produced from scratch, filmed in one of our plants, to teach our employees about the theory and practice of unconscious biases. Hundreds of employees have completed the course.

***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 2020 was R$799 million, in addition to R$60 million paid in unemployment benefits, or FGTS, and R$257 million in other benefits. In 2019, the total amount of direct remuneration was R$1,004 million, in addition to R$87 million paid for FGTS and R$320 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, which is PEFC recognized.

20 of our 24 plants in Brazil, located in nine states, are certified by ISO 14.001 and operate under the concepts of the environmental management standard. Of the five units recently acquired, Franco da Rocha and Rio Verde, do not have this certification yet, and the units of Rio Negro and Manaus are still in the process of obtaining the certification. In all units, the environmental performance indicators show progress year after year with the implementation of standardized procedures, including selective garbage collection, waste separation and company organization. All involved professionals are trained to act preventively in the control and care of environmental emergencies.

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 18001 (transitioning to ISO 45,000 for some mills) 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 2019, 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 2020, we were included for the eighth 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. For the first time, we were also listed in two Dow Jones Sustainability Indexes, namely DJSI World and DJSI Emerging Markets, having been recognized as one of the companies with best-in-class performance. 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 and also figures in CDP's Leadership category for its programs on Water Management, Climate Change, Forests and Supplier Engagement Rating.

In 2019, 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".

***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 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 issuer is registered under the LEI 984500578YEA8DD41B09.

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 in São Paulo, Brazil.

Of the current 13 members of our board of directors, seven were appointed by our controlling shareholder, Klabin Irmãos & Cia. and six 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 July 2021 or until their successors, to be elected at our general shareholders' meeting that will be held in March 2021.

The names of the members of our board of directors are set forth in the table below. Each was elected on July 31, 2020 for a one-year term:

| Name | Age |
|---|---|
| Daniel Miguel Klabin | 91 |
| Armando Klabin | 88 |
| Horacio Lafer Piva | 63 |
| Israel Klabin | 94 |
| Paulo Sergio Coutinho Galvao Filho | 60 |
| Roberto Klabin Martins Xavier* | 52 |
| Roberto Luiz Leme Klabin ** | 62 |
| Camilo Marcantonio Junior** | 39 |
| Sergio Francisco Monteiro de Carvalho Guimarães** | 58 |
| Vera Lafer | 84 |
| José Luis de Salles Freire** | 72 |
| Mauro Gentile Rodrigues da Cunha** | 49 |
| Pedro Oliva Marcilio de Sousa** | 47 |

* 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 Paraiso (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.

***Camilo Marcantonio Junior,*** born in 1981, is founding partner and manager of Charles River Capital, he obtained a bachelor's degree in Electronic Engineering from the Military Engineering Institute (IME) in 2003. He has an MBA from the Harvard Business School, where he received the John L. Loeb award for outstanding performance in Finance. Charles River Capital, an independent asset manager focusing on equity funds, is controlled by Grupo Monteiro Aranha S.A., a company with a centennial tradition in investments in the Brazilian economy and which holds a significant interest in Klabin. Before founding Charles River Capital, he worked for eight years at Bain & Company, providing strategic consulting services to the top management of large companies and private equities. For three years, he was also partner at Astor Group, an independent M&A and strategic consulting firm.

***Horacio 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).

***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.

***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 Marcilio 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 August 25, 2020 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 Superiour de Affairs (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 July 31, 2020:

| 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 Europeen 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 2020, 2019 and 2018, the global remuneration limit approved to be paid to members of our board of directors, executive officers and fiscal council totaled R$50.7 million, R$47.6 million and R$45.4 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 names and ages of Klabin Austria's managing directors are set forth in the table below.

| Name | Age |
| --- | --- |
| Cristiano Cardoso Teixeira | 47 |
| David Van den Abeele | 44 |
| Sandro Fabiano Ávila | 45 |

***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, 2020, our share capital was R$4,475 million divided as follows:

## Breakdown of our Capital Stock as of September 30, 2020

| Type | Quantity of Shares |
|---|---|
| Common | 2,012,333,899 |
| Preferred | 3,536,164,161 |
| **Total** | 5,548,498,060 |

## Shareholder Composition

The table below sets forth the composition of our common and preferred shareholders as of September 30, 2020**:**

| Shareholders | Common | | Preferred | |
|---|---|---|---|---|
| BNDESPAR[1] | 83,721,188 | 4.16% | 334,884,752 | 9.47% |
| The Bank of New York[2] | 61,047,714 | 3.03% | 244,190,856 | 6.91% |
| Monteiro Aranha S/A | 68,756,489 | 3.42% | 275,025,956 | 7.78% |
| Klabin Irmãos & Cia[3] | 941,837,080 | 46.80% | - | - |
| Niblak | 142,023,010 | 7.06% | - | - |
| BlackRock Inc. | 41,603,624 | 2.07% | 166,414,496 | 4.71% |
| Others | 646,817,762 | 32.14% | 2,409,539,973 | 68.14% |
| Treasury stocks | 26,527,032 | 1.32% | 106,108,128 | 3.00% |
| | **2,012,333,899** | | **3,536,164,161** | |

(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, 2020, Klabin Irmãos & Cia. held 16.97% 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, 2020, Niblak held 2.56% 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, 2020, Monteiro Aranha held 6.00% 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., Niblak, 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*):

| | For the nine-month period ended September 30, | | For the year ended December 31, | | |
|---|---|---|---|---|---|
| **Transactions** | **2020** | **2019** | **2019** | **2018** | **2017** |
| Interest expense on financing | 62,724 | 160,398 | 186,352 | 253,797 | 319,568 |
| Guarantee commission expense | 2,318 | 19,071 | 22,797 | 28,423 | 30,812 |
| Royalty expenses | 50,293 | 41,816 | 58,111 | 51,747 | 50,877 |

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 used to 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. We were party to a major licensing agreement pursuant to which we were permitted to use our main trademarks. Notwithstanding the above, on November 26, 2020, the shareholders approved the merger of Sogemar – Sociedade Geral de Marcas Ltda. by the company on a Shareholders meeting. In virtue of the merger, the Company became the owner of the "Klabin" brand and other six (6) trademarks previously owned by Sogemar, with the consequent termination of the licensing agreement. See "Summary—Recent Developments."

## DESCRIPTION OF THE NOTES

Klabin Austria will issue the notes pursuant to an indenture, to be dated January 12, 2021 and entered into between 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.

The notes will be unconditionally and irrevocably guaranteed by Klabin, a corporation (*sociedade anônima*) incorporated under the laws 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 will:

- be 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;
- be 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;
- be issued in an aggregate principal amount of U.S.$500 million;
- mature on January 12, 2031;
- be subject to optional redemption or tax redemption as described under "—Redemption";
- be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof;
- be represented by one or more registered notes in global form and may be exchanged for notes in definitive form only in limited circumstances; and
- be unconditionally guaranteed on a senior unsecured basis by Klabin.

Interest on the notes will:

- accrue at the rate of 3.200% *per annum* (subject to an Interest Rate Step Up);
- accrue from (and including) January 12, 2021;
- be payable in cash semi-annually in arrears on January 12 and July 12, commencing on July 12, 2021;
- be 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
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

#### *Interest*

Interest on the notes will initially accrue at a rate of 3.200% *per annum* from, and including, the Closing Date, subject to adjustment to the Subsequent Rate of Interest, payable semi-annually in arrears on January 12 and July 12 in each year and commencing on July 12, 2021 (each an "Interest Payment Date") up to January 12, 2031 (the "Maturity Date").

From and including July 12, 2026 (the "Interest Rate Step Up Date"), the interest rate payable on the notes will increase by between 6.25 and 25 basis points to an annual rate between 3.2625% and 3.4500% (the initial interest rate plus such increase being referred to as the "Subsequent Rate of Interest"), unless, in respect of the year ended December 31, 2025: (i) each of the Sustainability Performance Targets (as defined below) has been satisfied and (ii) the satisfaction of each Sustainability Performance Target has been confirmed by the External Verifier (as defined below) in accordance with its customary procedures. At least 30 days prior to the Interest Rate Step Up Date (the "Notification Date"), the Issuer shall notify the Trustee and DTC in writing of the interest rate that shall be payable on the notes as from the Interest Rate Step Up Date. If as of the Notification Date (x) the issuer fails, or is unable, to provide the Satisfaction Notification, (y) any Sustainability Performance Target has not been satisfied or (z) the External Verifier has not confirmed satisfaction of each Sustainability Performance Target, the interest rate payable on the notes shall be increased from and including the Interest Rate Step Up Date to the Maturity Date, as follows (each, an "Interest Rate Step Up"):

- if the Water Consumption Intensity target is not met, by 12.5 basis points;
- if the Waste Reuse and Recycling target is not met, by 6.25 basis points; and/or
- if the Reintroduction and/or Reinforcement of Wild Species into the Ecosystem target is not met, by 6.25 basis points.

"Sustainability Performance Target" means each of the:

(i) Water Consumption Intensity target which results in Water Consumption Intensity equal to or less than 3.68 $m^3$/t, calculated as the result of the intensity of water consumption for the year 2025,

(ii) Waste Reuse and Recycling target which results in a percentage equal to or greater than 97.5%, calculated as the percentage of reuse and recycling of waste for the year 2025, and

(iii) Reintroduction and/or Reinforcement of Wild Species into the Ecosystem target which results in at least two extinct or threatened species successfully reintroduced and/or reinforced, calculated through rewilding initiatives concluded by 2025,

in each case as set forth in the Sustainability-Linked Bond Framework.

"Sustainability-Linked Bond Framework" means the Sustainability-Linked Bond Framework adopted by Klabin in December 2020.

"External Verifier" means a qualified provider of third-party assurance or attestation services appointed by the guarantor to review the issuer's statements.

***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.

### *Additional Notes*

The issuer may from time to time, without notice to or consent of the noteholders, create and issue an unlimited principal amount of additional notes of a series having the same terms and conditions as the notes offered hereby in all respects, except that the issue date, the issue price and the first payment date thereon may differ, *provided*, *however*, that unless such additional notes are fungible with the notes offered hereby for U.S. federal income tax purposes, such additional 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, 2020, 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$28,893 million (or U.S.$5,122 million), of which R$6,409 million (or U.S.$1,136 million) was secured debt of Klabin.

As of September 30, 2020, 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 and (ii) the 5.750% Notes due 2029 and 7.000% Notes due 2049 issued by the issuer and guaranteed by us.

As of September 30, 2020, R$6,409 million of our Total Debt was secured.

### Redemption

The notes will not be redeemable prior to maturity except as described below.

### *Optional Redemption*

At any time prior to October 12, 2030 (which is the date that is three 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* 0.50%.

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), calculated at a rate of 3.200% *per annum* until the Interest Rate Step Up Date, and thereafter at the maximum applicable Subsequent Rate of Interest, unless the Sustainability Performance Targets have been satisfied in respect of the year ended December 31, 2025 and the issuer has provided the Satisfaction Notification as set forth under "—Interest"; *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 10 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 intend to apply to the Official List of the Luxembourg Stock Exchange and for the notes to be admitted to trading on the Euro MTF Market operated by the Luxembourg Stock Exchange.

**Notices**

For so long as the notes in global form are outstanding, notices to be given to holders will be given to the depositary, as the holder thereof, and such depositary 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.

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 (*Kuratorengesetz*) and the Austrian Bonds Trustee Supplementation Act (*Kuratorenergänzungsgesetz*), 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 (*Kuratorengesetz*) and the Austrian Bonds Trustee Supplementation Act (*Kuratorenergänzungsgesetz*).

**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 January 12, 2021 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.

## DESCRIPTION OF RELEVANT SUSTAINABILITY TARGETS

### Introduction

For over 121 years, Klabin has strived to create customized sustainable solutions for various industrial sectors. In order to contribute to the development of a sustainable economy and inspire final consumer choices, Klabin strives to prioritize the prosperity of the planet, generating value for its investors, employees and business partners.

With a focus on operational efficiency and care for individuals and the environment, Klabin has been increasingly developing products from renewable, recyclable and biodegradable sources, supporting a circular economy model and actively participating in the construction of a future of sustainable consumption.

All of Klabin's operations attempt to incorporate into their strategy environmental management aspects, such as water, energy, climate change and biodiversity. In this way, the company strengthens its commitment to preserve natural resources, such as by working to reduce the use of non-renewable resources, controlling environmental impacts, monitoring biodiversity and preserving fauna and flora in the forests where it operates.

To put this commitment into practice, since 2016 Klabin is a voluntary supporter of the United Nations' Sustainable Development Goals (SDGs) and since 2019 aligned the company's sustainability strategy to the goals of the 2030 Agenda. Validated by Klabin's Permanent Sustainability Commission and Board of Directors, Klabin's sustainability work gained strength with the development of the agenda's governance proposal, and the corresponding set of 23 specific targets such as water and waste management, climate issues, and biodiversity among other ESG themes.

In December 2020, Klabin announced its official set of public targets, available at kods.klabin.com.br, and the Sustainability-Linked Bond Framework that it adopted. 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.

### Water Management

Water is one of the most important inputs for our processes, mainly in the production of paper and pulp. We seek continuous improvement in all processes, valuing the conservation of natural resources and fostering water reuse. One hundred percent of the effluents are treated at effluent treatment plants, before being discharged to water bodies. Treatment is monitored both internally and by a third party, in compliance with all legal requirements. The units periodically undergo internal and external audits to assess the corresponding management systems, including water and effluent systems.

In order to ensure future availability of the resource, Klabin measures 100% of water withdrawals of water stressed areas to ensure there will be no withdraw of higher volumes than the source regenerative capacity. The frequency of monitoring is daily. Estimates of future changes in water availability at the local level of Klabin's units are assessed using a scenario analysis provided by the "WRI Aqueduct" tool.

Our goal is to keep water extraction below 105,000.00 E3M$^3$/Year until 2022, following our good progress towards reducing specific water consumption by 45% since 2004. Klabin's specific water withdrawal intensity of 25.1 m$^3$/t adheres to our understanding of international best practices standards, such as those established by IFC/IPPC indicators (20 to 100 m$^3$/t being considered adequate for pulp mills and 10 to 50 m$^3$/t for paper mills), in order to determine maximum discharge and consumption limits. In 2019, Klabin began assessing the risks of its suppliers using the "Ecovadis Platform" in order to improve supply chain engagement towards sustainable development.

### Responsible Forestry and Biodiversity

Trees are the foundation of our business, which is why we strive to take care of this raw material with great responsibility. We are committed to sustainable development and mosaic planting is our trademark: it is a system that blends areas of preserved native forests, which constitute almost half of our forest area, with planted pine and eucalyptus forests of different ages. This management helps to protect natural resources, improves the production potential of forests, and helps preserve biodiversity through ecological corridors that help hundreds of species of wild animals to move about.

We are also committed to conserve biodiversity, one of the ecosystem's services that forests are able to provide, such as the dispersal of pollen and seeds, climate regulation, water purification, and natural diseases' prevention. Beyond the maintenance of the ecological corridors, Klabin has been assessing the impacts of the forestry management within a Continuous Monitoring Program for Fauna and Flora so it is possible to understand the behavior of the species and adopting prevention and mitigation measures. Klabin has a biodiversity study center in the Ecological Park, which, going beyond veterinary clinical care of rescued species, aims to reestablish the quality levels of forests through the restoration of wildlife.

As the quality of planted forests also depends on the quality of native forests and their natural resources, this preservation is important for us, and we have recently intensified our practices aimed at conservation of biodiversity. In addition, these practices also allow us to address biodiversity loss, which, accompanied by climate change, are global urgencies. Our goal is to reintroduce two species extinct from the area, and reinforce four other threatened species in the forests by 2030.

**Rationale for Issuance**

Through the issuance of sustainability-linked bonds ("SLBs"), we intend to use the power of our company to address environmental issues where we have the ability to effect positive change. We hope the issuance of our sustainability-linked bonds will inspire other similar companies to do the same.

**Selection of Key Performance Indicators**

The key performance indicators ("KPIs") we select for our SLBs will be core, relevant and material to our business. Below is an example of three such KPIs and related sustainability performance targets ("SPTs").

***Water consumption intensity***

We measure water consumption intensity in $m^3$ per ton and calculate it as:

*Water consumption = (Total water withdrawal – Total water discharge) / Total production*

Water consumption is calculated annually using a water balance, which considers: water withdrawals, evaporation from dryers, evaporation from wastewater treatment plants, water left in our end products and water discharges.

The rationale for this KPI is to increase water use efficiency of our operations to support our efforts to protect and restore water-related ecosystems (forests, aquifers and rivers) and generate water security for the communities we affect. The rationale is also to ensure new forest frontiers incorporate the concept of hydrosolidarity, considering the Klabin standard for forest management and that the company's territorial management initiatives for local development foster sustainable use of water resources.

***Waste reuse (reuse and recycling)***

We measure this KPI as a percentage of reuse and recycling of hazardous and non-hazardous solid waste, calculated as:

*Total amount of waste reused and recycled / Total amount of waste generated*

The rationale for this KPI is to support the full optimization of resources in which waste generates value when reintroduced in production systems.

***Reintroduction and/or Reinforcement of wild species into the ecosystem (rewilding)***

We measure this KPI by the number of wild species reintroduced and/or reinforced into the ecosystem.

The rationale for this KPI is to reverse biodiversity loss, reestablish forest quality through the restoration of wildlife, maintain the ecosystem biodiversity through dispersion of seedlings, plague control, native forests viability and connectivity. We strive for the sustainable and restorative management of forests, integrating ecosystems and biodiversity values, in order to improve the ability to generate and disseminate benefits in our communities.

**Calibration of SPTs**

***Water consumption intensity***

Our SPT for water consumption intensity is to achieve water consumption intensity equal to or less than 3.68 $m^3$/t. This is equivalent to an estimated reduction of 16.7% from our 2018 baseline of 4.42 $m^3$/t. This will be calculated for the year 2025 on December 31, 2025.

This SPT aligns with our 2030 Goal of ensuring greater availability of natural resources while maintaining specific industrial water consumption below 3.5 $m^3$/t (reduction of 20.8%).

Our total amount of water withdrawn has decreased 45% since 2004.

Factors that support achieving this target include:

- Our continually maintaining positive results over recent years in relation to the reconditioning of equipment for maintenance and leaks, technology acquisition and machinery readjustment to reduce water waste. We have also employed new mechanisms in Puma II to increase water reuse and effluent treatment.

- At industrial sites, we participate in river basin monitoring committees with local stakeholders helping with decision-making processes in the management of water basins and water use. Those committees are responsible for observing and discussing river basin conditions and for establishing river basin management plans with public participation. The stakeholder conflicts concerning water resources at a basin/catchment level are relevant because the decisions can directly affect Klabin's costs.

Factors that challenge the achievement of this target include:

- Climatic risks identified by Klabin's study of conditions associated with eucalyptus productivity, which considers the most severe scenario in accordance with IPCC's model (HadGEN2, RCP 8.5). In this most severe case, the risks are amount and frequency of severe drought, minimum temperature (considers frost); rise of average temperature; potential evapotranspiration; and water deficiency.

***Waste reuse (reuse and recycling)***

Our SPT for waste reuse (reuse and recycling) is to equal or surpass 97.5%. This is equivalent to an estimated increase in reuse of 3.2% from the 2017 baseline of 94.3%. This will be calculated for the year 2025 on December 31, 2025.

This SPT aligns with our 2030 Agenda of having zero industrial waste destined to landfills by 2030.

As of 2019, we began to consider as waste all the barks generated and burned in the boilers as biomass.

Factors that support our achieving this target include:

- In 2016, Klabin implemented a solid waste processing plant at our Puma Unit, which is responsible for transforming and reusing approximately 91% of all waste generated at the most representative units (71% of the company's total production capacity).

- We have a strong history of waste co-processing initiatives and strengthening circular processes through partnerships with our Research and Development department, including the reuse of waste generated by operations as raw material for the development of blocks for paving and civil construction and organic compounds for soil fertilization.

- Co-processing and use of waste are part of one of our research and development routes focused on reducing environmental impacts.

Factors that challenge the achievement of this target include:

- Adaptation to the installation of new industrial capacity and/or acquisition of new industrial units that may impact the performance of our waste reuse percentage.

***Reintroduction and/or reinforcement of wild species into the ecosystem (rewilding)***

Successfully reintroduce two regionally extinct species into the ecosystem and reinforce at least four threatened species into the Brazilian forest ecosystem. Our baseline is the *Aburria jacutinga* species' reintroduction process started in the end of 2019. This will be calculated for the year 2025 on December 31, 2025.

This SPT aligns with our 2030 Goal of reintroducing at least two extinct and four threatened species into the ecosystem

Factors that support the achievement of the targets:

- We have been monitoring biodiversity in areas of high conservation value for at least 10 years. In 2019, 918 fauna and flora species with conservation status recognized by the IUCN, federal and state lists were identified in areas affected by Klabin's operations.

- The rescue, rehabilitation and release of wild animals is a consolidated process at Klabin's Ecological Park, with an average of 62 species management actions per year and 584 specimens returned to their original habitats in the last 3 years. Part of the rescued animals with severe lesions that prevents them to return to the wild remain under care at Klabin's Ecological Park.

- Klabin maintains regional leadership capable of promoting the necessary multi-stakeholder engagement between the private sector, civil society organizations and regional universities that focus on research of conservation interests.

Factors that risk the achievement of the targets:

- After the regional extinction of a species has been scientifically proven, the success of the reintroduction of those species can vary in accordance with the ecosystem response.

**Bond Characteristics**

Our SLBs are intended to have a sustainability-linked feature that results in a coupon adjustment if our performance does not achieve the stated SPTs, as follows:

(i) a coupon step-up of 12.5 bps our SPT for water consumption intensity is not met;

(ii) a coupon step-up of 6.25 bps if our SPT for waste reuse is not met; and

(iii) a coupon step-up of 6.25 bps if our SPT for reintroduction and/or reinforcement of wild species into the ecosystem is not met.

**Reporting**

We will report annually and for any date/period relevant for assessing the trigger of SPT performance leading to a potential coupon adjustment, such as a step-up of the SLBs. Klabin will publish and keep readily available and easily accessible on our website a sustainability-linked securities update included within our Annual Sustainability Report, including:

(i) up-to-date information on the performance of the selected KPI, including the baseline where relevant;

(ii) a verification assurance report relative to the SPT outlining the performance against the SPT and the related impact, and timing of such impact, on a bond's financial performance; and

(iii) any relevant information enabling investors to monitor the progress of the SPT.

When feasible and possible, reported information may also include:

(i) a qualitative or quantitative explanation of the contribution of the main factors behind the evolution of the performance/KPI on an annual basis;

(ii) an illustration of the positive sustainability impacts of the performance improvement; and/or

(iii) any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scopes.

**Verification**

Verification will occur annually and for any date/period relevant for assessing SPT performance leading to a potential coupon adjustment, such as a step-up of the SLBs, until after the SPT trigger event of a SLB has been reached. We will seek independent and limited assurance of our performance level against the SPT for the stated KPI from a qualified External Verifier with relevant expertise. The verification of the performance against the SPT will be made publicly available on our website.

Klabin may obtain and make publicly available a second party opinion ("SPO") and/or other limited assurance external review from consultants with recognized environmental and social expertise to provide an opinion on the sustainability benefit of this Sustainability-Linked Securities Framework, as well as the alignment to the SLBPs. The SPO will be available on the SPO provider's website.

## 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 notes will be subject to certain restrictions on transfer as described in "Transfer Restrictions." On or prior to the 40th day after the later of the commencement of this offering and the settlement date of this offering, a beneficial interest in a Regulation S Global Note may be transferred to a person who takes 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 will no longer apply 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 depositary 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 depositaries, which, in turn, will hold such interests in the global notes in customers' securities accounts in the depositaries' 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 accountholders 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 accountholder 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 depositary for the reasons described in "—Global Notes" and a successor depositary 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

*The following discussion summarizes certain Brazilian, U.S. federal income and European Union tax considerations that may be relevant to you if you invest in the notes. Unless otherwise indicated all information contained in this Section is based on laws, regulations, rulings and decisions now in effect in Brazil and in the United States and a directive of the European Union in each case which may change. Any changes could apply retroactively and could affect the continued validity of this summary.*

*This summary does not describe all of the tax considerations 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.*

### Austrian tax considerations

*The following is a general discussion of certain Austrian tax consequences of the acquisition, holding and disposal of the notes. It does not purport to be a comprehensive description of all Austrian tax considerations that may be relevant to a decision to purchase notes, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary is based on the tax laws of Austria currently in force and as applied on the date of this offering memorandum, which are subject to change, possibly with retroactive or retrospective effect. Prospective purchasers of the notes are advised to consult their own tax advisors as to the tax consequences of the purchase, ownership and disposal of the notes, including the effect of any state, local or church taxes, under the tax laws of Austria and any country of which they are resident or whose tax laws apply to them for other reasons. For the purposes of the following summary, it is assumed that the notes are legally and factually offered to an indefinite number of persons.*

Interest income and capital gain derived from publicly offered notes by individuals with tax residence in Austria are in general subject to 27.5% Austrian income tax and interest income and realized capital gains from notes derived by corporate noteholders with tax residence in Austria are in general subject to 25% Austrian corporate income tax. Tax considerations relevant to investors which are subject to a special tax regime, such as for example governmental authorities, charities, foundations or investment or pension funds, and special tax rules that may apply where an investor holds the notes via an entity which qualifies as an Austrian or non-Austrian investment fund for tax purposes are not addressed herein. However, as the notes will not be offered in Austria, only tax considerations relevant to investors who are non-residents of Austria for tax purposes are discussed below.

For interest income and realized capital gains derived from the notes by individuals who do not have a domicile or their habitual abode in Austria or by corporate investors who do not have their corporate seat or their place of management in Austria ("*non-residents*") in general the following applies:

For non-resident individuals interest income derived from the notes is subject to a 27.5% Austrian withholding tax (*Kapitalertragsteuer*) if such interest income is paid out through a paying agent (*auszahlende Stelle*) or securities depository (*depotführende Stelle*) located in Austria and the issuer is Austrian resident, has its seat or place of management in Austria or is an Austrian branch of a non-Austrian credit institution. Taxable interest income from the notes includes all interest income and therefore also accrued interest realized upon a sale or repayment of the notes. Interest income which is not subject to Austrian withholding tax (because it is not received through an Austrian paying agent or securities depository) is, however, not taxable in Austria.

Applicable double tax treaties may provide for a reduction of, or relief from, such Austrian withholding tax. However, Austrian banks are not entitled to apply such double tax reduction or relief at source so that holders wishing to obtain relief from the respective Austrian withholding tax under an applicable double tax treaty would have to file for a refund with the competent Austrian tax office which will require a certificate of residency issued by the competent authority of the holder's state of residence.

According to the Austrian Income Tax Act interest income including accrued interest realized upon a sale or repayment of the notes (*Stückzinsen*) received by a non-resident and paid out through a paying agent or securities depository located in Austria are generally subject to Austrian withholding tax (27.5%) unless such interest income is received by holders resident in a jurisdiction with which a mandatory automatic exchange of information (see below) is in place and the respective holder provides a certificate of residency to the Austrian paying agent. Such certificate of residence must be provided or include the data contained in form "IS-QU1" (which should be available from the website of the Austrian Ministry of Finance). An Austrian paying agent is an Austrian bank or an Austrian branch of a non-Austrian bank or investment firm which pays out or credits the interest income to the noteholder, or the issuer if it directly pays out the interest income to the noteholder.

For non-resident corporate holders interest income and capital gains derived from the notes is not taxable in Austria.

Thus, non-resident corporate holders – in case they receive income or capital gains from the notes through a securities depository or paying agent located in Austria – may avoid the application of Austrian withholding tax if they evidence their non-resident-status vis-à-vis the paying agent by disclosing, inter alia, their identity and address pursuant to the provisions of the Austrian income tax guidelines. The provision of evidence that the holder is not subject to Austrian withholding tax is the responsibility of the holder.

If Austrian withholding tax is deducted by an Austrian securities depository or paying agent from any non-taxable payment, the tax withheld shall be refunded to the non-resident holder upon his application which has to be filed with the competent Austrian tax authority within five calendar years (Note: certain tax treaties may foresee shorter periods for filing the repayment claim). Applications for refund may only be filed after the end of the calendar year when the withholding was made. For refund purposes, a non-resident noteholder must file an electronic pre-notification with the competent Austrian tax office (using the web-forms available on the website of the Austrian Ministry of Finance) before the application for refund can be submitted and provide a certificate of residence issued by the competent authority of the noteholder's state of residence. The Austrian Ministry of Finance has issued further guidelines which need to be observed for the refund procedure.

The issuer does not assume responsibility for withholding tax at source.

Where non-residents receive income from the notes as part of business income taxable in Austria (e.g., permanent establishment), they will, in general, be subject to the same tax treatment as resident investors.

Under legislation (*Gemeinsamer Meldestandard Gesetz – GMSG*) implementing Directive 2014/107/EU on mandatory automatic exchange of information in the field of taxation based on the OECD global standard for automatic exchange of financial account information in tax, Austrian tax authorities automatically report information regarding interest income and capital gains from assets booked with an account or deposit of a paying agent located in Austria if the beneficial owner of such assets is resident in a jurisdiction with which a mandatory automatic exchange of information in the field of taxation is in place.

**Brazilian Taxation**

The following discussion is a general description of certain Brazilian tax considerations relating to the ownership and sale of the notes by a holder of the notes resident or domiciled outside Brazil for purposes of Brazilian taxation (a "Non-Resident Holder").

The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in the Brazilian law that may come into effect after such date as well as to the possibility that the effect of such change in the Brazilian law may be retroactive. The information set forth below is intended to be a general description only and does not purport to address all of the Brazilian tax considerations relating to the acquisition, ownership and disposition of the notes applicable to any Non-Resident Holder. Therefore, each Non-Resident Holder should consult his/her/its own tax advisor concerning the Brazilian tax consequences in respect of the notes.

Investors should note that, as to the discussion below, other income tax rates or treatment may be provided for in any applicable tax treaty between Brazil and the country where the Non-Resident Holder is domiciled. Investors should also note that there is no tax treaty between Brazil and the United States. Nevertheless, the Brazilian Internal Revenue Service issued the Declaratory Act No. 28/2000, which should allow Brazilian individual taxpayers to deduct the income tax paid in the United States from the income tax due in Brazil (if any).

This summary does not address any tax issues that affect solely our company, such as deductibility of expenses.

***Interest or Principal Payments***

Generally, a Non-Resident Holder is taxed in Brazil only when income is derived from Brazilian sources or gains are realized on the disposition of assets located in Brazil. Therefore, as the issuer is considered for tax purposes as domiciled abroad, any income (including accrued interest, fees, commissions, expenses, and any other income) payable by the issuer in respect of the notes in favor of Non-Resident Holders should not be subject to withholding or deduction in respect of Brazilian income tax or any other tax duties, assessments or governmental charges in Brazil, provided that such payments are made with funds held by the issuer outside of Brazil.

***Gains Realized from Sale or Disposition of the Notes***

Capital gains realized on the sale or disposition of assets located in Brazil by a Non-Resident Holder are subject to taxation in Brazil regardless of whether the acquirer is resident or domiciled in Brazil, according to Section 26 of Law No. 10,833, enacted on December 29, 2003. Based on the fact that the notes are issued and registered abroad, the notes should not fall within the definition of assets located in Brazil for purposes of Law No. 10,833. Hence, gains arising from the sale or other disposition of the notes (which for the purposes of this paragraph includes any deemed income on the difference between the issue price of the notes and the price at which the notes are redeemed, or original discount) made outside Brazil by a Non-Resident Holder to another non-Brazilian resident should not be subject to Brazilian taxes.

However, considering the general and unclear scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, we cannot assure prospective investors that such interpretation will prevail in the courts of Brazil.

If income tax is deemed to be due, the gains may be subject to income tax in Brazil. For Non-Resident Holders that are not in Favorable Tax Jurisdictions (as defined below), income tax on gains realized on the sale or disposition of assets located in Brazil will be subject to rates ranging from 15% to 22.5%, according to the amount of the gain, as follows: (i) 15% for the part of the gain up to R$5 million; (ii) 17.5% for the part of the gain that exceeds R$5 million but does not exceed R$10 million; (iii) 20% for the part of the gain that exceeds R$10 million but does not exceed R$30 million; and (iv) 22.5% for the part of the gain that exceeds R$30 million. A rate lower than 15% may be provided for in an applicable tax treaty between Brazil and the country where the Non-Resident Holder is domiciled.

If the Non-Resident Holder making the sale or disposition is resident in a jurisdiction that does not impose any income tax or which imposes it at a maximum rate lower than 20%, or in a country or location where restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the beneficial owner of income attributed to non-residents (a "Favorable Tax Jurisdiction"), the gains will be subject to a flat 25% rate. See "—Discussion on Favorable Tax Jurisdiction".

In certain circumstances, if income tax is not paid, the amount of tax charged could be subject to an upward adjustment, as if the amount received by the Non-Resident Holder was net of taxes in Brazil (gross-up).

***Payments made by the Guarantor or any other Brazilian Guarantor***

If a Brazilian source is required, as a Guarantor, to assume the obligation to pay any amount in connection with the notes to a Non-Resident Holder (including principal, interest or any other amount that may be due and payable in respect of the notes), Brazilian tax authorities could attempt to impose withholding income tax upon such payments, as there is no specific legal provision regarding the imposition of withholding income tax on payments made by Brazilian sources to non-resident beneficiaries under guarantees and no uniform decision from the Brazilian courts.

Should the Guarantor be obliged to pay interest to a Non-Resident Holder in connection with the notes, withholding income tax at the rate of 15% may apply (or 25% if the Non-Resident Holder is located in a Favorable Tax Jurisdiction). If the Brazilian Guarantor has to gross-up the guarantee payments to Non-Brazilian Holders, withholding tax will apply on the grossed-up basis (that is, withholding tax will also apply on the additional amounts that the Brazilian Guarantor is required to pay to ensure that the net amounts received by the Non-Brazilian Holders equal the amounts that such holders would have received had no withholding been imposed in Brazil).

However, there are arguments to sustain that payments made under the guarantee should be subject to imposition of the Brazilian income tax according to the nature of the guaranteed payment, in which case only interest paid by the guarantors should be subject to withholding income tax as previously described. However, there are no precedents from Brazilian courts endorsing that position and it is not possible to assure that such argument would prevail in court. Please note that different rates may apply if the tax treaty between the country of residence of the Non-Resident Holder and Brazil sets forth a lower withholding income tax rate.

***Discussion on Favorable Tax Jurisdiction***

A Favorable Tax Jurisdiction is a country or location that (i) does not impose taxation on income, (ii) imposes income tax at a maximum rate lower than 20% or (iii) imposes restrictions on the disclosure of shareholding composition or the ownership of the investment. A regulation issued by the Brazilian tax authorities on 28 November 2014 (Ordinance 488, of 2014) decreased from 20% to 17% this minimum threshold for certain specific cases. The reduced 17% threshold applies only to countries and regimes aligned with international standards of fiscal transparency in accordance with rules established by the Brazilian tax authorities in Normative Ruling No. 1,530, dated December 19, 2014.

On June 24, 2008, Law 11,727, enacted with effect as of January 1st, 2009, introduced the concept of “privileged tax regime,” in connection with transactions subject to Brazilian transfer pricing rules and also applicable to thin capitalization/cross border interest deductibility rules, which is broader than the concept of a Favorable Tax Jurisdiction. Pursuant to Law No. 11,727, a jurisdiction will be considered a privileged tax regime if it (i) does not tax income or tax it at a maximum rate lower than 20% - or 17%, provided that the requirements set forth in Normative Ruling No. 1,530 dated December 19, 2014 are met; (ii) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or a said territory or (b) conditioned upon the non-exercise of a substantial economic activity in the country or a said territory; (iii) does not tax or taxes proceeds generated abroad at a maximum rate lower than 20% - or 17%, provided that the requirements set forth in Normative Ruling No. 1,530 dated December 19, 2014 are met, or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out (“Privileged Tax Regime”).

In addition, on June 7, 2010, the Brazilian Tax Authorities enacted Normative Ruling No. 1,037, as amended, listing (i) the countries and jurisdictions considered Favorable Tax Jurisdictions; and (ii) the Privileged Tax Regimes.

Notwithstanding the fact that the Privileged Tax Regime concept was enacted in connection with transfer pricing rules and is also applicable to thin capitalization/cross border interest deductibility rules, there is no assurance that Brazilian tax authorities will not attempt to apply the concept of Privileged Tax Regimes to other types of transactions. Prospective purchasers should consult with their own tax advisors regarding the consequences of the implementation of Law 11,727, Normative Ruling 1,037 and of any related Brazilian tax law or regulation concerning Favorable Tax Jurisdictions and Privileged Tax Regimes.

***Other Brazilian Tax Considerations***

Pursuant to Decree No. 6,306, of December 14, 2007, as amended, conversions of foreign currency into Brazilian currency or vice versa are subject to the tax on foreign exchange transactions, or the IOF/Exchange, including foreign exchange transactions in connection with payments made by a Guarantor under the guarantee to Non-Resident Holders. Currently, the IOF/Exchange rate is 0.38% for most foreign exchange transactions, including foreign exchange transactions in connection with payments under the guarantee by a Brazilian Subsidiary Guarantor to Non-Resident Holders.

Despite the above, in any case, the Brazilian Government is allowed to reduce the IOF/Exchange rate at any time down to 0% or increase the IOF/Exchange rate at any time up to 25%, but only with respect to future foreign exchange transactions.

In addition, the Brazilian tax authorities could argue that a tax on credit transactions (*Imposto sobre Operações de Crédito, Câmbio e Seguro, ou relativas a Títulos e Valores Mobiliários*, or "IOF/Loan"), could be imposed upon any amount paid in respect of the notes by a Brazilian Guarantor under the guarantee at a rate of, in principle, 1.88% of the total amount paid.

Generally, there are no stamp, transfer or other similar taxes in Brazil applicable to the transfer, assignment or sale of the notes outside Brazil, nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the notes, except for gift and inheritance taxes imposed in some states of Brazil on gifts and bequests by a Non-Resident Holder to individuals or entities domiciled or residing within such Brazilian states.

**THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL BRAZILIAN TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATION.**

**Certain U.S. Federal Income Tax Considerations**

The following summary discusses certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes. This discussion applies only to notes purchased on original issuance, which are held as capital assets for U.S. federal income tax purposes (generally, property held for investment) by U.S. Holders (as defined below).

This discussion does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances or to U.S. Holders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- persons holding notes as part of a hedging transaction, "straddle," conversion transaction or other integrated transaction;
- persons engaging in a different transaction with the issuer contemporaneously or in connection with their acquisition of the notes;
- persons required for U.S. federal income tax purposes to accelerate the recognition of any item of gross income with respect to the notes as a result of such income being recognized on an applicable financial statement;
- certain former citizens and residents of the United States;
- U.S. Holders whose functional currency is not the U.S. dollar; or
- partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes.

This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof, or the Code, administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described below, possibly on a retroactive basis. No rulings have been requested from the U.S. Internal Revenue Service, or the IRS, and there can be no guarantee that the IRS would not challenge, possibly successfully, the treatment described below. This discussion does not address any other U.S. federal income tax laws (such as the alternative minimum tax or the Medicare contribution tax on net investment income). Persons considering the purchase of notes should consult their own tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a note that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes invests in notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships investing in notes should consult their own tax advisers regarding the tax consequences of their investment.

U.S. Holders that sell notes in the concurrent tender offer and also acquire notes pursuant to this offering memorandum should consult with their tax advisers to determine whether their participation in both transactions impacts the U.S. federal income tax treatment to them in their particular circumstances.

***Potential Contingent Payment Debt Instrument Treatment***

The issuer intends to take the position that the terms of the notes do not cause them to be contingent payment debt instruments ("CPDIs") for U.S. federal income tax purposes. This determination, however, is not binding on the IRS and if the IRS were to successfully challenge this determination, the timing, amount and character of a U.S. Holder's income in a given taxable year could be materially less favorable than would otherwise apply. U.S. Holders should consult their own tax advisors regarding the potential application of the CPDI rules to the notes. The remainder of this discussion assumes that the notes will not be treated as CPDIs.

***Payments of Stated Interest***

Stated interest paid on a note, including additional amounts, will be taxable to a U.S. Holder as foreign source ordinary income at the time it is received or accrued, depending on the holder's method of accounting for U.S. federal income tax purposes. U.S. Holders will be treated as having received the amount of any non-U.S. taxes withheld with respect to a note (see "—Brazilian Taxation"), and as then having paid over the withheld taxes to the Brazilian taxing authorities. As a result of this treatment, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest would be greater than the amount of cash actually received by the U.S. Holder with respect to the payment.

Subject to certain limitations, a U.S. Holder will generally be entitled to a credit against its U.S. federal income tax liability for non-U.S. income taxes withheld by the issuer. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Alternatively, a U.S. Holder may take a deduction for non-U.S. income taxes withheld by the issuer if the U.S. Holder elects to deduct all of its foreign income taxes for the taxable year. The U.S. foreign tax credit rules are complex. U.S. Holders should consult their own tax advisers concerning the application of these rules to their particular circumstances.

***Sale, Exchange or Retirement of the Notes***

A U.S. Holder will generally recognize gain or loss on the sale, exchange or retirement of a note equal to the difference between the amount realized on the sale, exchange or retirement and the U.S. Holder's basis in the note. The amount realized does not include the amount attributable to accrued but unpaid interest, which will be treated like a payment of interest as described under "—Payments of Interest." A U.S. Holder's basis in a note will generally be the acquisition cost of the note. Any gain or loss that a U.S. Holder recognizes upon the sale, exchange or other disposition of a note generally will be U.S. source capital gain or loss and will be long-term capital gain or loss if, at the time of disposition, the U.S. Holder's holding period for the note is more than one year.

A U.S. Holder generally will not be able to claim a foreign tax credit with respect to any Brazilian taxes withheld on the proceeds from the sale, exchange or retirement of a note, unless it can apply the credit against U.S. tax payable on other income from foreign sources in the appropriate income category, or, alternatively, it may take a deduction for the Brazilian tax if it elects to deduct all of its foreign income taxes for the taxable year. The U.S. foreign tax credit rules are complex. U.S. Holders should consult their own advisors with respect to the application of these rules to their particular circumstances.

***Information Reporting and Backup Withholding***

Information returns may be filed with the IRS in connection with payments of principal and interest in respect of, and the proceeds from sales of, notes held by a U.S. Holder unless the U.S. Holder establishes, if required, that it is exempt from the information reporting rules, for example by properly establishing that it is a corporation. If the U.S. Holder does not establish that it is exempt from these rules, the U.S. Holder may be subject to backup withholding on these payments if it fails to provide a taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

U.S. Holders should consult their advisors regarding any additional tax reporting or filing requirements they may have as a result of the acquisition, ownership or disposition of the notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

## 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.

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 (x) has provided any investment advice to the Benefit Plan Investor, or any fiduciary or other person investing on behalf of the Benefit Plan Investor or who otherwise has discretion or authority over the investment and management of "plan assets", 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 Plan Fiduciary or any fiduciary or representative of an 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 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) a Benefit Plan Investor or (ii) a governmental, church plan or foreign or other employee benefit plan that is subject to any Similar Law 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 applicable Similar 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 its 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 THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), 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 (“BENEFIT PLAN INVESTOR”) OR (IV) A GOVERNMENTAL, CHURCH PLAN OR FOREIGN OR OTHER EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL OR NON-U.S. LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”) 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 APPLICABLE SIMILAR LAW).

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 COMPANY, THE INITIAL PURCHASERS OR THEIR RESPECTIVE AFFILIATES (X) HAS PROVIDED ANY INVESTMENT ADVICE TO THE BENEFIT PLAN INVESTOR OR ANY FIDUCIARY OR OTHER PERSON INVESTING ON BEHALF OF THE BENEFIT PLAN INVESTOR OR WHO OTHERWISE HAS DISCRETION OR AUTHORITY OVER THE INVESTMENT AND MANAGEMENT OF “PLAN ASSETS” (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

Subject to the terms and conditions set forth in the purchase agreement, dated January 6, 2021, between the issuer, Klabin, as guarantor, and BofA Securities, Inc., Banco Bradesco BBI S.A., Citigroup Global Markets Inc., Itau BBA USA Securities, Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC, as initial purchasers, 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 notes:

| Initial Purchaser | Principal amount of notes (U.S.$) |
|---|---|
| BofA Securities, Inc. | 83,334,000 |
| Banco Bradesco BBI S.A. | 83,334,000 |
| Citigroup Global Markets Inc. | 83,333,000 |
| Itau BBA USA Securities, Inc. | 83,333,000 |
| J.P. Morgan Securities LLC | 83,333,000 |
| Morgan Stanley & Co. LLC | 83,333,000 |
| **Total** | **500,000,000** |

Bradesco Securities Inc. will act as agent of Banco Bradesco BBI S.A. for sales of the 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 notes in the United States to U.S. persons. Banco Bradesco BBI S.A. and Bradesco Securities Inc. are affiliates of Banco Bradesco S.A.

The purchase agreement provides that the initial purchasers are obligated to purchase all of the notes if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, 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 agreement provides that the obligations of the initial purchasers to pay for and accept delivery of the notes is 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 reserve the right to withdraw, cancel or modify offers and to reject orders in whole or in part.

The notes will initially be 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 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 agreement 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 agreement that, for a period of 90 days from the date of pricing of the 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, the initial purchasers may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the initial purchasers may over-allot in connection with this offering, creating a short position in the notes for their own account. In addition, the initial purchasers may bid for, and purchase, notes on the open market. Finally, 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 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 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."

**Other Relationships**

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.

We expect to use a portion of the net proceeds from this offering to repurchase 2024 notes in the concurrent tender offer, in which the initial purchasers are acting as dealer managers and pursuant to which they or their affiliates may sell 2024 notes that they hold.

**Settlement**

We expect that delivery of the notes will be made to investors on or about the fourth business day following the date of pricing of the notes (such settlement being referred to as "T+4"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date of pricing or the day after will be required, by virtue of the fact that the notes initially will settle in T+4, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade notes on the pricing date or the day after should consult their own advisor.

**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.

***Notice to Prospective Retail Investors in the European Economic Area***

This offering memorandum has been prepared on the basis that any offer of the 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.

Each person in a Member State of the EEA to whom any offer of notes is made or who receives any communication in respect of, or who initially acquires any notes under, the offers to the public contemplated in this offering memorandum, or to whom the notes are otherwise made available will be deemed to have represented, warranted and agreed to and with the initial purchasers and us that it and any person on whose behalf it acquires notes as a financial intermediary, as that term is defined in Article 3(2) of the Prospectus Regulation, is (i) a "qualified investor" within the meaning of the law in that Member State implementing Article 2(e) of the Prospectus Regulation and (ii) not a "retail investor" as defined above.

The above selling restriction is in addition to any other selling restrictions set out below.

***Prohibition of Sales to EEA 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 European Economic Area, or the EEA. For these purposes, a retail investor means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of

Directive 2014/65/EU, as amended, or EU MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97, or the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014, or 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.

***Prohibition of Sales to UK 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 United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA which were relied on immediately before exit day to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "UK PRIIPs Regulation") for offering or selling the notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

***Notice to Prospective Investors in the United Kingdom***

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are “qualified investors” (as defined in the Prospectus Regulation) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons in (i) and (ii) above together being referred to as “relevant persons”). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will only be engaged in with, relevant persons.

***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 10, 2005 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.

***Peru***

The notes and the information contained in this offering memorandum have not and will not be registered with the Peruvian Securities Market Regulator (*Superintendencia del Mercado de Valores*). Accordingly, the notes have not been offered or sold, and will not be offered or sold, in Peru, except that the notes may be offered in circumstances which do not constitute a public offering under Peruvian laws and regulations.

The notes will not be registered in the Capital Markets Public Register (*Registro Público del Mercado de Valores*). As a result, the offering of the notes is limited to the restrictions set forth in the Peruvian Securities Market Law. Holders of the notes are not permitted to transfer the notes in Peru unless said transfer involves an institutional investor or the notes are previously registered in Capital Markets Public Register.

***Hong Kong***

Each of the initial purchasers has, severally and not jointly, represented and agreed that:

(i) 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

(ii) 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***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the notes should not be made the subject of an invitation for subscription or purchase and should not be offered or sold, and 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 should not be circulated or distributed, 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 or amended 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 contracts (each term as defined in Section 2(1) of 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; or

(4) as specified in Section 276(7) of the SFA.

In connection with Section 309B of the SFA and the Capital Markets Products, or the CMP, Regulations 2018, the notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in Monetary Authority of Singapore Notice SFA 04-N12: Notice on the Sale of Investment Products and Monetary Authority of Singapore 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 and sold 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 Milbank LLP. 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 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 September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019, included 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 26, 2020, 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.

## 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

Klabin S.A. will, at the specified offices of the trustee and any of the other paying agents, provide a copy of the prospectus and the guarantee, free of charge.

## LISTING AND GENERAL INFORMATION

1. We expect that delivery of the notes will be 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 January 12, 2021. The CUSIP and ISIN numbers and the Common Codes for the notes are set forth below.

| | **Restricted Global Note** | **Regulation S Global Note** |
|---|---|---|
| CUSIP | 49836A AC8 | A35155 AE9 |
| ISIN | US49836AAC80 | USA35155AE99 |
| Common Codes | 228416479 | 228416487 |

2. Copies of the latest audited individual and consolidated financial statements of Klabin, Klabin's bylaws (*estatuto social*), the issuer's articles of association and the indenture (including the forms of the notes) will be available for inspection at the offices of any paying agent.

3. Except as disclosed in this offering memorandum, there has been no material adverse change in the prospects and in our financial position since September 30, 2020, the date of our latest financial statements included in this offering memorandum.

4. We intend to apply to the Official List of the Luxembourg Stock Exchange and for the notes to be admitted to trading on Euro MTF Market operated by the Luxembourg Stock Exchange.

5. The issuance of the notes was authorized by the issuer's board of directors on December 31, 2020. The issuance of the guarantee was authorized by our board of directors on December 22, 2020.

## INDEX TO FINANCIAL STATEMENTS

# Klabin S.A.

Klabin

## Quarterly Information (ITR) at September 30, 2020

**A free translation from Portuguese into English of Independent Auditor's Review Report on Individual and Consolidated Interim Financial Information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and Accounting Pronouncement NBC TG 21 (R4) and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) and specific CVM rules.**

## 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 accompanying individual and consolidated interim financial information, contained in the Quarterly Information Form (ITR) of Klabin S.A. (the "Company"), for the quarter ended September 30, 2020, comprising the statement of financial position as at September 30, 2020 and the related 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 notes.

Management is responsible for preparation of the individual and consolidated interim financial information in accordance with accounting pronouncement NBC TG 21 (R4) and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the fair presentation of this financial information in conformity with the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of the Quarterly Information Form (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 (R4) and IAS 34 applicable to the preparation of Quarterly Information Form (ITR), and presented consistently with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

**Other matters**

**Statements of value added**

The abovementioned quarterly information includes the individual and consolidated statements of value added (SVA) for the nine-month period ended September 30, 2020, prepared under Company's Management responsibility and presented as supplementary information by IAS 34. These statements have been subject to review procedures performed together with the review of the quarterly information with the objective to conclude whether they are reconciled to the interim financial information and the accounting records, as applicable, and if its format and content are in accordance with the criteria set forth by NBC TG 09 - Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe that they were not prepared, in all material respects, in accordance with the criteria defined in referred to Standard and consistently with the overall individual and consolidated interim financial information.

São Paulo, October 26, 2020

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6

Rita de C. S. Freitas
Accountant CRC-1SP214160/O-5

## BALANCE SHEET AT SEPTEMBER 30, 2020 AND DECEMBER 31, 2019
(All amounts in thousands of Reais)

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 09/30/2020 | 12/31/2019 | 09/30/2020 | 12/31/2019 |
| **ASSETS** | | | | | |
| **Current** | | | | | |
| Cash and cash equivalents | 4 | 5,485,667 | 7,735,568 | 6,534,884 | 8,340,386 |
| Marketable securities | 5 | 1,291,864 | 1,382,259 | 1,305,584 | 1,390,529 |
| Accounts receivable: | | | | | |
| . Trade receivables | 6 | 1,565,733 | 1,440,416 | 2,052,059 | 1,908,974 |
| . Allowance for doubtful debts | 6 | (58,105) | (49,451) | (59,319) | (49,469) |
| Related parties | 7 | 928,677 | 739,542 | - | - |
| Inventory | 8 | 1,217,708 | 1,166,619 | 1,379,460 | 1,332,244 |
| Taxes recoverable | 9 | 855,625 | 505,277 | 866,902 | 505,411 |
| Other assets | | 147,505 | 240,524 | 176,632 | 245,869 |
| **Total current assets** | | **11,434,674** | **13,160,754** | **12,256,202** | **13,673,944** |
| **Non-current** | | | | | |
| **long-term receivables** | | | | | |
| Deferred income tax and social contribution | 10 | 1,359,917 | - | 1,337,976 | - |
| Related parties | 18 | 121,710 | 115,747 | 123,144 | 117,179 |
| Taxes recoverable | 9 | 821,362 | 1,944,656 | 821,362 | 1,944,656 |
| Related parties | 7 | 20,753 | 2,194 | - | - |
| Other assets | | 205,691 | 269,256 | 205,977 | 270,817 |
| | | **2,529,433** | **2,331,853** | **2,488,459** | **2,332,652** |
| Investments: | | | | | |
| . Interests in subsidiaries and joint venture | 11 | 1,667,550 | 1,542,061 | 256,824 | 160,970 |
| . Other | | 9,313 | 9,687 | 9,313 | 9,687 |
| Property, plant and equipment | 12 | 15,228,356 | 13,034,714 | 15,545,148 | 13,241,181 |
| Biological assets | 13 | 3,068,424 | 3,375,564 | 4,372,570 | 4,712,381 |
| Right of use asset | 14 | 835,346 | 491,616 | 837,856 | 494,399 |
| Intangible assets | | 71,129 | 77,828 | 72,093 | 77,868 |
| | | 20,880,118 | 18,531,470 | 21,093,804 | 18,696,486 |
| **Total non-current assets** | | **23,409,551** | **20,863,323** | **23,582,263** | **21,029,138** |
| **Total assets** | | **34,844,225** | **34,024,077** | **35,838,465** | **34,703,082** |

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, 2020 AND DECEMBER 31, 2019
(All amounts in thousands of Reais)

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 09/30/2020 | 12/31/2019 | 09/30/2020 | 12/31/2019 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current** | | | | | |
| Borrowings | 15 | 467,463 | 758,385 | 695,000 | 701,783 |
| Debentures | 16 | 64,130 | 572,759 | 64,130 | 572,759 |
| Trade payables | 17 | 1,272,501 | 865,029 | 1,326,381 | 887,092 |
| Trade payables (Forfait) | 17 | 222,527 | 137,164 | 222,527 | 137,164 |
| Tax payables | | 119,939 | 63,925 | 129,790 | 67,079 |
| Social security and labor obligations | | 368,962 | 297,355 | 373,868 | 301,288 |
| Related parties | 7 | 37,302 | 39,845 | 6,121 | 5,347 |
| Dividends and interest on shareholders' equity payable | 19 | - | 200,000 | - | 200,000 |
| Lease liability | 14 | 147,078 | 100,198 | 147,400 | 100,509 |
| Other payables and provisions | | 165,854 | 125,534 | 175,922 | 131,502 |
| **Total current liabilities** | | **2,865,756** | **3,160,194** | **3,141,139** | **3,104,523** |
| **Non-current** | | | | | |
| Borrowings | 15 | 26,411,969 | 21,617,742 | 26,220,060 | 21,539,392 |
| Debentures | 16 | 1,914,073 | 1,271,338 | 1,914,073 | 1,271,338 |
| Income tax and social contribution | | | | | |
| Deferred income tax and social contribution | 10 | - | 1,123,993 | - | 1,145,069 |
| Provision for tax, social security, labor and civil contingencies | 18 | 55,464 | 60,519 | 55,464 | 60,519 |
| Payables - Investors in Special Partnership Companies (SPCs) | | - | - | 327,210 | 333,183 |
| Lease liability | 14 | 698,410 | 394,233 | 700,654 | 396,720 |
| Actuarial liabilities | | 171,754 | 167,984 | 171,754 | 167,984 |
| Other payables and provisions | | 131,896 | 181,192 | 133,101 | 183,081 |
| **Total non-current liabilities** | | **29,383,566** | **24,817,001** | **29,522,316** | **25,097,286** |
| **Total liabilities** | | **32,249,322** | **27,977,195** | **32,663,455** | **28,201,809** |
| **Equity** | | | | | |
| Share capital | | 4,475,481 | 4,076,035 | 4,475,481 | 4,076,035 |
| Capital reserves | | (365,791) | (350,622) | (365,791) | (350,622) |
| Revaluation reserve | | 48,705 | 48,705 | 48,705 | 48,705 |
| Profit reserves | | 1,517,044 | 1,517,044 | 1,517,044 | 1,517,044 |
| Other compreenseve income | | 927,803 | 942,994 | 927,803 | 942,994 |
| Retained earnings | | (3,830,468) | - | (3,830,468) | - |
| Treasury shares | | (177,871) | (187,274) | (177,871) | (187,274) |
| **Shareholders' equity of Klabin** | 19 | **2,594,903** | **6,046,882** | **2,594,903** | **6,046,882** |
| **Non-controlling interest** | 25 | - | - | **580,107** | **454,391** |
| **Consolidated shareholders' equity** | | **2,594,903** | **6,046,882** | **3,175,010** | **6,501,273** |
| **Total liabilities and equity** | | **34,844,225** | **34,024,077** | **35,838,465** | **34,703,082** |

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 THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020 AND 2019
(All amounts in thousands of Reais unless otherwise stated)

| | | | | | Parent Company |
|---|---|---|---|---|---|
| | Note | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **Net sales revenue** | 20 | 3,060,070 | 8,666,012 | 2,476,428 | 7,519,775 |
| Variation in the fair value of biological assets | 13 | 46,058 | 254,749 | 285,774 | 292,428 |
| Cost of products sold | 21 | (1,971,600) | (5,592,015) | (1,858,836) | (5,313,541) |
| **Gross profit** | | 1,134,528 | 3,328,746 | 903,366 | 2,498,662 |
| **Operating expenses** | | | | | |
| Sales | 21 | (267,597) | (765,100) | (215,186) | (605,331) |
| General and administrative | 21 | (156,429) | (455,911) | (142,185) | (430,841) |
| Other net | 21 | (7,112) | 54,803 | 582,854 | 642,544 |
| | | (431,138) | (1,166,208) | 225,483 | (393,628) |
| Equity in the results of joint venture | 11 | (1,449) | 122,921 | 131,874 | 94,871 |
| **Profit before finance result and taxes** | | 701,941 | 2,285,459 | 1,260,723 | 2,199,905 |
| **Finance result** | 22 | (998,550) | (8,175,243) | (1,312,260) | (2,092,002) |
| **(Loss) Profit before taxes on income** | | **(296,609)** | **(5,889,784)** | **(51,537)** | **107,903** |
| **Income tax and social contribution** | | | | | |
| . Current | 10 | 3,551 | (403,407) | 387,410 | 165,194 |
| . Deferred | 10 | 94,175 | 2,485,723 | (120,678) | (188,533) |
| | | 97,726 | 2,082,316 | 266,732 | (23,339) |
| **(Loss) for the period** | | **(198,883)** | **(3,807,468)** | **215,195** | **84,564** |
| **Basic earnings per common share - R$** | 24 | (0.0366) | (0.7032) | 0.0408 | 0.0161 |
| **Diluted earnings per common share - R$** | 24 | (0.0366) | (0.7032) | 0.0408 | 0.0161 |

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 THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020 AND 2019**
(All amounts in thousands of Reais unless otherwise stated)

| | | | | | Consolidated |
|---|---|---|---|---|---|
| | Note | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **Net sales revenue** | 20 | 3,108,828 | 8,656,612 | 2,477,750 | 7,567,593 |
| Variation in the fair value of biological assets | 13 | 68,515 | 317,336 | 331,739 | 314,539 |
| Cost of products sold | 21 | (1,926,325) | (5,585,660) | (1,829,482) | (5,293,655) |
| **Gross profit** | | 1,251,018 | 3,388,288 | 980,007 | 2,588,477 |
| **Operating expenses** | | | | | |
| Sales | 21 | (296,275) | (832,697) | (226,169) | (629,288) |
| General and administrative | 21 | (165,833) | (472,072) | (144,954) | (442,926) |
| Other net | 21 | (4,404) | 54,509 | 583,800 | 645,845 |
| | | (466,512) | (1,250,260) | 212,677 | (426,369) |
| Equity in the results of joint venture | 11 | 1,039 | 27,071 | 2,409 | 6,182 |
| **Profit before finance result and taxes** | | 785,545 | 2,165,099 | 1,195,093 | 2,168,290 |
| **Finance result** | 22 | (1,071,700) | (7,957,634) | (1,246,698) | (2,036,795) |
| **(Loss) Profit before taxes on income** | | **(286,155)** | **(5,792,535)** | **(51,605)** | **131,495** |
| **Income tax and social contribution** | | | | | |
| . Current | 10 | 674 | (412,334) | 379,751 | 138,347 |
| . Deferred | 10 | 94,264 | 2,488,379 | (120,719) | (186,329) |
| | | 94,938 | 2,076,045 | 259,032 | (47,982) |
| **(Loss) for the period** | | **(191,217)** | **(3,716,490)** | **207,427** | **83,513** |
| **Attributed to Klabin's shareholders** | | **(198,883)** | **(3,807,468)** | **215,195** | **84,564** |
| **Attributed to non-controlling shareholders** | | **7,666** | **90,978** | **(7,768)** | **(1,051)** |
| **Basic earnings per common share - R$** | 24 | (0.0366) | (0.7032) | 0.0408 | 0.0161 |
| **Diluted earnings per common share - R$** | 24 | (0.0366) | (0.7032) | 0.0408 | 0.0161 |

The accompanying notes are an integral part of this quarterly information.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020 AND 2019

(All amounts in thousands of Reais)

| | Parent Company | | | |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **(Loss) for the period** | **(198,883)** | **(3,807,468)** | **215,195** | **84,564** |
| **Other comprehensive income:** | | | | |
| . Foreign currency translation adjustments (i) | 1,015 | (18,862) | (9,066) | (13,436) |
| . Actuarial liability remeasurement (ii) | 1,173 | 3,519 | 1,001 | 3,002 |
| **Total comprehensive income for the period, net of taxes (iii)** | **(196,695)** | **(3,822,811)** | **207,130** | **74,130** |

| | Consolidated | | | |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **(Loss) for the period** | **(191,217)** | **(3,716,490)** | **207,427** | **83,513** |
| **Other comprehensive income:** | | | | |
| . Foreign currency translation adjustments (i) | 1,015 | (18,862) | (9,066) | (13,436) |
| . Actuarial liability remeasurement (ii) | 1,173 | 3,519 | 1,001 | 3,002 |
| **Total comprehensive income for the period, net of taxes (iii)** | **(189,029)** | **(3,731,833)** | **199,362** | **73,079** |
| **Attributed to Klabin's shareholders** | **(196,695)** | **(3,822,811)** | **207,130** | **74,130** |
| **Attributed to non-controlling shareholders** | **7,666** | **90,978** | **(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 defered at a rate of 34%, when applicable.

The accompanying notes are an integral part of this quarterly information.

| | Share capital | Capital reserves | Revaluation reserve<br>Own assets | Revenue reserves<br>Legal | Tax incentives | Biological assets | Investments and working capital | Other comprehensive income value adjustments | Treasury shares | Retained earnings | Shareholder's equity from Klabin | Non-controlli interest |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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** | **240,99** |
| Profit (loss) for the period | | | | | | | | | | 84,564 | **84,564** | (97 |
| Other comprehensive income for the period | | | | | | | | (10,434) | | | **(10,434)** | - |
| Comprehensive income for the period | - | - | - | - | - | - | - | (10,434) | - | 84,564 | **74,130** | **(97** |
| Prepaid dividends for 2019 | | | | | | | | | | (413,000) | **(413,000)** | |
| Stock option plan (Note 23): | | | | | | | | | | | - | |
| . Treasury shares sold | | 7,606 | | | | | | | 4,699 | | **12,305** | - |
| . Award of treasury shares | | | | | | | | (4,699) | 4,699 | | - | - |
| . Recognition of the stock option plan remuneration | | | | | | | | 7,891 | | | **7,891** | - |
| . Maturity of stock option plan | | 3,001 | | | | | | (3,001) | | | - | - |
| . Grant plan outflow | | 2 | | | | | | 53 | (55) | | - | |
| **At September 30, 2019** | **4,076,035** | **(350,622)** | **48,705** | **153,384** | **189,919** | **815,163** | **589,753** | **966,932** | **(187,272)** | **(328,436)** | **5,973,561** | **240,02** |
| | | | | | | | | | | | | |
| **At December 31, 2019** | **4,076,035** | **(350,622)** | **48,705** | **184,739** | **238,637** | **470,658** | **623,010** | **942,994** | **(187,274)** | **-** | **6,046,882** | **454,39** |
| (Loss) profit for the period | | | | | | | | | | (3,807,468) | **(3,807,468)** | 89,54 |
| Other comprehensive income for the period | | | | | | | | (15,343) | | | **(15,343)** | - |
| Comprehensive income for the period | - | - | - | - | - | - | - | **(15,343)** | - | **(3,807,468)** | **(3,822,811)** | **89,54** |
| Conversion of debentures (7th issue - 1st series) | 399,446 | (28,502) | | | | | | | | | **370,944** | - |
| Capital contribution from non-controlling shareholders (Note 1) | | | | | | | | | | | - | 50,00 |
| Stock option plan (Note 23): | | | | | | | | | | | - | - |
| . Treasury shares sold | | 8,872 | | | | | | | 4,716 | | **13,588** | - |
| . Award of treasury shares | | | | | | | | (4,716) | 4,716 | | - | - |
| . Recognition of the stock option plan remuneration | | | | | | | | 9,300 | | | **9,300** | - |
| . Maturity of stock option plan | | 4,506 | | | | | | (4,506) | | | - | - |
| . Grant plan outflow | | (45) | | | | | | 74 | (29) | | - | - |
| Prepaid dividends for 2020 | | | | | | | | | | (23,000) | **(23,000)** | (13,82 |
| **At September 30, 2020** | **4,475,481** | **(365,791)** | **48,705** | **184,739** | **238,637** | **470,658** | **623,010** | **927,803** | **(177,871)** | **(3,830,468)** | **2,594,903** | **580,10** |

The accompanying notes are an integral part of this quarterly

## STATEMENT OF CASH FLOWS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2020 AND 2019
(All amounts in thousands of Reais)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | From 1/1 to 09/30/2020 | From 1/1 to 09/30/2019 | From 1/1 to 09/30/2020 | From 1/1 to 09/30/2019 |
| **Net cash provided by operating activities** | **3,490,262** | **976,527** | **4,251,414** | **1,901,866** |
| **Cash provided by operations** | **2,247,600** | **3,048,488** | **2,755,315** | **3,729,705** |
| Net profit for the period | (3,807,468) | 84,564 | (3,716,490) | 83,513 |
| Depreciation and amortization | 841,641 | 780,969 | 858,818 | 796,906 |
| Change in fair value of biological assets | (254,749) | (292,428) | (317,336) | (314,539) |
| Depletion of biological assets | 716,029 | 601,401 | 914,275 | 713,404 |
| Deferred income tax and social contribution | (2,485,723) | 188,533 | (2,488,379) | 186,329 |
| Interest and foreign exchange variations on borrowings | 8,094,190 | 2,458,827 | 7,884,199 | 2,765,359 |
| Interest and monetary variations on debentures | 700,294 | 336,721 | 700,294 | 336,721 |
| Payment of interest on borrowings | (1,308,777) | (1,096,878) | (879,884) | (888,546) |
| Interest on leases | (201,531) | 14,280 | (201,437) | 14,280 |
| Accrued interest - REFIS | - | 14,372 | - | 14,372 |
| Result on disposal of assets | (2,036) | 31,966 | (2,036) | 31,966 |
| Equity result of investees and JV | (122,921) | (94,871) | (27,071) | (6,182) |
| Other | 78,651 | 21,032 | 30,362 | (3,878) |
| **Changes in assets and liabilities** | **1,242,662** | **(2,071,961)** | **1,496,099** | **(1,827,839)** |
| Trade receivables and related parties | (305,798) | (229,506) | (133,235) | (41,249) |
| Inventories | (51,089) | (154,592) | (47,216) | (208,192) |
| Taxes recoverable | 772,946 | (977,686) | 768,972 | (972,018) |
| Marketable securities | 90,395 | (54,149) | 84,945 | (54,744) |
| Other assets | 199,704 | (54,996) | 195,754 | 58,489 |
| Suppliers | 107,284 | (233,152) | 139,101 | (217,423) |
| Tax obligations | 56,014 | 9,260 | 62,711 | 27,618 |
| Social security and labor obligations | 71,607 | 22,953 | 72,580 | 22,900 |
| Other liabilities | 301,599 | (201,256) | 359,656 | (240,479) |
| Income tax and social contribution paid | - | (198,837) | (7,169) | (202,741) |
| **Net cash used in investing activities** | **(2,805,964)** | **(1,558,246)** | **(3,067,004)** | **(1,711,933)** |
| Purchase of property, plant and equipment | (2,679,222) | (947,000) | (2,788,663) | (1,050,391) |
| Planting cost of biological assets | (302,181) | (622,089) | (376,843) | (672,025) |
| Proceeds from disposal of assets | 95,121 | 10,483 | 95,121 | 10,483 |
| Dividends received from subsidiaries | 80,318 | 360 | 3,381 | - |
| **Net cash provided used in financing activities** | **(2,934,199)** | **5,278,838** | **(2,989,912)** | **4,861,170** |
| New borrowings | 3,572,772 | 9,552,721 | 3,729,477 | 9,387,661 |
| New Debenture (net of funding costs) | - | 995,000 | - | 995,000 |
| Repayment of borrowings | (5,990,726) | (4,477,231) | (6,195,753) | (4,727,292) |
| Payment of interest and participation in debenture results | (195,246) | (65,308) | (195,246) | (65,308) |
| Payment of lease liabilities | (111,587) | (70,988) | (111,913) | (70,988) |
| Disposal of treasury shares | 13,588 | 12,305 | 13,588 | 12,305 |
| Acquisition of investments and payment in subsidiaries (cash) | - | (4,661) | 50,000 | - |
| Outflow of SCPS investors | - | - | (2,000) | - |
| Dividends paid SPCs | - | - | (55,065) | (7,208) |
| Dividends paid | (223,000) | (663,000) | (223,000) | (663,000) |
| **(Decrease) increase in cash and cash equivalents** | **(2,249,901)** | **4,697,119** | **(1,805,502)** | **5,051,103** |
| **Cash and cash equivalent at the beginning of the period** | **7,735,568** | **5,337,203** | **8,340,386** | **5,733,854** |
| **Cash and cash equivalent at the end of the period** | **5,485,667** | **10,034,322** | **6,534,884** | **10,784,957** |

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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020 AND 2019
(All amounts in thousands of Reais)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | From 1/1 to 09/30/2020 | From 1/1 to 09/30/2019 | From 1/1 to 09/30/2020 | From 1/1 to 09/30/2019 |
| **Revenues** | | | | |
| . Sales of products | 10,066,354 | 8,874,399 | 10,071,893 | 8,930,627 |
| . Change in fair value of biological assets | 254,749 | 292,428 | 317,336 | 314,539 |
| . Other income | 95,121 | 10,483 | 95,121 | 9,432 |
| . Allowance for doubtful debts | 7,956 | 5,271 | 8,884 | 5,248 |
| | **10,424,180** | **9,182,581** | **10,493,234** | **9,259,846** |
| **Inputs acquired from third parties** | | | | |
| . Cost of products sold | (1,633,714) | (3,299,423) | (1,750,752) | (3,138,760) |
| . Materials, electricity, outsourced services and other | (3,545,911) | (783,919) | (3,276,628) | (812,110) |
| | **(5,179,625)** | **(4,083,342)** | **(5,027,380)** | **(3,950,870)** |
| **Gross value added** | **5,244,555** | **5,099,239** | **5,465,854** | **5,308,976** |
| **Retentions** | | | | |
| . Depreciation, amortization and depletion | (1,557,670) | (1,382,370) | (1,773,093) | (1,510,310) |
| **Net value added generated** | **3,686,885** | **3,716,869** | **3,692,761** | **3,798,666** |
| **Value added received through transfer** | | | | |
| . Equity in the results of investees | 122,921 | 94,871 | 27,071 | 6,182 |
| . Finance income, including exchange variations | 985,155 | 1,252,095 | 1,026,966 | 1,275,348 |
| | **1,108,076** | **1,346,966** | **1,054,037** | **1,281,530** |
| **Total value added to distribute** | **4,794,961** | **5,063,835** | **4,746,798** | **5,080,196** |
| **Distribution of value added:** | | | | |
| **Personnel** | | | | |
| . Direct compensation | 824,460 | 755,408 | 838,333 | 770,225 |
| . Benefits | 256,524 | 230,945 | 259,912 | 234,103 |
| . Government Severance Indemnity Fund for Employees (I | 49,611 | 64,256 | 49,762 | 64,423 |
| | **1,130,595** | **1,050,609** | **1,148,007** | **1,068,751** |
| **Taxes and contributions** | | | | |
| . Federal | (1,836,754) | 404,573 | (1,817,509) | 436,848 |
| . State | 134,236 | 168,944 | 134,236 | 168,944 |
| . Municipal | 13,954 | 11,048 | 13,954 | 11,048 |
| | **(1,688,564)** | **584,565** | **(1,669,319)** | **616,840** |
| **Remuneration of third-party capital** | | | | |
| . Interest | 9,160,398 | 3,344,097 | 8,984,600 | 3,312,145 |
| | **9,160,398** | **3,344,097** | **8,984,600** | **3,312,145** |
| **Remuneration of own capital** | | | | |
| . Dividends | 23,000 | 413,000 | 23,000 | 413,000 |
| . (Loss) profits reinvested for the period | (3,830,468) | (328,436) | (3,830,468) | (329,489) |
| . Net income attributable to non-controlling shareholders | - | - | 90,978 | (1,051) |
| | **(3,807,468)** | **84,564** | **(3,716,490)** | **82,460** |
| | **4,794,961** | **5,063,835** | **4,746,798** | **5,080,196** |

The accompanying notes are an integral part of this quarterly information.

## Notes to the quarterly information (Presented in thousands of Reais unless otherwise stated)

### 1 GENERAL INFORMATION

Klabin S.A. ("Company") and its subsidiaries operate in segments of the pulp and paper industry to serve the domestic and foreign markets: supply of wood, pulp, packaging paper, paper bags and corrugated boxes. Its activities are integrated from reforestation to the manufacture of final products. Klabin is a publicly-held corporation with shares and share deposit certificates ("Units") traded on B3 - São Paulo Stock Exchange under the code KLBN11. The Company is domiciled in Brazil and its headquarters are located in São Paulo.

The Company ("Klabin S.A.") also has investments in Special Partnership Companies ("SPCs"), with the specific purpose of raising funds from third parties for reforestation projects. The Company, as an ostensible partner, has contributed with forest assets and the other investing partners contributed in kind to the referred SCPs. These SCPs guarantee Klabin S.A. the right of first refusal to purchase forest products at market prices and conditions.

The Company also holds interests in other companies (Notes 3 and 11), whose operating activities are related to its own business objectives.

### 1.1 Declaration of conformity

The issuance of these interim financial information of Klabin S.A. ( "Company") and its subsidiaries were authorized by the Chief Financial Officer in October 26, 2020.

Management evaluated the ability of the Company and its subsidiaries to continue, being convinced that it has the necessary resources and the capacity to develop its business in the future on a continuous basis, without the knowledge of material uncertainties or probabilities that may generate significant doubts regarding its continuity.

Management affirms that all relevant information specific to the quarterly information, and only it, is being disclosed and that corresponds to that used by it in its management.

### 1.2 Constitution of Sapopema Reflorestadora S.A. ("Sapopema")

On July 26, 2019, the Company incorporated the privately-held Entity Sapopema Reflorestadora S.A., Special Purpose Company ("SPC"), together with a Timber Investiment Management Organization ("TIMO"), whose main objective is to explore the forestry activity in the state of Paraná - PR.

Klabin S.A. contributed to the formation of the Entity's share capital with an investment of 8 thousand hectares of planted forests in the state of Paraná - PR, with an amount of R$ 55 million, and on May 28, 2020, with an additional contribution of 3 thousand hectares of planted forests, in the amount of R$ 28 million. TIMO, in turn, contributed R$ 185 million in cash at the closing of the operation, R$ 50 million on March 27, 2020 and the remaining R$ 335 million will be contributed in up to 2 years.

The funds contributed by TIMO will finance the acquisition of approximately 15 thousand hectares of useful area for planting, investments in reforestation and working capital. The Company will have the preemptive right to purchase Sapopema's forestry production , among other typical rights for the controlling shareholders of an Entity of the same nature, just as TIMO has its obligations established in the shareholders' agreement defined by the parties.

Klabin has 52% of the voting capital and 26% of the Entity's total share capital, while the TIMO holds the remainder of the capital, may elect members of the Board of Directors and participate in certain decisions and voting right, including in situations that require qualified forum .

Klabin S.A. may exercise preemptive rights in the purchase of shares of the Entity belonging to TIMO, in an option to be exercised between 2030 and 2037.

### 1.3 Expansion project - Puma II

As disclosed in the Material Fact to the market on April 16, 2019, the beginning of the capacity expansion project in the packaging paper segment called "Projeto Puma II", was approved, covering the construction of two paper machines, with pulp production, located at Klabin's industrial unit in the city 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 fiber line for the production of unbleached pulp integrated with a kraftliner and white kraftliner paper machine, which will be marketed under the Eukaliner brand, with a capacity of 450 thousand tons per year. This step also includes the construction and/or adjustment of support facilities to the new fiber lines, recovery areas and utilities.

(ii) Second stage contemplates the construction of a complementary fiber line integrated with a kraftliner paper machine with a capacity of 470 thousand tons per year and the expansion of some support structures.

The schedule foresees that the works of each stage will last 24 months, with the start of construction of the second stage being soon after the end of the first stage. Thus, the commissioning of the first machine is scheduled for the second quarter of 2021, and that of the second machine is 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 adjustments resulting from inflation, being R$ 3,848 billion disbursed to June 30, 2020 and the remainder by 2023. Approximately R$ 900 million of gross investment refers to recoverable taxes. Considering that most equipment will be installed in the first stage of the project, approximately two thirds of disbursements that are expected to occur until 2021.

Currently, the works related to Puma II are at a reduced stride due to COVID-19, see details in Note 1.10.

### 1.4 Constitution of Klabin Paranaguá SPE S.A.

On October 21, 2019, the wholly owned subsidiary "Klabin Paranaguá SPE S.A." was formed with subscribed and paid up capital of R$ 20 million divided into 20,000 registered shares with no par value, headquartered in the municipality of Paranaguá - PR.

The Entity has as its sole and exclusive object the operation of the leases areas, port facilities and public infrastructure, located within the Organized Port of Paranaguá, for carrying out the following unloading activities: of (unloading, internal handling, storage and shipment) and loading (reception, storage, internal handling and shipment) of general cargo, especially pulp and paper, all under the terms of the Draft 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 tender in the Port of Paranaguá for handling and storage of general cargo, especially pulp and paper, in an auction held at B3's headquarters in São Paulo. The lease guarantees access to an area of 27,530 m² for a period of 25 years, which can be extended for another 45 years, with total planned investments in the order of R$ 130 million and the start of operations scheduled for January 2022.

The Company's interest was driven by the great representativeness of the Port of Paranaguá in its export volume, aiming at both the current volumes and those referring to the new paper machines of the Puma II Project. This operation will bring a long-term operational guarantee, allowing a direct rail connection from the manufacturing operations to the Terminal in the primary zone, with high loading efficiency and berthing preference.

**1.5 Constitution of Pinus Taeda Florestal S.A.**

On January 21, 2020, the necessary agreements were signed for association with a Timber Investment Management Organization (“TIMO”) for the incorporation of a Special Purpose Company (“SPC”), whose main stated purpose will be the exploration of forestry activity in the center-south of the State of Paraná, allowing access to new lands to increase its forest base

The Company's contribution to the build-up of the SPE's assets will be through the contribution of approximately 9 thousand hectares of planted forests, in the amount of R$ 72 million, with a 26% interest in the SPE. TIMO, in turn, will contribute with approximately 11 thousand hectares of forests and 7 thousand hectares of land assets.

The rights and obligations of the Company and TIMO were regulated by means of a shareholders' agreement signed between the parties. Considering the SPE's shared control structure, it is classified as a jointly controlled entity (joint venture), being recorded under the equity method in the individual and consolidated Quarterly Information of the Company.

The Company has the right of first refusal in the purchase of process wood produced by SPE, among other typical rights granted to shareholders of a company of this nature. The completion of this transaction is subject to usual precedent conditions, including approval by the competent regulatory authorities.

**1.6 Acquisition of International Paper do Brasil’s assets**

As announced to the market on March 29, 2020, the Company executed the acquisition of the packaging and corrugated paper business in Brazil from International Paper do Brasil (“IP”).

IP’s operations, the focus of the acquisition, have a production capacity of 305 thousand tons of corrugated paper per year, with sales representing 6.6% of the domestic market share, according to data from the Brazilian Association of Corrugated Paper (“ABPO”) in 2018. The acquisition also includes packaging paper units (virgin fiber and recycled) with a total capacity of 310 thousand tons per year.

On September 16, 2020, the opinion of CADE's General Superintendence was published authorizing the acquisition of the packaging and corrugated paper business located in Brazil from IP. However, there were still other precedent conditions considered relevant for the completion of the transaction. On October 14, 2020, these conditions were concluded and all legal agreements and approvals were executed. The first installment of R$280 million was disbursed on that date, remaining R$50 million payable after one year, subject to certain contractual conditions.

The total investment expected for this acquisition amounts to R$330 million, for which the Company used its own funds for payment.

This transaction is in line with the Company's growth strategy for the paper and packaging paper business, expanding operational flexibility and bringing greater stability to its results. The ratification of the operations by the shareholders is exempted, since they are not classified in the cases provided for in article 256 of Law No. 6.404/76.

### 1.7 Sale of the Nova Campina unit (SP)

As announced to the market on June 24, 2020, the Company executed the necessary documents for the sale to the Klingele Paper & Packaging Group of the unit located in Nova Campina (SP) for the amount of R$196 million, of which R$132 million to be paid after the closing of the operation and the remaining amount in two annual installments.

Nova Campina (SP) unit, with a production capacity of 162 thousand tons of kraftiliner, is part of International Paper's assets ( refer to Note 1.6). Therefore, the closing of the sale is subject to corporate reorganization for transfer of the assets subject matter of the sale. There were no financial commitments assumed until its effective approval or other corporate acts related to the operation.

This transaction is in line with Management's strategy and discipline in allocating capital to generate shareholders value.

### 1.8 Conversion of 7th issue debentures (1st series)

According to the Notice to Shareholders published on June 15, 2020, the 1st series of debentures of the 7th issue matured, in which 27,739,244 debentures were converted into Company shares.

This procedure took place in accordance with the terms of clause VI of the indenture of the 7th private issue of simple debentures, combined with a bonus dated April 22, 2014 by decision of the debenture holders.

27,739,244 "Units" were issued, comprising 27,739,244 common shares and 110,956,976 preferred shares, totaling a capital increase in the Company of R$ 399,446. As a result of such resolution, the Company's subscribed and paid-in capital increased from R$ 4,076,035 to R$ 4,475,481, divided into 5,548,498,060 shares, all nominative and with no nominal value, with 2,012,333,899 common shares and 3,536,164,161 preferred shares.

### 1.9 Constitution of Aroeira Reflorestadora S.A.

On September 9, 2020, the Company incorporated Aroeira Reflorestadora S.A, a Special Purpose Entity (SPE), with the main objective of exploring forestry activity in the state of Santa Catarina - SC.

Upon incorporation, a future capital contribution ("AFAC") was made in the amount of R$20 million for acquisitions of planted forest leases in the state of Santa Catarina - SC.

### 1.10 Effects of COVID-19

The Company is actively working on preventive measures to help control the spread of the Coronavirus ("COVID-19"), reinforcing hygiene protocols, disseminating information on the topic in its internal communication channels and following the guidelines of the World Health Organization Health ("WHO"), canceling internal events and trips by adopting electronic means of communication, making work routines more flexible to avoid agglomerations, adherence to remote work for various groups of professionals, among other initiatives.

Additionally, as disclosed by the Company in a Material Fact on March 23, 2020, the works of the Puma II Project were suspended, aiming to contain the spread of the disease and the safety of the approximately 4,500 employees involved in the work. Currently, activities are being resumed gradually, but at a reduced stride when compared to the normal scenario. Given the scenario of uncertainty regarding the normalization of activities in the country, so far it is not possible to establish the effects of the shutdown on the project schedule.

To date, the Company's Management has not identified significant impacts on its operations, maintaining its forecasts of production, sales and shipment of its products, which are part of the supply chain of items of basic necessity for the population, related to the food, cleaning products and personal and hospital hygiene segments.

Regarding the volatility of the financial market, including the effects of the devaluation of the national currency against the US dollar, the Company has a robust cash position and an extended and controlled debt profile. Additionally, in spite of the foreign exchange effects determined in the "Financial Result" in the referred Financial Statements, according to the analysis of the foreign exchange risk exposure mentioned in Note 26, this effect does not affect the Company's cash since it is substantially linked to loans and financing operations in long-term foreign currency to be realized in future periods, as well as the projected cash flow of export earnings, which exceed, or approximate the payment flow of the respective liabilities.

In view of the current scenario, in line with the requirements of the Brazilian Securities and Exchange Commission ("CVM"), the Company's Management analyzed any impacts in view of its estimates, judgments and assumptions that could impact the recoverability of its assets and affect the measurement of provisions presented in said Quarterly Information due to an increase in expected losses or a significant change to the risks to which the Company is exposed (see information in Note 26). This review considered the subsequent events that occurred up to the date of issue of this Quarterly Information and no significant effects were identified that should be reflected in the Quarterly Information for the three and nine month periods ended September 30, 2020.

## 2 BASIS OF PRESENTATION OF THE QUARTERLY INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of presentation of the quarterly information

The Company presents the individual and consolidated Quarterly Information in accordance with NBC TG 21 (R4) - Interim Statement, issued by the CFC - Conselho Federal de Contabilidade and IAS 34 - Interim Financial Report, issued by the IASB - International Accounting Standards Board, applicable the preparation of the Quarterly Information - ITR, and presented in a manner consistent with the rules established by CVM - Comissão de Valores Mobiliários.

The Quarterly Information was prepared considering the historical cost as a basis of value, 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 three and nine months periods ended September 30, 2020 are consistent with those applied in the preparation of the last Annual Financial Statements of December 31, 2019 and described in them in Note 2. This Quarterly Information should be read in conjunction with those Annual Financial Statements released on February 6, 2020.

The quarterly information for the three and nine-month periods ended September 30, 2020 contains all information that is relevant to the understanding of the Company's financial position and performance during the period.

## 3 CONSOLIDATED QUARTERLY INFORMATION

The subsidiaries are fully consolidated from the date of acquisition of the control, and continue to be consolidated until the date when this control ceases to exist, except the subsidiaries that have joint control (joint venture) with other entities, which are evaluated by the equity accounting method both in the individual and consolidated financial statements.

The financial statements of the subsidiaries are prepared for the same reporting periods as those of the parent company, using accounting policies that are consistent with the policies adopted by the parent company. For the consolidation, the following criteria are adopted: (i) elimination of investments in subsidiaries, as well as the results of equity investments and (ii) elimination of profits from intercompany transactions between consolidated companies, as well as the corresponding asset and liabilities balances.

The consolidated Quarterly Information covers Klabin S.A. and its subsidiaries as of September 30, 2020, December 31, 2019 and September 30, 2019, as follows:

All amounts in thousands of Reais

| | Country | Activity | Participation | Ownership - % 09/30/2020 | 12/31/2019 | 09/30/2019 |
|---|---|---|---|---|---|---|
| **Subsidiaries:** | | | | | | |
| Aroeira Reflorestadora S.A. (i) | Brazil | Reforestation | Direct | 100 | - | - |
| Celucat | Brazil | Investment in companies | Direct | 100 | 100 | 100 |
| Guaricana Reflorestadora S.A. | Brazil | Packaging paper | Direct | 35 | 35 | 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 phytotherapic products | Direct | 100 | 100 | 100 |
| Klabin Finance S.A. | Luxembourg | Finance | Direct | 100 | 100 | 100 |
| Klabin Fitoprodutos Ltda. | Brazil | Manufacture of phytotherapic 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 Paranaguá SPE S.A. (i) | Brazil | Port services | Direct | 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 | 26 | 23 | 100 |
| **Special Partnership Companies ('SPC'):** | | | | | | |
| CG Forest | Brazil | Reforestation | Direct | 71 | 71 | 71 |
| Monte Alegre | Brazil | Reforestation | Direct | 72 | 75 | 75 |
| Harmonia | Brazil | Reforestation | Direct | 72 | 71 | 74 |
| Serrana | Brazil | Reforestation | Direct | 67 | 63 | 66 |
| Araucária | Brazil | Reforestation | Direct | 60 | 69 | 67 |
| **Joint ventures (not consolidated):** | | | | | | |
| Florestal Vale do Corisco S.A. | Brazil | Reforestation | Direct | 51 | 51 | 51 |
| Pinus Taeda Florestal S.A. (i) | Brazil | Reforestation | Direct | 26 | - | - |

(i) See Note 1.

## Investment in joint ventures

Considering the characteristics, the investments in Florestal Vale do Corisco S.A. and Pinus Taeda Florestal S.A. are classified as jointly controlled entities (joint venture) and are recorded based the equity accounting method in the individual and consolidated financial statements.

All amounts in thousands of Reais

## 4 CASH AND CASH EQUIVALENTS

The Company, following its investment policy, has maintained its marketable securities in low-risk investments, in financial institutions that the Management believes are top notch both in Brazil and abroad, according to the rating released by the investment agencies. risk classification presented in Note 26. Management has considered these financial assets as cash equivalents due to their immediate liquidity with the issuing financial institutions, with an insignificant risk of change in value.

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 09/30/2020 | 12/31/2019 | 09/30/2020 | 12/31/2019 |
| Cash and bank deposits - local currency | 2,363 | 36,192 | 23,257 | 57,731 |
| Cash and bank deposits - foreign currency (i) | - | - | 5,242 | 6,459 |
| Marketble securities- local currency | 5,159,037 | 6,625,917 | 5,469,726 | 6,910,426 |
| Marketble securities - foreign currency (i) | 324,267 | 1,073,459 | 1,036,659 | 1,365,770 |
| (i) In U.S. dollars | **5,485,667** | **7,735,568** | **6,534,884** | **8,340,386** |

Marketable securities in national currency, corresponding to Bank Deposit Certificates - CDBs and other repurchase operations, are indexed by the variation of the Interbank Deposit Certificate - CDI, with an average annual remuneration rate of 1.93% (4.84% on December 31 December 2019), and foreign currency investments that correspond to overnight operations, have an average annual interest rate of 0.27% (1.95% on December 31, 2019), with immediate liquidity guaranteed by the financial institutions.

The variation in the comparative balance between December 31, 2019 and September 30, 2020 stands out in the voluntary early settlement of export credit lines equivalent to USD 1,216 million, as part of the Company's debt profile Management's strategy.

## 5 MARKETABLE SECURITIES

The balance of marketable securities is represented by:

(i) Financial Treasury Bills ("LFT") and Direct Treasury Bills ("NTN-B"). LFT has remuneration indexed to the SELIC variation and matures in 2023 and NTN-B is remunerated by the variation of the IPCA + 4.63% (average) per year with maturities from 2022 to 2040, amounting to R$ 1,291,864 on September 30, 2020 (R$ 1,382,259 on December 31, 2019).

(ii) Bonds, hired through its wholly-owned subsidiary Klabin Finance, signed in dollars with fixed interest rates from 3.52% to 4.02%, with maturity in 2028 and 2038 and an amount corresponding to R$ 13,720 in 30 September 2020 (R$ 8,270 on December 31, 2019).

As of September 30, 2020, the balance of these securities amounted to R$ 1,291,864 in the parent company and R$ 1,305,584 in the consolidated (R$ 1,382,259 and R$ 1,390,529 respectively, as of December 31, 2019 ). These securities have an active trading market. Considering its characteristics, the fair value is basically the principal amount plus the interest originally established in these securities. Management classified financial assets measured at fair value through profit or loss, in accordance with CPC 48 (equivalent to IFRS 9) - Financial Instruments, given the possibility of selling these securities to realize gains / losses.
The bonds and securities fall under Level 1 of the hierarchy of measurement at fair value, according to the hierarchy of CPC 46 (equivalent to IFRS 13) - Fair Value Measurements, as they are assets with prices quoted in the market.

All amounts in thousands of Reais

## 6 ACCOUNTS RECEIVABLES

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 09/30/2020 | 12/31/2019 | 09/30/2020 | 12/31/2019 |
| **Trade receivables** | | | | |
| . Local | 1,330,240 | 1,182,088 | 1,330,409 | 1,182,201 |
| . Foreign | 235,493 | 258,328 | 721,650 | 726,773 |
| **Total trade receivables** | **1,565,733** | **1,440,416** | **2,052,059** | **1,908,974** |
| Allowance for doubtful debts ("AFDD") | (58,105) | (49,451) | (59,319) | (49,469) |
| | **1,507,628** | **1,390,965** | **1,992,740** | **1,859,505** |
| **Overdue** | **85,054** | **83,334** | **107,299** | **108,218** |
| % on total portfolio (without AFDD) | 1.72% | 2.35% | 2.34% | 3.08% |
| 1 to 10 days | 1,418 | 4,518 | 1,418 | 4,518 |
| 11 to 30 days | 7,692 | 12,131 | 12,464 | 28,269 |
| 31 to 60 days | 3,928 | 4,609 | 4,414 | 11,916 |
| 61 to 90 days | - | 4,450 | 1 | 4,566 |
| Over 90 days | 72,016 | 57,626 | 89,002 | 58,949 |
| Falling due | 1,480,679 | 1,357,082 | 1,944,760 | 1,800,756 |
| **Total portfolio** | **1,565,733** | **1,440,416** | **2,052,059** | **1,908,974** |

On September 30, 2020, the average term for receiving accounts receivable from customers corresponds to approximately 91 days (86 days on December 31, 2019) for domestic sales and approximately 126 days (117 days on December 31, 2019) for sales in the foreign market, with interest charged after the expiration of the term defined in the negotiation. As mentioned in Note 26, the Company has rules for the monitoring of overdue credits and receivables and the risk of not receiving amounts arising from credit sales.

### a) Allowance for doubtful debts (AFDD)

In the opinion of management, the estimated loss on doubtful accounts ("AFDD") is considered sufficient to cover possible losses on the amounts receivable outstanding. The movement of estimated losses is shown below:

| | Parent Company | Consolidated |
|---|---|---|
| **At December 31, 2018** | **(45,092)** | **(45,394)** |
| Allowance for doubtful debts | (16,188) | (16,213) |
| Reversals | 11,091 | 11,130 |
| Write-off | 738 | 1,008 |
| **At December 31, 2019** | **(49,451)** | **(49,469)** |
| Allowance for doubtful debts | (10,467) | (11,681) |
| Reversals | 487 | 505 |
| Write-off | 1,326 | 1,326 |
| **At September 30, 2020** | **(58,105)** | **(59,319)** |

The balance of the estimated loss on doubtful accounts substantially corresponds to trade bills with a high risk of non-receipt. 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 there is no possibility of receiving it, the estimated loss with doubtful accounts is constituted. The expense with the constitution of the estimated loss is recorded in the income statement, under the caption "Operating expenses / revenues - with sales".

The Company maintains an insurance policy for receivables in the domestic and foreign markets for all business units, except for wood customers of the Forestry unit, in addition to certain customers who 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 October 2021.

### b) Receivables discount operations

In the nine-month period ended September 30, 2020, receivables discount operations with no right of return were carried out with specific customers in the amount of R$ 966,717 at the parent company and R$ 2,193,821 in the consolidated (R$ 1,775,881 at parent company and R$ 2,368,875 in the consolidated for the year ended December 31, 2019), for which all risks and benefits associated with the assets were transferred to the counterparty, so that the anticipated receivables with third parties were derecognized from the quarterly information.

The financial cost charged by the bank in the transaction is recorded in the income statement in the "Discounts and rebates" line (Note 20).

| | | | | | | | | 09/30/2020 | 12/3 |
|---|---|---|---|---|---|---|---|---|---|
| | Klabin Argentina | Klabin Finance | Special Partnership Companies | Klabin Austria | Klabin Forest Products Company | BNDES | Other | **Total** | **T** |
| **Type of relationship** | (i) Subsidiary | (vi) Subsidiary | (ii) e (v) Subsidiary | (i) e (vi) Subsidiary | (i) Subsidiary | (vi) Shareholder | (i) (iii) (iv) (v) e (vii) | | |
| **Balances** | | | | | | | | | |
| Current assets | 119,519 | - | 17,170 | 726,312 | 61,634 | - | 4,042 | **928,677** | **7** |
| Non-current assets | 43 | - | - | - | - | - | 20,710 | **20,753** | |
| Current liabilities | - | 28,399 | 26,726 | 3,526 | - | 7,086 | 10,822 | **76,559** | **3** |
| Non-current liabilities | - | 4,329,237 | - | 9,130,883 | - | 1,132,267 | 2 | **14,592,389** | **11,15** |
| **Transactions** | | | | | | | | | |
| Sales revenue | 45,168 | - | 43,649 | 2,656,645 | 55,842 | - | - | **2,801,304** | |
| Purchases | - | - | (122,234) | - | - | - | - | **(122,234)** | |
| Interest expenses on financing | - | (173,236) | - | (603,500) | - | (62,724) | - | **(839,460)** | |
| Guarantee commission - expenses | - | - | - | - | - | - | (2,318) | **(2,318)** | |
| Royalty expenses | - | - | - | - | - | - | (50,293) | **(50,293)** | |

(i) Balance receivable from product sales operations carried out at prices and terms (average of 180 days) under the conditions established between the parties;
(ii) Purchase of wood made at prices and terms (45 days) under the conditions established between the parties. It considers all companies in a participation account described in note 3;
(iii) License to use trademarks owned by KIC and Sogemar by Klabin, upon payment of royalties corresponding to 1.3657% of the Net Revenue of the products involved in the license;
(iv) Guarantee commission, calculated on the BNDES financing balance of 0.8% per year - operation settled at the end of 2019, with the last installment settled in January 2020;
(v) Supply of seedlings, seeds and services at prices and terms in the commercial conditions established between the parties;
(vi) Fundraising under usual market conditions for operations of the same nature and for companies of a similar size to that of the Company (see rates in note 15);
(vii) Advances on future capital subscriptions.

All amounts in thousands of Reais

| | | | Parent company | | |
|---|---|---|---|---|---|
| | | | 09/30/2020 | 12/31/2019 | 09/30/2019 |
| | BNDES | Other | Total | Total | Total |
| | (iii) | (i) (ii) | | | |
| **Type of relationship** | Shareholder | Shareholder | | | |
| **Balances** | | | | | |
| Current liabilities | 7,086 | 6,121 | **13,207** | **63,699** | - |
| Non-current liabilities | 1,132,267 | - | **1,132,267** | **574,800** | - |
| **Transactions** | | | | | |
| Interest expenses on financing | (62,724) | - | **(62,724)** | - | **(160,398)** |
| Guarantee commission - expenses | - | (2,318) | **(2,318)** | - | **(19,071)** |
| Royalty expenses | - | (50,293) | **(50,293)** | - | **(41,816)** |

(i) License to use trademarks owned by KIC and Sogemar by Klabin, upon payment of royalties corresponding to 1.3657% of the Net Revenue of the products involved in the license;
(ii) Guarantee commission, calculated on the BNDES financing balance of 0.8% per year - operation settled at the end of 2019, with the last installment settled in January 2020;
(iii) Fundraising under usual market conditions for operations of the same nature and for companies of a similar size to that of the Company (see rates in note 15);

## b) Management and Fiscal Board remuneration and benefits

Management and Fiscal Council compensation is set by shareholders at the Annual Shareholders' Meeting - AGM, in accordance with Brazilian corporate law and the Company's bylaws. Accordingly, it was proposed at the AGM held on July 31, 2020, the global amount of the annual compensation of Management and the Fiscal Council, set at up to R$ 50,793 for the fiscal year 2020.

The table below shows the remuneration of Management and the Fiscal Council:

| | Parent company and Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Short term | | Long term | | | | | |
| | Board of directors remuneration | | Pension plan | | Remuneration based on shares | | Total benefits | |
| | From 1/1 to 09/30/2020 | From 1/1 to 09/30/2019 | From 1/1 to 09/30/2020 | From 1/1 to 09/30/2019 | From 1/1 to 09/30/2020 | From 1/1 to 09/30/2019 | From 1/1 to 09/30/2020 | From 1/1 to 09/30/2019 |
| Fiscal Board and statutory director's | 25,626 | 20,418 | 674 | 541 | 2,597 | 2,728 | 28,897 | 23,687 |

Management's remuneration includes the fees of the respective directors, fees and variable remuneration of the statutory officers. Long-term benefits refer to contributions made by the Company to the pension plan and calculation of the stock option Plan. These amounts are recorded substantially in the item “Operating expenses - general and administrative”.

In addition, the Company grants to the statutory directors and other executives a stock option Plan, described in Note 23.

All amounts in thousands of Reais

## 8 INVENTORY

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2020** | **12/31/2019** | **09/30/2020** | **12/31/2019** |
| Finished products | 282,221 | 295,540 | 406,326 | 438,963 |
| Product in process | 30,197 | 22,450 | 35,034 | 25,122 |
| Timber and logs | 213,768 | 234,567 | 213,913 | 234,567 |
| Maintenance supplies | 282,857 | 240,675 | 287,988 | 244,648 |
| Raw materials | 385,209 | 366,232 | 410,704 | 381,759 |
| Estimated losses | (12,281) | (13,366) | (13,143) | (13,471) |
| Other | 35,737 | 20,521 | 38,638 | 20,656 |
| | **1,217,708** | **1,166,619** | **1,379,460** | **1,332,244** |

Stocks of raw materials include reels of paper transferred from paper production units to conversion units.

The expense for the constitution of estimated losses on inventories is recorded in the income statement, under the caption “Cost of products sold”.

The Company does not have inventories pledged as collateral.

## 9 TAXES RECOVERABLE

| | 09/30/2020 | | 12/31/2019 | |
|---|---|---|---|---|
| | **Current assets** | **Non-current assets** | **Current assets** | **Non-current assets** |
| Value-added Tax on Sales and Services (ICMS) | 194,848 | 637,776 | 174,195 | 727,234 |
| Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) | 362,134 | 178,326 | 4,907 | 1,057,520 |
| Income tax/social contribution (IR/CSLL) | 216,812 | - | 234,319 | - |
| Tax on Industrialized Products (IPI) | 38,999 | - | 82,462 | 113,255 |
| Special regime for the reintegration of tax amounts for exporting companies (Reintegra) | 7,214 | - | 3,778 | - |
| Other | 35,618 | 5,260 | 5,616 | 46,647 |
| **Parent company** | **855,625** | **821,362** | **505,277** | **1,944,656** |
| Subsidiaries | 11,277 | - | 134 | - |
| **Consolidated** | **866,902** | **821,362** | **505,411** | **1,944,656** |

The balance of PIS / COFINS, IPI and ICMS maintained in the short term is expected to be offset against these same taxes payable in the next 12 months, as well as based on analysis and budget projection approved by the Management, it does not provide for risks of non-realization of these credits as long as the budget projections are realized.

PIS/COFINS

According to a relevant fact disclosed to the market on August 22, 2019, the decision was final and unappealable, accepting the Company's intention to exclude ICMS from the PIS and COFINS calculation base, effective from April 2002, in an amount total of R$ 1,014 billion reais based on said lawsuit in extemporaneous credits to be offset against future tax debts by the Company, recorded on the date in the recoverable taxes, with a corresponding entry in the Company's results, with the nominal value of the lawsuit of R$ 631 million in “Other Net” and R$ 383 million recorded in “Financial Income”, corresponding to the monetary restatement on credits.

In March 2020, the credits were enabled, so that they were segregated between current and non-current assets based on Management's expectation of their compensation.

ICMS

The Company recorded tax credits and contributions levied 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 taxes payable of the same nature or other taxes, where applicable. The ICMS credits of the Puma Project are indexed by the FCA - Conversion and Monetary Update Factor of the State of Paraná, with a compensation period up to 2036 provided for in the protocol granting the subsidy.

IPI

The Company recorded IPI credits arising from a favorable decision in a tax proceeding, which became final, substantially allocated to the financial result, since only the original amount was allocated to the IPI expense. The credits are being offset in accordance with current tax legislation.

## 10 INCOME TAX AND SOCIAL CONTRIBUTION

The Company, under the Real Profit regime, adopted for the fiscal year 2020 the methodology for calculating the Real Profit for Quarterly (in 2019 the methodology used was Real Annual Profit), as well as changed the tax regime for the exchange variation of competence, practiced in 2019, for cash during the calendar year 2020, that is, exchange rate effects are offered for taxation as they are effectively settled.

This option is not valid for subsidiaries covered by the Presumed Profit regime, as well as foreign subsidiaries.

All amounts in thousands of Reais

## a) Nature and expected realization of deferred taxes

The balances of deferred tax assets and liabilities are composed as follows:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 09/30/2020 | 12/31/2019 | 09/30/2020 | 12/31/2019 |
| Provision for tax, social security, labor and civil contingencies | 6,273 | 6,261 | 6,273 | 6,261 |
| Non-deductible provisions | 86,092 | 91,738 | 86,092 | 91,738 |
| Tax losses and negative bases | 489,659 | 561,303 | 482,653 | 561,321 |
| Actuarial liability | 58,396 | 57,115 | 58,396 | 57,115 |
| Provision for labor | 37,015 | 42,103 | 37,015 | 42,103 |
| Deferred foreign exchange variations (i) | 1,337,978 | - | 1,337,978 | - |
| Gain or loss on financial instruments | 1,023,582 | 206,587 | 1,023,582 | 206,587 |
| Right of use (IFRS 16) | 55,945 | 27,106 | 56,799 | 27,106 |
| Other temporary differences | 42,382 | 44,857 | 45,031 | 44,857 |
| **Non-current assets** | **3,137,322** | **1,037,070** | **3,133,819** | **1,037,088** |
| Fair value of biological assets | 492,887 | 590,580 | 511,326 | 613,166 |
| Depreciation tax rate x useful life rate (Law 12,973/14) | 419,886 | 422,443 | 419,886 | 422,443 |
| Deemed cost of property, plant and equipment (land) | 545,429 | 545,429 | 545,429 | 545,429 |
| Interest capitalized (Law 12,973/14) | 165,186 | 130,348 | 165,186 | 130,348 |
| Revaluation reserve | 25,091 | 25,091 | 25,091 | 25,091 |
| ICMS on PIS/COFINS calculation basis (ii) | - | 336,676 | - | 336,676 |
| Accelerated Depreciation - Law 12,272/12 | 70,493 | 75,535 | 70,493 | 75,535 |
| Lease liability (IFRS 16) | 44,888 | 21,269 | 45,787 | 21,269 |
| Other temporary differences | 13,545 | 13,692 | 12,645 | 12,200 |
| **Non-current liabilities** | **1,777,405** | **2,161,063** | **1,795,843** | **2,182,157** |
| **Net balance (liability)** | **1,359,917** | **(1,123,993)** | **1,337,976** | **(1,145,069)** |

(i) Effect of the change in the tax regime for exchange variation from competence to cash in the year 2020.
(ii) As disclosed in Note 9, amount referring to the registration of out-of-date credits, of which they were enabled for use in March 2020.

Management, based on the approved budget, estimates that tax credits arising from temporary differences, tax losses and negative social contribution basis are realized as shown below:

| | 09/30/2020 | |
|---|---|---|
| | Parent Company | Consolidated |
| 2020 | 303,168 | 303,168 |
| 2021 | 261,173 | 261,173 |
| 2022 | 156,843 | 156,843 |
| 2023 | 158,255 | 158,255 |
| 2024 | 120,398 | 120,398 |
| 2025 onwards | 2,137,485 | 2,133,982 |
| | **3,137,322** | **3,133,819** |

The projection for realizing the balance considers the use of tax losses and negative bases to limit the compensation of 30% of the taxable income for the year. The projection may not be realized if the estimates used are different from those actually made.

The Company's information on taxes under litigation is disclosed in note 18.

All amounts in thousands of Reais

## b) Analysis of income tax and social contribution expenses

| | | | | Parent Company |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| Current tax expense | (100,847) | (2,002,527) | 411,102 | (25,871) |
| Adoption of the exchange variation cash regime (i) | (130,955) | 1,337,978 | - | 306,655 |
| PIS / COFINS extemporaneous credit (ii) | - | 336,676 | - | - |
| Constitution (consumption) of tax loss and negative basis | 113,971 | (71,644) | - | - |
| Other additions / exclusions | 121,382 | (3,890) | (23,692) | (115,590) |
| **Current** | **3,551** | **(403,407)** | **387,410** | **165,194** |
| Recognition and reversal of temporary differences | 11,878 | (6,572) | 49,273 | 52,706 |
| Constitution (consumption) of tax loss and negative basis | 113,971 | (71,644) | 88,566 | 80,403 |
| Gain or loss on financial instruments | 88,600 | 816,995 | 124,432 | 246,471 |
| Right of use (IFRS 16) | 2,335 | 5,220 | 16,754 | (4,032) |
| Interest capitalized (Law 12,973/14) | (17,624) | (34,838) | (456) | 7,110 |
| ICMS on PIS/COFINS calculation basis | - | 336,676 | (344,892) | (344,892) |
| Actuarial liability | 427 | 1,282 | 185 | 1,216 |
| Refis | - | - | - | 33,406 |
| Adoption of the exchange variation cash regime (i) | (130,955) | 1,337,978 | - | (306,655) |
| Depreciation tax rate x useful life rate (Law 12,973/14) | 1,401 | 2,557 | (15,744) | (16,184) |
| Variation in fair value and depletion of biological assets | 24,142 | 98,069 | (38,796) | 61,918 |
| **Deferred** | **94,175** | **2,485,723** | **(120,678)** | **(188,533)** |

| | | | | Consolidated |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| Current tax expense | (97,293) | (1,969,462) | 403,443 | (52,718) |
| Adoption of the exchange variation cash regime (i) | (130,955) | 1,337,978 | - | 306,655 |
| PIS / COFINS extemporaneous credit (ii) | - | 336,676 | - | - |
| Constitution (consumption) of tax loss and negative basis | 113,971 | (71,644) | - | - |
| Other additions / exclusions | 114,951 | (45,882) | (23,692) | (115,590) |
| **Current** | **674** | **(412,334)** | **379,751** | **138,347** |
| Recognition and reversal of temporary differences | 15,081 | (55,323) | 60,407 | 38,745 |
| Constitution (consumption) of tax loss and negative basis | 113,971 | (71,644) | 88,566 | 80,403 |
| Gain or loss on financial instruments | 88,600 | 816,995 | 124,432 | 246,471 |
| Right of use (IFRS 16) | 2,335 | 5,112 | 16,754 | (4,032) |
| Interest capitalized (Law 12,973/14) | (17,624) | (34,838) | (456) | 7,110 |
| ICMS on PIS/COFINS calculation basis | - | 336,676 | (344,892) | (344,892) |
| Actuarial liability | 427 | 1,282 | 185 | 1,216 |
| Refis | - | - | - | 33,406 |
| Adoption of the exchange variation cash regime (i) | (130,955) | 1,337,978 | - | (306,655) |
| Depreciation tax rate x useful life rate (Law 12,973/14) | 1,401 | 2,557 | (15,744) | (16,184) |
| Variation in fair value and depletion of biological assets | 21,028 | 149,584 | (49,971) | 78,083 |
| **Deferred** | **94,264** | **2,488,379** | **(120,719)** | **(186,329)** |

(i) Includes the effect of changes in the exchange variation regime (competence and cash) for purposes of calculating income tax and social contribution.
(ii) See information in note 9 regarding the extemporaneous credit of the ICMS process on the basis of PIS/COFINS.

All amounts in thousands of Reais

## c) Reconciliation of income tax and social contribution with the result of applying the statutory tax rate

| | | | | Parent Company |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **Income before income tax and social contribution** | **(296,609)** | **(5,889,784)** | **(51,537)** | **107,903** |
| Income tax and social contribution at the rate of 34% | 100,847 | 2,002,527 | 17,523 | (36,687) |
| Tax effect on permanent differences: | | | | |
| Equity results of investees | (493) | 41,793 | 44,837 | 32,256 |
| Adoption of the exchange variation accrual basis (i) | - | - | 264,176 | - |
| Adjustment on the basis of tax incentives | | - | (23,692) | (23,692) |
| Other effects | (2,628) | 37,996 | (36,112) | 4,784 |
| | **97,726** | **2,082,316** | **266,732** | **(23,339)** |
| Income tax and social contribution | | | | |
| . Current | 3,551 | (403,407) | 387,410 | 165,194 |
| . Deferred | 94,175 | 2,485,723 | (120,678) | (188,533) |
| **Income tax and social contribution expense** | **97,726** | **2,082,316** | **266,732** | **(23,339)** |

| | | | | Consolidated |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **Income before income tax and social contribution** | **(286,155)** | **(5,792,535)** | **(51,605)** | **131,495** |
| Income tax and social contribution at the rate of 34% | 97,293 | 1,969,462 | 17,546 | (44,708) |
| Tax effect on permanent differences: | | | | |
| Difference in tax regime - controlled companies | 18,602 | 81,306 | - | - |
| Equity results of investees | 353 | 9,204 | 819 | 2,102 |
| Adoption of the exchange variation accrual basis (i) | - | - | 264,176 | - |
| Adjustment on the basis of tax incentives | | - | (23,692) | (23,692) |
| Other effects | (21,310) | 16,073 | 183 | 18,316 |
| | **94,938** | **2,076,045** | **259,032** | **(47,982)** |
| Income tax and social contribution | | | | |
| . Current | 674 | (412,334) | 379,751 | 138,347 |
| . Deferred | 94,264 | 2,488,379 | (120,719) | (186,329) |
| **Income tax and social contribution expense** | **94,938** | **2,076,045** | **259,032** | **(47,982)** |

(i) Effect of the change in the cash exchange variation regime in 2018 to become effective in 2019.

| | Klabin Finance S.A. | Klabin Áustria GmbH | Guaricana Reflorestadora S.A. | Sapopema Reflorestadora S.A. | Special Partnership Companies | Florestal Vale do Corisco S.A. (i) | Pinus Taeda Florestal S.A. (i) |
|---|---|---|---|---|---|---|---|
| **At December 31, 2018** | **107,275** | **34,130** | **128,289** | **-** | **819,594** | **165,652** | **-** |
| Acquisitions and capital contributions (iv) | - | - | (614) | 54,873 | - | - | - |
| Dividends distributed | - | - | (4,914) | - | (417) | (11,919) | - |
| Equity in the results of investees (ii) | (20,804) | 153,699 | (7,092) | 15,470 | (5,082) | 7,237 | - |
| Foreign exchange variations on investments abroad (iii) | - | - | - | - | - | - | - |
| **At December 31, 2019** | **86,471** | **187,829** | **115,669** | **70,343** | **814,095** | **160,970** | **-** |
| Acquisitions and capital contributions (iv) | - | - | - | 28,168 | - | - | 72,165 |
| Dividends distributed | - | - | (6,176) | | (2,060) | (3,381) | - |
| Equity in the results of investees (ii) | 49,510 | 193,309 | 11,333 | 26,532 | (98,305) | 5,040 | 22,030 |
| Foreign exchange variations on investments abroad (iii) | - | | - | - | - | - | - |
| Unrealized profit from intercompany sales | - | (90,939) | - | - | - | - | - |
| **At September 30, 2020** | **135,981** | **290,199** | **120,826** | **125,043** | **713,730** | **162,629** | **94,195** |

**Summary of the financial information of subsidiaries at September 30, 2020**

| | Klabin Finance S.A. | Klabin Áustria GmbH | Guaricana Reflorestadora S.A. | Sapopema Reflorestadora S.A. | Special Partnership Companies | Florestal Vale do Corisco S.A. (i) | Pinus Taeda Florestal S.A. (i) |
|---|---|---|---|---|---|---|---|
| **Total assets** | 4,792,248 | 10,393,319 | 352,503 | 493,259 | 1,070,952 | 421,157 | 376,347 |
| **Total liabilities** | 4,656,266 | 10,012,180 | 4,704 | 15,082 | 30,012 | 102,277 | 6,956 |
| **Equity** | 135,982 | 381,139 | 347,799 | 478,177 | 1,040,940 | 318,880 | 369,391 |
| **Profit/(loss) for the period** | 15,728 | 104,030 | 34,839 | 92,406 | (63,035) | 9,883 | 52,457 |

(i) As it is a joint venture (see note 3), Vale do Corisco and Pinus Taeda Florestal are not consolidated, being the only investments presented in the consolidated balance sheets as investments with equity recognition.
(ii) Includes the effects of variations in, and the realization of, fair value of biological assets (Note 13).
(iii) Subsidiary and associated companies whit affiliate characteristics with exchange variation allocated to other comprehensive income.
(iv) See note 1.

All amounts in thousands of Reais

## 12 PROPERTY, PLANT AND EQUIPMENT

### a) Composition of property, plant and equipment

| | | | 09/30/2020 | | | 12/31/2019 |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net | Cost | Accumulated depreciation | Net |
| **Parent company** | | | | | | |
| Land | 2,051,192 | - | **2,051,192** | 2,037,213 | - | **2,037,213** |
| Buildings and construction | 2,669,913 | (705,271) | **1,964,642** | 2,609,789 | (633,400) | **1,976,389** |
| Machinery, equipment and facilities | 12,714,990 | (6,229,577) | **6,485,413** | 12,510,947 | (5,507,413) | **7,003,534** |
| Construction in progress | 4,578,078 | - | **4,578,078** | 1,850,410 | - | **1,850,410** |
| Other (i) | 551,728 | (402,697) | **149,031** | 529,410 | (362,242) | **167,168** |
| | **22,565,901** | **(7,337,545)** | **15,228,356** | **19,537,769** | **(6,503,055)** | **13,034,714** |
| **Consolidated** | | | | | | |
| Land | 2,257,707 | - | **2,257,707** | 2,210,453 | - | **2,210,453** |
| Buildings and construction | 2,672,020 | (706,752) | **1,965,268** | 2,611,749 | (638,951) | **1,972,798** |
| Machinery, equipment and facilities | 12,732,093 | (6,236,293) | **6,495,800** | 12,521,335 | (5,508,702) | **7,012,633** |
| Construction in progress | 4,672,255 | - | **4,672,255** | 1,873,387 | - | **1,873,387** |
| Other (i) | 558,163 | (404,045) | **154,118** | 534,922 | (363,012) | **171,910** |
| | **22,892,238** | **(7,347,090)** | **15,545,148** | **19,751,846** | **(6,510,665)** | **13,241,181** |

(i) Refers to leasehold improvements, vehicles, furniture and fittings and IT equipment.

The information on property, plant and equipment pledged as collateral for operations signed 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 | Total |
| **At December 31, 2018** | **2,028,621** | **2,010,406** | **7,425,944** | **514,985** | **198,702** | **12,178,658** |
| Purchases (i) e (ii) | 5,333 | - | - | 1,973,066 | - | 1,978,399 |
| Disposals | - | (108) | (25,966) | (79) | (9,980) | (36,133) |
| Depreciation | - | (93,304) | (955,019) | - | (71,056) | (1,119,379) |
| Internal transfers | 3,259 | 53,523 | 562,927 | (664,891) | 45,182 | - |
| Capitalized interest (iii) | - | - | - | 27,869 | - | 27,869 |
| Other | - | 5,872 | (4,352) | (540) | 4,320 | 5,300 |
| **At December 31, 2019** | **2,037,213** | **1,976,389** | **7,003,534** | **1,850,410** | **167,168** | **13,034,714** |
| Purchases (i) e (ii) | 593 | - | - | 2,928,334 | - | 2,928,927 |
| Disposals | - | - | (7,776) | (4) | 4,354 | (3,426) |
| Depreciation | - | (71,969) | (750,798) | - | (51,505) | (874,272) |
| Internal transfers | 13,386 | 57,980 | 239,750 | (343,649) | 32,533 | - |
| Capitalized interest (iii) | - | - | - | 135,846 | - | 135,846 |
| Other | - | 2,242 | 703 | 7,141 | (3,519) | 6,567 |
| **At September 30, 2020** | **2,051,192** | **1,964,642** | **6,485,413** | **4,578,078** | **149,031** | **15,228,356** |

(i) Net of recoverable taxes (see note 9).

(ii) See information in note 1.

(iii) Capitalized interest related to projects in progress that have linked loans.

All amounts in thousands of Reais

| | | | | | | Consolidated |
|---|---|---|---|---|---|---|
| | Land | Building and construction | Machinery, equipment and facilities | Construction in progress | Other | Total |
| **At December 31, 2018** | **2,102,042** | **2,011,529** | **7,431,228** | **514,268** | **203,405** | **12,262,472** |
| Purchases (i) e (ii) | 96,653 | - | - | 2,009,794 | - | 2,106,447 |
| Disposals | (29) | (108) | (25,965) | (79) | (10,012) | (36,193) |
| Depreciation | - | (93,603) | (955,827) | - | (71,198) | (1,120,628) |
| Internal transfers | 12,444 | 53,523 | 562,927 | (674,077) | 45,183 | - |
| Capitalized interest (iii) | - | - | - | 27,869 | - | 27,869 |
| Other | (657) | 1,457 | 270 | (4,388) | 4,532 | 1,214 |
| **At December 31, 2019** | **2,210,453** | **1,972,798** | **7,012,633** | **1,873,387** | **171,910** | **13,241,181** |
| Purchases (i) e (ii) | 903 | - | - | 3,037,465 | - | 3,038,368 |
| Disposals | - | - | (7,776) | (4) | 4,308 | (3,472) |
| Depreciation | - | (72,025) | (751,467) | - | (51,651) | (875,143) |
| Internal transfers | 46,339 | 58,011 | 241,701 | (379,144) | 33,093 | - |
| Capitalized interest (iii) | - | - | - | 135,846 | - | 135,846 |
| Other | 12 | 6,484 | 709 | 4,705 | (3,542) | 8,368 |
| **At September 30, 2020** | **2,257,707** | **1,965,268** | **6,495,800** | **4,672,255** | **154,118** | **15,545,148** |

(i) Net of recoverable taxes (see note 9).

(ii) See information in note 1.

(iii) Capitalized interest related to projects in progress that have linked loans.

Depreciation was substantially allocated to the production cost for the period.

## c) Useful lives and depreciation method

The table below shows the annual depreciation rates using the straight-line method that were applicable to the nine-month period ended September 30, 2020 and for the year ended December 31, 2019, defined based on the economic useful lives of the 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

As of September 30, 2020, the balance of works and facillities in progress refers substantially to projects for the development of its industrial activity, such as the construction of two paper machines, with integrated pulp production, located at Klabin's industrial unit in the municipality. Ortigueira (PR) (Puma II), according to Note 1.3, the construction of a water treatment plant for boilers IV in Monte Alegre (PR) and the construction of an incinerator at the Monte Alegre (PR) unit, in addition to other Company's operational continuous projects.

## e) Impairment of property, plant and equipment

The Company, in applying the requirements of CPC 01 (R1) - Impairment of assets (IAS 36), carried out the applicable analyzes and did not identify any indicators that the book value exceeds the recoverable value of its assets as of September 30, 2020 and December 31, 2019.

All amounts in thousands of Reais

## 13 BIOLOGICAL ASSETS

The Company's biological assets comprise the cultivation and planting of pine and eucalyptus forests to supply raw material in the production of short, long and fluffed pulp, as well as used in the paper production process and sales of wood logs for the 3rd.

As of September 30, 2020, the Company has 264 thousand hectares (258 thousand hectares on December 31, 2019) of planted forests, disregarding the areas of permanent preservation and legal reserve that must be maintained in order to comply with Brazilian environmental legislation.

The balance of the Company's biological assets, at fair value, can be shown as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **09/30/2020** | **12/31/2019** | **09/30/2020** | **12/31/2019** |
| Cost of development of biological assets | 1,636,468 | 1,663,787 | 2,341,958 | 2,315,727 |
| Fair value adjustment of biological assets | 1,431,956 | 1,711,777 | 2,030,612 | 2,396,654 |
| | **3,068,424** | **3,375,564** | **4,372,570** | **4,712,381** |

The evaluation of biological assets at their fair value considers certain estimates, such as: wood price, discount rate, forest harvesting plan and productivity volume, which are subject to uncertainties, which may have effects on future results due to its variations.

In the nine-month period ended September 30, 2020 and in the year ended December 31, 2019, no impairment provision need was identified.

### a) Assumptions regarding the recognition of the fair value of biological assets

The Company recognizes its biological assets at fair value using the following assumptions in its calculation:

(i) Eucalyptus forests will be maintained at historical cost until the third year of planting and pine forests until the fifth year of planting, due to Management's understanding that during this period, the historical cost of biological assets is close to its fair value, in addition to the fact that it is possible to carry out inventories to assess growth and forest production expectations only after this period;

(ii) The forests, after the third and fifth year of planting, of eucalyptus and pine, respectively, are valued at their fair value, which reflects the sale price of the asset less the costs necessary to place the product in conditions of sale or consumption;

(iii) The methodology used to measure the fair value of biological assets corresponds to the projection of future cash flows discounted according to the projected productivity cycle of the forests, taking into account the variations in price and growth of biological assets;

(iv) The discount rate used in cash flows corresponds to the weighted average cost of capital of the Company, which is reviewed by Management annually within the budget process or to the extent that there are situations that require such a review;

(v) The projected productivity volumes of forests are defined based on stratification according to each species, genetic material, forest management regime, productive potential, rotation and age of the forests. The set of these characteristics compose an index called AAI (Average Annual Increment), expressed in cubic meters per hectare / year used as a basis in the productivity projection. The harvest plan maintained by the Company varies mainly between 6 and 7 years for eucalyptus and between 14 and 15 years for pine;

All amounts in thousands of Reais

(vi) The prices of biological assets (standing wood), denominated in R$ / cubic meter, are obtained through market price surveys, published by specialized companies. The prices obtained are adjusted by deducting the capital costs related to land, due to the fact that they are contributing assets for the planting of forests and other costs necessary for placing the assets in a condition of sale or consumption;

(vii) Planting expenses refer to the costs of forming biological assets;

(viii) The depletion of biological assets is determined based on the fair value of the biological assets harvested in the period;

(ix) The Company carries out the revaluation of the fair value of its biological assets on a quarterly basis, under the understanding that this interval is sufficient so that there is no significant gap in the fair value balance of the biological assets recorded in its quarterly information.

## b) Reconciliation and movement in fair value

| | Parent company | Consolidated |
|---|---|---|
| **At December 31, 2018** | **3,303,774** | **4,582,631** |
| Planting and standing wood shopping (i) | 681,962 | 748,130 |
| Acquisition of forest assets (ii) | - | 56,946 |
| Depletion: | **(889,656)** | **(1,065,379)** |
| . Historical cost | (160,647) | (205,262) |
| . Fair value adjustment | (729,009) | (860,117) |
| Change in fair value due to: | **279,484** | **390,053** |
| . Price | (47,963) | (68,436) |
| . Growth | 327,447 | 458,489 |
| **At December 31, 2019** | **3,375,564** | **4,712,381** |
| Planting and standing wood shopping (i) | 302,181 | 376,843 |
| Disposal of forest assets | (47,550) | (47,550) |
| Depletion: | **(716,029)** | **(914,275)** |
| . Historical cost | (181,461) | (230,902) |
| . Fair value adjustment | (534,568) | (683,373) |
| Change in fair value due to: | **254,749** | **317,336** |
| . Price | (31,122) | (40,423) |
| . Growth | 285,871 | 357,759 |
| Constitution of subsidiary (i) | (100,491) | (72,165) |
| **At September 30, 2020** | **3,068,424** | **4,372,570** |

(i) Net of recoverable taxes (see note 9).

(ii) See note 1.

The depletion of biological assets for the nine-month period ended September 30, 2020 and for the year ended December 31, 2019, was substantially allocated to the production cost, after allocation to inventories by harvesting and using them in the production process or sale to third parties. The increase in the discount rate used and the fall in the productivity index in the period stand out in the variation in fair value.

**c) Sensitivity analysis**

According to the hierarchy of CPC 46 (equivalent to IFRS 13) - Fair Value Measurements, the calculation of biological assets falls under Level 3, due to their complexity and calculation structure.

Among the assumptions used in the calculation, the sensitivity to prices used in the valuation and the discount rate used in the discounted cash flow stand out. Prices refer to those practiced in the regions where the Company is located, whereas the discount rate corresponds to the average cost of capital, taking into account the basic interest rate (Selic) and inflation levels.

Significant increases (decreases) in the prices used in the valuation would result in an increase (decrease) in the measurement of the fair value of biological assets. The weighted average price used in the valuation of the asset on September 30, 2020 was equivalent to R$ 66/$m^3$ (R$ 66/$m^3$ on December 31, 2019).

Regarding the discount rate, the significant effects of an increase (decrease) in the rate used to measure the fair value of biological assets would result in a decrease (increase) in the measured values. On September 30, 2020, the Company used the weighted average cost of capital of 4.78% in constant currency for the parent company and 5.45% for the subsidiaries (4.11% and 5.39% for the parent and subsidiaries in 31 December 2019).

## 14 RIGHT OF USE ASSET AND LEASE LIABILITY

### a) Accounting policy and assumptions for recognition

The right to use the assets and the liabilities for the leases are recognized at the future value of the installments assumed in the contract, brought to the net present value. The right to use the assets is amortized on a straight-line basis over the term of the contract in the income statement of the period in the line that is related to its nature ("Cost of products sold" / "Administrative expenses" / "Selling expenses"), as well as financial expenses, corresponding to the amortization of the adjustment to the net present value of the contracts, is allocated to the “Financial result”.

Depreciation of the right-of-use asset is calculated using the straight-line method in accordance with 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 evaluated the aspects of renewal in its methodology and because it did not identify aspects of renewal, it chose not to consider contract renewals, given that the assets involved in its operation are not indispensable for the conduct of its business, and may be replaced at the end the contract for new assets acquired or for operations other than those agreed upon.

(ii) Contracts that involve the use of low-value underlying assets.

(iii) Only transactions involving specific assets defined in the contract or for exclusive use over the period of the contract are considered.

All amounts in thousands of Reais

(iv) Inclusion of recoverable taxes in the definition of the assumed installments of the contracts in which it is applicable.

(v) The methodology used to calculate the net present value of the contracts corresponds to the cash flow of the assumed installments discounted at the discount rate defined for the asset class.

(vi) The discount rate for the nine-month period ended September 30, 2020 was based on the risk-free interest rates observed in the Brazilian market and adjusted to the reality of the Company, for forest and real estate lease operations administrative and commercial warehouses were 4.02% per year for contracts with a maturity of up to 5 years, 4.47% with a maturity of 6 to 10 years, 4.70% with maturities of 11 to 15 years, 4.92% with maturities from 16 to 20 years and 5.27% with maturities over 20 years, in addition to 4.12% for operations involving machinery and equipment. The rates were obtained by financing operations for assets of these classes through surveys with the banks that serve the Company, net of inflation.

(vii) Remeasurement to reflect any revaluation or modifications to the lease will be made on the one-year anniversary month of each contract (reset), in which the Company will assess the need for readjustments in monthly and annual payments and, if applicable, readjustments will be realized in assets against lease liabilities.

(viii) The Company analyzed the effects related to contingencies and impairment risks within the operations that fall within the scope of the standard and did not identify any impacts.

The Company's leasing operations in effect on September 30, 2020 do not have any restriction clauses that impose the maintenance of financial ratios, as well as no variable payment clauses that should be considered, or residual value guarantee clauses payment and purchase options at the end of the contracts.

## b) Composition and summary movement of right-of-use assets and lease liabilities

As of September 30, 2020, the Company has 362 leasing contracts in the parent company and 363 in the consolidated (316 in the parent company and 317 in the consolidated as of December 31, 2019) recognized in its balance sheet.

**Parent company**

| **Right of use** | **12/31/2019** | **Amortization** | **Additions / Disposals** | **09/30/2020** |
|---|---|---|---|---|
| Lands | 361,474 | (30,877) | 173,050 | 503,647 |
| Buildings | 18,084 | (9,503) | 2,653 | 11,234 |
| Machines and equipment | 112,058 | (53,737) | 262,144 | 320,465 |
| **Total assets** | **491,616** | **(94,117)** | **437,847** | **835,346** |

| | **12/31/2019** | **Interest** | **Payments** | **Additions / Disposals** | **CP / LP Transfer** | **09/30/2020** |
|---|---|---|---|---|---|---|
| **Lease liabilities** | 100,198 | (95,421) | (111,587) | 174,438 | 79,450 | 147,078 |
| Current | 394,233 | (106,110) | - | 489,737 | (79,450) | 698,410 |
| Non-current | **494,431** | **(201,531)** | **(111,587)** | **664,175** | **-** | **845,488** |
| **Total in liabilities** | | | | | | |

| | | | | Consolidated |
|---|---|---|---|---|
| **Right of use** | **12/31/2019** | **Amortization** | **Additions / Disposals** | **09/30/2020** |
| Lands | 364,258 | (31,149) | 173,050 | 506,159 |
| Buildings | 18,084 | (9,503) | 2,653 | 11,234 |
| Machines and equipment | 112,057 | (53,738) | 262,144 | 320,463 |
| **Total assets** | **494,399** | **(94,390)** | **437,847** | **837,856** |

| **Lease liabilities** | **12/31/2019** | **Interest** | **Payments** | **Additions / Disposals** | **CP / LP Transfer** | **09/30/2020** |
|---|---|---|---|---|---|---|
| Current | 100,509 | (95,327) | (111,913) | 174,438 | 79,693 | 147,400 |
| Non-current | 396,720 | (106,110) | - | 489,737 | (79,693) | 700,654 |
| **Total in liabilities** | **497,229** | **(201,437)** | **(111,913)** | **664,175** | **-** | **848,054** |

In the nine-month period ended September 30, 2020, the Company recorded an expense of R$ 9.5 million related to short-term leases (less than 12 months of the contract) or operations with low value assets involved in the contracts.

## c) Schedule of lease expiration

| | Parent company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | 09/30/2020 | | | | 09/30/2020 | | | |
| | Lands | Buildings | and Equipment | Total | Lands | Buildings | Machines and Equipment | Total |
| 2020 | 14,022 | 3,310 | 29,246 | 46,578 | 14,131 | 3,310 | 29,246 | 46,687 |
| 2021 | 57,354 | 7,491 | 110,360 | 175,205 | 57,789 | 7,491 | 110,360 | 175,640 |
| 2022 | 49,513 | 423 | 84,537 | 134,473 | 49,947 | 423 | 84,537 | 134,907 |
| 2023 | 43,305 | 114 | 50,938 | 94,357 | 43,740 | 114 | 50,938 | 94,792 |
| 2024 | 42,559 | 114 | 44,148 | 86,821 | 42,993 | 114 | 44,148 | 87,255 |
| 2025 - 2029 | 202,002 | 571 | 31,831 | 234,404 | 203,161 | 571 | 31,831 | 235,563 |
| 2030 - 2034 | 173,331 | 57 | - | 173,388 | 173,331 | 57 | - | 173,388 |
| 2035 - 2039 | 94,842 | - | - | 94,842 | 94,842 | - | - | 94,842 |
| 2040 - 2058 | 120,151 | - | - | 120,151 | 120,149 | - | - | 120,149 |
| | **797,079** | **12,080** | **351,060** | **1,160,219** | **800,083** | **12,080** | **351,060** | **1,163,223** |
| Interest | (286,984) | (391) | (27,356) | (314,731) | (287,422) | (391) | (27,356) | (315,169) |
| **Lease liabilities** | **510,095** | **11,689** | **323,704** | **845,488** | **512,661** | **11,689** | **323,704** | **848,054** |

## d) Potential right to PIS / COFINS recoverable

The Company has the potential right of PIS / COFINS to be recovered embedded in the consideration for the leases of buildings and machinery and equipment. In the measurement of cash flows from leases, tax credits were not disclosed, and the potential effects of PIS / COFINS are shown in the following table:

| | Parent Company and Consolidated | |
|---|---|---|
| **Cash flow** | **Nominal** | **Adjusted present value** |
| Lease consideration | 363,140 | 335,393 |
| Pis/Cofins (9.25%) | 33,590 | 31,024 |

## e) Misleading caused by the full application of CPC 06 (R2)

In accordance with the Memorandum Circular CVM/SNC/SEP No. 02/2019, the Company adopted as an accounting policy the requirements of CPC06 (R2) in the measurement and remeasurement of its right of use, proceeding with the use of the discounted cash flow without considering inflation. Management evaluated the use of nominal flows and concluded that they do not present significant distortions in the information presented.

All amounts in thousands of Reais

In order to safeguard the reliable presentation of the information premised of the requirements of CPC06 (R2) and to comply with the guidelines of the technical areas of the CVM, the balances of assets and liabilities without inflation, effectively accounted (real flow x real rate), and the estimate are provided inflated balances in the comparison periods (nominal flow x nominal rate).

Other assumptions, such as the maturity schedule of the liabilities and interest rates used in the calculation, are disclosed in other items of this same Note, as well as the inflation indices are observable in the market, so that the nominal flows can be prepared by the users of the financial statements.

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2019** | **09/30/2020** | **12/31/2019** | **09/30/2020** |
| **Actual flow** | | | | |
| Right to use assets | 491,616 | 835,346 | 494,399 | 837,857 |
| Lease Liabilities | 613,995 | 1,160,219 | 617,326 | 1,163,222 |
| Interest | (119,564) | (314,730) | (120,097) | (315,168) |
| | 494,431 | 845,489 | 497,229 | 848,054 |
| **Flow with inflation effects** | | | | |
| Right to use assets | 596,520 | 1,085,616 | 599,896 | 1,088,508 |
| Lease Liabilities | 777,197 | 1,564,081 | 781,083 | 1,567,543 |
| Interest | (151,345) | (425,407) | (151,955) | (425,895) |
| | 625,852 | 1,138,674 | 629,128 | 1,141,648 |

All amounts in thousands of Reais

# 15 BORROWINGS

## a) Composition of borrowings

| | Annual interest rate - % | 09/30/2020 | | |
|---|---|---|---|---|
| | | Current | Non-Current | Total |
| **In local currency** | | | | |
| . BNDES - Project Puma (ii) | TLP + 3.58 | 4,527 | 1,010,886 | 1,015,413 |
| . BNDES – Other (ii) | TJLP | 1,165 | 121,381 | 122,546 |
| . Export credit notes (in R$) | 102 of 105.50 or CDI | 114,798 | 587,500 | 702,298 |
| . CRA | 4.51% | 92,225 | 3,762,228 | 3,854,453 |
| . Other | 0.76 a 8.5 or TJLP | 6,892 | 6,994 | 13,886 |
| . Cost with funding | | (18,767) | (90,904) | (109,671) |
| | | 200,840 | 5,398,085 | 5,598,925 |
| **In foreign currency (i)** | | | | |
| . BNDES - Other (ii) | USD + 5.86 | 1,394 | - | 1,394 |
| . Export prepayments | USD + 5.40 | 12,057 | 705,088 | 717,145 |
| . Export credit notes | 4.70 to 5.67 | 24,556 | 3,004,373 | 3,028,929 |
| . Export prepayments in subsidiaries | USD + 5.20 of 8.29 or USD + Libor + 1.48 of 3.50 | 31,925 | 13,460,120 | 13,492,045 |
| . Term Loan (BID Invest and IFC) | Libor + 1.59 | 4,655 | 564,070 | 568,725 |
| . Finnvera | USD + Libor + 0.60 to 0.95 or USD + 3.38 | 223,981 | 1,314,781 | 1,538,762 |
| . ECA | EUR + 0.45% | 7,633 | 34,294 | 41,927 |
| . Gain / loss on derivative instruments (swap) | 4.70 a 5.67 | - | 2,157,999 | 2,157,999 |
| . Cost with funding | | (39,578) | (226,841) | (266,419) |
| | | 266,623 | 21,013,884 | 21,280,507 |
| **Total parent company** | | **467,463** | **26,411,969** | **26,879,432** |
| **Subsidiaries:** | | | | |
| **In foreign currency (i)** | | | | |
| . Bonds (Notes) | 4.88% of 7.00% | 282,512 | 12,534,422 | 12,816,934 |
| . Export prepayments | USD + Libor 1.35 | 1,279 | 846,105 | 847,384 |
| . Cost with funding | | (24,329) | (112,316) | (136,645) |
| | | 259,462 | 13,268,211 | 13,527,673 |
| **. Elimination of prepayments in subsidiaries** | | **(31,925)** | **(13,460,120)** | **(13,492,045)** |
| **Total Consolidated** | | **695,000** | **26,220,060** | **26,915,060** |

(i) In U.S. dollars

(ii) BNDES - Considered a related party due to its shareholding in the Company (see note 7 and 19).

**KLABIN S.A.**
**All amounts in thousands of Reais**

| | Annual interest rate - % | | | 12/31/2019 |
|---|---|---|---|---|
| | | Current | Non-Current | Total |
| **In local currency** | | | | |
| . BNDES - Project Puma (ii) | TLP + 3.58 | 210 | 500,382 | 500,592 |
| . BNDES – Other (ii) | TJLP + 2.06 to 3.28 | 25,765 | 74,418 | 100,183 |
| . BNDES - FINAME (ii) | 2.5 to 5.5 or TJLP + 2.06 to 3.28 | 19,729 | | 19,729 |
| . Export credit notes (in R$) | 102 to 105 of CDI | 226,864 | 756,667 | 983,531 |
| . CRA | 95 to 102 of CDI or IPCA + 3.50% of IPCA + 4.51% | 90,767 | 3,705,050 | 3,795,817 |
| . Other | 0.76 to 8.75 or TJLP | 9,977 | 10,921 | 20,898 |
| . Cost with funding | | (28,411) | (242,183) | (270,594) |
| | | 344,901 | 4,805,255 | 5,150,156 |
| **In foreign currency (i)** | | | | |
| . BNDES - Other (ii) | USD + 6.37 to 6.70 | 12,648 | | 12,648 |
| . Export prepayments | USD + Libor 1.35 to 2.20 or USD 5.40 + 6.25 | 45,181 | 3,186,312 | 3,231,493 |
| . Export credit notes | 5.64 to 5.67 | 4,397 | 1,878,882 | 1,883,279 |
| . Export prepayments in subsidiaries | USD + 5.20 to 8.29 or USD + Libor + 1.48 to 3.50 | 202,430 | 10,584,618 | 10,787,048 |
| . Finnvera | USD + Libor + 0.82 to 1.05 or USD + 3.88 | 166,458 | 822,525 | 988,983 |
| . ECA | EUR + 0.45% | 5,277 | 28,714 | 33,991 |
| . Gain / loss on derivative instruments (swap) | 4.70 to 5.67 | - | 400,073 | 400,073 |
| . Cost with funding | | (22,907) | (88,637) | (111,544) |
| | | 413,484 | 16,812,487 | 17,225,971 |
| **Total parent company** | | **758,385** | **21,617,742** | **22,376,127** |
| **Subsidiaries:** | | | | |
| **In foreign currency (i)** | | | | |
| . Bonds (Notes) | USD + 4.88 to 7.00 | 129,834 | 8,147,907 | 8,277,741 |
| . Export prepayments | | 28,716 | 2,418,420 | 2,447,136 |
| . Cost with funding | | (12,722) | (60,059) | (72,781) |
| | | 145,828 | 10,506,268 | 10,652,096 |
| **. Elimination of prepayments in subsidiaries** | | **(202,430)** | **(10,584,618)** | **(10,787,048)** |
| **Total Consolidated** | | **701,783** | **21,539,392** | **22,241,175** |

(i) In U.S. dollars

(ii) BNDES - Considered a related party due to its shareholding in the Company (see note 7 and 19).

## National Bank for Economic and Social Development (BNDES)

The Company has contracts with the BNDES whose purpose was to finance industrial development projects, social projects and paper segment, called “Projeto Puma II”, with settlement scheduled for 2039. The amortization of the financing is carried out monthly with the interest.

## Export prepayments and export credit notes

Prepayments and export credit notes (in R$ and USD) were raised for the purpose of managing working capital and developing the Company's operations. The contracts are expected to be settled by April 2029.

## Bonds (Notes)

The Company, through its wholly owned subsidiaries Klabin Finance SA and Klabin Austria GmbH, issued debt securities (Notes) on the international market with listing on the Luxembourg Stock Exchange (Euro MTF) and on the Singapore Stock Exchange (SGX) under Senior issue type Notes 144A / Reg S.

(i) In July 2014, the fundraising of USD 500 million was completed, with a 10-year maturity and a coupon of 5.25% paid semiannually, with the objective of financing the activities of the Company and its subsidiaries within the normal course of the business and serving the respective corporate purposes. In April 2019, a USD 228.5 million repurchase was carried out, in line with the Company's debt management strategy.

(ii) In September 2017, the Company issued Green Bonds in the amount of USD 500 million, maturing in 10 years and a semiannual coupon of 4.88%. The resource is destined to reforestation activities, restoration of native forests, investments in renewable energy, efficient logistics with the use of rail transport, recycling of solid waste and development of eco-efficient products, among other sustainability practices. During 2020, a USD 9.5 million repurchase was carried out, in line with the Company's debt management strategy.

(iii) In March 2019, the fundraising of USD 500 million was completed with a 10-year maturity and 5.75% coupon per year and USD 500 million in Green Bonds with 30-year maturity and a 7% coupon per year. , aiming at the prepayment or refinancing of debts of the Company and its subsidiaries, as well as to reinforce cash. During the first half of 2020, a USD 18.5 million repurchase was carried out in line with the Company's debt management strategy.

(iv) In July 2019, the fundraising of USD 250 million of nominal value was completed, with a 10-year maturity and 5.75% coupon and yield of 4.90% per year, with the objective of prepayment or refinancing. debts of the Company and its subsidiaries, as well as cash reinforcement.

(v) In January 2020, the raising of USD 200 million of nominal value in Green Bonds was concluded with a maturity of 29 years and a coupon of 7.00% and yield of 6.10% per year, with the objective of financing or refinancing, in whole or in part, costs and / or investments in eligible “Green Projects”.

**Finnvera (Finland Export Credit Agency)**

As part of the funding necessary for the execution of the Puma Project, the Company entered into a contract to raise funds, to be used to finance the assets acquired from the Puma Project. The amount of the commitment is up to USD 460 million, maturing in 2026, divided into two tranches, the first of which is up to USD 414 million with interest of 3.4% per year and the second tranche of up to USD 46 million with interest of Libor 6M + 1% pa, with two disbursements in 2015 totaling USD 325.7 million and a final disbursement of USD 38.6 million was released in the fourth quarter of 2016, totaling USD 364.3 million. The amount raised in USD was lower than initially expected due to the support of imports being in Euro and the appreciation of the dollar against the Euro in the period. USD 67 million were raised for the Puma II Project bearing semiannual Libor rate plus 0.55% per year and maturing in 2031.

**Term Loan (BID Invest and IFC)**

As part of the funding needed to carry out the Puma II Project, USD 100 million was raised, divided into two tranches, the first was USD 48 million with interest of Libor 6M + 1.45% per year maturing in 2026, and the second tranche of USD 52 million with interest of Libor 6M + 1.75% maturing in 2029.

**CRA – Agribusiness Receivables Certificates**

The Company issued simple debentures that support the issuance of Certificates of Agribusiness Receivables (“CRA”), being:

(i) CRA I - issued by “Eco Securitizadora de Direitos Creditórios do Agronegócio S.A” in March 2017 in the amount of R$ 845.9 million, with a term of 5 years and semiannual interest of 95% of the CDI.

All amounts in thousands of Reais

(ii) CRA II - issued by Eco Securitizadora de “Direitos Creditórios do Agronegócio S.A” in December 2017 in the amount of R$ 600 million, with a 6-year term and semiannual interest of 97.5% of the CDI.

(iii) CRA III - issued by Ápice Securitizadora S.A in September 2018 in the amount of R$ 350 million, with a 6-year term and semiannual interest of 102% of the CDI.

(iv) CRA IV - issued by VERT Companhia Securitizadora in April 2019 in the amount of R$ 1 billion divided into two series. The first series in the total amount of R$ 200 million, with a 7-year maturity and semiannual interest of 98% of the CDI. The second series in the total amount of R$ 800 million, with a 10-year maturity and semiannual interest corresponding to the internal rate of return of the IPCA Treasury.

(v) CRA V - issued by VERT Companhia Securitizadora in July 2019 in the amount of R$ 966 million with a 10-year term and interest at IPCA + 3.5% per year.

**Derivative instruments (*swap*) – gain / loss**

In December 2018, the Company obtained a new R$ 1,879 million export credit note from Banco Bradesco with maturity in 2026 and interest of 114% of the CDI, without collateral and without covenant, linked together with two foreign exchange and interest rate swaps, but in USD and interest of 5.6%, with the same credit note maturity, and no instrument can be settled separately.

In March 2019, the Company contracted a swap with Banco Itaú with an asset position at 114.65% of the CDI and a liability at USD 5.40% per year This operation is linked to the 12th issue of debentures in the amount of R$ 1 billion, which occurred in April 2019, as disclosed in note 12 b).

The gain and loss on derivative instruments is determined by marking it to the market, corresponding to its fair value, recognized in the financial result.

## b) Schedule of non-current maturities

The maturity of the Company's financing on September 30, 2020 classified as non-current liabilities in the consolidated balance sheet is shown as follows:

| Year | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 onwards | Total |
|---|---|---|---|---|---|---|---|---|
| Amount | 27,000 | 1,289,000 | 1,957,000 | 1,993,000 | 2,062,000 | 4,880,000 | 14,012,060 | **26,220,060** |

All amounts in thousands of Reais

## c) Summary of changes in borrowing

| | Parent company | Consolidated |
|---|---|---|
| **At December 31, 2018** | **18,833,076** | **18,782,996** |
| Borrowing | 9,956,289 | 9,791,230 |
| Gain or loss on financial instruments | 285,947 | 285,947 |
| Accrued interest | 1,395,289 | 1,363,506 |
| Foreign exchange and monetary variations | 463,983 | 768,208 |
| Repayments | (7,318,825) | (7,565,565) |
| Payment of interest | (1,239,632) | (1,185,147) |
| **At December 31, 2019** | **22,376,127** | **22,241,175** |
| Borrowing | 3,572,772 | 3,729,477 |
| Gain or loss on financial instruments | 1,757,925 | 1,757,925 |
| Accrued interest | 1,108,527 | 895,800 |
| Foreign exchange and monetary variations | 5,363,584 | 5,366,320 |
| Repayments | (5,990,726) | (6,195,753) |
| Payment of interest | (1,308,777) | (879,884) |
| **At September 30, 2020** | **26,879,432** | **26,915,060** |

The Company voluntarily anticipated the payment of the export prepayments and export credit notes in the amount of USD 1,216 million in the nine-month period ended September 30, 2020, within its debt profile management strategy.

The payment of interest in the parent company in relation to the consolidated corresponds to the operations of related parties, which are eliminated in the consolidation.

## d) Guarantees

Financing from BNDES is guaranteed by land, buildings, improvements, machinery, equipment and facilities at the Ortigueira - PR plant, which are the subject of the respective financing.

Finnvera financing is guaranteed by the industrial plants of Angatuba - SP, Piracicaba - SP, Betim - MG, Goiana - PE, Otacílio Costa - SC, Jundiaí - SP and Lages - SC.

The financing from BID Invest and IFC is guaranteed by the industrial plants in Correia Pinto - SC and Telêmaco Borba - PR.

Export credit loans, export prepayments, BONDs, Agribusiness Receivables Certificates and working capital do not have collateral.

## e) Restrictive covenants

The Company and its subsidiaries do not have any financing contracts maintained on the date of said quarterly information that have restrictive clauses that establish obligations regarding the maintenance of financial ratios on contracted operations whose non-compliance automatically makes payment of the debt.

All amounts in thousands of Reais

## 16 DEBENTURES

### a) 7th issue of debentures

The Company concluded on June 23, 2014 the 7th issue of debentures, with 55,555,000 simple debentures being issued, with personal guarantee, combined with subscription bonuses, for the nominal unit value of R$ 14.40, totaling R$ 800 million, divided in two series of 27,777,500 debentures each simultaneously.

| | 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 1st Series Debentures mature on June 15, 2020, will yield an IPCA + 7.25% per year, with interest payments semiannually with a two-year grace period, without amortization of the principal, and have nature of convertible debt, since they can be used at any time until maturity, at the discretion of the holder, to subscribe and pay in shares issued by the Company in the form of "Units" (composed of 1 common share - ON and 4 shares preferred shares - PN), in the proportion of 1 (one) "Unit" for each Debenture, through the exercise of subscription bonuses that will be attributed as an additional advantage to the debenture holders.

(ii) Second Series - The 2nd Series Debentures mature on June 15, 2022, will yield IPCA + 2.50% per year, paid semiannually together with the principal amortization, with a two-year grace period, and have no convertible debt, and are therefore unrelated to the Subscription Warrants.

The 1st Series acquirer must acquire 2nd Series debentures. The amount of R$ 28,503 was allocated to shareholders' equity due to the subscription bonus for the debentures issued. Debenture holders are responsible for the possibility of converting debentures into “Units” in advance at any time.

98.86% of the debentures were subscribed by the BNDES and the rest by the other debenture holders in the market.

In June 2020, the 1st series of 7th issue debentures matured, in which 27,739,244 debentures were converted into shares. 27,739,244 “Units” were issued, comprising 27,739,244 common shares and 110,956,976 preferred shares, totaling a capital increase in the Company of R$ 399,446.

For 1st series debenture holders who opted for conversion into shares, dividends and interest on equity accumulated from June 2014 to June 2020 were also paid, totaling R$ 101,075.

### b) 12th issue of debentures

The Company concluded on April 1, 2019, the 12th issue of debentures, with 100 thousand debentures being issued for the nominal unit value of R$ 10,000, totaling R$ 1 billion, with maturity on March 19, 2029. The interest paid will be of 114.65% of the CDI semiannually and amortization will occur at the end of the 8th, 9th and 10th year. This transaction has a linked swap contracted with Banco Itaú with an asset position in CDI at 114.65% of CDI and passive in USD 5.40% per year., as disclosed in Note 15.

All amounts in thousands of Reais

| Quantity | Unit Value | Total Value (R$ thousand) | Interest rates | Maturity | Amortization | Interest | Nature | Subscription bonus |
|---|---|---|---|---|---|---|---|---|
| 100,000 | 10,000.00 | 1,000,000 | 114.65% of CDI | 03/19/2029 | Anual (8º, 9º and 10º year) | Semi-annual | debt | No |
| **100,000** | | **1,000,000** | | | | | | |

## c) Composition of the balance of debentures

| | Parent company and consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 09/30/2020 | | | 12/31/2019 | | |
| | 7th issue | 12th issue | Total | 7th issue | 12th issue | Total |
| **Current liabilities** | | | | | | |
| . Principal | 61,538 | - | 61,538 | 461,497 | - | 461,497 |
| . Interest | 1,992 | 600 | 2,592 | 3,324 | 16,254 | 19,578 |
| . Monetary restatement / profit sharing | - | - | - | 91,684 | - | 91,684 |
| | **63,530** | **600** | **64,130** | **556,505** | **16,254** | **572,759** |
| **Non-current liabilities** | | | | | | |
| . Principal | 61,538 | 1,000,000 | 1,061,538 | 92,306 | 1,000,000 | 1,092,306 |
| . Gain / loss on derivative instruments (swap) | - | 852,535 | 852,535 | - | 207,535 | 207,535 |
| . Subscription bonus | - | - | - | (28,503) | - | (28,503) |
| | **61,538** | **1,852,535** | **1,914,073** | **63,803** | **1,207,535** | **1,271,338** |
| **Total debenture liability** | **125,068** | **1,853,135** | **1,978,203** | **620,308** | **1,223,789** | **1,844,097** |
| **Equity - capital reserve** | | | | | | |
| . Subscription bonus | - | - | - | 28,503 | - | 28,503 |
| | **-** | **-** | **-** | **28,503** | **-** | **28,503** |
| **Total** | **125,068** | **1,853,135** | **1,978,203** | **648,811** | **1,223,789** | **1,872,600** |

## d) Change of debentures

| | Parent company and consolidated |
|---|---|
| **At December 31, 2018** | **662,676** |
| 12th issue | 1,000,000 |
| Gain or loss on financial instruments (SWAP) | 207,535 |
| Interest and monetary variations on debentures | 122,843 |
| Repayments (7th issue) | (61,538) |
| Payment of interest (7th issue) | (53,747) |
| Payment of interest (12th issue) | (33,672) |
| **At December 31, 2019** | **1,844,097** |
| Gain or loss on financial instruments (SWAP) | 644,999 |
| Interest and monetary variations on debentures | 55,295 |
| Repayments (7th issue) | (31,284) |
| Debenture capitalization (7th issue) | (370,942) |
| Payment of interest and results (7th issue) | (122,358) |
| Payment of interest (12th issue) | (41,604) |
| **At September 30, 2020** | **1,978,203** |

All amounts in thousands of Reais

## 17 TRADE PAYABLES

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 09/30/2020 | 12/31/2019 | 09/30/2020 | 12/31/2019 |
| Local currency | 983,425 | 839,763 | 992,479 | 842,875 |
| Foreign currency | 289,076 | 25,266 | 333,902 | 44,217 |
| **Total trade payables (without Forfait)** | **1,272,501** | **865,029** | **1,326,381** | **887,092** |
| Local currency (Forfait) | 222,527 | 137,164 | 222,527 | 137,164 |
| **Total trade payables** | **1,495,028** | **1,002,193** | **1,548,908** | **1,024,256** |

The Company, in general, operates with an average payment term with its operating suppliers of approximately 65 days (51 days on December 31, 2019). In the case of suppliers of fixed assets, the terms follow the commercial negotiation of each operation.

Of the balance of suppliers on September 30, 2020, R$ 222,527 (R$ 137,164 on December 31, 2019) in the parent company and in the consolidated, corresponds to the forfait operations in which there were no relevant changes in the purchase conditions (payments and negotiated prices) with suppliers, remaining as usual in the market. The forfait operations enable suppliers to better manage their cash flow needs, to the detriment of greater intensification of commercial relations with the Company.

## 18 PROVISION FOR TAX, SOCIAL SECURITY, LABOR AND CIVIL CONTINGENCIES

### a) Provisioned risks

Based on the individual analysis of the lawsuits filed against the Company and its subsidiaries and supported by the opinion of its legal advisors, provisions were set up in non-current liabilities, for risks with losses considered probable, shown below:

| | | | | 09/30/2020 |
|---|---|---|---|---|
| In the parent com | Provisioned amount | Restricted judicial deposits | Net liability | Unrestricted judicial deposits |
| **Tax:** | | | | |
| . PIS/COFINS | - | - | - | 31,741 |
| . ICMS/IPI | - | - | - | 45,978 |
| . Income tax/social contribution | (10,804) | 10,804 | - | 860 |
| . OTHER | (22) | 22 | - | 10,989 |
| | (10,826) | 10,826 | - | 89,568 |
| Labor | (37,015) | 17,585 | (19,430) | - |
| Civil | (7,623) | 3,731 | (3,892) | - |
| | **(55,464)** | **32,142** | **(23,322)** | **89,568** |
| **Subsidiaries:** | | | | |
| Other | - | 1,434 | 1,434 | - |
| **Consolidated** | **(55,464)** | **33,576** | **(21,888)** | **89,568** |

All amounts in thousands of Reais

| | | | | 12/31/2019 |
|---|---|---|---|---|
| In the parent com | Provisioned amount | Restricted judicial deposits | Net liability | Unrestricted judicial deposits |
| **Tax:** | | | | |
| . PIS/COFINS | - | - | - | 44,105 |
| . ICMS/IPI | - | - | - | 21,744 |
| . Income tax/social contribution | (10,715) | 3,616 | (7,100) | 98 |
| . OTHER | (21) | 21 | - | 23,217 |
| | (10,736) | 3,637 | (7,100) | 89,164 |
| Labor | (42,103) | 19,218 | (22,885) | - |
| Civil | (7,680) | 3,728 | (3,952) | - |
| | **(60,519)** | **26,583** | **(33,937)** | **89,164** |
| **Subsidiaries:** | | | | |
| Other | - | 1,432 | 1,432 | - |
| **Consolidated** | **(60,519)** | **28,015** | **(32,505)** | **89,164** |

## b) Summary of changes to the provisioned amounts

| | | | | Consolidated |
|---|---|---|---|---|
| | Taxes | Labor | Civil | Net Exposure |
| **At December 31, 2018** | **(6,797)** | **(22,251)** | **(4,455)** | **(33,503)** |
| New lawsuits/increases | (303) | (2,315) | (31) | **(2,649)** |
| (Provision)/reversals | - | 3,148 | 2,685 | **5,833** |
| Deposit transactions | - | (1,467) | (719) | **(2,186)** |
| **At December 31, 2019** | **(7,100)** | **(22,885)** | **(2,520)** | **(32,505)** |
| New lawsuits/increases | (3,245) | (715) | (569) | **(4,529)** |
| (Provision)/reversals | - | 5,803 | 628 | **6,431** |
| Deposit transactions | 10,345 | (1,633) | 3 | **8,715** |
| **At September 30, 2020** | **-** | **(19,430)** | **(2,458)** | **(21,888)** |

## c) Provisions for tax, social security, labor and civil contingencies not recognized

As of September 30, 2020, the Company and its subsidiaries were parties to other tax, labor and civil proceedings involving risks of loss for the Company assessed as “possible”, which total approximately: R$ 4,375,822, R$ 240,038 and R$ 76,085 respectively (R$ 4,111,680, R$ 252,121 and R$ 80,697 as of December 31, 2019). Based on the individual analysis of the corresponding legal and administrative proceedings, supported by the opinion of its legal advisors, Management understands that these proceedings have the likelihood of loss assessed as "possible" and, therefore, are not provisioned.

As of September 30, 2020, the Company was a defendant in several lawsuits, such as:

### Tax Lawsuits

(i) Tax foreclosure filed by the Federal Government aiming at the collection of IRPJ due to alleged undue deductions for royalties for the use of brands and goodwill formed in the acquisitions of the companies Klamasa and Igaras. The total amount of this lawsuit on September 30, 2020 is approximately R$ 1,293,526 (R$ 1,279,543 on December 31, 2019), of which R$ 888,009 as goodwill, R$ 75,193 as royalties and R$ 330,324 as losses and negative bases.

(ii) Tax foreclosures filed by the Municipality of Lages / SC, whose object is the collection of ISS on the manufacture of packaging with personalized graphic prints, from January 2001 to December 2004 and January to April 2011. The total amount of these executions on September 30, 2020 is approximately R$ 1,525,802 (R$ 1,236,057 on December 31, 2019).

(iii) Tax execution filed by the Municipality of Rio de Janeiro / RJ, whose object is the collection of ISS on the manufacture of packaging with personalized graphic prints, from September 1996 to October 2001. The total amount of this execution in September 30, 2020 is approximately R$ 231,559 (R$ 219,681 on December 31, 2019).

(iv) Tax Foreclosure filed by the Federal Government to collect the difference in IRPJ and CSLL, for carrying out an indirect legal transaction involving the companies Norske Skog Pisa Ltda. and Lille Holdings S / A., with a fine increased from 75% to 150%. The total amount of this execution on September 30, 2020 is approximately R$ 91,310 (R$ 90,202 on December 31, 2019).

(v) Termination action by the Federal Government against Klabin S / A and Aracruz Celulose S / A, to rescind the judgment handed down in the ordinary action file, to rule out the application of the SELIC rate, as well as the rates provided for in CIEX resolution No. 2 / 79 in relation to the IPI premium credit. The total amount of this action on September 30, 2020 is approximately R$ 103,699 (R$ 102,518 on December 31, 2019).

(vi) Administrative proceedings whose object is the collection of a contribution of 2.6% on gross revenue from the sale of the production of the agro-industrial activity. The total value of these shares on September 30, 2020 is approximately R$ 368,940 (R$ 365,631 on December 31, 2019).

(vii) Administrative proceeding whose purpose is to adjust the calculation bases of IRPJ and CSLL, calendar year 2013, under the allegation that the company would have made undue exclusions due to the change in the exchange variation regime. The total amount of this proceeding on September 30, 2020 is approximately R$ 237,859 (R$ 234,221 on December 31, 2019).

(viii) Exemption in view of the disagreement on the FINSOCIAL credit correction criterion occurred in 2017. The total amount of the lawsuit on September 30, 2020 is approximately R$ 118,221 (R$ 116,131 on December 31, 2019) .

(ix) Exemption of COFINS credit compensation, arising from overpayments related to the expansion of the calculation base referred to in Law No. 9,718 / 98. The total amount of the lawsuit on September 30, 2020 is approximately R$ 54,196 (R$ 45,432 on December 31, 2019).

**Civil and environmental lawsuits**

(i) Public Civil Action proposed in 2009 by the Association of Environmental Fishermen of Paraná - APAP, due to alleged damages to the Tibagi River (PR), for the disposal of burnt coal waste, used by the Company until 1998. Despite there is no evidence of environmental damage, in December 2015 an unfavorable sentence was handed down to the Company, condemning it to the obligation to remove the burned mineral coal deposited in the riverbed. Currently, the process is in the process of settlement of the sentence, where the Company presented its defense alleging the technical unfeasibility of complying with the obligation to the manner determined by the court and, at the moment, is awaiting the appointment of an expert. Only with the end of the investigation and the settlement phase will it be possible to stipulate any contingency amount to be considered.

### Labor Lawsuits

The main claims are related to overtime, pain and suffering, unhealthy work and hazardous work premiums, as well as indemnities and subsidiary liability of third parties. No individual action is relevant enough to have an adverse and material impact on the Company's results.

### d) Lawsuits filed by the Company

As of September 30, 2020, the Company was involved in lawsuits involving active claims, for which there are no amounts recognized in its quarterly information, the assets being recognized only after the lawsuits are final and the gain is definitely certain.

According to a relevant fact disclosed to the market on August 22, 2019, the decision was final and unappealable, accepting the Company's intention to exclude ICMS from the PIS and COFINS calculation base, effective from April 2002, in an amount total of R$ 1.014 billion reais based on said lawsuit in outdated 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 settle the debt with REFIS maturing in 2029 in advance 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 debt balance for early settlement.

With its settlement, in addition to the cash effect of R$ 316,379 with the REFIS prepayment, its adjustment to fair value was reversed in the financial result, as well as a fine and interest reversal, both in the corresponding amount, but with the opposite effect, without changing the Company's net result.

## 19 EQUITY

### a) Share capital

Klabin S.A.'s share capital subscribed and paid up, on September 30, 2020 is divided into 5,548,498,060 shares (5,409,801,840 on December 31, 2019), with no par value, corresponding to R$ 4,475,481 (R$ 4,076,035 as of December 31, 2019), distributed as follows:

All amounts in thousands of Reais

| | 09/30/2020 | | 12/31/2019 | |
|---|---|---|---|---|
| Stockholders | 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 | - |
| The Bank of New York Departament | 61,047,714 | 244,190,856 | 61,773,628 | 247,094,512 |
| Monteiro Aranha S/A | 68,756,489 | 275,025,956 | 67,146,935 | 268,619,190 |
| BNDESPAR | 83,721,188 | 334,884,752 | 56,259,848 | 225,039,392 |
| BlackRock, Inc | 41,603,624 | 166,414,496 | 46,148,485 | 184,593,940 |
| Treasury shares | 26,527,032 | 106,108,128 | 27,924,945 | 111,699,780 |
| Other | 646,817,762 | 2,409,539,973 | 641,480,724 | 2,388,160,371 |
| | **2,012,333,899** | **3,536,164,161** | **1,984,594,655** | **3,425,207,185** |

In addition to nominative common and preferred shares, the Company negotiates certificates of deposit of shares, called “Units”, corresponding to the lot of 1 (one) common share - ON and 4 (four) preferred shares - PN.

The Company's authorized capital is 5,600,000,000 common registered shares - ON and / or preferred registered shares - PN approved at the Extraordinary General Meeting held on March 20, 2014.

## b) Treasury shares

As of September 30, 2020, the Company holds 132,635,160 shares of its own issue in treasury, corresponding to 26,527,032 "Units". The price on September 30, 2020 under negotiation on the São Paulo Stock Exchange was R$ 23.80 per "Unit" (code KLBN11 in B3).

According to the Stock Option Plan, described in Note 23, granted as long-term compensation to the Company's executives, in February 2020 3,515,775 shares held in treasury for R$ 8,872 were sold, corresponding to 703,155 “Units ”, And granted under the regime of usufruct of 3,515,775 shares, corresponding to 703,155“ Units ”, written off from treasury at the historical cost of R$ 4,716.

## c) Carrying value adjustments

Created by Law 11,638 / 07, the group “Adjustments to equity valuation” maintained in the Company's equity includes adjustments to valuations with increases and decreases in assets and liabilities, when applicable.

The balance maintained by the Company corresponds to the adoption of the attributed cost of property, plant and equipment ("deemed cost") for forest land, an option exercised in the initial adoption of the new accounting pronouncements converging to IFRS on January 1, 2009; exchange variation of subsidiaries held abroad with a functional currency different from that of the parent company; balances referring to the stock option plan granted to executives (Note 23); and updates to actuarial liabilities.

All amounts in thousands of Reais

| | Parent company and Consolidated | |
|---|---|---|
| | **09/30/2020** | **12/31/2019** |
| Deemed cost of property, plant and equipment (land) | 1,057,752 | 1,057,752 |
| Foreign exchange variations - subsidiaries abroad | (83,555) | (64,693) |
| Stock option plan | 6,172 | 6,020 |
| Actuarial liability (i) | (52,566) | (56,085) |
| | **927,803** | **942,994** |

(i) Net of corresponding deferred taxes, when applicable, at the rate of 34%

The foreign exchange variation of a foreign subsidiary will be realized against the result only in the case of sale or closing of the investee. The other items that make up the equity valuation adjustment balance, due to their nature and the strength of the accounting standard, will not be realized against the result, even in their financial realization.

The changes in the balances contained in Equity valuation adjustments are presented in the "Statement of Comprehensive Income" and in the "Statement of Changes in Equity".

## d) Dividends/Interest on equity

Dividends/interest on equity represent the portion of profits earned by the Company, which is distributed to shareholders as remuneration for the capital invested in the fiscal years. All shareholders are entitled to receive dividends and interest on equity, proportional to their shareholding, as ensured by Brazilian corporate law and the Company's Bylaws. The Bylaws also provide for the Administration's ability to approve interim distributions during the year in advance, "ad referendum" of the Annual General Meeting to assess the accounts for the year.

Interest on own capital, for purposes of complying with tax rules, is recorded against the caption "Financial expenses". For the purposes of preparing said quarterly information, the income is reversed against the retained earnings account, making up the balance of the minimum mandatory dividend, as instructed by the CVM.

The basis for calculating the mandatory dividend defined in the Company's Bylaws is adjusted by the constitution, realization and reversal, in the respective year, of the "Reserve of Biological Assets", granting to the Company's shareholders the right to receive a minimum dividend in each fiscal year. mandatory 25% of adjusted annual net income. In addition, the Company is entitled to distribute dividends and interest on equity with "Profit Reserves" balances, held in Shareholders' Equity.

In the nine-month period ended September 30, 2020, dividends and interest on equity equivalent to R$ 223 million were distributed and effectively paid, as shown in the following table:

| Event | Date approved | Description | Initial date of payment | Type of share | Amount per thousand | Origin | Total distributed |
|---|---|---|---|---|---|---|---|
| Extraordinary General Meeting of Stockholders | 12/17/2019 | Interest on own capital | 02/20/2020 | Commun and Preferred "Units" | R$37.94<br>R$189.75 | Complementary 2019 | R$ 200,000 |
| Extraordinary General Meeting of Stockholders | 02/05/2020 | Dividend | 02/20/2020 | Commun and Preferred "Units" | R$4.36<br>R$21.82 | Interim 2020 | R$ 23,000 |

All amounts in thousands of Reais

## 20 NET SALES REVENUE

The Company's net revenue is composed as follows:

| | | | | Parent company |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| Gross sales revenue | 3,495,918 | 9,847,223 | 2,873,802 | 8,695,972 |
| Discounts and rebates | (31,577) | (52,229) | (26,640) | (80,199) |
| Taxes on sales | (404,271) | (1,128,982) | (370,734) | (1,095,998) |
| | **3,060,070** | **8,666,012** | **2,476,428** | **7,519,775** |
| . Domestic market | 1,800,299 | 4,813,287 | 1,551,597 | 4,469,477 |
| . Foreign market | 1,259,771 | 3,852,725 | 924,831 | 3,050,298 |
| **Net sales revenue** | **3,060,070** | **8,666,012** | **2,476,428** | **7,519,775** |

| | | | | Consolidated |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| Gross sales revenue | 3,559,504 | 9,879,782 | 2,882,751 | 8,766,037 |
| Discounts and rebates | (31,468) | (79,273) | (30,673) | (94,101) |
| Taxes on sales | (419,208) | (1,143,897) | (374,328) | (1,104,343) |
| | **3,108,828** | **8,656,612** | **2,477,750** | **7,567,593** |
| . Domestic market | 1,808,686 | 4,847,210 | 1,577,099 | 4,511,105 |
| . Foreign market | 1,300,142 | 3,809,402 | 900,651 | 3,056,488 |
| **Net sales revenue** | **3,108,828** | **8,656,612** | **2,477,750** | **7,567,593** |

All amounts in thousands of Reais

## 21 COSTS, EXPENSES AND OTHER INCOME, BY NATURE

| | Parent company | | | |
|---|---|---|---|---|
| | **From 7/1 to 09/30/2020** | **From 1/1 to 09/30/2020** | **From 7/1 to 09/30/2019** | **From 1/1 to 09/30/2019** |
| **Cost of products sold** | | | | |
| Variable costs (raw materials and consumables) | (731,641) | (2,120,364) | (701,989) | (2,083,076) |
| Personnel | (433,887) | (1,247,153) | (434,543) | (1,235,347) |
| Depreciation and amortization | (290,485) | (803,330) | (242,587) | (742,066) |
| Depletion | (165,016) | (716,029) | (224,658) | (601,401) |
| Maintenance | (116,054) | (299,321) | (129,714) | (391,656) |
| Other | (234,517) | (405,818) | (125,345) | (259,995) |
| | **(1,971,600)** | **(5,592,015)** | **(1,858,836)** | **(5,313,541)** |
| **Sales expenses** | | | | |
| Freight | (201,226) | (563,954) | (150,379) | (418,131) |
| Royalties | (17,595) | (50,293) | (15,122) | (41,816) |
| Commissions | (4,565) | (13,985) | (2,241) | (8,878) |
| Personnel | (23,551) | (71,906) | (25,339) | (70,785) |
| Depreciation and amortization | (1,190) | (3,500) | (1,125) | (3,024) |
| Storage and port expenses | (18,184) | (58,750) | (18,765) | (54,204) |
| Other | (1,286) | (2,712) | (2,215) | (8,493) |
| | **(267,597)** | **(765,100)** | **(215,186)** | **(605,331)** |
| **General and administrative expenses** | | | | |
| Personnel | (92,572) | (262,301) | (78,140) | (243,956) |
| Services contracted | (42,666) | (121,483) | (38,978) | (105,219) |
| Depreciation, amortization and depletion | (11,584) | (34,811) | (12,507) | (35,879) |
| Other | (9,607) | (37,316) | (12,560) | (45,787) |
| | **(156,429)** | **(455,911)** | **(142,185)** | **(430,841)** |
| **Other net** | | | | |
| Revenue from sales of prop, plant and equipment | 375 | 60,581 | 33,477 | 33,878 |
| Cost of sales and write-offs of prop, plant and equip. | (5,253) | (58,545) | (61,316) | (65,844) |
| Exclusion of ICMS from the PIS / COFINS base (i) | - | - | 630,621 | 630,621 |
| Gain from lawsuits | - | 41,956 | - | - |
| Other | (2,234) | 10,811 | (19,928) | 43,889 |
| | **(7,112)** | **54,803** | **582,854** | **642,544** |
| **Total** | **(2,402,738)** | **(6,758,223)** | **(1,633,353)** | **(5,707,169)** |

(ii) See note 9.

## KLABIN S.A.
**All amounts in thousands of Reais**

| | | | | Consolidated |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **Cost of products sold** | | | | |
| Variable costs (raw materials and consumables) | (770,524) | (2,242,598) | (737,736) | (2,158,262) |
| Personnel | (438,269) | (1,259,750) | (438,932) | (1,247,825) |
| Depreciation and amortization | (296,414) | (819,725) | (247,538) | (757,210) |
| Depletion | (207,661) | (914,275) | (273,635) | (713,404) |
| Maintenance | (117,226) | (302,344) | (131,025) | (395,612) |
| Other | (96,231) | (46,968) | (616) | (21,342) |
| | **(1,926,325)** | **(5,585,660)** | **(1,829,482)** | **(5,293,655)** |
| **Sales expenses** | | | | |
| Freight | (211,974) | (589,973) | (154,031) | (428,238) |
| Royalties | (17,595) | (50,293) | (15,122) | (41,816) |
| Commissions | (12,949) | (36,628) | (6,819) | (17,712) |
| Personnel | (23,789) | (72,632) | (25,595) | (71,500) |
| Depreciation and amortization | (1,215) | (3,572) | (1,148) | (3,085) |
| Storage and port expenses | (18,184) | (58,750) | (18,765) | (54,204) |
| Other | (10,569) | (20,849) | (4,689) | (12,733) |
| | **(296,275)** | **(832,697)** | **(226,169)** | **(629,288)** |
| **General and administrative expenses** | | | | |
| Personnel | (93,508) | (264,950) | (78,929) | (246,420) |
| Services contracted | (43,097) | (122,710) | (39,372) | (106,282) |
| Depreciation, amortization and depletion | (11,821) | (35,521) | (12,762) | (36,611) |
| Other | (17,407) | (48,891) | (13,891) | (53,613) |
| | **(165,833)** | **(472,072)** | **(144,954)** | **(442,926)** |
| **Other net** | | | | |
| Revenue from sales of prop, plant and equipment | 375 | 60,581 | 33,477 | 33,878 |
| Cost of sales and write-offs of prop, plant and equip. | (5,253) | (58,545) | (61,316) | (65,844) |
| Exclusion of ICMS from the PIS / COFINS base (i) | - | - | 630,621 | 630,621 |
| Gain from lawsuits | - | 41,956 | - | - |
| Other | 474 | 10,517 | (18,982) | 47,190 |
| | **(4,404)** | **54,509** | **583,800** | **645,845** |
| **Total** | **(2,392,837)** | **(6,835,920)** | **(1,616,805)** | **(5,720,024)** |

(ii) See note 9.

All amounts in thousands of Reais

## 22 FINANCE RESULT

| | Parent company | | | |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **Finance income** | | | | |
| . Income from financial investments | 40,870 | 187,149 | 159,013 | 404,114 |
| . Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income | (5,326) | (14,448) | (25,995) | (40,412) |
| . Update of tax credits | 16,641 | 82,259 | 414,543 | 466,212 |
| . Other (i) | 8,710 | 5,184 | 15,272 | 35,999 |
| | **60,895** | **260,144** | **562,833** | **865,913** |
| **Finance costs** | | | | |
| . Interest on borrowing and debentures | (363,704) | (1,170,651) | (425,621) | (1,133,449) |
| . Interest on REFIS (i) | - | - | - | (74,437) |
| . Interest capitalized on property, plant and equipment (ii) | 62,963 | 135,846 | 12,467 | 12,467 |
| . Derivative financial instruments (SWAP) | (284,685) | (2,465,795) | (376,366) | (724,915) |
| . Loan guarantees from related parties | (246) | (2,318) | (6,164) | (19,071) |
| . Commissions | (16,941) | (128,780) | (31,628) | (138,101) |
| . Other | (27,610) | (69,793) | (18,138) | (39,866) |
| | **(630,223)** | **(3,701,491)** | **(845,450)** | **(2,117,372)** |
| **Exchange variations** | | | | |
| . Foreign exchange variations on assets | 150,130 | 725,014 | 380,602 | 386,178 |
| . Foreign exchange variations on liabilities | (579,352) | (5,458,910) | (1,410,245) | (1,226,721) |
| | **(429,222)** | **(4,733,896)** | **(1,029,643)** | **(840,543)** |
| **Finance result** | **(998,550)** | **(8,175,243)** | **(1,312,260)** | **(2,092,002)** |

| | Consolidated | | | |
|---|---|---|---|---|
| | From 7/1 to 09/30/2020 | From 1/1 to 09/30/2020 | From 7/1 to 09/30/2019 | From 1/1 to 09/30/2019 |
| **Finance income** | | | | |
| . Income from financial investments | 43,346 | 197,948 | 162,773 | 419,203 |
| . Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income | (5,326) | (14,448) | (25,995) | (40,412) |
| . Update of tax credits | 16,641 | 82,259 | 414,543 | 466,212 |
| . Other (i) | 8,712 | 30,634 | 15,272 | 36,006 |
| | **63,373** | **296,393** | **566,593** | **881,009** |
| **Finance costs** | | | | |
| . Interest on borrowing and debentures | (311,088) | (947,314) | (387,041) | (1,053,153) |
| . Interest on REFIS (i) | - | - | - | (74,437) |
| . Interest capitalized on property, plant and equipment (ii) | 62,963 | 135,846 | 12,467 | 12,467 |
| . Derivative financial instruments (SWAP) | (284,685) | (2,465,795) | (376,366) | (724,915) |
| . Loan guarantees from related parties | (246) | (2,318) | (6,164) | (19,071) |
| . Investor Compensation - SCPs | (5,917) | (37,269) | (12,416) | (25,834) |
| . Commissions | (20,774) | (141,164) | (19,203) | (174,231) |
| . Other | (27,841) | (70,739) | (18,345) | (44,298) |
| | **(587,588)** | **(3,528,753)** | **(807,068)** | **(2,103,472)** |
| **Exchange variations** | | | | |
| . Foreign exchange variations on assets | 153,868 | 730,529 | 382,210 | 394,338 |
| . Foreign exchange variations on liabilities | (701,353) | (5,455,803) | (1,388,433) | (1,208,670) |
| | **(547,485)** | **(4,725,274)** | **(1,006,223)** | **(814,332)** |
| **Finance result** | **(1,071,700)** | **(7,957,634)** | **(1,246,698)** | **(2,036,795)** |

(i) See Note 18.

(ii) See Note 12.

All amounts in thousands of Reais

## 23 STOCK OPTION PLAN

At the Extraordinary Shareholders' Meeting, held on July 10, 2012, the Stock option Plan ("Plan") was approved as a benefit to members of the executive board and strategic employees of the Company.

CVM authorized the Company, through OFICIO / CVM / SEP / GEA-2 / No 221/2012 to carry out the private operations covered by the incentive plan for its officers and employees, excluding controlling shareholders, to carry out a private transfer of shares held in treasury.

According to the aforementioned Plan, the Company established that statutory and non-statutory directors may use a percentage of 25% to 70%, managers from 15% to 40% and other employees in the position of coordinators and consultants from 5% to 10% of its variable remuneration for the acquisition of shares held in treasury, where the Company will grant the usufruct of the same number of shares to the acquirer for three years on a grant basis, passing the ownership of these shares to the beneficiaries after 3 years, provided that the clauses established in the Plan.

The usufruct grants the beneficiary the right to dividends and interest on equity distributed in the period in which the benefit is valid.

The acquisition value of the treasury shares by the Plan's beneficiaries will be obtained by the average of the market value quotations of the last 60 trading sessions of the Company's shares, or of their quotation on the acquisition date, whichever is the lower. The value of the shares granted in usufruct corresponds to the price of the shares being traded on the São Paulo Stock Exchange on the day of the transaction.

The clauses for the transfer of the granted shares to be consummated, establish the beneficiary's permanence in the Company and not alienation of the shares acquired in the adhesion to the Plan. The shares granted can also be immediately assigned in the event of dismissal at the initiative of the Company, retirement or death of the beneficiary, in the latter case passing the right of the shares to the estate.

The shares granted and the expense proportional to the granting period, recognized in the income statement is accumulated in shareholders' equity in the group "Equity Valuation Adjustments", until the end of the grant, either by the expiration of the three-year term, or any other clause of the Plan that terminates the grant.

The table below shows the information on the agreed plans:

### a) Statutory and non-statutory Board Members

| | Plan 2015 (i) | Plan 2016 (i) | Plan 2017 | Plan 2018 | Plan 2019 | Total |
|---|---|---|---|---|---|---|
| Start of the plan | 03/01/2016 | 02/24/2017 | 02/28/2018 | 02/28/2019 | 02/28/2020 | |
| Final grant date | 03/01/2019 | 02/24/2020 | 02/28/2021 | 02/28/2022 | 02/28/2023 | |
| Treasury shares acquired by the beneficiaries | 1,475,000 | 2,774,345 | 2,039,185 | 1,146,395 | 1,140,020 | 8,574,945 |
| Purchase value per share (R$) | 4.23 | 3.04 | 3.58 | 6.71 | 3.87 | |
| Treasury shares granted with right to use | 1,475,000 | 2,774,345 | 2,039,185 | 1,146,395 | 1,140,020 | 8,574,945 |
| Value of the right to use per share (R$) | 4.30 | 3.04 | 3.58 | 6.71 | 3.87 | |
| Accumulated plan expenses - from the beginning | 6,309 | 8,101 | 6,299 | 2,174 | 872 | 23,755 |
| Expenses of the plan - 1/1 to 09/30/2020 | - | 176 | 1,809 | 1,018 | 872 | 3,875 |
| Expenses of the plan - 1/1 to 09/30/2019 | 162 | 911 | 1,832 | 809 | - | 3,714 |

(i) Plan ended

All amounts in thousands of Reais

## b) Managers

| | Plan 2015 (i) | Plan 2016 (i) | Plan 2017 | Plan 2018 | Plan 2019 | Total |
|---|---|---|---|---|---|---|
| Start of the plan | 03/30/2016 | 02/24/2017 | 02/28/2018 | 02/28/2019 | 02/28/2020 | |
| Final grant date | 03/30/2019 | 02/24/2020 | 02/28/2021 | 02/28/2022 | 02/28/2023 | |
| Treasury shares acquired by the beneficiaries | - | 1,531,400 | 1,616,585 | 1,809,185 | 1,848,470 | 6,805,640 |
| Purchase value per share (R$) | - | 3.04 | 3.58 | 6.71 | 3.87 | |
| Treasury shares granted with right to use | 351,000 | 1,531,400 | 1,616,585 | 1,809,185 | 1,848,470 | 7,156,640 |
| Value of the right to use per share (R$) | 4.34 | 3.04 | 3.58 | 6.71 | 3.87 | |
| Accumulated plan expenses - from the beginning | 1,521 | 4,468 | 4,840 | 3,438 | 1,315 | 15,582 |
| Expenses of the plan - 1/1 to 09/30/2020 | - | 225 | 1,387 | 1,602 | 1,315 | 4,529 |
| Expenses of the plan - 1/1 to 09/30/2019 | 69 | 1,069 | 1,383 | 1,278 | - | 3,799 |

(i) Plan ended.

## c) Other employees

| | Plan 2018 | Plan 2019 | Total |
|---|---|---|---|
| Start of the plan | 02/28/2019 | 02/28/2020 | |
| Final grant date | 02/28/2022 | 02/28/2023 | |
| Treasury shares acquired by the beneficiaries | 548,300 | 527,285 | 1,075,585 |
| Purchase value per share (R$) | 6.71 | 3.87 | |
| Treasury shares granted with right to use | 548,300 | 527,285 | 1,075,585 |
| Value of the right to use per share (R$) | 6.71 | 3.87 | |
| Accumulated plan expenses - from the beginning | 977 | 448 | 1,425 |
| Expenses of the plan - 1/1 to 09/30/2020 | 448 | 448 | 896 |
| Expenses of the plan - 1/1 to 09/30/2019 | 378 | - | 378 |

## 24 EARNINGS (LOSS) PER SHARE

The basic earnings per share are calculated by dividing the profit for the period attributable to holders of common shares - ON and preferred shares - PN of the Company, by the weighted average number of shares available during the period. The Company does not have any instruments that may have a dilutive effect.

As mentioned in Note 19, changes in the balance of treasury shares affect the weighted average number of preferred shares in treasury in the calculation of the nine-month period ended September 30, 2020, the weighted average being used in the calculation of the earnings per share calculated as follows:

| Weighted average number of treasury shares September 30, 2020 (i) | | | |
|---|---|---|---|
| Jan to Feb | + | 139,658,160 | x 2/9 |
| Mar | + | 132,626,610 | x 1/9 |
| Apr | + | 132,636,195 | x 1/9 |
| May | + | 132,637,895 | x 1/9 |
| Jun | + | 132,633,385 | x 1/9 |
| Jul to Sep | + | 132,635,160 | x 3/9 |
| 9 Months 2020 | = | 134,195,098 | |

(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.

All amounts in thousands of Reais

The table below, presented in R$, shows the reconciliation of the results for the nine-month periods ended September 30, 2020 and 2019 in the calculation of basic and diluted earnings per share:

| | Parent company and Consolidated | | |
|---|---|---|---|
| | From 1/1 to 09/30/2020 | | |
| | Common (ON) | Preferred (PN) | Total |
| **Denominator** | | | |
| Total weighted average number of shares | 2,012,333,899 | 3,536,164,161 | 5,548,498,060 |
| Weighted average number of treasury shares | (26,839,020) | (107,356,079) | (134,195,098) |
| Weighted average number of outstanding shares | **1,985,494,879** | **3,428,808,082** | **5,414,302,962** |
| % of shares in relation to the total | **36.67%** | **63.33%** | **100%** |
| **Numerator** | | | |
| Earnings attributable to each class of shares (R$) | **(1,396,247,730)** | **(2,411,220,270)** | **(3,807,468,000)** |
| Weighted average number of outstanding shares | **1,985,494,879** | **3,428,808,082** | **5,414,302,962** |
| **Basic and diluted earnings per share (R$)** | **(0.7032)** | **(0.7032)** | |

| | Parent company and Consolidated | | |
|---|---|---|---|
| | From 1/1 to 09/30/2019 | | |
| | Common (ON) | Preferred (PN) | Total |
| **Denominator** | | | |
| 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%** |
| **Numerator** | | | |
| 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** | |

## 25 OPERATING SEGMENTS

### a) Criteria for identification of operating segments

The Company proceeded with the segmentation of its operational structure taking into account the way in which Management manages the business. The operating segments defined by Management are shown below:

(i) Forestry Segment: involves the planting and forestry operations of pine and eucalyptus to supply the Company's pulp and paper mills and sale of wood (logs) to third parties in the domestic market.

(ii) Paper Segment: substantially involves the production and sale of reels of paper, kraftliner and recycled paper in the domestic and foreign markets.

(iii) Conversion Segment: involves the production and sales operations of corrugated boxes, corrugated sheets and industrial bags, in the domestic and foreign markets.

All amounts in thousands of Reais

(iv) Pulp Segment: involves the production and sale of short, long and fluffed pulp in the domestic and foreign markets.

## b) Consolidated information about operating segments

| | | | | | | 1/1 to 09/30/2020 |
|---|---|---|---|---|---|---|
| | Forestry | Paper | Conversion | Pulp | Corporate/ eliminations | Total Consolidated |
| Net revenue: | | | | | | |
| .Domestic market | 176,263 | 1,520,368 | 2,167,635 | 994,881 | (11,937) | **4,847,210** |
| .Foreign market | - | 1,609,228 | 275,417 | 1,924,757 | - | **3,809,402** |
| **Revenue from sales to third parties** | **176,263** | **3,129,596** | **2,443,052** | **2,919,638** | **(11,937)** | **8,656,612** |
| Revenue between segments | 1,195,360 | 1,222,035 | 22,229 | 75,097 | (2,514,721) | **-** |
| **Total net sales** | **1,371,623** | **4,351,631** | **2,465,281** | **2,994,735** | **(2,526,658)** | **8,656,612** |
| Changes in the fair value of biological assets | 317,336 | - | - | - | - | **317,336** |
| Cost of products sold | (2,026,128) | (2,663,307) | (2,065,684) | (1,401,339) | 2,570,798 | **(5,585,660)** |
| **Gross profit** | **(337,169)** | **1,688,324** | **399,597** | **1,593,396** | **44,140** | **3,388,288** |
| Operating income (expenses) | (58,503) | (438,108) | (287,180) | (459,612) | 20,214 | **(1,223,189)** |
| **Operating result before finance result** | **(395,672)** | **1,250,216** | **112,417** | **1,133,784** | **64,354** | **2,165,099** |
| **Sales of products (in metric tons)** | | | | | | |
| .Domestic market | - | 440,700 | 551,428 | 384,534 | - | **1,376,662** |
| .Foreign market | - | 425,801 | 38,061 | 776,483 | - | **1,240,345** |
| .Inter-segmental | - | 609,045 | 3,093 | 27,174 | (639,312) | **-** |
| | **-** | **1,475,546** | **592,582** | **1,188,191** | **(639,312)** | **2,617,007** |
| **Sales of timber (in metric tons)** | | | | | | |
| .Domestic market | 1,224,062 | - | - | - | - | **1,224,062** |
| .Inter-segmental | 10,317,006 | - | - | - | (10,317,006) | **-** |
| | **11,541,068** | **-** | **-** | **-** | **(10,317,006)** | **1,224,062** |
| **Investments during the period** | 280,848 | 190,839 | 59,258 | 2,620,308 | 14,253 | **3,165,506** |
| **Depreciation, depletion and amortization** | (983,467) | (291,096) | (70,429) | (411,946) | (16,155) | **(1,773,093)** |
| **Total assets - 09/30/2020** | 8,843,044 | 4,592,285 | 2,028,306 | 11,626,971 | 8,747,859 | **35,838,465** |
| **Total liabilities - 09/30/2020** | 2,575,676 | 770,187 | 549,376 | 1,185,450 | 27,582,766 | **32,663,455** |
| **Equity - 09/30/2020** | 5,687,261 | 3,822,098 | 1,478,930 | 10,441,521 | (18,834,907) | **2,594,903** |
| **Non-controlling shareholders** | 580,107 | - | - | - | - | **580,107** |

All amounts in thousands of Reais

| | Forestry | Paper | Conversion | Pulp | Corporate/ eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| | | | | | | **7/1 to 09/30/2020** |
| Net revenue: | | | | | | |
| .Domestic market | 64,370 | 568,906 | 807,681 | 371,797 | (4,068) | **1,808,686** |
| .Foreign market | - | 510,121 | 102,836 | 687,185 | - | **1,300,142** |
| **Revenue from sales to third parties** | **64,370** | **1,079,027** | **910,517** | **1,058,982** | **(4,068)** | **3,108,828** |
| Revenue between segments | 387,077 | 436,161 | 6,368 | 31,994 | (861,600) | - |
| **Total net sales** | **451,447** | **1,515,188** | **916,885** | **1,090,976** | **(865,668)** | **3,108,828** |
| Changes in the fair value of biological assets | 68,515 | - | - | - | - | **68,515** |
| Cost of products sold | (578,376) | (970,302) | (754,828) | (493,748) | 870,929 | **(1,926,325)** |
| **Gross profit** | **(58,414)** | **544,886** | **162,057** | **597,228** | **5,261** | **1,251,018** |
| Operating income (expenses) | (34,745) | (150,872) | (100,038) | (175,102) | (4,716) | **(465,473)** |
| **Operating result before finance result** | **(93,159)** | **394,014** | **62,019** | **422,126** | **545** | **785,545** |
| **Sales of products (in metric tons)** | | | | | | |
| .Domestic market | - | 164,741 | 202,613 | 129,904 | - | **497,258** |
| .Foreign market | - | 130,742 | 14,461 | 267,995 | - | **413,198** |
| .Inter-segmental | - | 215,332 | 864 | 11,460 | (227,656) | - |
| | - | **510,815** | **217,938** | **409,359** | **(227,656)** | **910,456** |
| **Sales of timber (in metric tons)** | | | | | | |
| .Domestic market | 429,024 | - | - | - | - | **429,024** |
| .Inter-segmental | 3,414,994 | - | - | - | (3,414,994) | - |
| | **3,844,018** | - | - | - | **(3,414,994)** | **429,024** |
| **Investments during the period** | 101,005 | 57,239 | 31,697 | 1,154,907 | 3,003 | **1,347,851** |
| **Depreciation, depletion and amortization** | (243,056) | (103,997) | (23,877) | (141,021) | (5,159) | **(517,110)** |

| | Forestry | Paper | Conversion | Pulp | Corporate/ eliminations | Total Consolidated |
|---|---|---|---|---|---|---|
| | | | | | | **1/1 to 09/30/2019** |
| 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** |

# KLABIN S.A.
**All amounts in thousands of Reais**

| | | | | | | 7/1 to 09/30/2020 |
|---|---|---|---|---|---|---|
| | 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) |

The balance in the Corporate / Eliminations column substantially involves corporate unit expenses not apportioned to the other segments and the eliminations refer to the adjustments of operations between the other segments.

The information on the financial result and taxes on profit were not disclosed by segment due to the Management's failure to use said data in a segmented manner, as they are managed and analyzed on a consolidated basis in its operation.

## c) Information on net sales revenue

The table below shows the distribution of net revenue from the foreign market in the three and nine-month periods ended September 30, 2020 and 2019:

| | | | | Consolidated |
|---|---|---|---|---|
| | 7/1 to 09/30/2020 | | 1/1 to 09/30/2020 | |
| **Country** | **Total revenue (R$/million)** | **% of total net revenue** | **Total revenue (R$/million)** | **% of total net revenue** |
| China | 214 | 6.9% | 706 | 8.2% |
| United States | 302 | 9.7% | 683 | 7.9% |
| Italy | 133 | 4.3% | 417 | 4.8% |
| Argentina | 113 | 3.6% | 402 | 4.6% |
| Singapore | 46 | 1.5% | 137 | 1.6% |
| Canada | 47 | 1.5% | 119 | 1.4% |
| France | 39 | 1.3% | 112 | 1.3% |
| Turkey | 23 | 0.7% | 100 | 1.2% |
| Colombia | 26 | 0.8% | 88 | 1.0% |
| Others | 357 | 11.5% | 1,045 | 12.1% |
| | **1,300** | **42%** | **3,809** | **44%** |

All amounts in thousands of Reais

| | Consolidated | | | |
|---|---|---|---|---|
| | 7/1 to 09/30/2019 | | 1/1 to 09/30/2019 | |
| Country | 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% |
| Others | 243 | 9.8% | 701 | 9.3% |
| | **901** | **36%** | **3,056** | **40%** |

In the nine-month period ended September 30, 2020, a customer in the paper segment was responsible for approximately 12% (R$ 1,078,152) of the Company's net revenue. In the nine-month period ended September 30, 2019, two customers accounted for 23% (R$ 1,739,577) of net revenue, 13% (R$ 959,229) in the paper segment and 10% (R$ 780,349) in the pulp segment. The remainder of the Company's customer base is dispersed, so that none of the other customers, individually, concentrates a relevant share (above 10%) of net sales revenue.

## 26 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### a) Risk management

The Company and its subsidiaries participate in transactions involving financial instruments, all recorded in equity accounts, which are intended to meet their operational needs, as well as to reduce exposure to financial risks, mainly credit and investment of funds, market risks ( exchange and interest) and liquidity risk, to which it believes it is exposed, according to its nature of business and operating structure.

These risks are managed through the definition of strategies developed and approved by the Company's 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 it is exposed.

The Company's main risks are described below:

### Market risk

Market risk is the risk that the fair value of future cash flows from 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 exchange rate risk. Financial instruments affected by market risk include financial investments, accounts receivable from customers, accounts payable, loans payable, bonds and securities.

All amounts in thousands of Reais

(i) Currency risk

The Company maintains operations denominated in foreign currencies (substantially US dollars) that are exposed to market risks arising from changes in the quotations of the respective foreign currencies. Any exchange rate fluctuation may increase or decrease these balances. The composition of this exhibition is as follows:

| | Consolidated | |
|---|---|---|
| | **09/30/2020** | **12/31/2019** |
| Bank deposits and financial investments | 1,041,901 | 1,372,229 |
| Trade receivables (net of provision for doubtful debts) | 720,436 | 726,754 |
| Other assets and liabilities | (549,000) | 247,000 |
| Borrowing | (21,280,507) | (17,225,971) |
| **Net exposure** | **(20,067,170)** | **(14,879,988)** |

The balance per year due on September 30, 2020 of this net exposure is divided as follows:

| Year | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 onwards | Total |
|---|---|---|---|---|---|---|---|---|
| Amount | 2,939,830 | (302,000) | (1,197,000) | (1,883,000) | (1,291,000) | (4,608,000) | (13,726,000) | **(20,067,170)** |

As of September 30, 2020, the Company has no derivatives contracted to hedge foreign exchange exposure in long-term cash flow. To cope with such net passive exposure, the Company has a sales plan whose projected cash flow of export earnings of approximately USD 1 billion annually and its receipts, if they materialize, exceed, or approach, the payment flow of the respective liabilities, offsetting the cash effect of this foreign exchange exposure in the future.

The Company only has derivatives contracted (Notes 15 and 16) and referring to foreign exchange and interest rate swaps linked to the issue of a certain export credit note and debentures.

(ii) Interest rate risk

The Company has loans indexed to the variation of TJLP, LIBOR, IPCA and CDI, and marketable securities indexed to the variation of CDI, Selic and IPCA, exposing these assets and liabilities to fluctuations in interest rates as shown in the table of interest sensitivity below . The Company has not entered into derivative contracts to hedge / swap against the exposure of these market risks.

The practice adopted is to continuously monitor market interest rates in order to assess the possible need for contracting derivatives to protect against the risk of volatility in these rates. Additionally, the Company considers that the high cost associated with contracting fixed rates signaled by the Brazilian macroeconomic scenario justifies its option for floating rates.

The composition of interest rate risk is as follows:

All amounts in thousands of Reais

| | 09/30/2020 | 12/31/2019 |
|---|---|---|
| Financial investments - CDI | 5,469,726 | 6,910,426 |
| Financial investments - Selic | 623,022 | 903,786 |
| Financial investments - IPCA | 668,842 | 478,473 |
| **Asset exposure** | **6,761,590** | **8,292,685** |
| | | |
| Financing - CDI | (4,556,751) | (4,779,348) |
| Financing - TJLP | (1,151,845) | (641,402) |
| Financing - LIBOR | (5,853,561) | (6,103,755) |
| Debentures - IPCA | (1,978,203) | (1,844,097) |
| **Liability exposure** | **(13,540,360)** | **(13,368,602)** |

## Risk relating to investment

The Company is exposed to risk regarding the investment of funds, including deposits with banks and financial institutions, foreign exchange transactions, marketable securities and other financial instruments contracted. The amount exposed by the Company corresponds substantially to marketable securities and the operation of bonds and securities, with amounts 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 operation being agreed upon and the rating analysis, according to risk rating agencies, to assess the feasibility of investing resources in a given institution. , as long as it falls within the policy acceptance criteria.

The table below shows the cash resources, cash equivalents and marketable securities invested by the Company, classifying the amounts according to the national classification of the Fitch and Moody's rating agencies of the financial institutions:

| | Consolidated | |
|---|---|---|
| | **09/30/2020** | **12/31/2019** |
| National rating AAA(bra) | 5,332,584 | 6,074,451 |
| National rating AA+(bra) | 2,507,884 | 3,656,464 |
| | **7,840,468** | **9,730,915** |

## Credit risk

Credit risk is the risk that the counterparty of a business will fail to comply with an obligation under a financial instrument, supplier advance or contract with a customer, which would lead to financial loss. In addition to the investment mentioned above, the Company is exposed to credit risk in its operating activities (mainly in relation to accounts receivable).

As of September 30, 2020, the maximum amount exposed by the Company to the credit risk of accounts receivable from customers is equivalent to the balances presented in Note 6. The information on customer concentration is described in Note 25.

The quality of credit risk in the Company's operating activities is managed by specific rules for customer acceptance, credit analysis and establishment of exposure limits per customer, which are periodically reviewed. The monitoring of overdue bills is carried out promptly to seek their receipt, with estimated losses being recorded with doubtful accounts for items with risk of non-receipt.

All amounts in thousands of Reais

The Company maintains an insurance policy for receivables in the domestic and foreign markets for all business units as described in Note 6.

## Liquidity risk

The Company monitors the risk of scarcity of resources in the global market, managing its capital through a recurring liquidity planning tool, in order to ensure the financial resources available for the proper fulfillment of its obligations, substantially concentrated in the financing signed with institutions financial

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 amount of principal and future interest on the operations, calculated using the rates and indices in effect on September 30, 2020:

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 onwards | Total |
|---|---|---|---|---|---|---|---|
| **Trade payables** | (1,548,908) | - | - | - | - | - | **(1,548,908)** |
| **Financing/debentures□** | (1,530,868) | (2,425,773) | (3,036,604) | (3,032,732) | (3,003,909) | (29,324,138) | **(42,354,024)** |
| **Total** | **(3,079,776)** | **(2,425,773)** | **(3,036,604)** | **(3,032,732)** | **(3,003,909)** | **(29,324,138)** | **(43,902,932)** |

The budgetary projection for the coming years approved by Management demonstrates the capacity to fulfill obligations.

## Capital management

The Company's capital structure is formed by net indebtness, composed of the balance of loans and financing (Note 15) and debentures (Note 16), deducted by the balance of cash, cash equivalents and marketable securities (Notes 4 and 5), and the balance of shareholders' equity (Note 19), including the issued capital balance and all reserves set up.

The net debt to equity ratio of the Company is composed as follows:

| | **09/30/2020** | **12/31/2019** |
|---|---|---|
| Cash and cash equivalents and marketable securities | 7,840,468 | 9,730,915 |
| Borrowing and debentures | (28,893,263) | (24,085,272) |
| **Net indebtedness** | **(21,052,795)** | **(14,354,357)** |
| Equity | 2,594,903 | 6,046,882 |
| **Net indebtedness ratio** | **(8.11)** | **(2.37)** |

## b) Financial instruments, by category

The Company has the following financial instruments by category:

All amounts in thousands of Reais

| | Consolidated | |
|---|---|---|
| | **09/30/2020** | **12/31/2019** |
| **Assets - at amortized cost** | | |
| . Cash and cash equivalents | 6,534,884 | 8,340,386 |
| . Trade receivables (net of provision for impairment of trade receivables) | 1,992,740 | 1,859,505 |
| . Other assets | 505,753 | 633,865 |
| | **9,033,377** | **10,833,756** |
| **Assets - fair value by results** | | |
| . Marketable securities | 1,305,584 | 1,390,529 |
| | **1,305,584** | **1,390,529** |
| **Liabilities - at amortized cost** | | |
| . Borrowing and debentures | 28,893,263 | 24,085,272 |
| . Trade payables | 1,548,908 | 1,024,256 |
| . Other payables | 832,557 | 839,512 |
| | **31,274,728** | **25,949,040** |

(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

The Company classified the securities that are represented by Treasury Financial Bills and Direct Treasury Bonds (LFT and NTN –B) (Note 5) as financial assets measured at fair value through profit or loss, as they may be traded on future, being recorded at fair value, which, in practice, corresponds to the applied value plus interest recognized in the income from the operation in the income for the period.

### c) Sensitivity analysis

The Company presents below the sensitivity tables for the risks of foreign exchange and interest rates to which it is exposed considering that the eventual temporal effects would impact future results based on the exposures presented on September 30, 2020, being, the effects on equity are basically the same as income. The sensitivity analysis does not assess the impacts of exchange rate variations on the Company's cash flow.

(i) Foreign Exchange exposure

The Company has assets and liabilities linked to foreign currency in the balance sheet as of September 30, 2020 and for the purposes of sensitivity analysis, it adopted as scenario I the future market rate in force in the period of preparation of this quarterly information. For scenario II this rate was corrected by 25% and for scenario III by 50%.

All amounts in thousands of Reais

The sensitivity analysis of the foreign exchange variation was calculated on the net foreign exchange exposure (basically for loans and financing, accounts receivable from customers and suppliers payable in foreign currency), not considering the projection of future exports that will face this exchange exposure. liquid.

Thus, keeping the other variables constant, the table below shows a simulation of the effect of the exchange rate variation on shareholders' equity and on the future result of 12 months (consolidated) considering the balances on September 30, 2020:

| | At 09/30/2020 | Scenario I | | Scenario II | | Scenario III | |
|---|---|---|---|---|---|---|---|
| | US$ | Rate | R$ gain (loss) | Rate | R$ gain (loss) | Rate | R$ gain (loss) |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 184,711 | 5.54 | (18,730) | 6.92 | 236,301 | 8.31 | 493,050 |
| Trade receivables, net of allowance for doubtful debts | 127,721 | 5.54 | (12,951) | 6.92 | 163,394 | 8.31 | 340,926 |
| Other assets and liabilities | (97,328) | 5.54 | 9,869 | 6.92 | (124,512) | 8.31 | (259,799) |
| Financing | (3,772,671) | 5.54 | 382,549 | 6.92 | (4,826,378) | 8.31 | (10,070,392) |
| **Net effect on finance results** | | | **360,737** | | **(4,551,195)** | | **(9,496,215)** |

(ii) Exposure to interest rate fluctuations

The Company has financial investments, loans, financing and debentures linked to the floating interest rate of the CDI, TJLP, IPCA, Selic and Libor. For the purpose of sensitivity analysis, the Company adopted rates in force on dates close to the presentation of the said quarterly information, extracted from the Central Bank of Brazil website, using the same rate for Selic, Libor, IPCA and CDI due to their proximity, in the projection of scenario I, for scenario II these rates were corrected by 25% and for scenario III by 50%.

Thus, keeping the other variables constant, the following table shows a simulation of the effect of the variation of interest rates on shareholders' equity and on the future result of 12 months (consolidated) considering the balances on September 30, 2020:

| | | At 09/30/2020 | Scenario I | | Scenario II | | Scenario III | |
|---|---|---|---|---|---|---|---|---|
| | | R$ | Rate | R$ gain (loss) | Rate | R$ gain (loss) | Rate | R$ gain (loss) |
| **Financial investments** | | | | | | | | |
| CDBs | CDI | 5,469,726 | 3.56% | 194,722 | 4.45% | 48,681 | 5.34% | 97,361 |
| LFTs | Selic | 623,022 | 3.56% | 22,180 | 4.45% | 5,545 | 5.34% | 11,090 |
| NTN - B | IPCA | 668,842 | 2.12% | 14,179 | 2.65% | 3,545 | 3.18% | 7,090 |
| **Financing** | | | | | | | | |
| Export Credit Notes - NCE (R$) and Agribuisiness Receivables Certificate - CRA | CDI | (4,556,751) | 3.56% | (162,220) | 4.45% | (40,555) | 5.34% | (81,110) |
| BNDES | TJLP | (1,151,845) | 4.91% | (56,556) | 6.14% | (14,139) | 7.37% | (28,278) |
| Debentures | IPCA | (1,978,203) | 2.12% | (41,938) | 2.65% | (10,484) | 3.18% | (20,969) |
| Export prepayment, Term Loan and Finnvera | Libor | (5,853,561) | 0.36% | (21,080) | 0.45% | (5,270) | 0.54% | (10,540) |
| **Net effect on finance results** | | | | **(50,713)** | | **(12,677)** | | **(25,356)** |

## 27 INSURANCE COVERAGE

In order to protect its operational risks, assets and liabilities, the Company maintains insurance coverage for several types of events that could impact its equity and operations.

Within the best market practices, the Company has contracted operational risk insurance policies, including loss of profits and several other coverage for material damages involving all industrial, administrative and inventory facilities.

The Company also has other insurance policies, such as general liability insurance, D&O liability, national and international transport and forest insurance.

## 28 EVENTS AFTER THE REPORTING PERIOD

### Acquisition of International Paper's assets

As mentioned in Note 1.6, on October 14, 2020, the Company started to control the acquired assets.

### Call for the EGM regarding the merger of SOGEMAR

On October 26, 2020, the Company communicated to its shareholders and the market in general that, in a meeting held on that date, the Board of Directors approved, with no voting of the members that have direct or indirect interest in Sogemar - Sociedade Geral de Marcas Ltda. ("Sogemar"), the call for an Extraordinary General Meeting (SGM), to be held on November 26, 2020, in order to resolve on the merger of Sogemar into the Company.

Sogemar owns "Klabin Boards", "Klabin Liquid Board", "Klabin X Rigid Board", "Klabin Rigid Board", "Klabin Carrier Board" and "Klabin Freeze Board" brands and, on the merger effective date, will be also owner of "Klabin" brand, currently held by Klabin Irmãos & Cia.

As a result of the merger, the Company will become the owner of the brands, with the consequent termination of the current licensing agreement and the payment of royalties for the use of the brands.

Klabin's shareholders who are, directly or indirectly, members of Sogemar, will abstain from voting and each preferred share issued by Klabin will be entitled to one vote in the SGM's resolutions regarding the merger, the implementation of which will therefore be subject to the approval by the majority of votes of the common and preferred shares of the Company's shareholders attending the SGM that do not hold direct or indirect ownership interest in Sogemar.

According to a relevant fact disclosed to the market on October 15, 2020, BNDES Participações SA - BNDESPAR ("BNDESPar") and Sogemar entered into the private transaction instrument, whereby Sogemar accepted the referred proposal for the exchange of shares in merger of Sogemar into the Company and BNDESPar expressed its support for the merger under these terms.

The merger will comprise a ratio of replacement of the Sogemar's units of interest by the issue of 69,394,696 (sixty-nine million, three hundred and ninety-four thousand, six hundred and ninety-six) new common registered no-par-value shares of the Company to Sogemar's members.

# Klabin S.A.

## Financial statements at December 31, 2019 and 2018 and independent auditor's report

## Independent auditor’s report on individual and consolidated financial statements

The Shareholders, Officers and Board of Directors
**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 statement of financial position as at December 31, 2019 and the statements of profit or 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 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, 2019, 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 on the individual and consolidated financial statements. Therefore, we did not provide a separate opinion on these matters. For each matter below, a description of how our audit has addressed the matters, 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, 2019, the tax credits recoverable disclosed in Notes 9 and 10, amounting to R$ 2,449,933 thousand and R$ 2,450,067 thousand, Individual and Consolidated, respectively, mainly arise from federal VAT (PIS/COFINS and IPI) and State VAT (ICMS) credits recoverable, which are directly associated with expected ICMS and IPI payable to offset these credits to R$ 1,037,070 thousand and R$ 1,037,088 thousand, Individual and Consolidated, respectively, due to income and social contribution tax credits on temporary differences, tax losses and negative bases 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 Brazilian 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 projections of future results, future estimates of sales, inflation projection, exchange rates, profitability of the Company's and its subsidiaries' business and profit margin, as well as estimates of discount rates to be used in projected cash flows.

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 overall financial statements.

**Measurement of biological assets**

The Company and its subsidiaries record their eucalyptus and pine forests (biological assets) at fair value. At December 31, 2019, the fair value of biological assets, as disclosed in Note 13, was R$ 3,375,564 thousand and R$ 4,712,381 thousand, Individual and Consolidated, respectively.

Due to the magnitude of the amounts involved and complexity of the biological asset fair value calculation process, which takes into account several assumptions that involved a high degree of judgment by Company management, such as: forest growth ratio, 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, particularly as regards estimated forest growth ratio, 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 2.2k) and 13 are acceptable in the context of the financial statements taken as whole.

## Other matters

### Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2019, 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 NBC TG 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 or 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:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluded 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.

- Evaluated 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.

- Obtained 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 scope and timing of the planned audit procedures and significant audit findings, including any significant deficiencies in internal control that we have been identified during our audit.

We also provided 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 5, 2020.

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, 2019 AND 2018**
(in thousands of reais)

| | Note | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **ASSETS** | | | | | |
| **Current** | | | | | |
| Cash and cash equivalents | 4 | 7,735,568 | 5,337,203 | 8,340,386 | 5,733,854 |
| Marketable securities | 5 | 1,382,259 | 1,305,401 | 1,390,529 | 1,313,350 |
| Accounts receivable: | | | | | |
| . Trade receivables | 6 | 1,440,416 | 1,818,806 | 1,908,974 | 2,086,325 |
| . Allowance for doubtful debts | 6 | (49,451) | (45,092) | (49,469) | (45,394) |
| Related parties | 7 | 739,542 | 373,793 | - | - |
| Inventory | 8 | 1,166,619 | 1,117,179 | 1,332,244 | 1,206,353 |
| Taxes recoverable | 9 | 505,277 | 267,964 | 505,411 | 269,728 |
| Other assets | | 240,524 | 304,008 | 245,869 | 297,718 |
| **Total current assets** | | **13,160,754** | **10,479,262** | **13,673,944** | **10,861,934** |
| **Non-current** | | | | | |
| **long-term receivables** | | | | | |
| Judicial deposits | 18 | 115,747 | 85,226 | 117,179 | 86,658 |
| Taxes recoverable | 9 | 1,944,656 | 1,280,811 | 1,944,656 | 1,280,811 |
| Other assets | | 271,450 | 303,655 | 270,817 | 300,757 |
| | | **2,331,853** | **1,669,692** | **2,332,652** | **1,668,226** |
| Investments: | | | | | |
| . Interests in subsidiaries and joint venture | 11 | 1,542,061 | 1,341,177 | 160,970 | 165,652 |
| . Other | | 9,687 | 7,607 | 9,687 | 7,607 |
| Property, plant and equipment | 12 | 13,034,714 | 12,178,658 | 13,241,181 | 12,262,472 |
| Biological assets | 13 | 3,375,564 | 3,303,774 | 4,712,381 | 4,582,631 |
| Right of use asset | 14 | 491,616 | - | 494,399 | - |
| Intangible assets | | 77,828 | 85,177 | 77,868 | 85,221 |
| | | 18,531,470 | 16,916,393 | 18,696,486 | 17,103,583 |
| **Total non-current assets** | | **20,863,323** | **18,586,085** | **21,029,138** | **18,771,809** |
| **Total assets** | | **34,024,077** | **29,065,347** | **34,703,082** | **29,633,743** |

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, 2019 AND 2018
(In thousands of reais)

| | Note | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current** | | | | | |
| Borrowings | 15 | 758,385 | 1,917,808 | 701,783 | 1,913,779 |
| Debentures | 16 | 572,759 | 61,686 | 572,759 | 61,686 |
| Trade payables | 17 | 865,029 | 749,187 | 887,092 | 758,609 |
| Trade payables (Forfait) | 17 | 137,164 | 145,143 | 137,164 | 145,143 |
| Tax payables | | 63,925 | 50,452 | 67,079 | 50,832 |
| Social security and labor obligations | | 297,355 | 296,189 | 301,288 | 300,379 |
| Related parties | 7 | 39,845 | 24,751 | 5,347 | 4,692 |
| Dividends and interest on shareholders' equity payable | 19 | 200,000 | 250,000 | 200,000 | 250,000 |
| Enrollment in Tax Recovery Program (REFIS) | 18 | - | 73,862 | - | 73,862 |
| Lease liability | 14 | 100,198 | - | 100,509 | - |
| Other payables and provisions | | 125,534 | 139,813 | 131,502 | 149,334 |
| **Total current liabilities** | | **3,160,194** | **3,708,891** | **3,104,523** | **3,708,316** |
| **Non-current** | | | | | |
| Borrowings | 15 | 21,617,742 | 16,915,268 | 21,539,392 | 16,869,217 |
| Debentures | 16 | 1,271,338 | 600,990 | 1,271,338 | 600,990 |
| Income tax and social contribution | | | | | |
| Deferred income tax and social contribution | 10 | 1,123,993 | 938,207 | 1,145,069 | 959,906 |
| Provision for tax, social security, labor and civil contingencies | 18 | 60,519 | 64,118 | 60,519 | 64,118 |
| Payables - Investors in Special Partnership Companies (SPCs) | | - | - | 333,183 | 301,583 |
| Enrollment in Tax Recovery Program (REFIS) | 18 | - | 265,587 | - | 265,587 |
| Lease liability | 14 | 394,233 | - | 396,720 | - |
| Provision for actuarial liabilities | | 167,984 | 119,571 | 167,984 | 119,571 |
| Other payables and provisions | | 181,192 | 160,480 | 183,081 | 211,225 |
| **Total non-current liabilities** | | **24,817,001** | **19,064,221** | **25,097,286** | **19,392,197** |
| **Total liabilities** | | **27,977,195** | **22,773,112** | **28,201,809** | **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 | | 1,517,044 | 1,748,219 | 1,517,044 | 1,748,219 |
| Other compreenseve income | | 942,994 | 977,122 | 942,994 | 977,122 |
| Treasury shares | | (187,274) | (196,615) | (187,274) | (196,615) |
| **Shareholders' equity of Klabin** | 19 | **6,046,882** | **6,292,235** | **6,046,882** | **6,292,235** |
| **Non-controlling interest** | 1 | - | - | **454,391** | **240,995** |
| **Consolidated shareholders' equity** | | **6,046,882** | **6,292,235** | **6,501,273** | **6,533,230** |
| **Total liabilities and equity** | | **34,024,077** | **29,065,347** | **34,703,082** | **29,633,743** |

The explanatory notes are an integral part of the financial statements.

## STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(in thousands of reais, except for basic profit/diluted per share)

| | Note | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Net sales revenue** | 20 | 10,237,566 | 10,008,815 | 10,271,839 | 10,016,461 |
| Variation in the fair value of biological assets | 13 | 279,484 | 466,074 | 390,053 | 628,367 |
| Cost of products sold | 21 | (7,273,518) | (6,385,515) | (7,241,234) | (6,342,406) |
| **Gross profit** | | 3,243,532 | 4,089,374 | 3,420,658 | 4,302,422 |
| **Operating expenses** | | | | | |
| Sales | 21 | (871,211) | (741,066) | (910,388) | (764,348) |
| General and administrative | 21 | (581,995) | (543,044) | (600,959) | (558,205) |
| Other net | 21 | 609,443 | (8,341) | 609,826 | (2,228) |
| | | (843,763) | (1,292,451) | (901,521) | (1,324,781) |
| Equity in the results of joint venture | 11 | 131,545 | 152,762 | 7,237 | 5,964 |
| **Profit before finance result and taxes** | | 2,531,314 | 2,949,685 | 2,526,374 | 2,983,605 |
| **Finance result** | 22 | (1,728,514) | (3,049,112) | (1,661,848) | (3,052,186) |
| **Profit (loss) before taxes on income** | | **802,800** | **(99,427)** | **864,526** | **(68,581)** |
| **Income tax and social contribution** | | | | | |
| . Current | 10 | 81,924 | (305,223) | 58,123 | (322,236) |
| . Deferred | 10 | (208,899) | 542,105 | (208,031) | 577,635 |
| | | (126,975) | 236,882 | (149,908) | 255,399 |
| **Profit for the year** | | **675,825** | **137,455** | **714,618** | **186,818** |
| **Attributed to Klabin's shareholders** | | - | - | **675,825** | **137,455** |
| **Attributed to non-controlling shareholders** | | - | - | **38,793** | **49,363** |
| **Basic earnings per common share - R$** | 23 | 0.1283 | 0.0261 | 0.1283 | 0.0261 |
| **Diluted earnings per common share - R$** | 23 | 0.1283 | 0.0261 | 0.1283 | 0.0261 |

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, 2019 AND 2018**
(in thousands of reais)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Profit for the year** | **675,825** | **137,455** | **714,618** | **186,818** |
| **Other comprehensive income:** | | | | |
| . Foreign currency translation adjustments (i) | 7,669 | (9,344) | 7,669 | (9,344) |
| . Actuarial liability remeasurement (ii) | (44,865) | (729) | (44,865) | (729) |
| **Total comprehensive income for the year, net of taxes (iii)** | **638,629** | **127,382** | **677,422** | **176,745** |
| **Attributed to Klabin's shareholders** | - | - | **638,629** | **127,382** |
| **Attributed to non-controlling shareholders** | - | - | **38,793** | **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%

(iii) Effects subject to differentiated income tax and social contribution at the rate of 34%, when applicable.

The explanatory notes are an integral part of the financial statements.

| | | | Revaluation reserve | Revenue reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Capital reserves** | Own assets | Legal | Tax incentives | Biological assets | Proposed dividends | Investments and working capital | **Other comprehensive income value adjustments** | **Treasury shares** | **Retained earnings** | **Shareholder's equity from Klabin** | **Non-cont inter** |
| **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** | |
| 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 | | | | | | | | | | | | - | 19 |
| 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 23):</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

The accompanying notes are an integral part of the financial statements

| | Share capital | Capital reserves | Revaluation reserve<br>Own assets | Revenue reserves<br>Legal | Tax incentives | Biological assets | Proposed dividends | Investments and working capital | Other comprehensive income value adjustments | Treasury shares | Retained earnings | Shareholder's equity from Klabin | Non- |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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** | |
| Profit for the year | | | | | | | | | | | 675,825 | **675,825** | |
| Other comprehensive income for the year | | | | | | | | | (37,196) | | | **(37,196)** | |
| Comprehensive income for the year | - | - | - | - | - | - | - | - | **(37,196)** | - | **675,825** | **638,629** | |
| Capital contribution from non-controlling shareholders (Note 1.7) | | | | | | | | | | | | - | |
| Stock option plan (Note 23): | | | | | | | | | | | | - | |
| . Treasury shares sold | | 7,606 | | | | | | | | 4,699 | | **12,305** | |
| . Award of treasury shares | | | | | | | | | (4,699) | 4,699 | | - | |
| . Recognition of the stock option plan remuneration | | | | | | | | | 10,713 | | | **10,713** | |
| . Maturity of stock option plan | | 3,001 | | | | | | | (3,001) | | | - | |
| . Grant plan outflow | | 2 | | | | | | | 55 | (57) | | - | |
| Allocation of net income for the year (Note 18): | | | | | | | | | | | | - | |
| . Constitution of tax incentive reserves | | | | | 48,718 | | | | | | (48,718) | - | |
| . Constitution of legal reserves | | | | 31,355 | | | | | | | (31,355) | - | |
| . Constitution of investment reserve and working capital | | | | | | | | 33,257 | | | (33,257) | - | |
| . Realization of biological asset reserves (own) | | | | | | (484,220) | | | | | 484,220 | - | |
| . Constitution of biological asset reserves (own) | | | | | | 184,459 | | | | | (184,459) | - | |
| . Realization of biological asset reserves (subsidiaries) (*) | | | | | | (44,744) | | | | | 44,744 | - | |
| Dividends anticipated for 2019 | | | | | | | | | | | (607,000) | **(607,000)** | |
| Interest on own capital anticipated for 2019 | | | | | | | | | | | (300,000) | **(300,000)** | |
| **At December 31, 2019** | **4,076,035** | **(350,622)** | **48,705** | **184,739** | **238,637** | **470,658** | **-** | **623,010** | **942,994** | **(187,274)** | **-** | **6,046,882** | |

(*) The effect is net between the constitution, reversal or realization of the balances contained in the equity income result.

The accompanying 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 CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**
(in thousands of reais)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Net cash provided by operating activities** | **2,277,869** | **2,652,396** | **2,953,124** | **2,786,976** |
| **Cash provided by operations** | **3,736,438** | **2,892,784** | **4,347,942** | **2,960,373** |
| Net profit for the year | 675,825 | 137,455 | 714,618 | 186,818 |
| Depreciation and amortization | 1,105,474 | 1,074,950 | 1,128,035 | 1,018,046 |
| Change in fair value of biological assets | (279,484) | (466,074) | (390,053) | (628,367) |
| Depletion of biological assets | 889,656 | 536,030 | 1,065,379 | 655,301 |
| Deferred income tax and social contribution | 208,899 | (542,105) | 208,031 | (577,635) |
| Interest and foreign exchange variations on borrowings | 2,117,350 | 3,342,726 | 2,389,792 | 3,320,094 |
| Interest and monetary variations on debentures | 330,378 | 30,174 | 330,378 | 30,174 |
| Payment of interest on borrowings | (1,239,632) | (1,092,418) | (1,185,147) | (1,067,175) |
| Interest on leases | 55,457 | - | 55,990 | - |
| Accrued interest - REFIS | 14,372 | 33,640 | 14,372 | 33,640 |
| Result on disposal of assets | 43,849 | (14,532) | 43,849 | (14,532) |
| Equity result of investees and JV | (131,545) | (152,762) | (7,237) | (5,964) |
| Other | (54,161) | 5,700 | (20,065) | 9,973 |
| **Changes in assets and liabilities** | **(1,458,569)** | **(240,388)** | **(1,394,818)** | **(173,397)** |
| Trade receivables and related parties | 17,000 | (246,363) | 181,426 | (286,868) |
| Inventories | (49,440) | (243,838) | (125,891) | (273,192) |
| Taxes recoverable | (702,321) | 449,020 | (694,420) | 464,353 |
| Marketable securities | (76,858) | (69,015) | (77,179) | (70,177) |
| Other assets | 24,744 | (8,199) | 10,844 | 143 |
| Suppliers | (257,454) | 82,337 | (244,813) | 80,187 |
| Tax obligations | 13,473 | (4,993) | 16,247 | (4,841) |
| Social security and labor obligations | 1,166 | 19,208 | 909 | 18,913 |
| Other liabilities | (230,042) | (63,068) | (256,833) | 58,229 |
| Income tax and social contribution paid | (198,837) | (155,477) | (205,108) | (160,144) |
| **Net cash used in investing activities** | **(2,321,064)** | **(763,667)** | **(2,367,896)** | **(858,222)** |
| Purchase of property, plant and equipment | (1,640,951) | (564,613) | (1,768,999) | (634,557) |
| Planting cost of biological assets | (681,962) | (243,677) | (805,076) | (461,786) |
| Proceeds from disposal of assets | 10,979 | 35,136 | 10,979 | 35,136 |
| Acquisition of investments and payment in subsidiaries (cash) | (24,661) | (2,968) | 185,000 | 191,000 |
| Dividends received from subsidiaries | 15,531 | 12,455 | 10,200 | 11,985 |
| **Net cash provided used in financing activities** | **2,441,560** | **(3,202,223)** | **2,021,304** | **(3,223,322)** |
| New borrowings | 9,956,289 | 2,403,318 | 9,791,230 | 2,385,592 |
| New Debenture (net of funding costs) | 1,000,000 | - | 1,000,000 | - |
| Repayment of borrowings | (7,318,825) | (4,537,099) | (7,565,565) | (4,531,056) |
| Payment of interest and participation in debenture results | (148,957) | (241,368) | (148,957) | (241,368) |
| Payment of lease liabilities | (102,252) | - | (102,361) | - |
| Disposal of treasury shares | 12,305 | 12,926 | 12,305 | 12,926 |
| Dividends paid SPCs | - | - | (8,348) | (9,416) |
| Dividends/interest on equity paid | (957,000) | (840,000) | (957,000) | (840,000) |
| **Increase (decrease) in cash and cash equivalents** | **2,398,365** | **(1,313,494)** | **2,606,532** | **(1,294,568)** |
| **Cash and cash equivalent at the beginning of the year** | **5,337,203** | **6,650,697** | **5,733,854** | **7,028,422** |
| **Cash and cash equivalent at the end of the year** | **7,735,568** | **5,337,203** | **8,340,386** | **5,733,854** |

The explanatory notes are an integral part of the financial statements.

## STATEMENT OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(in thousands of reais)

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Revenues** | | | | |
| . Sales of products | 12,059,363 | 11,689,086 | 12,105,309 | 11,731,478 |
| . Change in fair value of biological assets | 279,484 | 466,074 | 390,053 | 628,367 |
| . Other income | 10,979 | 35,136 | 49,772 | 84,500 |
| . Allowance for doubtful debts | 4,359 | 4,995 | 4,076 | 5,236 |
| | **12,354,185** | **12,195,291** | **12,549,210** | **12,449,581** |
| **Inputs acquired from third parties** | | | | |
| . Cost of products sold | (3,265,262) | (3,671,683) | (3,312,534) | (3,680,950) |
| . Materials, electricity, outsourced services and other | (2,543,209) | (2,088,054) | (2,299,983) | (2,002,898) |
| | **(5,808,471)** | **(5,759,737)** | **(5,612,517)** | **(5,683,848)** |
| **Gross value added** | **6,545,714** | **6,435,554** | **6,936,693** | **6,765,733** |
| **Retentions** | | | | |
| . Depreciation, amortization and depletion | (1,995,130) | (1,610,980) | (2,193,414) | (1,673,347) |
| **Net value added generated** | **4,550,584** | **4,824,574** | **4,743,279** | **5,092,386** |
| **Value added received through transfer** | | | | |
| . Equity in the results of investees | 131,545 | 152,762 | 7,237 | 5,964 |
| . Finance income, including exchange variations | 1,316,474 | 634,274 | 1,341,465 | 652,164 |
| | **1,448,019** | **787,036** | **1,348,702** | **658,128** |
| **Total value added to distribute** | **5,998,603** | **5,611,610** | **6,091,981** | **5,750,514** |
| **Distribution of value added:** | | | | |
| **Personnel** | | | | |
| . Direct compensation | 1,021,256 | 1,004,190 | 1,040,659 | 1,013,378 |
| . Benefits | 319,912 | 305,626 | 324,179 | 323,453 |
| . Government Severance Indemnity Fund for Employees (FGTS) | 86,379 | 81,800 | 86,586 | 81,970 |
| | **1,427,547** | **1,391,616** | **1,451,424** | **1,418,801** |
| **Taxes and contributions** | | | | |
| . Federal | 604,379 | 258,567 | 637,969 | 250,596 |
| . State | 229,822 | 125,594 | 229,822 | 125,594 |
| . Municipal | 16,042 | 14,992 | 16,042 | 14,992 |
| | **850,243** | **399,153** | **883,833** | **391,182** |
| **Remuneration of third-party capital** | | | | |
| . Interest | 3,044,988 | 3,683,386 | 3,003,313 | 3,704,350 |
| | **3,044,988** | **3,683,386** | **3,003,313** | **3,704,350** |
| **Remuneration of own capital** | | | | |
| . Dividends and participation in 6th debenture issue results | 907,000 | 919,000 | 907,000 | 919,000 |
| . Profits reinvested for the period | (231,175) | (781,545) | (192,382) | (732,182) |
| . Net income attributable to non-controlling shareholders | - | - | 38,793 | 49,363 |
| | **675,825** | **137,455** | **753,411** | **236,181** |
| | **5,998,603** | **5,611,610** | **6,091,981** | **5,750,514** |

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 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 – B3. The Company is domiciled in Brazil and headquartered in São Paulo.

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 issuance of these financial statements by Klabin S.A. (the "Company") and its subsidiaries was authorized by the Board of Directors on February 5, 2020.

Management evaluated the Company's and its subsidiaries' ability to continue its operation 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 Conversion of the totality of the sixth debenture issue

On January 31, 2018, all outstanding the sixth debenture 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.

As 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.

#### 1.3 Constitution of Guaricana Reflorestadora S.A. (“Guaricana”)

On December 13, 2018, the Company has constituted the company named Guaricana Reflorestadora SA, a Special Purpose Entity (“SPE”), together with a Timber Investment Management Organization (“TIMO”), whose main objective is to exploit forestry activity in the state of Santa Catarina - SC.

Klabin SA contributed to the formation of Guaricana's share capital with an investment of 5,000 hectares of planted forests in Santa Catarina - SC with a value of R$ 102 million and R$ 869 in cash for working capital, totaling an investment of R$ 103 million. TIMO, in turn, contributed R$ 192 million in cash.

The funds contributed by TIMO financed the acquisition of approximately 12 thousand hectares of land, equivalent to approximately 8 thousand hectares of planted forests, investments in the formation of forests and working capital. Klabin S.A. will have the preemptive right to purchase SPE's forest production, among other typical rights for the controlling shareholders of such an Entity.

Klabin holds 69.48% of the voting capital and 34.74% of the total capital of Guaricana, while TIMO holds the rest of the capital, being able to elect members on the Board of Directors and participating in certain decisions of the new Entity with voting rights, including in situations that require qualified forum ..

Klabin S.A. may exercise preemptive rights in the purchase of the Entity's shares belonging to TIMO. This option can be exercised between 2030 and 2035.

### 1.4 Constitution of Sapopema Reflorestadora S.A. (“Sapopema”)

On July 26, 2019, the Company has constituted the Entity named Sapopema Reflorestadora SA, a Special Purpose Entity (“SPE”), together with a Timber Investment Management Organization (“TIMO”), whose main objective is to exploit forestry activity in the state of Paraná - PR.

Klabin S.A. contributed to the formation of the Entity's share capital with an investment of 8 thousand hectares of planted forests in the state of Paraná - PR, with a value of R$ 114 million. TIMO, in turn, contributed R$ 325 million in cash, being part in the closing of the operation and the remainder in up to 2 years.

The funds contributed by TIMO will finance the acquisition of approximately 15 thousand gross hectares of land, equivalent to approximately 9 thousand hectares of effective planting, investments in the formation of forests and working capital. Klabin S.A. will have the preemptive right to purchase SPE's forestry production, among other typical rights for the controlling shareholders of such an Entity.

Klabin holds 51.80% of the voting capital and 22.88% of the total capital of the Entity, while TIMO holds the remaining capital, being able to elect members on the Board of Directors and participating in certain decisions of the new Entity entitled with voting rights, including in situations that require a qualified forum.

Klabin S.A. may exercise preemptive rights in the purchase of the Entity's shares belonging to TIMO. This option can be exercised between 2030 and 2037.

### 1.5 Expansion project - Puma II

As announced in a notes and facts 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 on 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.

(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, R$ 1,271 disbursed in 2019 and the remainder in up to 2023. From this total, approximately R$ 900 million refers to recoverable taxes. Bearing in mind that most equipment will be installed in the first stage of the project, approximately two thirds of disbursements should occur between the years 2019 and 2021.

### 1.6 Constitution of Klabin Paranaguá SPE S.A.

On October 21, 2019, the wholly-owned subsidiary “Klabin Paranaguá SPE S.A.” was constituted with subscribed and paid-in capital of R$ 20,000 divided into 20,000 registered shares with no nominal value, with headquarter in the municipality of Paranaguá - PR.

The Entity has as its sole and exclusive object the exploitation of the lease of areas, port facilities and public infrastructure, located within the Organized Port of Paranaguá, to carry out the activities of disembarkation (disembarkation, internal transference, storage and dispatch) and embarkation (reception , storage, internal transference and shipment) of general shipment, especially paper and cellulose, all under the terms of the Lease Agreement arising from Auction No. 03/2019-ANTAQ, to be signed with the Union, through the Ministry of Infrastructure.

As communicated to the market on August 13, 2019, Klabin S.A. won a warehouse tender in the Port of Paranaguá for handling and storage of general shipment, especially paper and cellulose, in an auction held at B3's headquarter in São Paulo. The lease guarantees access to an area of 27,530 m2 for a period of 25 years, which can be extended for another 45 years, with total planned investments in the amount of R$ 130 million and the start of its operation scheduled for January 2022.

The Entity's craving was motivated by the great representativeness of the Port of Paranaguá in its export volume, targeting both the current volumes and those referring to the new paper machines of the Puma II Project. This operation will bring a long-term operational guarantee, allowing a direct rail link from the manufacturing operations to the Terminal in the primary zone, with high efficiency in loading and berthing preference.

## 2 BASIS OF PRESENTATION OF THE INCOME STATEMENT AND MAIN ACCOUNTING POLICIES

### 2.1 Basis for presentation of the financial statements

The Company presents the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil, which include the rules of the Brazilian Securities and Exchange Commission (CVM) and the pronouncements issued by the Accounting Pronouncements Committee (CPC), the international financial reporting standards (IFRS), issued by the International Accounting Standards Board (IASB) and present 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 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 have greater complexity, as well as those areas in which assumptions and estimates are significant for the financial statements are disclosed in note 2.2 - item r.

The financial statements were prepared considering the historical cost as the basis of value, except when 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 shown below and have been applied consistently in the presented years.

**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 Áustria, 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 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 allowance for doubtful debts ("AFDD") 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, 2019.

The AFDD 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.

**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 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 year 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.

### 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 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.

## 2.3 New technical pronouncements adopted

The following new standards were approved and issued by the IASB and CPC, which came into force and were effectively adopted as of January 1, 2019. Other standards and interpretations are applicable for the first time in 2019, but have no impact on the company's financial statements.

Management adopted the new pronouncements as mentioned below.

(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 of leased asset "right of use assets", for the majority of the lease agreements.

The effects of the new standard, on the financial position, in the initial adoption and for the year ended December 31, 2019, 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 created 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 financial statements, since all the procedures adopted for the collection of taxes on profit are covered by applicable legislation and judicial precedents.

## 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, 2019 and 2018, as follows:

All amounts in thousands of reais

| | Country | Activity | Participation | Ownership - % 12/31/2019 | Ownership - % 12/31/2018 |
|---|---|---|---|---|---|
| **Subsidiaries:** | | | | | |
| Celucat | Brazil | Investment in companies | Direct | 100 | 100 |
| Guaricana Reflorestadora S.A. (i) | Brazil | Packaging paper | 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 phytotherapic products | Direct | 100 | 100 |
| Klabin Finance S.A. | Luxembourg | Finance | Direct | 100 | 100 |
| Klabin Fitoprodutos Ltda. | Brazil | Manufacture of phytotherapic 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 Paranaguá SPE S.A. (i) | Brazil | Port services | Direct | 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 | Packaging customization services | Direct | 100 | 100 |
| Sapopema Reflorestadora S.A. (i) | Brazil | Reforestation | Direct | 23 | - |
| **SPCs:** | | | | | |
| CG Forest | Brazil | Reforestation | Direct | 71 | 80 |
| Monte Alegre | Brazil | Reforestation | Direct | 75 | 83 |
| Harmonia | Brazil | Reforestation | Direct | 71 | 73 |
| Serrana | Brazil | Reforestation | Direct | 63 | 64 |
| Araucária | Brazil | Reforestation | Direct | 69 | 64 |
| **Joint ventures (not consolidated)** | | | | | |
| Florestal Vale do Corisco S.A. | Brazil | Reforestation | Direct | 51 | 51 |

(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

The Company, following its investment policies, has maintained its financial investments in low-risk investments, in financial institutions that management believes are top notch both in Brazil and abroad, according to the rating assigned to them by the investment risk agencies, disclosed in note 26. Management has considered these financial assets as cash and cash equivalents due to their immediate liquidity with the issuing financial institutions, with an insignificant risk of change in value.

All amounts in thousands of reais

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Cash and bank deposits - local currency | 36,192 | 25,424 | 57,731 | 80,742 |
| Cash and bank deposits - foreign currency (i) | - | - | 6,459 | 73,514 |
| Marketble securities- local currency | 6,625,917 | 4,947,107 | 6,910,426 | 5,112,257 |
| Marketble securities - foreign currency (i) | 1,073,459 | 364,672 | 1,365,770 | 467,341 |
| | **7,735,568** | **5,337,203** | **8,340,386** | **5,733,854** |

Financial investments in local currency, relating to Bank Deposit Certificates - CDBs and other repurchases transactions, are indexed to the variation of the Interbank Deposit Certificate - CDI, with an average annual remuneration rate of 4.84% (6.43% at 31 December 2018), and foreign currency investments that correspond to overnight and time deposit operations, have an average annual remuneration rate of 1.95% and 2.47% respectively (overnight of 1.98% at 31 December 2018), with immediate liquidity guaranteed by 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 matures in 2020 and NTN-B have yields indexed to the Amplified Customer Price Index (IPCA) + 6% interest rate per year, with maturities in 2020 and 2022.

Through its wholly-owned subsidiary Klabin Finance, the Company acquired a dollar denominated Bond with an indexed yield of 3.52% to 4.02%, maturing in 2028 and 2038 and corresponding to R$ 8,270 (R$ 7,949 at December 31, 2018).

As of December 31, 2019, the balance of these securities amounted to R$ 1,382,259 in the parent company and R$ 1,390,529 in the consolidated figures (R$ 1,305,401 and R$ 1,313,350 respectively, as of December 31, 2018 ). These securities have an active trading market. Considering its characteristics, the fair value is basically the principal amount plus the interest originally established on these securities. Management classified financial assets measured at fair value through profit or loss, in accordance with CPC 48 (equivalent to IFRS 9) - Financial Instruments, given the possibility of selling these securities to realize gains / losses.

Marketable securities are included in Level 1 of the hierarchy of measurement at fair value, according to the hierarchy defined by CPC 46 (equivalent to IFRS 13) - Fair Value Measurement, as they are assets with prices quoted in the market.

All amounts in thousands of reais

## 6 ACCOUNTS RECEIVABLE

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Trade receivables** | | | | |
| . Local | 1,182,088 | 1,345,818 | 1,182,201 | 1,345,912 |
| . Foreign | 258,328 | 472,988 | 726,773 | 740,413 |
| **Total trade receivables** | **1,440,416** | **1,818,806** | **1,908,974** | **2,086,325** |
| Allowance for doubtful debts ("AFDD") | (49,451) | (45,092) | (49,469) | (45,394) |
| | **1,390,965** | **1,773,714** | **1,859,505** | **2,040,931** |
| | | | | |
| **Overdue** | **83,334** | **70,588** | **108,218** | **79,827** |
| % on total portfolio (without AFDD) | 2.35% | 1.40% | 3.08% | 1.65% |
| 1 to 10 days | 4,518 | 4,647 | 4,518 | 4,647 |
| 11 to 30 days | 12,131 | 10,351 | 28,269 | 15,629 |
| 31 to 60 days | 4,609 | 7,021 | 11,916 | 9,789 |
| 61 to 90 days | 4,450 | 1,489 | 4,566 | 1,966 |
| Over 90 days | 57,626 | 47,080 | 58,949 | 47,796 |
| Falling due | 1,357,082 | 1,748,218 | 1,800,756 | 2,006,498 |
| **Total portfolio** | **1,440,416** | **1,818,806** | **1,908,974** | **2,086,325** |

On December 31, 2019, the average collection period for accounts receivable was to approximately 86 days (83 days on December 31, 2018) for domestic sales and approximately 117 days (142 days on December 31 2018) for sales on the foreign market, with interest charged after the expiration of the term defined in the negotiation. As mentioned in note 26, the Company has rules for monitoring overdue credits and receivables and the risk of not receiving amounts arising from credit sales.

### 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:

| | 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 | (16,188) | (16,213) |
| Reversals | 11,091 | 11,130 |
| Write-off | 738 | 1,008 |
| **At December 31, 2019** | **(49,451)** | **(49,469)** |

The allowance for doubtful debts relates mainly to trade notes with high risk of not being paid. 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 debts. The expense incurred on the recognition of the provision for doubtful debts is recorded in the statement of operations, under "Selling expenses".

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, 2019, discounting receivables with no right of return were carried out with specific customers in the amount of R$ 1,775,881 in the parent company and R$ 2,368,875 in the consolidated (R$ 2,478,246 in the parent company and R$ 2,740,998 in the consolidated at December 31, 2018), for which all risks and benefits associated with the assets were transferred to the counterparty, so that the receivables anticipated with third parties were derecognized from the financial statements.

The financial cost charged by the bank in the transaction is recorded in the income statement in the "Discounts and rebates" line.

(A free translation of the original in Portuguese)

**KLABIN S.A.**
**All amounts in thousands of reais**

## 7 RELATED PARTIES

### a) Balances and transactions with related parties

| | Klabin Argentina | Klabin Finance | Special Partnership Companies | Klabin Austria | Klabin Forest Products Company | Klabin Irmãos & Cia. | BNDES | Other | Parent company 12/31/2019 Total | Parent company 12/31/2018 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | (i) | (vi) | (ii) e (v) | (i) e (vi) | (i) | (iii) e (iv) | (vi) | (i) (iii) (v) e (vii) | | |
| **Type of relationship** | Subsidiary | Subsidiary | Subsidiary | Subsidiary | Subsidiary | Shareholder | Shareholder | | | |
| **Balances** | | | | | | | | | | |
| Current assets | 72,568 | - | 18,012 | 603,185 | 40,581 | - | - | 5,196 | 739,542 | 373,793 |
| Non-current assets | - | - | - | - | - | - | - | 2,194 | 2,194 | 3,189 |
| Current liabilities | - | 48,568 | 34,498 | 153,861 | 65 | 5,347 | 58,352 | 2,790 | 303,481 | 750,403 |
| Non-current liabilities | - | 4,191,928 | - | 6,392,692 | - | - | 574,800 | | 11,159,420 | 6,252,967 |
| **Transactions** | | | | | | | | | | |
| Sales revenue | 50,826 | - | 58,828 | 1,063,837 | 48,994 | - | - | 924,926 | 2,147,411 | 983,779 |
| Purchases | - | - | (121,680) | - | - | - | - | - | (121,680) | (95,584) |
| Interest expenses on financing | - | (176,576) | - | (400,374) | - | - | (186,352) | - | (763,302) | (476,236) |
| Guarantee commission - expenses | - | - | - | - | - | (22,797) | - | - | (22,797) | (28,423) |
| Royalty expenses | - | - | - | - | - | (58,111) | - | - | (58,111) | (51,747) |

(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 trademark rights were 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.

All amounts in thousands of reais

| | Klabin Irmãos & Cia. | BNDES | Parent company 12/31/2019 Total | 12/31/2018 Total |
|---|---|---|---|---|
| | (i) e (ii) | (iii) | | |
| **Type of relationship** | Shareholder | Shareholder | | |
| **Balances** | | | | |
| Current liabilities | 5,347 | 58,352 | 63,699 | 656,894 |
| Non-current liabilities | - | 574,800 | 574,800 | 2,358,786 |
| **Transactions** | | | | |
| Interest expenses on financing | - | (186,352) | (186,352) | (253,797) |
| Guarantee commission - expenses | (22,797) | - | (22,797) | (28,423) |
| Royalty expenses | (58,111) | - | (58,111) | (51,747) |

(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 12/31/2019 | 01/01 to 12/31/2018 | 01/01 to 12/31/2019 | 01/01 to 12/31/2018 | 01/01 to 12/31/2019 | 01/01 to 12/31/2018 | 01/01 to 12/31/2019 | 01/01 to 12/31/2018 |
| Fiscal Board and statutory director's | 27,766 | 30,968 | 794 | 754 | 3,727 | 2,313 | 32,287 | 34,035 |

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.

All amounts in thousands of reais

## 8 INVENTORY

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2019** | **12/31/2018** | **12/31/2019** | **12/31/2018** |
| Finished products | 295,540 | 326,957 | 438,963 | 393,100 |
| Product in process | 22,450 | 21,495 | 25,122 | 21,495 |
| Timber and logs | 234,567 | 248,138 | 234,567 | 248,138 |
| Maintenance supplies | 240,675 | 199,666 | 244,648 | 202,463 |
| Raw materials | 366,232 | 312,910 | 381,759 | 327,463 |
| Estimated losses | (13,366) | (6,529) | (13,471) | (6,529) |
| Other | 20,521 | 14,542 | 20,656 | 20,223 |
| | **1,166,619** | **1,117,179** | **1,332,244** | **1,206,353** |

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

| | 12/31/2019 | | 12/31/2018 | |
|---|---|---|---|---|
| | **Current assets** | **Non-current assets** | **Current assets** | **Non-current assets** |
| Value-added Tax on Sales and Services (ICMS) | 174,195 | 727,234 | 139,164 | 941,406 |
| Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) | 4,907 | 1,057,520 | 7,406 | 69,604 |
| Income tax/social contribution (IR/CSLL) | 234,319 | - | 25,218 | - |
| Tax Deducted at Source (IRRF) | | | | - |
| Tax on Industrialized Products (IPI) | 82,462 | 113,255 | 79,736 | 269,801 |
| Special regime for the reintegration of tax amounts for exporting companies (Reintegra) | 3,778 | - | 12,130 | - |
| Other | 5,616 | 46,647 | 4,310 | - |
| **Parent company** | **505,277** | **1,944,656** | **267,964** | **1,280,811** |
| Subsidiaries | 134 | - | 1,764 | - |
| **Consolidated** | **505,411** | **1,944,656** | **269,728** | **1,280,811** |

As management estimates, the tax credit balance of PIS / COFINS, IPI and ICMS held in current assets are expected to be compensated against these same taxes payable in the next 12 months. Based on the analysis and budget projection approved by management, the Company does not foresee risks of non-realization of these tax credits, since the provided budget and projections occur.

PIS/COFINS

According to the material fact disclosed to the market on August 22, 2019, the decision was final and unappealable, accepting the Company's intention to exclude ICMS from the PIS and Cofins calculation base, effective from April 2002, in an amount total of R$ 1.014 billion reais based on the mentioned lawsuit in out-of-date credits to be compensated against future tax debts by the Company.

All amounts in thousands of reais

The record of Pis and Cofins extending credits of R$ 1.014 billion was allocated to the balance sheet under the line "Taxes recoverable" in non-current assets, with the corresponding entry in the Company's results for the cause, with the nominal value of R$ 631 million recorded in "Other net", and R$ 383 million recorded in "Financial income", corresponding to the monetary restatement on credits earned since 2002.

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.

IPI

In May 2016 and May 2018, the Company recorded IPI credits arising from a favorable decision in a tax proceeding, which became final, substantially allocated to the financial result, since only the original amount was allocated to the IPI expense. The credits are available for compensation under the tax legislation in force.

## 10 INCOME TAX AND SOCIAL CONTRIBUITION

### a) Nature and expected realization of deferred taxes

The balances of deferred tax assets and liabilities were as follows:

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Provision for tax, social security, labor and civil contingencies | 6,261 | 7,095 | 6,261 | 7,095 |
| Non-deductible provisions | 91,738 | 92,500 | 91,738 | 92,500 |
| Tax losses and negative bases | 561,303 | 522,040 | 561,321 | 522,068 |
| Actuarial liability | 57,115 | 40,654 | 57,115 | 40,654 |
| Provision for labor | 42,103 | 42,826 | 42,103 | 42,826 |
| Deferred foreign exchange variations (i) | - | 306,655 | - | 306,655 |
| Gain or loss on financial instruments | 206,587 | 38,803 | 206,587 | 38,803 |
| Right of use (IFRS 16) | 27,106 | - | 27,106 | - |
| Other temporary differences | 44,857 | 40,185 | 44,857 | 40,185 |
| **Non-current assets** | **1,037,070** | **1,090,758** | **1,037,088** | **1,090,786** |
| Fair value of biological assets | 590,580 | 745,002 | 613,166 | 766,127 |
| Depreciation tax rate x useful life rate (Law 12,973/14) | 422,443 | 442,139 | 422,443 | 442,139 |
| Deemed cost of property, plant and equipment (land) | 545,429 | 545,429 | 545,429 | 565,795 |
| Adjustment to present value of balances | | 36,650 | - | 36,650 |
| Interest capitalized (Law 12,973/14) | 130,348 | 136,004 | 130,348 | 136,004 |
| Revaluation reserve | 25,091 | 25,091 | 25,091 | 24,879 |
| ICMS on PIS/COFINS calculation basis (ii) | 336,676 | - | 336,676 | - |
| Accelerated Depreciation - Law 12,272/12 | 75,535 | 78,992 | 75,535 | 78,992 |
| Lease liability (IFRS 16) | 21,269 | - | 21,269 | - |
| Other temporary differences | 13,692 | 19,658 | 12,200 | 106 |
| **Non-current liabilities** | **2,161,063** | **2,028,965** | **2,182,157** | **2,050,692** |
| **Net balance (liability)** | **1,123,993** | **938,207** | **1,145,069** | **959,906** |

(i) The Company changed the option of tax recognition of exchange variations of its rights and obligations to the accrual basis in 2019.
(ii) See note 9.

All amounts in thousands of reais

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:

| | 12/31/2019 | |
|---|---|---|
| | **Parent Company** | **Consolidated** |
| 2020 | 253,506 | 253,506 |
| 2021 | 317,872 | 317,872 |
| 2022 | 153,183 | 153,183 |
| 2023 | 96,857 | 96,857 |
| 2024 | 9,064 | 9,064 |
| 2025 onwards | 206,588 | 206,606 |
| | **1,037,070** | **1,037,088** |

The estimated realization of the balance, considers the use, of 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 differ from those actually performed.

Information regarding the Company's taxes that are subject to litigation is disclosed in Note 18.

## b) Analyses of income tax and social contribution expenses

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2019** | **12/31/2018** | **12/31/2019** | **12/31/2018** |
| Current tax expense | 272,952 | (33,805) | 293,939 | (23,318) |
| Adoption of the exchange variation regime (i) | (306,655) | (306,655) | (306,655) | (306,655) |
| Effect of revision of exchange rate regime on tax loss (i) | 91,898 | 91,898 | 91,898 | 91,898 |
| Adjustments to tax incentives basis (i) | 23,692 | 7,529 | 23,692 | 7,529 |
| Other additions / exclusions | 37 | (64,190) | (44,751) | (91,690) |
| **Current** | **81,924** | **(305,223)** | **58,123** | **(322,236)** |
| Recognition and reversal of temporary differences | 2,432 | 500,010 | (12,743) | 526,478 |
| Tax Loss and Negative Basis | 39,262 | 43,521 | 39,262 | 43,521 |
| Gain or loss on financial instruments | 167,784 | 38,802 | 167,784 | 38,802 |
| Right of use (IFRS 16) | 5,837 | - | 5,837 | - |
| Interest capitalized (Law 12,973/14) | 5,657 | 15,132 | 5,657 | 15,132 |
| ICMS on PIS/COFINS calculation basis | (336,676) | - | (336,676) | - |
| Actuarial liability | (6,652) | 3,914 | (6,652) | 3,914 |
| Adjustment to present value of balances | 36,650 | 41,298 | 36,650 | 41,298 |
| Adoption of exchange rate accrual basis | (306,655) | (142,667) | (306,655) | (142,667) |
| Depreciation tax rate x useful life rate (Law 12,973/14) | 29,040 | 7,870 | 29,040 | 7,870 |
| Variation in fair value and depletion of biological assets | 154,422 | 34,225 | 170,465 | 43,287 |
| **Deferred** | **(208,899)** | **542,105** | **(208,031)** | **577,635** |

(i) Reflects the adoption of the exchange variation regime by the substitution of the cash regime.

All amounts in thousands of reais

## c) Reconciliation of income tax and social contribution with the result of applying the statutory tax rate

| | Parent Company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Income before income tax and social contribution** | **802,800** | **(99,427)** | **864,526** | **(66,581)** |
| Income tax and social contribution at the rate of 34% | (272,952) | 33,805 | (293,939) | 23,318 |
| Tax effect on permanent differences: | | | | |
| Adjustment to present value of lease liabilities (i) | - | - | - | 18,602 |
| Equity results of investees | 44,725 | 51,939 | 2,461 | 2,028 |
| Adoption of the exchange variation regime | (23,692) | - | (23,692) | - |
| Interest on own capital | 102,000 | 132,600 | 102,000 | 132,600 |
| Other effects | 22,944 | 18,538 | 63,262 | 78,851 |
| | **(126,975)** | **236,882** | **(149,908)** | **255,399** |
| Income tax and social contribution | | | | |
| . Current | 81,924 | (305,223) | 58,123 | (322,236) |
| . Deferred | (208,899) | 542,105 | (208,031) | 577,635 |
| **Income tax and social contribution expense** | **(126,975)** | **236,882** | **(149,908)** | **255,399** |

(i) See note 14.

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**KLABIN S.A.**
**All amounts in thousands of reais**

# 11 INVESTMENTS IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

| | Klabin Finance S.A. | Klabin Áustria GmbH | Guaricana Reflorestadora S.A. | Sapopema 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 | Florestal Vale do Corisco S.A. (i) | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At December 31, 2017** | **70,232** | **10,911** | - | - | **89,698** | **113,931** | **197,243** | **192,428** | **164,930** | **171,673** | **95,057** | **1,106,103** |
| Acquisitions and capital contributions | | | 102,012 | | | | | | | | 2,099 | 104,111 |
| Dividends distributed | | | | | | (145) | (325) | | | (11,985) | | (12,455) |
| Equity in the results of investees (ii) | 37,043 | 23,219 | 26,277 | | 12,814 | (4,639) | 7,838 | 26,937 | 18,884 | 5,964 | (1,575) | 152,762 |
| Foreign exchange variations on investments abroad (iii) | | | | | | | | | | | (9,344) | (9,344) |
| **At December 31, 2018** | **107,275** | **34,130** | **128,289** | - | **102,512** | **109,147** | **204,756** | **219,365** | **183,814** | **165,652** | **86,237** | **1,341,177** |
| Acquisition, payment and capital adjustments (iv) | | | (614) | 54,873 | | | | | | | 24,661 | 78,920 |
| Dividends distributed | | | (4,914) | | | (125) | (292) | | | (11,919) | | (17,250) |
| Equity in the results of investees (ii) | (20,804) | 153,699 | (7,092) | 15,470 | (11,681) | (5,488) | 23,669 | (17,577) | 5,995 | 7,237 | (11,883) | 131,545 |
| Foreign exchange variations on investments abroad (iii) | | | | | | | | | | | 7,669 | 7,669 |
| **At December 31, 2019** | **86,471** | **187,829** | **115,669** | **70,343** | **90,831** | **103,534** | **228,133** | **201,788** | **189,809** | **160,970** | **106,684** | **1,542,061** |

**Summary of the financial information of subsidiaries at December 31, 2019**

| | Klabin Finance S.A. | Klabin Áustria GmbH | Guaricana Reflorestadora S.A. | Sapopema 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 | Florestal Vale do Corisco S.A. (i) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total assets** | 4,301,217 | 8,341,324 | 341,293 | 313,052 | 144,630 | 148,567 | 312,690 | 291,430 | 286,091 | 422,962 |
| **Total liabilities** | 4,214,746 | 8,153,495 | 8,333 | 5,607 | 1,272 | 2,125 | 8,020 | 8,669 | 11,782 | 107,335 |
| **Equity** | 86,471 | 187,829 | 332,960 | 307,445 | 143,358 | 146,442 | 304,670 | 282,761 | 274,309 | 315,627 |
| **Profit/loss for the period** | (18,709) | 149,975 | (20,411) | 67,572 | (11,682) | 1,803 | 40,354 | (1,604) | 5,994 | 14,189 |

(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 whit affiliate characteristics with exchange variation allocated to other comprehensive income.
(iv), (v) and (vi) Refer to information in Note 1.

All amounts in thousands of reais

## 12 PROPERTY, PLANT AND EQUIPMENT

### a) Composition of property, plant and equipment

| | | | 12/31/2019 | | | 12/31/2018 |
|---|---|---|---|---|---|---|
| Parent company | Cost | Accumulated depreciation | Net | Cost | Accumulated depreciation | Net |
| Land | 2,037,213 | - | **2,037,213** | 2,028,621 | - | **2,028,621** |
| Buildings and construction | 2,609,789 | (633,400) | **1,976,389** | 2,550,666 | (540,260) | **2,010,406** |
| Machinery, equipment and facilities | 12,510,947 | (5,507,413) | **7,003,534** | 12,027,278 | (4,601,334) | **7,425,944** |
| Construction in progress | 1,850,410 | - | **1,850,410** | 514,985 | - | **514,985** |
| Other (i) | 529,410 | (362,242) | **167,168** | 499,477 | (300,775) | **198,702** |
| | **19,537,769** | **(6,503,055)** | **13,034,714** | **17,621,027** | **(5,442,369)** | **12,178,658** |
| **Consolidated** | | | | | | |
| Land | 2,210,453 | - | **2,210,453** | 2,102,042 | - | **2,102,042** |
| Buildings and construction | 2,611,749 | (638,951) | **1,972,798** | 2,553,324 | (541,795) | **2,011,529** |
| Machinery, equipment and facilities | 12,521,335 | (5,508,702) | **7,012,633** | 12,039,273 | (4,608,045) | **7,431,228** |
| Construction in progress | 1,873,387 | - | **1,873,387** | 514,268 | - | **514,268** |
| Other (i) | 534,922 | (363,012) | **171,910** | 505,422 | (302,017) | **203,405** |
| | **19,751,846** | **(6,510,665)** | **13,241,181** | **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 | Total |
| **At December 31, 2017** | **1,998,046** | **1,975,127** | **7,878,751** | **460,614** | **286,653** | **12,599,191** |
| Purchases (i) e (ii) | 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 | (627,291) | (16,532) | - |
| Other | (6,234) | 30,899 | (29,389) | 32,074 | (4,248) | 23,102 |
| **At December 31, 2018** | **2,028,621** | **2,010,406** | **7,425,944** | **514,985** | **198,702** | **12,178,658** |
| Purchases (i) e (ii) | 5,333 | - | - | 1,973,066 | - | 1,978,399 |
| Disposals | - | (108) | (25,966) | (79) | (9,980) | (36,133) |
| Depreciation | - | (93,304) | (955,019) | - | (71,056) | (1,119,379) |
| Internal transfers | 3,259 | 53,523 | 562,927 | (664,891) | 45,182 | - |
| Capitalized interest | - | - | - | 27,869 | - | 27,869 |
| Other | - | 5,872 | (4,352) | (540) | 4,320 | 5,300 |
| **At December 31, 2019** | **2,037,213** | **1,976,389** | **7,003,534** | **1,850,410** | **167,168** | **13,034,714** |

(i) Net of recoverable taxes (Note 9).

(ii) See Note 1

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**KLABIN S.A.**
**All amounts in thousands of reais**

| | | | | | | 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) | 96,653 | - | - | 2,009,794 | - | 2,106,447 |
| Disposals | (29) | (108) | (25,965) | (79) | (10,012) | (36,193) |
| Depreciation | - | (93,603) | (955,827) | - | (71,198) | (1,120,628) |
| Internal transfers | 12,444 | 53,523 | 562,927 | (674,077) | 45,183 | - |
| Capitalized interest | - | - | - | 27,869 | - | 27,869 |
| Other | (657) | 1,457 | 270 | (4,388) | 4,532 | 1,214 |
| **At December 31, 2019** | **2,210,453** | **1,972,798** | **7,012,633** | **1,873,387** | **171,910** | **13,241,181** |

(i) Net of recoverable taxes (Note 9).
(ii) See Note 1

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, 2019 and 2018, 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

As of December 31, 2019, the balance of works and facilities in progress refers substantially to projects for the development of its industrial activity, such as the construction of two paper machines, with integrated pulp production, located at Klabin's industrial unit in the municipality Ortigueira(PR) (“Puma II”), as disclosed 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 (IAS36), performed the applicable analyses and did not identify indicators that book value exceeds the recoverable value of its assets at December 31, 2019 and 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.

At December 31, 2019 the Company owned 258 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.

All amounts in thousands of reais

The balance of the Company's biological assets recorded at fair value, as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **12/31/2019** | **12/31/2018** | **12/31/2019** | **12/31/2018** |
| Cost of development of biological assets | 1,663,787 | 1,142,474 | 2,315,727 | 1,715,919 |
| Fair value adjustment of biological assets | 1,711,777 | 2,161,300 | 2,396,654 | 2,866,712 |
| | **3,375,564** | **3,303,774** | **4,712,381** | **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.

For the years ending on December 31, 2019 and 2018, 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 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 nominated 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;

All amounts in thousands of reais

(viii) The depletion of biological assets is calculated based on the fair value of the biological assets harvested in the year;

(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 financial statements;

### b) Reconciliation and movement in fair value

| | Parent company | Consolidated |
|---|---|---|
| **At December 31, 2017** | **3,272,496** | **4,147,779** |
| Planting and standing wood shopping | 243,677 | 338,786 |
| Acquisition of forest assets (i) | - | 123,000 |
| Depletion: | **(536,030)** | **(655,301)** |
| . Historical cost | (156,611) | (179,479) |
| . Fair value adjustment | (379,419) | (475,822) |
| Change in fair value due to: | **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 standing wood shopping | 681,962 | 748,130 |
| Acquisition of forest assets (i) | - | 56,946 |
| Depletion: | **(889,656)** | **(1,065,379)** |
| . Historical cost | (160,647) | (205,262) |
| . Fair value adjustment | (729,009) | (860,117) |
| Change in fair value due to: | **279,484** | **390,053** |
| . Price | (47,963) | (68,436) |
| . Growth | 327,447 | 458,489 |
| **At December 31, 2019** | **3,375,564** | **4,712,381** |

(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 change in fair value is the increase in the discount rate used and the fall in the productivity index for 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 at December 31, 2019 was equivalent to R$ 66/$m^3$ (R$ 67/$m^3$ at December 31, 2018).

Regarding the discount rate, the significant effects of an increase (decrease) in the rate used to measure the fair value of biological assets, would result in a decrease (increase) in the measured values. On December 31, 2019, the Company used the weighted average cost of capital of 4.11% in constant currency for the parent company and 5.39% in the subsidiaries (4.74% in the parent company and in the subsidiaries on December 31, 2018) .

## 14 RIGHT OF USE ASSET AND LEASE LIABILITY

### a) Initial adoption

The Company adopted on January 1, 2019, the date of the transition, the guidelines of IFRS 16 / CPC06 (R2) - "Leasing Operations", which determines the recognition, from the date of the transition, of the right to use asset leased and the liability for future payments for all lease contracts or operations with the same characteristics as a lease, and which includes the right to control and obtain benefits over the use of a specific identified asset (specific), unless comprehend by a standard 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 (Equity) at the date of initial adoption, with the effects being presented as of January 1, 2019.

In the transition, lease liabilities were measured at the present value of the remaining payments, discounted at the incremental rate on their loans. The rights of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any anticipated or accumulated lease payments related to that lease that was recognized in the balance sheet immediately before the date of initial application.

Exemptions adopted by the Company

The Company applied the following practical expedients and exemptions:

(i) Definition of lease agreement in the transition: the Company applied CPC 06 (R2) / IFRS 16 to all contracts effective on January 1, 2019 that were identified as leases in accordance with CPC 06 (R2) / IFRS 16.

(ii) Contracts whose remaining term on the date of adoption was equal to or less than 12 months: the Company continued to recognize lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) Contracts for which the underlying assets were a low value: the Company continued to recognize lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iv) Applying a single discount rate to the leasing portfolio with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset).

All amounts in thousands of reais

(v) The Company analyzed the effects related to contingencies and impairment risks within the operations that were included in the scope of the standard and did not identify any impacts.

Impacts in financial position on initial adoption

The main impact of adopting the new standard is related to forest land lease operations, corresponding to approximately 80 thousand hectares, also the leasing of industrial and, agricultural and administrative and commercial warehouses.

The table below shows the effects of the adoption of the new standard on the balance sheet at January 1 and December 31, 2019:

**Effect of IFRS 16 on the Balance Sheet of Parent company in**

| Assets | 01/01/2019 | 12/31/2019 | Liabilities and Equity | 01/01/2019 | 12/31/2019 |
|---|---|---|---|---|---|
| **Current** | - | | **Current** | **90,477** | **100,198** |
| | | | Lease Liability | 90,477 | 100,198 |
| **Non-current** | **372,893** | **478,522** | **Non-current** | **282,416** | **394,233** |
| Right of use asset | 372,893 | 491,616 | Lease Liability | 282,416 | 394,233 |
| Biological assets | - | (13,094) | | | |
| | | | **Equity** | - | **(15,909)** |
| | | | Retained earnings | - | (15,909) |
| **Total** | **372,893** | **478,522** | **Total** | **372,893** | **478,522** |

**Effect of IFRS 16 on the Balance Sheet of Consolidated in**

| Assets | 01/01/2019 | 12/31/2019 | Liabilities and Equity | 01/01/2019 | 12/31/2019 |
|---|---|---|---|---|---|
| **Current** | - | | **Current** | **90,477** | **100,510** |
| | | | Lease Liability | 90,477 | 100,510 |
| **Non-current** | **372,893** | **481,287** | **Non-current** | **282,416** | **396,719** |
| Right of use asset | 372,893 | 494,399 | Lease Liability | 282,416 | 396,719 |
| Biological assets | - | (13,112) | | | |
| | | | **Equity** | - | **(15,942)** |
| | | | Retained earnings | - | (15,942) |
| **Total** | **372,893** | **481,287** | **Total** | **372,893** | **481,287** |

## b) Accounting policy and assumptions for recognition

The right to use the assets and the liabilities of the leases are recognized at the future value of the consideration assumed in the contract, brought to the net present value. The right to use the assets is amortized on a straight-line basis over the term of the contract in the income statement for the year in line with its nature (“Cost of products sold” / “Administrative expenses” / “Selling expenses”), as well as financial expenses, corresponding to the amortization of the adjustment to the net present value of the contracts, is allocated to the “Financial result”.

Depreciation of the right-of-use asset is calculated using the straight-line method in accordance with the remaining term of each contract.

The Company recognizes its right-of-use asset and leases liabilities considering the following assumptions:

(i) Operations with a contracts period higher than 12 months fall are included in the scope of the standard. The Company evaluated the aspects of renewal in its methodology and did not identify aspects of renewal, chose not to consider contract renewals, given that the assets involved in its operation are not indispensable for the conduct of its business, and may be replaced at the end of the contract for new assets acquired or for operations other than those agreed upon.

(ii) Contracts that involve the use of low-value underlying assets.

(iii) Only transactions involving specific assets defined in the contract or for exclusive use over the period of the contract were considered.

(iv) Inclusion of recoverable taxes in the definition of the assumed installments of the contracts in which it is applicable.

(v) The methodology used to calculate the net present value of the contracts corresponds to the cash flow of the assumed installments discounted at the discount rate defined for the asset class.

(vi) The discount rate for the year ended December 31, 2019 was based on the risk-free interest rates observed in the Brazilian market and adjusted to the reality of the Company, for the leasing of forest lands and administrative properties and warehouses were 3.00% per year for contracts with a maturity of up to 5 years, 4.74% with a maturity of 5 to 10 years and 5.09% with a maturity of more than 10 years, in addition to 5.54% for operations that involve machinery and equipment. The rates were obtained by financing operations for this classes of assets through surveys with the financial institutions that serve the Company, net of inflation.

(vii) Remeasurement to reflect any revaluation or changes to the lease will be made on the one-year anniversary month of each contract (reset), in which the Company will assess the need for readjustments in monthly and annual payments and, if applicable, readjustments will be realized in assets against lease liabilities.

The Company's leasing operations in effect at December 31, 2019 do not have any restriction clauses that impose the maintenance of financial ratios, as well as no variable payment clauses that should be considered, or residual value guarantee clauses and purchase options at the end of contracts.

### c) Summary composition and movement of right-of-use assets and lease liabilities

As of December 31, 2019, the Company has 316 lease agreements with the parent company and 317 with the consolidated (238 with the parent company and the consolidated on January 1, 2019) recognized in its balance sheet.

All amounts in thousands of reais

Parent company

| Right of use | 01/01/2019 | Amortization | Additions / Disposals | 12/31/2019 |
|---|---|---|---|---|
| Lands | 232,986 | (39,384) | 167,872 | 361,474 |
| Buildings | 32,976 | (13,600) | (1,292) | 18,084 |
| Machines and equipment | 106,931 | (32,812) | 37,939 | 112,058 |
| **Total assets** | **372,893** | **(85,796)** | **204,519** | **491,616** |

| Lease liabilities | 01/01/2019 | Interest | Payments | Additions / Disposals | Current and Non-Current Transfer | 12/31/2019 |
|---|---|---|---|---|---|---|
| Current | 90,477 | 12,900 | (102,252) | 26,502 | 72,571 | 100,198 |
| Non-current | 282,416 | 42,557 | - | 141,831 | (72,571) | 394,233 |
| **Total in liabilities** | **372,893** | **55,457** | **(102,252)** | **168,333** | **-** | **494,431** |

Consolidated

| Right of use | 01/01/2019 | Amortization | Additions / Disposals | 12/31/2019 |
|---|---|---|---|---|
| Lands | 232,986 | (39,475) | 170,747 | 364,258 |
| Buildings | 32,976 | (13,600) | (1,292) | 18,084 |
| Machines and equipment | 106,931 | (32,812) | 37,938 | 112,057 |
| **Total assets** | **372,893** | **(85,887)** | **207,393** | **494,399** |

| Lease liabilities | 01/01/2019 | Interest | Payments | Additions / Disposals | Current and Non-Current Transfer | 12/31/2019 |
|---|---|---|---|---|---|---|
| Current | 90,477 | 13,024 | (102,361) | 26,719 | 72,650 | 100,509 |
| Non-current | 282,416 | 42,966 | - | 143,988 | (72,650) | 396,720 |
| **Total in liabilities** | **372,893** | **55,990** | **(102,361)** | **170,707** | **-** | **497,229** |

As of December 31, 2019, the Company recorded an expense of R$ 12 million related to short-term leases (less than 12 months of the contract) or operations with low value assets involved in the contracts.

## d) Lease maturity schedule

| | Parent company | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2019 | | | | 12/31/2019 | | | |
| | Lands | Buildings | Machines and Equipment | Total | Lands | Buildings | Machines and Equipment | Total |
| 2020 | 51,628 | 12,376 | 57,170 | 121,174 | 52,062 | 12,376 | 57,170 | 121,608 |
| 2021 | 48,861 | 6,624 | 43,777 | 99,262 | 49,296 | 6,624 | 43,777 | 99,697 |
| 2022 | 43,490 | - | 18,706 | 62,196 | 43,925 | - | 18,706 | 62,631 |
| 2023 | 39,488 | - | 623 | 40,111 | 39,922 | - | 623 | 40,545 |
| 2024 | 39,467 | - | 304 | 39,771 | 39,902 | - | 304 | 40,206 |
| 2025 - 2029 | 151,215 | - | - | 151,215 | 152,373 | - | - | 152,373 |
| 2030 - 2034 | 82,343 | - | - | 82,343 | 82,343 | - | - | 82,343 |
| 2035 - 2039 | 14,337 | - | - | 14,337 | 14,337 | - | - | 14,337 |
| 2040 - 2058 | 3,586 | - | - | 3,586 | 3,586 | - | - | 3,586 |
| | **474,415** | **19,000** | **120,580** | **613,995** | **477,746** | **19,000** | **120,580** | **617,326** |
| Interest | (111,758) | (453) | (7,353) | (119,564) | (112,291) | (453) | (7,353) | (120,097) |
| **Lease liabilities** | **362,657** | **18,547** | **113,227** | **494,431** | **365,455** | **18,547** | **113,227** | **497,229** |

## e) Potential Pis / Cofins tax recoverble

The Company has the potential right to recover Pis / Cofins embedded in the consideration for the leases of buildings and machinery and equipment. In the measurement of cash flows from leases, tax credits were not disclosed, and the potential effects of Pis / Confis are shown in the table below:

| | Parent company and Consolidated | |
|---|---|---|
| Cash flow | Nominal | Adjusted present value |
| Lease consideration | 139,580 | 131,774 |
| Pis/Cofins (9.25%) | 12,911 | 12,189 |

All amounts in thousands of reais

## f) Misleading in the full application of CPC06 (R2)

In accordance with the OFFICIAL NOTICE / CVM / SNC / SEP / N ° 02/2019, the Company adopted as an accounting policy the requirements of CPC06 (R2) in the measurement and remeasurement of its right of use, proceeding with the use of discounted cash flow without considering inflation. Management evaluated the use of nominal rates to discount its cash flows and concluded that they do not present significant distortions in the information presented.

In order to safeguard the reliable presentation of the information considering the requirements of CPC06 (R2) and to comply with the guidelines of the technical areas of the CVM, information related to liabilities without inflation are provided, effectively accounted for (actual flow x real rate), and the estimate of inflated balances in comparison periods (nominal flow x nominal rate).

Other assumptions, such as the maturity schedule of the liabilities and interest rates used in the calculation, are disclosed in other items of this note, as well as the inflation indices observable in the market, so that the nominal flows can be prepared by the users of the financial statements.

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 01/01/2019 | 12/31/2019 | 01/01/2019 | 12/31/2019 |
| Actual flow | | | | |
| Lease liabilities | 456,049 | 613,995 | 456,049 | 617,326 |
| Interest | (83,156) | (119,564) | (83,156) | (120,097) |
| | 372,893 | 494,431 | 372,893 | 497,229 |
| Flow with inflation effects | | | | |
| Lease liabilities | 541,106 | 777,197 | 541,106 | 781,083 |
| Interest | (98,665) | (151,345) | (98,665) | (151,955) |
| | 442,441 | 625,852 | 442,441 | 629,128 |

All amounts in thousands of reais

# 15 BORROWINGS

## a) Composition of borrowings

| | Annual interest rate - % | | | 12/31/2019 |
|---|---|---|---|---|
| | | Current | Non-Current | Total |
| **In local currency** | | | | |
| . BNDES - Project Puma (ii) | TLP + 3.58 | 210 | 500,382 | 500,592 |
| . BNDES – Other (ii) | TJLP + 2.06 to 3.28 | 25,765 | 74,418 | 100,183 |
| . BNDES - FINAME (ii) | 2.5 to 5.5 or TJLP + 2.06 to 3.28 | 19,729 | - | 19,729 |
| . Export credit notes (in R$) | 102 to 105 of CDI | 226,864 | 756,667 | 983,531 |
| . CRA | 95 to 102 of CDI or IPCA + 3.50% to IPCA + 4.51% | 90,767 | 3,705,050 | 3,795,817 |
| . Other | 0.76 to 8.75 or TJLP | 9,977 | 10,921 | 20,898 |
| . Cost with funding | | (28,411) | (242,183) | (270,594) |
| | | 344,901 | 4,805,255 | 5,150,156 |
| **In foreign currency (i)** | | | | |
| . BNDES - Other (ii) | USD + 6.37 a 6.70 | 12,648 | - | 12,648 |
| . Export prepayments | USD + Libor 1.35 to 2.20 or USD 5.40 + 6.25 | 45,181 | 3,186,312 | 3,231,493 |
| . Export credit notes | 5.64 to 5.67 | 4,397 | 1,878,882 | 1,883,279 |
| . Export prepayments in subsidiaries | 3.50 | 202,430 | 10,584,618 | 10,787,048 |
| . Finnvera | USD + Libor + 0.82 to 1.05 or USD + 3.88 | 166,458 | 822,525 | 988,983 |
| . ECA | EUR + 0.45% | 5,277 | 28,714 | 33,991 |
| . Gain / loss on derivative instruments (swap) | 4.70 to 5.67 | - | 400,073 | 400,073 |
| . Cost with funding | | (22,907) | (88,637) | (111,544) |
| | | 413,484 | 16,812,487 | 17,225,971 |
| **Total parent company** | | **758,385** | **21,617,742** | **22,376,127** |
| | | | | |
| **Subsidiaries:** | | | | |
| **In foreign currency (i)** | | | | |
| . Bonds (Notes) | USD + 4.88 to 7.00 | 129,834 | 8,147,907 | 8,277,741 |
| . Export prepayments (Notes) | | 28,716 | 2,418,420 | 2,447,136 |
| . Cost with funding | | (12,722) | (60,059) | (72,781) |
| | | 145,828 | 10,506,268 | 10,652,096 |
| | | | | |
| **. Elimination of prepayments in subsidiaries** | | **(202,430)** | **(10,584,618)** | **(10,787,048)** |
| | | | | |
| **Total Consolidated** | | **701,783** | **21,539,392** | **22,241,175** |

(i) In U.S. dollars

(ii) BNDES - Considered a related party due to its shareholding in the Company (see note 7 and 19).

All amounts in thousands of reais

| | Annual interest rate - % | | | 12/31/2018 |
|---|---|---|---|---|
| | | Current | Non-Current | Total |
| **In local currency** | | | | |
| . BNDES - Project Puma (ii) | 6.0 or TJLP + 1.98 to 2.48 | 289,961 | 1,388,334 | 1,678,295 |
| . BNDES – Other (ii) | TJLP + 2.06 to 3.28 | 57,724 | 26,739 | 84,463 |
| . BNDES - FINAME (ii) | 2.5 to 5.5 or TJLP + 2.06 to 3.28 | 90,697 | 19,687 | 110,384 |
| . Export credit notes (in R$) | 102 to 114 of CDI | 93,047 | 2,832,215 | 2,925,262 |
| . CRA | 95 to 102 of CDI | 19,335 | 1,795,916 | 1,815,251 |
| . Other | 1.0 of 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 |
| **In foreign currency (i)** | | | | |
| . BNDES - Projeto Puma (ii) | USD + 7.18 | 182,437 | 911,895 | 1,094,332 |
| . BNDES - Other (ii) | USD + 6.76 to 6.98 | 31,399 | 12,131 | 43,530 |
| . Export prepayments | USD + Libor 1.70 to 4.75 or USD + 4.68 to 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 to 6.15 | 73,417 | 3,894,174 | 3,967,591 |
| . BID | USD + Libor + 1.40 to 1.78 or USD + 1.00 | 190,528 | 650,951 | 841,479 |
| . Finnvera | USD + Libor + 0.82 to 1.05 or USD + 1.88 to 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 to 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:** | | | | |
| **In foreign currency (i)** | | | | |
| . Bonds (Notes) | USD + 4.88 to 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
(ii) BNDES - Considered a related party due to its shareholding in the Company (see note 7 and 19).

## National Bank for Economic and Social Development (BNDES)

The Company has contracts with BNDES for financing industrial development projects, such as the construction of the new paper machine in Correia Pinto (SC), the construction of the new recycled paper machine in Goiana (PE) and the project for the productive expansion of papers, denominated the Puma II Project, with settlement scheduled for 2039. The amortization of the financing is paid out monthly along with the related interest.

## Export prepayments and export credit notes

Prepayments and export credit notes (in R$ and USD) were raised for the purpose of managing working capital and developing the Company's operations. The contracts are expected to be settled by February 2026.

## *Bonds (Notes)*

The Company, through its wholly-owned subsidiaries Klabin Finance SA and Klabin Austria GmbH, issued debt securities (Notes) on the international market with listing on the Luxembourg Stock Exchange (Euro MTF) and on the Singapore Stock Exchange (SGX) under Senior issue type Notes 144A / Reg S.

(i) In July 2014, the fundraising of USD 500 million was completed with a 10-year maturity and a 5.25% coupon paid semi-annually, with the objective of financing the activities of the Company and its subsidiaries within the normal course of the business and serving the respective corporate objects.

In April 2019, a USD 238 million repurchase was carried out, in line with the Company's debt escalation strategy.

(ii) In September 2017, the Company issued Green Bonds in the amount of USD 500 million, maturing in 10 years and a semiannual coupon of 4.88%. The resource is destined to reforestation activities, restoration of native forests, investments in renewable energy, efficient logistics with the use of rail transport, recycling of solid waste and development of eco-efficient products, among other sustainability practices.

(iii) In March 2019, the fundraising of USD 500 million was completed with a 10-year maturity and a 5.75% coupon per year and USD 500 million in Green Bonds with a 30-year maturity and a 7% coupon per year. The resource is destined to prepayment or refinancing of debts of the Company and its subsidiaries, as well as to reinforce cash.

(iv) In July 2019, the fundraising of USD 250 million of nominal value was completed, with a 10-year maturity and 5.75% coupon and yield of 4.90% per year, with the objective of prepayment or refinancing. debts of the Company and its subsidiaries, as well as to reinforce cash.

**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 basis for the issuance of Certificates of Agribusiness Receivables (“CRA”), being:

(i) CRA I - issued by Eco Securitizadora de Valores Mobiliários in Agronegócio S.A in March 2017 in the amount of R$ 845.9 million, with a term of 5 years and semiannual interest of 95% of the CDI.

(ii) CRA II - issued by Eco Securitizadora de Valores Mobiliários in Agronegócio S.A in December 2017 in the amount of R$ 600 million, with a 6-year term and semiannual interest of 97.5% of the CDI.

(iii) CRA III - issued by Ápice Securitizadora S.A in September 2018 in the amount of R$ 350 million, with a 6-year term and semiannual interest of 102% of the CDI.

(iv) CRA IV - issued by VERT Companhia Securitizadora in April 2019 in the amount of R$ 1 billion divided into two series. The first series in the total amount of R$ 200 million, with a 7-year maturity and semiannual interest of 98% of the CDI. The second series in the total amount of R$ 800 million, with a 10-year maturity and semiannual interest corresponding to the internal rate of return of the IPCA Treasury.

(v) CRA V - issued by VERT Companhia Securitizadora in July 2019 in the amount of R$ 1 billion with a 10-year term and interest at IPCA + 3.5% per year.

All amounts in thousands of reais

### Derivative instruments (swap) - gain / loss

In December 2018, the Company obtained a new R$ 1,879 million export credit note from Banco Bradesco with maturity in 2026 and interest of 114% of the CDI, without collateral and without covenant, but linked together with two exchange rate and interest rate swaps, but in USD and interest of 5.6%, with the same credit note maturity, and no instrument can be settled separately.

In March 2019, the Company entered into a swap with Banco Itaú with an asset position at 114.65% of the CDI and a liability at USD 5.40% per year. This operation is linked to the 12th issue of debentures in the amount of R$ 1 billion, which occurred in April 2019, as disclosed in note 12 b).

The gain and loss on derivative instruments is determined by Market to Market position, corresponding to its fair value, recognized in the financial result.

### b) Schedule of non-current maturities

The maturity dates of the Company's borrowings at December 31, 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** | 766,000 | 357,000 | 1,161,000 | 3,547,000 | 2,189,000 | 2,810,000 | 10,709,392 | **21,539,392** |

### 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 | 9,956,289 | 9,791,230 |
| Gain or loss on financial instruments | 285,947 | 285,947 |
| Accrued interest | 1,395,289 | 1,363,506 |
| Foreign exchange and monetary variations | 463,983 | 768,208 |
| Repayments | (7,318,825) | (7,565,565) |
| Payment of interest | (1,239,632) | (1,185,147) |
| **At December 31, 2019** | **22,376,127** | **22,241,175** |

### d) Guarantees

Financing from BNDES is guaranteed by land, buildings, improvements, machinery, equipment and facilities at the Otacílio Costa - SC, Telêmaco Borba - PR and Ortigueira - PR factories, which are the object of the respective financing, as well as by guarantees of the controlling shareholders Klabin Irmãos & Co.

All amounts in thousands of reais

Finnvera's financing is guaranteed by the industrial plants of Angatuba - SP, Piracicaba - SP, Betim - MG and Goiana - PE.

Export credit loans, export prepayments and working capital have no collateral.

### e) Restrictive covenants

The Company and its subsidiaries do not have any financing contracts maintained on the date of the financial statements that have restrictive clauses that establish obligations regarding the maintenance of financial ratios on contracted operations whose non-compliance automatically makes payment 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 |
|---|---|---|---|---|---|---|---|---|---|
| First series | 27,777,500 | 14.40 | 399,996 | IPCA + 7.25% | 06/15/2020 | Without amortization | Semi-annual | Convertible debt | Yes |
| Second 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 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.

### b) 12ª emissão de debêntures

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 is linked to a 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.

All amounts in thousands of reais

| | 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 | | | | |
|---|---|---|---|---|---|
| | 12/31/2019 | | | 31/12/2018 | |
| | 7th issue | 12th issue | Total | 7th issue | Total |
| **Current liabilities** | | | | | |
| . Principal | 461,497 | - | 461,497 | 61,538 | 61,538 |
| . Interest | 3,324 | 16,254 | 19,578 | 148 | 148 |
| . Monetary restatement/profit sharing | 91,684 | - | 91,684 | 91,684 | - |
| | **556,505** | **16,254** | **572,759** | **153,370** | **61,686** |
| **Non-current liabilities** | | | | | |
| . Principal | 92,306 | 1,000,000 | 1,092,306 | 553,805 | 553,805 |
| . Gain / loss on derivative instruments (swap) | - | 207,535 | 207,535 | - | - |
| . Monetary restatement/profit sharing | - | - | - | 75,688 | 75,688 |
| . Subscription bonus | (28,503) | - | (28,503) | (28,503) | (28,503) |
| | **63,803** | **1,207,535** | **1,271,338** | **600,990** | **600,990** |
| **Total debenture liability** | **620,308** | **1,223,789** | **1,844,097** | **754,360** | **662,676** |
| **Equity - capital reserve** | | | | | |
| . Subscription bonus | 28,503 | - | 28,503 | 28,503 | 28,503 |
| | **28,503** | **-** | **28,503** | **28,503** | **28,503** |
| **Total** | **648,811** | **1,223,789** | **1,872,600** | **782,863** | **691,179** |

## d) Debenture movement

| | 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 | 1,000,000 |
| Gain or loss on financial instruments (SWAP) | 207,535 |
| Interest and monetary variations on debentures | 122,843 |
| Repayments (7th issue) | (61,538) |
| Payment of interest (7th issue) | (53,747) |
| Payment of interest (12th issue) | (33,672) |
| **At December 31, 2019** | **1,844,097** |

## 17 TRADE PAYABLES

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Local currency | 839,763 | 814,760 | 842,875 | 814,892 |
| Local currency (Forfait) | 137,164 | 52,779 | 137,164 | 52,779 |
| Foreign currency | 25,266 | 26,791 | 44,217 | 36,081 |
| | **1,002,193** | **894,330** | **1,024,256** | **903,752** |

All amounts in thousands of reais

The Company's average payment term to operational suppliers is approximately 51 days (50 days on December 31, 2018). In the case of suppliers of fixed assets, the terms follow the commercial negotiation of each operation.

Of the balance of suppliers on December 31, 2019, R$ 137,164 (R$ 145,143 on December 31, 2018) in the parent company and in the consolidated, corresponds to the forfait operations in which there were no relevant changes in the purchase conditions (payments and negotiated prices) with suppliers, remaining as usual in the market. The forfait operations enable suppliers to better manage their cash flow needs, to the detriment of greater intensification of commercial relations with the Company.

## 18 PROVISIONS FOR TAX, SOCIAL SECURITY, LABOR AND CIVIL CONTINGENCIES

### a) Provisioned risks

Based on the individual analysis of the lawsuits filed against the Company and its subsidiaries and supported by the opinion of its legal advisors, provisions were set up in non-current liabilities, for risks with losses considered probable, shown below:

| | | | | **12/31/2019** |
|---|---|---|---|---|
| **In the parent company:** | **Provisioned amount** | **Restricted judicial deposits** | **Net liability** | **Unrestricted judicial deposits** |
| **Tax:** | | | | |
| . PIS/COFINS | - | - | - | 44,105 |
| . ICMS/IPI | - | - | - | 21,744 |
| . Income tax/social contribution | (10,715) | 3,616 | (7,100) | 98 |
| . OTHER | (21) | 21 | - | 23,217 |
| | (10,736) | 3,637 | (7,100) | 89,164 |
| Labor | (42,103) | 19,218 | (22,885) | - |
| Civil | (7,680) | 3,728 | (3,952) | - |
| | **(60,519)** | **26,583** | **(33,937)** | **89,164** |
| **Subsidiaries:** | | | | |
| Other | - | 1,432 | 1,432 | - |
| **Consolidated** | **(60,519)** | **28,015** | **(32,505)** | **89,164** |

All amounts in thousands of reais

| In the parent company: | Provisioned amount | Restricted judicial deposits | Net liability | Unrestricted judicial deposits |
|---|---|---|---|---|
| | | | | **12/31/2018** |
| **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

| | Taxes | Labor | Civil | Consolidated 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 | (303) | (2,315) | (31) | **(2,649)** |
| (Provision)/reversals | | 3,148 | 2,685 | **5,833** |
| Deposit transactions | - | (1,467) | (719) | **(2,186)** |
| **At December 31, 2019** | **(7,100)** | **(22,885)** | **(2,520)** | **(32,505)** |

## c) Provisions for tax, social security, labor and civil contingencies not recognized

As of December 31, 2019, the Company and its subsidiaries were parties to other tax, labor and civil proceedings involving risks of loss for the Company assessed as “possible”, which total approximately: R$ 4,111,680, R$ 252,121 and R$ 80,697 respectively (R$ 2,488,226, R$ 243,557 and R$ 84,752 on December 31, 2018). Based on the individual analysis of the corresponding lawsuits and supported by the opinion of its legal advisors, Management understands that these lawsuits have the likelihood of loss assessed as “possible” and, therefore, are not provisioned.

At December 31, 2019, the Company appeared in the passive pole in several processes, such as:

### Tax Lawsuits

(i) Tax foreclosure filed by the Attorney General's Office of the National Treasury, to collect debts related to the process closed at the administrative level, whereby IRPJ is required due to alleged undue deductions as royalties for the use of trademarks and formed goodwill in the acquisitions of

Klamasa and Igaras. The total amount of this action on December 31, 2019 is approximately R$ 1,279,543 (R$ 972,042 on December 31, 2018). Based on the opinion provided by the patron of the case, the chance of loss is possible.

(ii) Part of 7 tax foreclosures filed by the Municipality of Lages - SC, whose debit object is the collection of ISS on the manufacture of packaging with personalized graphic prints, from January 2001 to December 2004 and January to December of 2010. The total amount of these executions on December 31, 2019 is approximately R$ 1,236,057 (R$ 776,207 on December 31, 2018), with a prognosis provided by the patron of the cause is a possible loss.

(iii) Administrative proceedings arising from tax assessments and tax notifications issued by the Federal Revenue of Brazil, whose object of the debt is the collection of the contribution of 2.6% on the gross revenue from the commercialization of the production of the agroindustrial activity. The total amount of this lawsuit on December 31, 2019 is approximately R$ 365,631 (R$ 289,327 on December 31, 2018), with a prognosis provided by the patron of the cause is a possible loss.

(iv) Tax foreclosure filed by the Municipality of Rio de Janeiro - RJ, aiming at the collection of supposed ISS charges on the manufacture of packaging with personalized graphic prints, from September 1996 to October / 2001. The total amount of this execution on December 31, 2019 is approximately R$ 219,681 (R$ 197,755 on December 31, 2018), with a prognosis provided by the patron of the cause is a possible loss.

(v) Administrative proceeding resulting from tax assessment notices, whereby the Brazilian Federal Revenue Service requires adjustment in the calculation bases of the IRPJ and CSLL, calendar year 2013, on the grounds that the company would have made exclusions due to changes in the exchange variation regime. There was no tax requirement, but only the disallowance of tax losses and negative calculation basis of CSLL and IRPJ. The total amount of this proceeding as of December 31, 2019 is approximately R$ 234,221 (R$ 225,478 as of December 31, 2018), with a prognosis provided by the patron of the cause is a possible loss.

(vi) Ordinary action to remove the restrictions imposed by the Tax Authorities, considering the offsetting of the amounts improperly collected as PIS and COFINS, under the rule declared unconstitutional (Law 9.718 / 98 - rule that intended to expand the basis for calculating contributions PIS and COFINS). The total amount of the lawsuit on December 31, 2019 is approximately R$ 118,100 (R$ 115,521 on December 31, 2018), with a forecast provided by the patron of the case is a possible loss.

(vii) Tax assessment notice by the Federal Revenue of Brazil, for collection of PIS and COFINS for the periods of July 2012 and December 2012, due to the disallowance of credits related to the inputs applicable to wood production. The total amount of the claim on December 31, 2019 is approximately R$ 43,340 (R$ 113,357 on December 31, 2018), with a prognosis provided by the patron of the cause is a possible loss.

(viii) Disallowance in view of the disagreement on the FINSOCIAL credit correction criterion that occurred in 2017. The total amount of the lawsuit on December 31, 2019 is approximately R$ 116,131 (subpoena started on June 29, 2019).

**Civil and environmental processes**

(i) Public Civil Action proposed in 2009 by the Association of Environmental Fishermen of Paraná - APAP, in the face of alleged damage to the Tibagi River (PR), for the disposal of burnt coal waste, used by the Company until 1998. Despite there is no evidence of environmental damage, in December 2015 an unfavorable sentence was handed down to the Company, condemning it to the obligation to remove the burned mineral coal deposited in the riverbed. Currently, the process is in the process of settlement of the sentence, where the Company is awaiting a statement from the Public Prosecutor's Office and, subsequently, from the court itself, regarding the Technical Report presented indicating that it is not feasible to comply with the sentence, under penalty of damage to the environment. Only at the end of the settlement phase will it be possible to stipulate the amount to be considered.

**Labor Lawsuits**

The main requests are related to overtime, nighttime pay, moral damage, material damage, life-long pension and unhealthy and dangerous premium, in addition to indemnities and subsidiary liability of third parties. No individual action is relevant enough to have an adverse and material impact on the Company's results.

**d) Ongoing Lawsuits**

As of December 31, 2019, the Company was involved in lawsuits involving ongoing causes, for which there are no amounts recognized in its financial statements, the assets being recognized only after the final and unappealable proceedings and the gain is definitely certain.

According to a relevant fact disclosed to the market on August 22, 2019, the decision was final and unappealable, accepting the Company's intention to exclude ICMS from the PIS and Cofins calculation base, effective from April 2002, in an amount total of R$ 1.014 billion reais based on said lawsuit in out-of-date credits to be offset against future tax debts by the Company, as disclosed in note 9.

**e) Enrollment in the Tax Recovery Program (REFIS)**

As communicated to the market on June 28, 2019, the Company opted to settle the debt with REFIS maturing in 2029 in advance 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 REFIS prepayment, its adjustment to fair value was reversed in the financial result, as well as a fine and interest reversal, both in the corresponding amount, but with the opposite effect, without changing the Company's net result.

The balance of REFIS payable recorded at the parent company and consolidated amounted to R$ 339,449 as of December 31, 2018, of which R$ 73,862 was recorded in the short term and R$ 265,587 in the long term.

## 19 EQUITY

**a) Share Capital**

The Company's capital stock, subscribed and paid up, on December 31, 2019 is divided into 5,409,801,840 shares (5,409,801,840 on December 31, 2018), with no par value, corresponding to R$ 4,076,035 (R$ 4,076,035 as of December 31, 2018), distributed as follows:

All amounts in thousands of reais

| Stockholders | 12/31/2019 Common shares | Preferred shares | 12/31/2018 Common shares | Preferred shares |
|---|---|---|---|---|
| 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 | 61,773,628 | 247,094,512 | 60,376,060 | 241,504,240 |
| Monteiro Aranha S/A | 67,146,935 | 268,619,190 | 71,356,189 | 285,456,206 |
| BNDESPAR | 56,259,848 | 225,039,392 | 56,259,848 | 225,039,392 |
| BlackRock, Inc | 46,148,485 | 184,593,940 | 46,610,152 | 186,440,608 |
| Treasury shares | 27,924,945 | 111,699,780 | 29,318,686 | 117,274,744 |
| Other | 641,480,724 | 2,388,160,371 | 636,813,630 | 2,369,491,995 |
| | **1,984,594,655** | **3,425,207,185** | **1,984,594,655** | **3,425,207,185** |

In addition to nominative common and preferred shares, the Company negotiates certificates of deposit of shares, nominated “Units”, corresponding to the lot of 1 (one) common share - ON and 4 (four) preferred shares - PN.

The Company's authorized capital is 5,600,000,000 common registered shares - ON and / or preferred registered shares - PN approved at the Extraordinary General Meeting held on March 20, 2014.

## b) Treasury shares

As of December 31, 2019, the Company holds 139,624,725 shares of its own issue in treasury, corresponding to 27,924,945 "Units". The price on December 31, 2019 under negotiation on the São Paulo Stock Exchange was R$ 18.41 per “Unit” (code KLBN11 in B3).

In accordance with the Stock Option Plan, described in note 23, granted as long-term remuneration to the Company's executives, in February 2019, 3,503,880 shares held in treasury were sold, corresponding to 875,970 "Units", and granted under the regime of granting the usufruct of 3,503,880 shares, corresponding to 875,970 "Units", written off from treasury.

## c) Carrying value adjustments

Created by Law 11,638 / 07, the group of “Equity valuation adjustments” maintained in the Company's Equity includes valuation adjustments for increases and decreases in assets and liabilities, when applicable.

The balance maintained by the Company corresponds to the adoption of the assigned cost of property, plant and equipment ("deemed cost") for forest land, an option exercised in the initial adoption of the new accounting pronouncements converging to IFRS on January 1, 2009; exchange variation of subsidiaries held abroad with a functional currency different from that of the parent company; balances referring to the stock granting plan granted to executives (note 23); and updates to actuarial liabilities.

All amounts in thousands of reais

| | Parent company and Consolidated | |
|---|---|---|
| | **12/31/2019** | **12/31/2018** |
| Deemed cost of property, plant and equipment (land) (i) | 1,057,752 | 1,057,752 |
| Foreign exchange variations - subsidiaries abroad | (64,693) | (72,362) |
| Stock option plan | 6,020 | 2,952 |
| Actuarial liability (i) | (56,085) | (11,220) |
| | **942,994** | **977,122** |

(i) Net of corresponding deferred taxes, when applicable, at the rate of 34%

The exchange variation of a foreign subsidiary will be realized against the result only in the case of sale or closing of the investee. The other items that make up the equity valuation adjustment balance, due to their nature and the strength of the accounting standard, will not be realized against the result, even in their financial realization.

Changes in the balances contained in equity valuation adjustments are presented in the “Statement of Comprehensive Income” and in the “Statement of Changes in Equity”.

**d) Dividends / Interest on Equity**

Dividends / interest on equity represent the portion of profits earned by the Company, which is distributed to shareholders as remuneration for the capital invested in the fiscal years. All shareholders are entitled to receive dividends and interest on equity, proportional to their shareholding, as ensured by Brazilian corporate law and the Company's Bylaws. The Bylaws also provide for the Administration's ability to approve interim distributions during the year in advance, "ad referendum" of the Annual General Meeting to assess the accounts for the year.

Interest on own capital, for the purpose of complying with tax rules, is recorded against the caption "Financial expenses". For the purposes of preparing these financial statements, the income is reversed against the retained earnings account, making up the balance of the minimum mandatory dividend, as instructed by the CVM.

The basis for calculation of the mandatory dividend defined in the Company's Bylaws is adjusted by the constitution, realization and reversal, in the respective year, of the “Reserve of Biological Assets”, granting to the Company's shareholders the right to receive a minimum dividend in each fiscal year. mandatory 25% of adjusted annual net income. In addition, the Company is entitled to distribute dividends and interest on equity with balances of "Profit Reserves" maintained in Equity.

The profit distribution for the 2019 financial year is set out below and will be presented at the Annual General Meeting, to be held on April 23, 2020, together with the approval of the accounts for the financial year.

All amounts in thousands of reais

| | | Parent company |
|---|---|---|
| **(=)** | **Net income attributable to Klabin's shareholders** | **675,825** |
| (-) | Tax incentives reserve constitution | (48,718) |
| (-) | Legal reserve constitution (5% of net profit - fiscal incentives reserve) | (31,355) |
| (+) | Realization of the biological assets reserve - own | 484,220 |
| (-) | Constitution of the biological assets reserve - own | (184,459) |
| (-) | Realization of the biological assets reserve - controlled (i) | 44,744 |
| **(=)** | **Basic profit for distribution of required dividends** | **940,257** |
| **(=)** | **Minimum required dividend according to by laws (25%)** | **235,064** |
| **Intermediate dividends distributed in 2019** | | |
| | February (paid on February 25, 2019) | |
| | . R$ 3.80 per thousand common and preferred shares<br>. R$ 19.00 per thousand "Units" | 20,000 |
| | April (paid on May 17, 2019) | |
| | . R$ 38.14 per thousand common and preferred shares<br>. R$ 190.69 per thousand "Units" | 201,000 |
| | August (paid on August 19, 2019) | |
| | . R$ 36.43 per thousand common and preferred shares<br>. R$ 182.16 per thousand "Units" | 192,000 |
| | November (paid on 14 November 2019) | |
| | . R$ 36.81 per thousand common and preferred shares<br>. R$ 184.05 per thousand "Units" | 194,000 |
| | **Total interim dividends distributed in 2019** | **607,000** |
| **Intermediate interest on equity distributed in 2019** | | |
| | November (paid on 14 November 2019) | |
| | . R$ 18.97 per thousand common and preferred shares<br>. R$ 94.87 per thousand "Units" | 100,000 |
| | December (to be paid on February 20, 2020) | |
| | . R$ 37.95 per thousand common and preferred shares<br>. R$ 189.75 per thousand "Units" | 200,000 |
| | **Total intermediary interest on equity distributed in 2019** | **300,000** |
| (=) | **Total interim dividends and interest on equity distributed in 2019** | **907,000** |
| (-) | Constitution of the investment reserve and working capital | (33,257) |

All amounts in thousands of reais

## 20 NET SALES REVENUE

The Company's net sales revenue is composed as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| Gross sales revenue | 11,815,425 | 11,462,189 | 11,885,656 | 11,516,247 |
| Discounts and rebates | (107,208) | (114,705) | (131,602) | (87,937) |
| Taxes on sales | (1,470,651) | (1,338,669) | (1,482,215) | (1,411,849) |
| | **10,237,566** | **10,008,815** | **10,271,839** | **10,016,461** |
| . Domestic market | 6,061,660 | 5,524,949 | 6,113,933 | 5,533,578 |
| . Foreign market | 4,175,906 | 4,483,866 | 4,157,906 | 4,482,883 |
| **Net sales revenue** | **10,237,566** | **10,008,815** | **10,271,839** | **10,016,461** |

## 21 COSTS, EXPENSES AND OTHER INCOME BY NATURE

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Cost of products sold** | | | | |
| Variable costs (raw materials and consumables) | (3,020,350) | (2,883,476) | (2,898,670) | (2,787,892) |
| Personnel | (1,221,805) | (1,212,668) | (1,234,146) | (1,224,917) |
| Depreciation and amortization | (1,053,694) | (1,038,374) | (1,075,198) | (980,724) |
| Depletion | (889,656) | (536,030) | (1,065,379) | (655,301) |
| Other | (1,088,013) | (714,967) | (967,841) | (693,572) |
| | **(7,273,518)** | **(6,385,515)** | **(7,241,234)** | **(6,342,406)** |
| **Sales expenses** | | | | |
| Freight | (609,806) | (475,390) | (623,225) | (486,930) |
| Royalties | (58,111) | (51,747) | (58,111) | (51,747) |
| Commissions | (11,421) | (16,294) | (28,703) | (21,426) |
| Personnel | (99,787) | (102,006) | (100,795) | (103,036) |
| Depreciation and amortization | (4,018) | (1,393) | (4,100) | (1,421) |
| Storage and port expenses | (76,530) | (71,320) | (104,862) | (85,022) |
| Other | (11,538) | (22,916) | 9,408 | (14,766) |
| | **(871,211)** | **(741,066)** | **(910,388)** | **(764,348)** |
| **General and administrative expenses** | | | | |
| Personnel | (329,934) | (304,438) | (333,267) | (307,513) |
| Services contracted | (171,876) | (131,254) | (173,612) | (132,580) |
| Depreciation, amortization and depletion | (47,762) | (35,183) | (48,737) | (35,901) |
| Other | (32,423) | (72,169) | (45,343) | (82,211) |
| | **(581,995)** | **(543,044)** | **(600,959)** | **(558,205)** |
| **Other net** | | | | |
| Revenue from sales of prop, plant and equipment | 33,876 | 15,398 | 33,876 | 15,398 |
| Cost of sales and write-offs of prop, plant and equip. | (77,725) | (31,640) | (77,725) | (31,640) |
| Deemed cost of property, plant and equip. (land) | - | (1,798) | - | (1,798) |
| ICMS exclusion from PIS / COFINS basis (i) | 630,621 | - | 630,621 | - |
| Other | 22,671 | 9,699 | 23,054 | 15,812 |
| | **609,443** | **(8,341)** | **609,826** | **(2,228)** |
| **Total** | **(8,117,281)** | **(7,677,966)** | **(8,142,755)** | **(7,667,187)** |

(i) See note 9.

All amounts in thousands of reais

## 22 FINANCE RESULT

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 12/31/2019 | 12/31/2018 | 12/31/2019 | 12/31/2018 |
| **Finance income** | | | | |
| . Income from financial investments | 522,124 | 379,790 | 541,487 | 391,869 |
| . Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income | (48,736) | (19,817) | (48,736) | (19,817) |
| . Update of tax credits (iii) | 495,858 | 117,262 | 495,858 | 117,262 |
| . Other (i) | 39,426 | 6,089 | 34,052 | 6,089 |
| | **1,008,672** | **483,324** | **1,022,661** | **495,403** |
| **Finance costs** | | | | |
| . Interest on borrowing and debentures | (1,524,138) | (1,185,188) | (1,411,985) | (1,151,036) |
| . Interest capitalized on property, plant and equipment (ii) | 27,869 | - | 27,869 | - |
| . Interest on REFIS (i) | (74,437) | (33,640) | (74,437) | (33,640) |
| . Derivative financial instruments (SWAP) | (470,263) | (114,126) | (470,263) | (114,126) |
| . Loan guarantees from related parties | (22,797) | (28,423) | (22,797) | (28,423) |
| . Investor Compensation - SCPs | - | - | (39,948) | (38,061) |
| . Commissions | (188,541) | (80,980) | (230,565) | (81,238) |
| . Other | (59,121) | (99,377) | (52,112) | (102,266) |
| | **(2,311,428)** | **(1,541,734)** | **(2,274,238)** | **(1,548,790)** |
| **Exchange variations** | | | | |
| . Foreign exchange variations on assets | 307,796 | 150,947 | 318,800 | 156,759 |
| . Foreign exchange variations on liabilities | (733,554) | (2,141,649) | (729,071) | (2,155,558) |
| | **(425,758)** | **(1,990,702)** | **(410,271)** | **(1,998,799)** |
| **Finance result** | **(1,728,514)** | **(3,049,112)** | **(1,661,848)** | **(3,052,186)** |

(i) See Note 18.

(ii) See Note 12.

(iii) See Note 9.

## 23 STOCK OPTION PLAN

At the Extraordinary General Meeting, held on July 10, 2012, the Stock Option Program ("Plan") was approved as a benefit to members of the executive board and strategic employees of the Company.

CVM authorized the Company, through OFICIO / CVM / SEP / GEA-2 / No 221/2012 to carry out the private operations covered by the incentive plan for its officers and employees, excluding controlling shareholders, to carry out a private transfer of shares held in treasury.

According to the aforementioned Plan, the Company established that statutory and non-statutory directors may use a percentage of 25% to 70%, managers from 15% to 25% and other employees in the position of coordinators and consultants from 5% to 10% of its variable remuneration for the acquisition of shares held in treasury, where the Company will grant the usufruct of the same number of shares to the acquirer for three years on a grant basis, with the ownership of the shares being transferred to them after 3 years, provided they are fulfilled the clauses established in the Plan.

The usufruct grants the beneficiary the right to dividends and interest on equity distributed in the period in which the benefit is valid.

The acquisition value of the treasury shares by the Plan's beneficiaries will be obtained by the average of the market value quotations of the last 60 trading sessions of the Company's shares, or of their quotation on the acquisition date, whichever is the lower. The value of the shares granted in usufruct corresponds to the price of the shares being traded on the São Paulo Stock Exchange on the day of the transaction.

All amounts in thousands of reais

The clauses for the transfer of the granted shares to be consummated, establish the beneficiary's permanence in the Company and not alienation of the shares acquired in the adhesion of the Plan. The shares granted can also be immediately assigned in the event of dismissal at the initiative of the Company, retirement or death of the beneficiary, in the latter case passing the right of the shares to the estate.

The shares granted and the expense proportional to the granting period, recognized in the income statement is accumulated in shareholders' equity in the group "Equity Valuation Adjustments", until the end of the grant, either by the expiration of the three-year term, or any other clause of the Plan that terminates the grant.

The table below shows the information on the agreed 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 | 03/01/2015 | 03/01/2016 | 02/24/2017 | 02/28/2018 | 02/28/2019 | |
| Final grant date | 03/01/2018 | 03/01/2019 | 02/24/2020 | 02/28/2021 | 02/28/2022 | |
| 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 | 6,309 | 7,925 | 4,490 | 1,156 | 25,927 |
| Expenses of the plan - 1/1 to 12/31/2019 | - | 163 | 1,218 | 2,449 | 1,156 | 4,986 |
| Expenses of the plan - 1/1 to 12/31/2018 | 138 | 964 | 1,206 | 2,041 | - | 4,349 |

### b) Managers

| | Plan 2014 (ii) | Plan 2015 (ii) | Plan 2016 | Plan 2017 | Plan 2018 | Total |
|---|---|---|---|---|---|---|
| Start of the plan | 04/30/2015 | 03/30/2016 | 02/24/2017 | 02/28/2018 | 02/28/2019 | |
| Final grant date | 04/30/2018 | 03/30/2019 | 02/24/2020 | 02/28/2021 | 02/28/2022 | |
| 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 | 4,243 | 3,453 | 1,836 | 12,424 |
| Expenses of the plan - 1/1 to 12/31/2019 | - | 69 | 1,438 | 1,855 | 1,836 | 5,198 |
| Expenses of the plan - 1/1 to 12/31/2018 | 150 | 423 | 1,505 | 1,598 | - | 3,676 |

### c) Other employees

| | Plan 2018 | Total |
|---|---|---|
| Start of the plan | 02/28/2019 | |
| Final grant date | 02/28/2022 | |
| 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 | 529 | 529 |
| Expenses of the plan - 1/1 to 12/31/2019 | 529 | 529 |
| Expenses of the plan - 1/1 to 12/31/2018 | - | - |

(i) Considers the split of shares mentioned in note 1 of the DF of 12/31/2015.
(ii) Plan closed

All amounts in thousands of reais

## 24 EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the profit for the period attributable to holders of common shares - ON and preferred shares - PN of the Company, by the weighted average number of shares available during the period. The Company has debentures mandatorily convertible into shares (see note 16) recorded in Equity, therefore, the number of shares already considers the future conversion of debentures into shares in the total number of shares.

The shares arising from the eventual future conversion into shares of the 7th issue of debentures (see note 16) were not considered in the calculation of diluted earnings per share as they do not have a dilutive effect.

As a result, the diluted earnings per share are equal to the basic earnings per share. The Company does not have any other instruments that may have a dilutive effect.

As mentioned in note 19, changes in the balance of treasury shares affect the weighted average number of preferred shares in treasury in the calculation for the year ended December 31, 2019, with the weighted average used in the calculation of earnings per share determined as follows:

| Weighted average number of treasury shares - December 31, 2019 (i) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan to Fev | | Mar to Jun | | Jul | | Ago | | Set | | Out to Dez | | 12 Months 2019 |
| 146,593,430 x 2/12 | + | 139,585,670 x 4/12 | + | 139,590,025 x 1/12 | + | 139,620,730 x 1/12 | + | 139,623,625 x 1/12 | + | 139,624,725 x 3/12 | = | 140,769,841 |

(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$, shows the reconciliation of the results for the years ended December 31, 2019 and 2018 in the calculation of basic and diluted earnings per share:

| | Parent company and Consolidated | | |
|---|---|---|---|
| | | | 1/1 to 12/31/2019 |
| | Common (ON) | Preferred (PN) | Total |
| **Denominator** | | | |
| Total weighted average number of shares | 1,984,594,655 | 3,425,207,185 | 5,409,801,840 |
| Weighted average number of treasury shares | (28,153,968) | (112,615,873) | (140,769,841) |
| Weighted average number of outstanding shares | **1,956,440,687** | **3,312,591,312** | **5,269,031,999** |
| % of shares in relation to the total | **37.13%** | **62.87%** | **100%** |
| **Numerator** | | | |
| Earnings attributable to each class of shares (R$) | **250,940,121** | **424,884,879** | **675,825,000** |
| Weighted average number of outstanding shares | **1,956,440,687** | **3,312,591,312** | **5,269,031,999** |
| **Basic and diluted earnings per share (R$)** | **0.1283** | **0.1283** | |

All amounts in thousands of reais

| | Parent company and Consolidated | | |
|---|---|---|---|
| | 1/1 to 12/31/2018 | | |
| | Common (ON) | Preferred (PN) | Total |
| **Denominator** | | | |
| Total weighted average number of shares | 1,984,594,655 | 3,425,207,185 | 5,409,801,840 |
| Weighted average number of treasury shares | (29,430,633) | (117,722,531) | (147,153,163) |
| Weighted average number of outstanding shares | **1,955,164,022** | **3,307,484,654** | **5,262,648,677** |
| % of shares in relation to the total | **37.15%** | **62.85%** | **100%** |
| **Numerator** | | | |
| Earnings attributable to each class of shares (R$) | **51,066,884** | **86,388,116** | **137,455,000** |
| Weighted average number of outstanding shares | **1,955,164,022** | **3,307,484,654** | **5,262,648,677** |
| **Basic and diluted earnings per share (R$)** | **0.0261** | **0.0261** | |

## 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.

All amounts in thousands of reais

## b) Consolidated information about operating segments

| | 1/1 to 12/31/2019 | | | | | |
|---|---|---|---|---|---|---|
| | Forestry | Paper | Conversion | Pulp | Corporate/ eliminations | Total Consolidated |
| Net revenue: | | | | | | |
| .Domestic market | 249,507 | 1,936,554 | 2,684,291 | 1,253,405 | (9,824) | **6,113,933** |
| .Foreign market | - | 1,573,763 | 324,290 | 2,259,853 | - | **4,157,906** |
| **Revenue from sales to third parties** | **249,507** | **3,510,317** | **3,008,581** | **3,513,258** | **(9,824)** | **10,271,839** |
| Revenue between segments | 1,522,878 | 1,593,262 | 24,653 | 88,049 | (3,228,842) | - |
| **Total net sales** | **1,772,385** | **5,103,579** | **3,033,234** | **3,601,307** | **(3,238,666)** | **10,271,839** |
| Changes in the fair value of biological assets | 390,053 | - | - | - | - | **390,053** |
| Cost of products sold | (2,557,315) | (3,532,268) | (2,567,015) | (1,879,935) | 3,295,299 | **(7,241,234)** |
| **Gross profit** | **(394,877)** | **1,571,311** | **466,219** | **1,721,372** | **56,633** | **3,420,658** |
| Operating income (expenses) | (133,465) | (521,736) | (387,110) | (432,818) | 580,845 | **(894,284)** |
| **Operating result before finance result** | **(528,342)** | **1,049,575** | **79,109** | **1,288,554** | **637,478** | **2,526,374** |
| | | | | | | |
| **Sales of products (in metric tons)** | | | | | | |
| .Domestic market | - | 581,167 | 707,848 | 479,531 | - | **1,768,546** |
| .Foreign market | - | 494,864 | 58,256 | 1,004,841 | - | **1,557,961** |
| .Inter-segmental | - | 831,099 | 3,463 | 32,583 | (867,145) | - |
| | **-** | **1,907,130** | **769,567** | **1,516,955** | **(867,145)** | **3,326,507** |
| **Sales of timber (in metric tons)** | | | | | | |
| .Domestic market | 1,706,017 | - | - | - | - | **1,706,017** |
| .Inter-segmental | 13,392,525 | - | - | - | (13,392,525) | - |
| | **15,098,542** | **-** | **-** | **-** | **(13,392,525)** | **1,706,017** |
| | | | | | | |
| **Investments during the year** | 436,831 | 392,462 | 78,820 | 1,592,536 | 73,426 | **2,574,075** |
| **Depreciation, depletion and amortization** | (1,181,805) | (349,254) | (90,322) | (544,833) | (27,200) | **(2,193,414)** |
| **Total assets - 12/31/2019** | 8,855,270 | 4,769,640 | 1,921,329 | 9,052,743 | 10,104,100 | **34,703,082** |
| **Total liabilities - 12/31/2019** | 2,333,911 | 627,865 | 394,148 | 750,869 | 24,095,016 | **28,201,809** |
| **Equity - 12/31/2019** | 6,066,968 | 4,141,775 | 1,527,181 | 8,301,874 | (13,990,916) | **6,046,882** |
| **Non-controlling shareholders** | 454,391 | - | - | - | - | **454,391** |

| | 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) | **5,533,578** |
| .Foreign market | - | 1,367,309 | 286,666 | 2,828,908 | - | **4,482,883** |
| **Revenue from sales to third parties** | **315,594** | **3,176,704** | **2,852,390** | **3,680,008** | **(8,235)** | **10,016,461** |
| 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)** | **10,016,461** |
| Changes in the fair value of biological assets | 628,367 | - | - | - | - | **628,367** |
| Cost of products sold | (2,015,212) | (3,065,783) | (2,440,449) | (1,778,128) | 2,957,166 | **(6,342,406)** |
| **Gross profit** | **349,078** | **1,530,464** | **433,198** | **1,984,735** | **4,947** | **4,302,422** |
| Operating income (expenses) | (89,004) | (438,191) | (361,281) | (365,760) | (64,581) | **(1,318,817)** |
| | | | | | | |
| **Operating result before finance result** | **260,074** | **1,092,273** | **71,917** | **1,618,975** | **(59,634)** | **2,983,605** |
| | | | | | | |
| **Sales of products (in metric tons)** | | | | | | |
| .Domestic market | - | 579,205 | 714,975 | 294,367 | - | **1,588,547** |
| .Foreign market | - | 441,405 | 52,256 | 1,106,877 | - | **1,600,538** |
| .Inter-segmental | - | 789,545 | 3,103 | 29,549 | (822,197) | - |
| | **-** | **1,810,155** | **770,334** | **1,430,793** | **(822,197)** | **3,189,085** |
| **Sales of timber (in metric tons)** | | | | | | |
| .Domestic market | 2,109,040 | - | - | - | - | **2,109,040** |
| .Inter-segmental | 13,546,625 | - | - | - | (13,546,625) | - |
| | **15,655,665** | **-** | **-** | **-** | **(13,546,625)** | **2,109,040** |
| | | | | | | |
| **Investments during the period** | 527,728 | 255,619 | 134,871 | 140,775 | 37,350 | **1,096,343** |
| **Depreciation, depletion and amortization** | (713,623) | (318,448) | (70,339) | (554,780) | (16,157) | **(1,673,347)** |
| **Total assets - 12/31/2018** | 8,199,582 | 5,278,254 | 1,846,732 | 7,665,484 | 6,643,691 | **29,633,743** |
| **Total liabilities - 12/31/2018** | 1,991,580 | 441,121 | 364,861 | 249,909 | 20,053,042 | **23,100,513** |
| **Equity - 12/31/2018** | 5,967,007 | 4,837,133 | 1,481,871 | 7,415,575 | (13,409,351) | **6,292,235** |
| **Non-controlling shareholders** | 240,995 | | | | | |

All amounts in thousands of reais

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, 2019 and 2018:

| | Consolidated | |
|---|---|---|
| | 1/1 to 12/31/2019 | |
| Country | Total revenue (R$/million) | % of total net revenue |
| Austria | 928 | 9.0% |
| United States | 697 | 6.8% |
| China | 558 | 5.4% |
| Argentina | 447 | 4.4% |
| Italy | 211 | 2.1% |
| Singapore | 131 | 1.3% |
| Mexico | 84 | 0.8% |
| Saudi Arabia | 83 | 0.8% |
| Ecuador | 77 | 0.7% |
| Other | 942 | 9.2% |
| | **4,158** | **40%** |

| | Consolidated | |
|---|---|---|
| | 1/1 to 12/31/2018 | |
| Country | Total revenue (R$/million) | % of total net revenue |
| Austria | 2,570 | 57.3% |
| Argentina | 525 | 11.7% |
| China | 249 | 5.6% |
| Ecuador | 91 | 2.0% |
| Italy | 85 | 1.9% |
| Mexico | 80 | 1.8% |
| Singapore | 73 | 1.6% |
| Colombia | 71 | 1.6% |
| Pakistan | 61 | 1.4% |
| Other | 678 | 15.1% |
| | **4,483** | **45%** |

In the year ended December 31, 2019, a customer in the paper segment was responsible for approximately 13% (R$ 1,311,066) of the Company's net revenue. In the year ended December 31, 2018, two customers accounted for 33% (R$ 3,261,325) of net revenue, 11% (R$ 1,083,529) in the paper segment and 22% (R$ 2,177,796) in the cellulose segment. The rest of the Company's customer base is dispersed, so that none of the other customers, individually, concentrates a relevant share (above 10%) of net sales revenue.

## 26 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.

All amounts in thousands of reais

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 | |
|---|---|---|
| | **12/31/2019** | **12/31/2018** |
| Bank deposits and financial investments | 1,372,229 | 540,855 |
| Trade receivables (net of provision for doubtful debts) | 726,755 | 740,111 |
| Other assets and liabilities | 247,000 | (22,000) |
| Borrowing | (17,225,971) | (12,247,491) |
| **Net exposure** | **(14,879,987)** | **(10,988,525)** |

The balance of this net exposure at December 31, 2019 was as follows:

| Year | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 onwards | Total |
|---|---|---|---|---|---|---|---|---|
| Amount | 3,210,013 | (163,000) | (193,000) | (2,821,000) | (2,114,000) | (2,073,000) | (10,726,000) | **(14,879,987)** |

The Company did not have derivative contracts to protect against long-term foreign exchange exposure at December 31, 2019. 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 Company has contracted derivatives (notes 15 and 16) and refer to foreign exchange and interest rate swaps linked to the issue of a certain export credit note and debentures.

(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.

All amounts in thousands of reais

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:

| | 12/31/2019 | 12/31/2018 |
|---|---|---|
| Financial investments - CDI | 6,910,426 | 5,112,257 |
| Financial investments - Selic | 903,786 | 852,778 |
| Financial investments - IPCA | 478,473 | 452,623 |
| **Asset exposure** | **8,292,685** | **6,417,658** |
| | | |
| Financing - CDI | (4,779,348) | (4,740,513) |
| Financing - TJLP | (620,504) | (1,873,142) |
| Financing - LIBOR | (6,103,755) | (7,101,719) |
| Debentures - IPCA | (1,844,097) | (662,676) |
| **Liability exposure** | **(13,347,704)** | **(14,378,050)** |

### 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.

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 | |
|---|---|---|
| | **12/31/2019** | **12/31/2018** |
| National rating AAA(bra) | 6,074,451 | 4,665,185 |
| National rating AA+(bra) | 3,656,464 | 2,382,019 |
| | **9,730,915** | **7,047,204** |

### Credit risk

Credit risk is the risk that the counterparty of a business will fail to comply with an obligation under a financial instrument, supplier advance or contract with a customer, 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 December 31, 2019, the maximum amount exposed by the Company to the credit risk of accounts receivable from customers is equivalent to the balances presented in note 6. Information on customer concentration is described in note 25.

All amounts in thousands of reais

The quality of credit risk in the Company's operating activities is managed by specific rules for customer acceptance, credit analysis and establishment of exposure limits per customer, which are periodically reviewed. The monitoring of overdue bills is carried out promptly to seek their receipt, with estimated losses being recorded with doubtful debts for items with risk of non-receipt.

The Company maintains an insurance policy for receivables in the domestic and foreign markets for all business units as described in note 6.

### 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, 2019:

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 onwards | Total |
|---|---|---|---|---|---|---|---|
| **Trade payables** | (1,024,256) | - | - | - | - | - | **(1,024,256)** |
| **Financing/debentures** | (2,256,031) | (1,626,711) | (2,367,605) | (4,693,527) | (3,153,872) | (20,885,673) | **(34,983,419)** |
| **Total** | **(3,280,287)** | **(1,626,711)** | **(2,367,605)** | **(4,693,527)** | **(3,153,872)** | **(20,885,673)** | **(36,007,675)** |

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 borrowings (Note 15) and debentures (Note 16) less cash and cash equivalents and marketable securities (Notes 4 and 5), and equity (Note 19), including the balance of issued capital and all of the constituted reserves.

The Company's net indebtedness ratio is comprised as follows:

| | 12/31/2019 | 12/31/2018 |
|---|---|---|
| Cash and cash equivalents and marketable securities | 9,730,915 | 7,047,204 |
| Borrowing and debentures | (24,085,272) | (19,445,672) |
| **Net indebtedness** | **(14,354,357)** | **(12,398,468)** |
| Equity | 6,046,882 | 6,292,235 |
| **Net indebtedness ratio** | **(2.37)** | **(1.97)** |

All amounts in thousands of reais

## b) Financial instruments, by category

The Company has the following categories of financial instruments:

| | Consolidated | |
|---|---|---|
| | 12/31/2019 | 12/31/2018 |
| **Assets - at amortized cost** | | |
| . Cash and cash equivalents | 8,340,386 | 5,733,854 |
| . Trade receivables (net of provision for impairment of trade receivables) | 1,859,505 | 2,040,931 |
| . Other assets | 633,865 | 685,133 |
| | **10,833,756** | **8,459,918** |
| **Assets - fair value by results** | | |
| . Marketable securities | 1,390,529 | 1,313,350 |
| | **1,390,529** | **1,313,350** |
| **Liabilities - at amortized cost** | | |
| . Borrowing and debentures | 24,085,272 | 19,445,672 |
| . Trade payables | 1,024,256 | 903,752 |
| . Other payables | 839,513 | 1,146,722 |
| | **25,949,041** | **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 year.

(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.

## c) Sensitivity analysis

The Company presents below the sensitivity tables for the risks of exchange rate and interest rates to which it is exposed considering that the eventual temporal effects would impact future results based on the exposures presented on December 31, 2019, being, the effects on equity are basically the same as income. The sensitivity analysis does not assess the impacts of exchange rate variations on the Company's cash flow.

(i) Foreign exchange exposure

The Company has assets and liabilities linked to foreign currency in the balance sheet of December 31, 2019 and for sensitivity analysis purposes, it adopted as scenario I the future market rate in force in the period of preparation of these financial statements. For scenario II, this rate was corrected by 25% and for scenario III by 50%.

All amounts in thousands of reais

The sensitivity analysis of the foreign exchange variation was calculated on the net foreign exchange exposure (basically for loans and financing, accounts receivable from customers and suppliers payable in foreign currency), not considering the projection of future exports that will face this liquid exchange exposure.

Thus, keeping the other variables constant, the table below shows a simulation of the effect of the exchange variation on Equity and on the future result of 12 months (consolidated) considering the balances on December 31, 2019:

| | At 12/31/2019 | Scenario I | | Scenario II | | Scenario III | |
|---|---|---|---|---|---|---|---|
| | US$ | Rate | R$ gain (loss) | Rate | R$ gain (loss) | Rate | R$ gain (loss) |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 340,444 | 4.14 | 38,674 | 5.18 | 391,273 | 6.22 | 745,335 |
| Trade receivables, net of allowance for doubtful debts | 180,305 | 4.14 | 20,483 | 5.18 | 207,224 | 6.22 | 394,742 |
| Other assets and liabilities | 61,280 | 4.14 | 6,961 | 5.18 | 70,429 | 6.22 | 134,160 |
| Financing | (4,273,692) | 4.14 | (485,491) | 5.18 | (4,911,754) | 6.22 | (9,356,394) |
| **Net effect on finance results** | | | **(419,373)** | | **(4,242,828)** | | **(8,082,157)** |

(ii) Interest Exposure

The Company has financial investments, loans, financing and debentures linked to the floating interest rate of the CDI, TJLP, IPCA, Selic and Libor. For the purpose of sensitivity analysis, the Company adopted rates in force on dates close to the presentation of the referred financial statements, extracted from the website of the Central Bank of Brazil, using the same rate for Selic, Libor, IPCA and CDI due to their proximity, in the projection of scenario I, for scenario II these rates were corrected by 25% and for scenario III by 50%.

Thus, keeping the other variables constant, the table below shows a simulation of the effect of the variation of interest rates on Equity and on the future result of the next 12 months (consolidated) considering the balances on December 31, 2019:

| | | At 12/31/2019 | Scenario I | | Scenario II | | Scenario III | |
|---|---|---|---|---|---|---|---|---|
| | | R$ | Rate | R$ gain (loss) | Rate | R$ gain (loss) | Rate | R$ gain (loss) |
| **Financial investments** | | | | | | | | |
| CDBs | CDI | 6,910,426 | 5.97% | (412,552) | 7.46% | 103,138 | 8.96% | 206,276 |
| LFTs | Selic | 903,786 | 5.97% | (53,956) | 7.46% | 13,489 | 8.96% | 26,978 |
| NTN - B | IPCA | 478,473 | 4.20% | (20,096) | 5.25% | 5,024 | 6.30% | 10,048 |
| **Financing** | | | | | | | | |
| Export Credit Notes - NCE (R$) and Agribuisiness Receivables Certificate - CRA | CDI | (4,779,348) | 5.97% | 285,327 | 7.46% | (71,332) | 8.96% | (142,664) |
| BNDES | TJLP | (620,504) | 5.57% | 34,562 | 6.96% | (8,641) | 8.36% | (17,281) |
| Debentures | IPCA | (1,223,789) | 4.20% | 51,399 | 5.25% | (12,850) | 6.30% | (25,700) |
| Export prepayment and Finnvera | Libor | (6,103,755) | 2.00% | 121,846 | 2.50% | (30,462) | 2.99% | (60,923) |
| **Net effect on finance results** | | | | **6,530** | | **(1,634)** | | **(3,266)** |

## 27 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 2019, the total expenses under these defined contribution plans amounted to R$ 10,914 (R$ 10,408 in 2018).

### 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$ 163,592 at December 31, 2019 (R$ 115,079 at December 31, 2018), 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 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, 2019, expenditure on training programs totaled R$13,614 (R$ 13,372 for the year ended December 31, 2018).

All these benefits are recognized on an accruals basis and are discontinued at the end of the employee's employment relationship with the Company.

## 28 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.

## 29 EVENTS AFTER THE REPORTING PERIOD

### Distribution of interim dividends for 2020

The Extraordinary Meeting of the Board of Directors held on February 5, 2020, approved the distribution of intermediate dividends for the year of 2020 the amount of R$ 23,000, of which R$ 4.36 per thousand common and preferred shares and R$ 21.82 per thousand “Units”. Payment will take place from February 20, 2020.

### BOND 2049 (5th Issue)

On January 15, 2020, through the wholly-owned subsidiary Klabin Austria, the fundraising USD 200 million of nominal value was concluded with a maturity of 29 years and a coupon of 7.00% and yield of 6.10% per year, with the objective of financing or refinancing, in whole or in part, costs and / or investments in eligible “Green Projects”.

### Figueira Reflorestadora S.A.

On January 21, 2020, Company entered into an agreement with a Timber Investment Management Organization (“TIMO”) for the constitution of a Special Purpose Company (“SPE”), whose main objective will be the exploration of forestry activity in the south-central state of Paraná.

Klabin's contribution to the formation of SPE's assets will be through the contribution of approximately 9 thousand hectares of planted forests. TIMO, in turn, will contribute with approximately 11 thousand hectares of planted forests and 7 thousand hectares of land assets (useful area).

Klabin will have the preemptive right to purchase the process wood produced by the SPE, among other common rights granted to controlling shareholders of a company of this nature. The completion of this transaction is subject to usual precedent conditions, including approval by the competent regulatory authorities. Klabin estimates that the conclusion of this operation will take place soon.

This association will allow the Company to access land for the increase of its forest massif, aiming at supplying its pulp and paper mills in the region, without requiring effective capital allocation for the acquisition of these assets, in addition to enabling the realization of future projects of expansion. In this way, Klabin reinforces its commitment to the creation of value, operational responsibility and balance of its capital structure.

# Klabin S.A.

## 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

Building a better working world

**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 statement of financial position as at December 31, 2018 and the statements of profit or 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 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)

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 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)

| | | Parent Company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 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** | | 4,089,374 | 2,654,971 | 4,302,422 | 2,735,547 |
| **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) |
| | | (1,292,451) | (1,166,604) | (1,324,781) | (1,197,119) |
| Equity results of investees and joint venture | 11 | 152,762 | 76,396 | 5,964 | 13,624 |
| **Profit before finance result and taxes** | | 2,949,685 | 1,564,763 | 2,983,605 | 1,552,052 |
| **Finance result** | 21 | (3,049,112) | (690,252) | (3,052,186) | (713,384) |
| **Profit (loss) before taxes on income** | | **(99,427)** | **874,511** | **(68,581)** | **838,668** |
| **Income tax and social contribution** | | | | | |
| . Current | 10 b/c | (305,223) | (292,730) | (322,236) | (299,948) |
| . Deferred | 10 b/c | 542,105 | (49,612) | 577,635 | (6,551) |
| | | 236,882 | (342,342) | 255,399 | (306,499) |
| **Profit for the year** | | **137,455** | **532,169** | **186,818** | **532,169** |
| **Attributed to Klabin's shareholders** | | - | - | **137,455** | - |
| **Attributed to non-controlling shareholders** | | - | - | **49,363** | - |
| **Basic and diluted earnings per common share - R$** | 23 | 0.0261 | 0.1013 | 0.0261 | 0.1013 |
| **Basic and diluted earnings per diluted share - R$** | 23 | 0.0261 | 0.1013 | 0.0261 | 0.1013 |

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

## STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of reais)

| | | | Revaluation reserve | Revenue reserves | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserves | Own assets | Legal | Tax incentives | Biological assets | Proposed dividends | Investments and working capital | Other comprehensive income value adjustments | Treasury shares | Retained earnings | Patrimony net of shareholders from Klabin | Participation to shareholders not drivers | Patrimony liquid consolidated |
| **At December 31, 2016** | 2,384,484 | 1,301,007 | 48,705 | 125,610 | 75,776 | 869,858 | - | 1,471,840 | 1,028,238 | (206,082) | - | 7,100,336 | - | 7,100,336 |
| Profit for the year | | | | | | | | | | | 532,169 | 532,169 | - | 532,169 |
| Other comprehensive income for the year | | | | | | | | | (12,420) | | | (12,420) | - | (12,420) |
| Comprehensive income for the year | - | - | - | - | - | - | - | - | (12,420) | - | 532,169 | 519,749 | - | 519,749 |
| Conversion of mandatory debentures convertible into shares | 132,269 | (132,269) | | | | | | | | | | - | - | - |
| Purchase of treasury shares | | | | | | | | | | (11,468) | | (11,468) | - | (11,468) |
| Stock option plan (Note 22): | | | | | | | | | | | | - | - | - |
| . Treasury shares sold | | 7,386 | | | | | | | | 5,756 | | 13,142 | - | 13,142 |
| . Award of treasury shares | | | | | | | | | (5,734) | 5,734 | | - | - | - |
| . Recognition of the stock option plan remuneration | | | | | | | | | 14,426 | | | 14,426 | - | 14,426 |
| . Maturity of stock option plan | | 10,305 | | | | | | | (10,305) | | | - | - | - |
| . Grant plan outflow | | | | | | | | | | (89) | | (89) | - | (89) |
| Allocation of net income for the year (Note 18): | | | | | | | | | | | | - | - | - |
| . Constitution of legal reserves | | | | 23,870 | | | | | | | (23,870) | - | - | - |
| . Realization of biological asset reserves (own) | | | | | | (609,555) | | | | | 609,555 | - | - | - |
| . Realization of deemed cost of land (own) | | | | | | | | | (26,269) | | 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) | - | (74,945) |
| Dividends paid for the year 2017 | | | | | | | | (159,000) | | | (168,000) | (327,000) | - | (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 | 987,936 | (206,129) | - | 7,234,151 | - | 7,234,151 |

(*) 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 the financial statements

(A free translation of the original in Portuguese)

# KLABIN S.A.
**All amounts in thousands of reais**

## STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of reais)

| | | | Revaluation reserve | Revenue reserves | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserves | Own assets | Legal | Tax incentives | Biological assets | Proposed dividends | Investments and working capital | Other comprehensive income value adjustments | Treasury shares | Retained earnings | Patrimony net of shareholders from Klabin | Participation to shareholders not drivers | Patrimony liquid consolidated |
| **At December 31, 2017** | 2,516,753 | 1,187,329 | 48,705 | 129,480 | 130,551 | 739,793 | 171,000 | 1,508,753 | 987,916 | (206,129) | - | 7,234,151 | - | 7,234,151 |
| Profit for the year | | | | | | | | | | | 137,455 | 137,455 | 49,363 | 186,818 |
| Other comprehensive income for the year | | | | | | | | | (10,073) | | | (10,073) | - | (10,073) |
| Comprehensive income for the year | - | - | - | - | - | - | - | - | (10,073) | - | 137,455 | 127,382 | 49,363 | 176,745 |
| Conversion of mandatory debentures convertible into shares | 1,559,282 | (1,559,282) | | | | | | | | | | - | - | - |
| Capital contribution from non-controlling shareholders (Note 1.7) | | | | | | | | | | | | - | 191,632 | 191,632 |
| Payment for 2017 supplementary dividends | | | | | | | (171,000) | | | | | (171,000) | - | (171,000) |
| 2018 Dividends distributed with reserves | | | | | | | | (329,000) | | | | (329,000) | - | (329,000) |
| Interest on equity for 2018 distributed with reserves | | | | | | | | (390,000) | | | | (390,000) | - | (390,000) |
| Stock option plan (Note 22): | | | | | | | | | | | | - | - | - |
| . Treasury shares sold | | 8,023 | | | | | | | | 4,903 | | 12,926 | - | 12,926 |
| . Award of treasury shares | | | | | | | | | (4,903) | 4,903 | | - | - | - |
| . Recognition of the stock option plan remuneration | | | | | | | | | 8,118 | | | 8,118 | - | 8,118 |
| . Maturity of stock option plan | | 2,699 | | | | | | | (2,699) | | | - | - | - |
| . Grant plan outflow | | | | | | | | | (50) | (292) | | (342) | - | (342) |
| Allocation of net income for the year (Note 18): | | | | | | | | | | | | - | - | - |
| . 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 | 133,384 | 189,919 | 815,163 | - | 589,753 | 977,122 | (196,615) | - | 6,292,235 | 240,995 | 6,533,230 |

(*) 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 the financial statements.

(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

## 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 |
| | **12,195,291** | **10,633,725** | **12,449,581** | **10,784,830** |
| **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) |
| | **(5,759,737)** | **(5,279,137)** | **(5,683,848)** | **(5,207,416)** |
| **Gross value added** | **6,435,554** | **5,354,588** | **6,765,733** | **5,577,414** |
| **Retentions** | | | | |
| . Depreciation, amortization and depletion | (1,610,980) | (1,805,600) | (1,673,347) | (1,940,487) |
| **Net value added generated** | **4,824,574** | **3,548,988** | **5,092,386** | **3,636,927** |
| **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 |
| | **787,036** | **897,945** | **658,128** | **848,712** |
| **Total value added to distribute** | **5,611,610** | **4,446,933** | **5,750,514** | **4,485,639** |
| **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 |
| | **1,391,616** | **1,344,568** | **1,418,801** | **1,373,257** |
| **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 |
| | **399,153** | **1,058,395** | **391,182** | **1,031,741** |
| **Remuneration of third-party capital** | | | | |
| . Interest | 3,683,386 | 1,511,801 | 3,704,350 | 1,548,472 |
| | **3,683,386** | **1,511,801** | **3,704,350** | **1,548,472** |
| **Remuneration of own capital** | | | | |
| . Dividends, JCP and participation in 6th debenture issue 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 | - |
| | **137,455** | **532,169** | **236,181** | **532,169** |
| | **5,611,610** | **4,446,933** | **5,750,514** | **4,485,639** |

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 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, with 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 controled entities", which was convert into assets and liabilities of the parent company's balance sheet.

All amounts in thousands of reais

## 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:

| | Assets | | Liabilities |
|---|---|---|---|
| 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 |
| | **483,040** | | **483,040** |

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.

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 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 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 Áustria, 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 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 (income), 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.

### 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 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.

**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 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 of 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.

## 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 to 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 may be classified as 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 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.

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's option.

### 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 bonds. The main effect is related to the lease of third-party lands, corresponding to 80 thousand hectares of forest land 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 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:

All amounts in thousands of reais

| | Country | Activity | Participation | Ownership - % 12/31/2018 | Ownership - % 12/31/2017 |
|---|---|---|---|---|---|
| **Subsidiaries:** | | | | | |
| 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 phytotherapic products | Direct | 100 | 100 |
| Klabin Finance S.A. | Luxembourg | Finance | Direct | 100 | 100 |
| Klabin Fitoprodutos Ltda. | Brazil | Manufacture of phytotherapic 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 |
| **SPCs:** | | | | | |
| 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 |
| **Joint ventures (not consolidated)** | | | | | |
| Florestal Vale do Corisco S.A. (i) | Brazil | Reforestation | Direct | 51 | 51 |

(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 |
| Marketble securities- local currency | 4,947,107 | 4,923,068 | 5,112,257 | 5,108,744 |
| Marketble 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

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.

All amounts in thousands of reais

## 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 allowance for doubtful debts 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 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.

| | Klabin Trade | Klabin Argentina | Klabin Finance | SPC's | Klabin Austria | Klabin Irmãos & Cia. | BNDES | Other | Parent comp 12/31/2018 Total | 12/31/: Tota |
|---|---|---|---|---|---|---|---|---|---|---|
| | (i) | (i) | (vi) | (ii) e (v) | (i) | (iii) e (iv) | (vi) | (i) (iii) (v) e (vii) | | |
| **Type of relationship** | Subsidiary | Subsidiary | Subsidiary | Subsidiary | Subsidiary | Shareholder | Shareholder | | | |
| **Balances** | | | | | | | | | | |
| Current assets | 2,459 | 60,727 | - | 20,257 | 259,003 | | | 31,347 | **373,793** | **307,** |
| Non-current assets | | | 1,139 | | | | | 2,050 | **3,189** | **2,** |
| Current liabilities | 3,973 | | 73,417 | 20,050 | 3,243 | 4,676 | 652,218 | (7,174) | **750,403** | **715,** |
| Non-current liabilities | | 4 | 3,894,174 | | | | 2,358,786 | 3 | **6,252,967** | **6,146,** |
| **Transactions** | | | | | | | | | | |
| Sales revenue | 158,919 | 40,424 | | 88,437 | 655,467 | | | 40,532 | **983,779** | **1,042,** |
| Purchases | | | | (95,584) | | | | | **(95,584)** | **(76,** |
| Interest expenses on financing | | | (222,439) | | | | (253,797) | | **(476,236)** | **(443,** |
| Guarantee commission - expenses | | | | | | (28,423) | | | **(28,423)** | **(30,** |
| Royalty expenses | | | | | | (39,143) | | (12,604) | **(51,747)** | **(50,** |

(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 - Socieda 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.

All amounts in thousands of reais

| | Parent company | | | | |
|---|---|---|---|---|---|
| | | | | 12/31/2018 | 12/31/2017 |
| | Klabin Irmãos & Cia. | BNDES | Outras | Other | Total |
| | (i) e (ii) | (iii) | (i) | | |
| Type of relationship | Shareholder | Shareholder | | | |
| **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.

All amounts in thousands of reais

## 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 form 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.

All amounts in thousands of reais

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 CONTRIBUITION

### 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 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 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.

All amounts in thousands of reais

## 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 |
| Revisions 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) | Other |
|---|---|---|---|---|---|---|---|---|---|---|
| **At December 31, 2016** | **53,523** | **-** | **751,703** | **-** | **131,713** | **256,967** | **185,631** | **-** | **544,402** | **268,69** |
| Acquisitions and capital contributions | | | | 49,059 | | | | 130,647 | | 1,54 |
| 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 | (33,38 |
| Foreign exchange variations on investments abroad (iii) | | | | | | | | | | (6,50 |
| Merge of subsidiary Embalplan (iv) | | | | | | | | | | (124,38 |
| 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** | **105,96** |
| Acquisitions and capital contributions (iv) | | 102,012 | | | | | | | | 2,09 |
| 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 | 21,64 |
| Foreign exchange variations on investments abroad (iii) | | | | | | | | | | (9,34 |
| **At December 31, 2018** | **107,275** | **128,289** | **-** | **102,512** | **109,147** | **204,756** | **219,365** | **183,814** | **165,652** | **120,36** |

**Summary of the financial information of subsidiaries at December 31, 2018**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **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 13).

(iii) Subsidiary and associated companies whit affiliate characteristics with exchange variation allocated to other comprehensive income

(iv) Refer to information in Note 1.

(A free translation of the original in Portuguese)

**KLABIN S.A.**
**All amounts in thousands of reais**

## 12 PROPERTY, PLANT AND EQUIPMENT

### a) Composition of property, plant and equipment

| | | | 12/31/2018 | | | 12/31/2017 |
|---|---|---|---|---|---|---|
| **Parent company** | Cost | Accumulated depreciation | Net | Cost | Accumulated depreciation | Net |
| 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** |
| | **17,621,027** | **(5,442,369)** | **12,178,658** | **17,082,867** | **(4,483,676)** | **12,599,191** |
| **Consolidated** | | | | | | |
| 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** |
| | **17,714,329** | **(5,451,857)** | **12,262,472** | **17,116,094** | **(4,496,599)** | **12,619,495** |

(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 | Total |
| **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

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.

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;

All amounts in thousands of reais

(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 |
| Depletion: | **(800,860)** | **(946,737)** |
| . 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 (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 |
| Depletion: | **(536,030)** | **(655,301)** |
| . Historical cost | (156,611) | (179,479) |
| . Fair value adjustment | (379,419) | (475,822) |
| Change in fair value due to: | **466,074** | **628,367** |
| . Price | 185,764 | 239,346 |
| . Growth | 280,310 | 389,021 |
| Constitution of subsidiary (i) | (142,443) | |
| **Saldo em 30 de dezembro de 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.

All amounts in thousands of reais

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 |
| **In local currency** | | | | |
| . 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 |
| **In foreign currency (i)** | | | | |
| . 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:** | | | | |
| **In foreign currency (i)** | | | | |
| . 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

All amounts in thousands of reais

| | Annual interest rate - % | | | 12/31/2017 |
|---|---|---|---|---|
| | | current | Non-current | Total |
| **In local currency** | | | | |
| . 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 |
| **In foreign currency (ii)** | | | | |
| . 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** |
| **Subsidiaries:** | | | | |
| **In foreign currency (ii)** | | | | |
| . 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

## 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.

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.

All amounts in thousands of reais

## 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), 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.

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 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.

| **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** |

All amounts in thousands of reais

## 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.

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 |
|---|---|
| **At December 31, 2016** | **1,109,536** |
| 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** |

## 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** |

All amounts in thousands of reais

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:

**KLABIN S.A.**
**All amounts in thousands of reais**

| | | | | 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** |

| | | | | 12/31/2017 |
|---|---|---|---|---|
| **In the parent com** | **Provisioned amount** | **Restricted judicial deposits** | **Net liability** | **Unrestricted judicial deposits** |
| **Tax:** | | | | |
| . 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** |
| **Subsidiaries:** | | | | |
| Other | - | 1,001 | 1,001 | - |
| **Consolidated** | **(65,377)** | **28,656** | **(36,723)** | **54,725** |

All amounts in thousands of reais

## 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 CIEX 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 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.

All amounts in thousands of reais

## 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:

| | 12/31/2018 | | 12/31/2017 | |
|---|---|---|---|---|
| Stockholders | 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.

<u>Capital increase for the conversion right of debenture holders</u>

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.

All amounts in thousands of reais

## 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:

(A free translation of the original in Portuguese)

## KLABIN S.A.
**All amounts in thousands of reais**

| | | 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) |
| (+) | Assignment of fixed assets (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%)** | - |
| **2017 supplementary dividends paid in 2018** | | |
| | January (paid on Feb 19, 2018) | |
| | . R$ 32.53 per thousand common and preferred shares<br>. R$ 162.67 per thousand "Units" | 171,000 |
| | **Total of the 2017 supplementary dividends distributed** | **171,000** |
| **Dividends distributed with Profit Reserve in 2018** | | |
| | April (paid on May 14, 2018) | |
| | . R$ 28.88 per thousand common and preferred shares<br>. R$ 144.40 per thousand "Units" | 152,000 |
| | July (paid on Aug 15, 2018) | |
| | . R$ 33.63 per thousand common and preferred shares<br>. R$ 168.15 per thousand "Units" | 177,000 |
| | October (paid on Nov 14, 2018) | |
| | . R$ 14.25 per thousand common and preferred shares<br>. 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<br>. R$ 118.75 per thousand "Units" | 125,000 |
| | **Total dividends distributed as of 2018 with Profit Reserve** | **529,000** |
| **Interest on capital distributed with Profit Reserve** | | |
| | October (paid on Nov 14, 2018) | |
| | . R$ 50.35 per thousand common and preferred shares<br>. 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<br>. 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.

All amounts in thousands of reais

## 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 |
| **Cost of products sold** | | | | |
| 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)** |
| **Sales expenses** | | | | |
| 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)** |
| **General and administrative expenses** | | | | |
| 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)** |
| **Other net** | | | | |
| 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)** |

All amounts in thousands of reais

## 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.

All amounts in thousands of reais

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:

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 aplicable, 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.

(A free translation of the original in Portuguese)

**KLABIN S.A.**
**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) | **5,533,578** |
| .Foreign market | - | 1,367,309 | 286,666 | 2,828,908 | - | **4,482,883** |
| **Revenue from sales to third parties** | **315,594** | **3,176,704** | **2,852,390** | **3,680,008** | **(8,235)** | **10,016,461** |
| 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)** | **10,016,461** |
| Changes in the fair value of biological assets | 628,367 | - | - | - | - | **628,367** |
| Cost of products sold | (2,015,212) | (3,065,783) | (2,440,449) | (1,778,128) | 2,957,166 | **(6,342,406)** |
| **Gross profit** | **349,078** | **1,530,464** | **433,198** | **1,984,735** | **4,947** | **4,302,422** |
| Operating income (expenses) | (89,004) | (438,191) | (361,281) | (365,760) | (64,581) | **(1,318,817)** |
| **Operating result before finance result** | **260,074** | **1,092,273** | **71,917** | **1,618,975** | **(59,634)** | **2,983,605** |
| **Sales of products (in metric tons)** | | | | | | |
| .Domestic market | - | 579,205 | 714,975 | 294,367 | - | **1,588,547** |
| .Foreign market | - | 441,405 | 52,256 | 1,106,877 | - | **1,600,538** |
| .Inter-segmental | - | 789,545 | 3,103 | 29,549 | (822,197) | - |
| | **-** | **1,810,155** | **770,334** | **1,430,793** | **(822,197)** | **3,189,085** |
| **Sales of timber (in metric tons)** | | | | | | |
| .Domestic market | 2,109,040 | - | - | - | - | **2,109,040** |
| .Inter-segmental | 13,546,625 | - | - | - | (13,546,625) | - |
| | **15,655,665** | **-** | **-** | **-** | **(13,546,625)** | **2,109,040** |
| **Investments during the period** | 527,728 | 255,619 | 134,871 | 140,775 | 37,350 | **1,096,343** |
| **Depreciation, depletion and amortization** | (713,623) | (318,448) | (70,339) | (554,780) | (16,157) | **(1,673,347)** |
| **Total assets - 12/31/2018** | 8,199,582 | 5,278,254 | 1,846,732 | 7,665,484 | 6,643,691 | **29,633,743** |
| **Total liabilities - 12/31/2018** | 1,991,580 | 441,121 | 364,861 | 249,909 | 20,053,042 | **23,100,513** |
| **Equity - 12/31/2018** | 5,967,007 | 4,837,133 | 1,481,871 | 7,415,575 | (13,409,351) | **6,292,235** |
| **Minority shareholders' equity** | 240,995 | | | | | |

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## KLABIN S.A.
**All amounts in thousands of reais**

| | | | | | 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:

| | Consolidated | |
|---|---|---|
| | 1/1 à 12/31/2018 | |
| **Country** | **Total revenue (R$/million)** | **% of total net revenue** |
| Austria | 2,679 | 26.7% |
| Argentina | 331 | 3.3% |
| China | 233 | 2.3% |
| Ecuador | 144 | 1.4% |
| Canada | 121 | 1.2% |
| Peru | 101 | 1.0% |
| South Africa | 85 | 0.8% |
| Mexico | 74 | 0.7% |
| Italy | 67 | 0.7% |
| Other | 648 | 6.5% |
| | **4,483** | **45%** |

| | Consolidated | |
|---|---|---|
| | From 1/01 to 12/31/2017 | |
| **Country** | **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% |
| Colombia | 47 | 0.6% |
| Other | 488 | 5.8% |
| | **3,353** | **40%** |

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 de | 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:

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 hedge against long-term foreign exchange exposure at December 31, 2018. 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.

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.

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** |
| *Rating* nacional AAA(bra) | 4,665,185 | 5,319,250 |
| *Rating* nacional AA+(bra) | 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/deber** | (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.

All amounts in thousands of reais

## 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 debts) | 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.

All amounts in thousands of reais

(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.

**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.

All amounts in thousands of reais

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:

| | | 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 Agribuisiness 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 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.

**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*
**Milbank LLP**
Avenida Brigadeiro Faria Lima, 4100, 5th floor
04538-132, São Paulo, SP
Brazil

*to the initial purchasers as to Brazilian law*
**TozziniFreire Advogados**
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