



# 2008

Sustainability Report

## Committed to our values

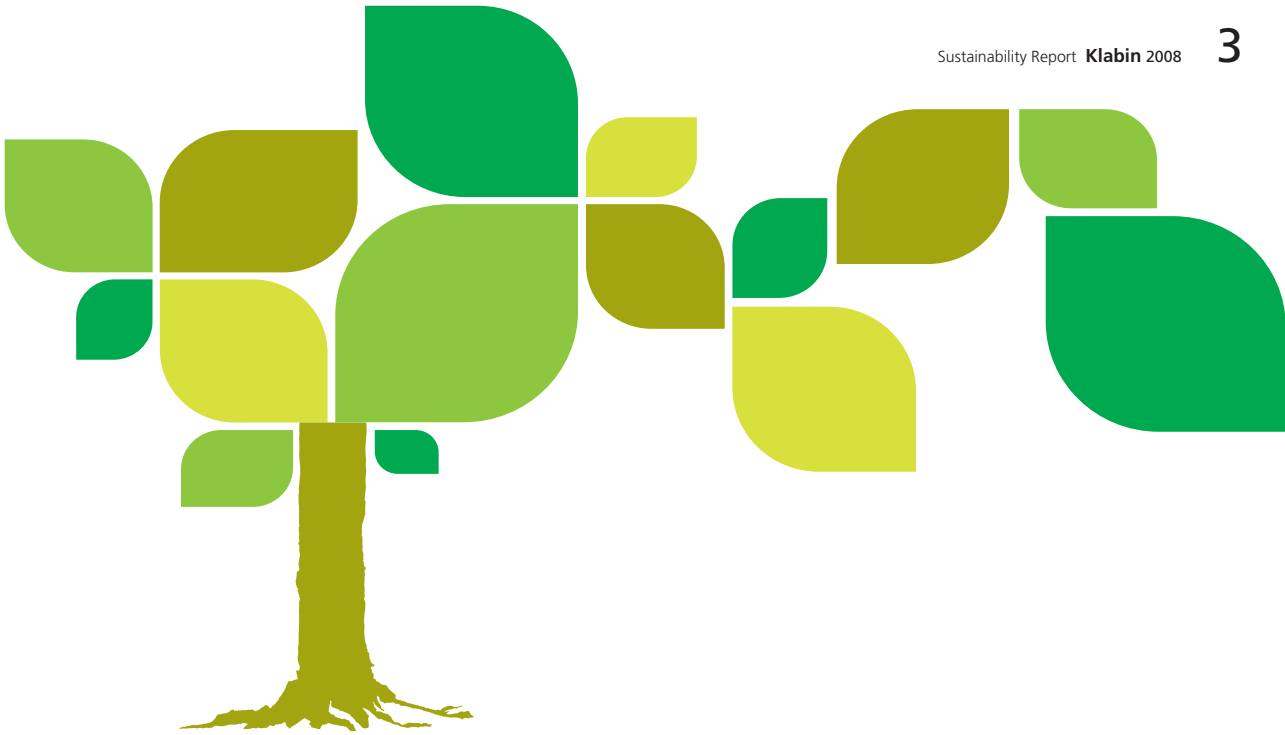




**To be committed to our values** means that our work is upheld by the principles of sustainability. It signifies having people who have faith in and play an important role **in building a solid company.**

**Klabin is Brazil's biggest paper producer, exporter and recycler;** it ranks among the six largest global manufacturers of virgin-fiber cartonboard and is a paragon of sustainable development in today's world.

Now in its 110<sup>th</sup> year, Klabin has always known how **to reinvent itself with firm foundations so as to continue growing** sustainably whilst remaining committed to its employees, shareholders, customers, suppliers, the environment and society.



# Index

4	<b>Profile</b>
6	▪ Global Presence
7	▪ Map of Operations
8	▪ Production Capacity
9	<b>Klabin's Sustainability Policy</b>
10	<b>Message from the Management</b>
12	<b>Key Indicators</b>
16	<b>Relations with Stakeholders</b>
18	<b>Strategy and Outlook</b>
20	<b>Economic Performance</b>
20	▪ Forestry Business Unit
23	▪ Paper Business Unit
25	▪ Corrugated Packaging Business Unit
26	▪ Industrial Sacks Business Unit
27	▪ Innovation
30	▪ Economic-financial Performance
32	▪ Capital Market
33	▪ Corporate Governance
34	▪ Risk Management
35	<b>Social Performance</b>
35	▪ Employees
42	▪ Suppliers
43	▪ Society
52	<b>Environmental Performance</b>
52	▪ Preservation and Reduction of Impacts
63	<b>Awards and Acknowledgements</b>
65	<b>Certifications</b>
67	<b>Social Balance – Ibase Model</b>
70	<b>Corporate Information</b>



Forest in a mosaic pattern

## Profile

At 110 years old, Klabin is the leader of the packaging paper and board, corrugated box and industrial sack segments and is also a world paragon of sustainable development.

### Leadership in production and exports

Founded in 1899, Klabin is the biggest paper producer, exporter and recycler in Brazil. It is the leader in the segments of packaging paper and board, corrugated boxes and industrial sacks. It also sells timber in logs to sawmills and veneer plants for use in the furniture industry and civil construction. A world paragon in sustainable development, it ranks among the top six global manufacturers of virgin-fiber cartonboard, and its plant in the State of Parana is one of the ten largest integrated pulp and paper mills worldwide.

With 17 industrial plants in Brazil and one in Argentina, annual production capacity of paper comes to two million tons. The company, which is located in eight states, is organized into four business units: Forestry, Paper, Corrugated Packaging and Industrial Sacks. Its products are sold in over 50 countries on five continents. At the end of 2008, more than 13.4 thousand employees and contract workers were registered. National suppliers numbered 2,063 and international suppliers 170.

It has 224 thousand hectares of high-yield plantations and 187 thousand hectares of preserved native woodlands on both its own and partners' land in the States of Sao Paulo, Parana and Santa Catarina. Its forests in Parana and Santa Catarina are home to 899 animal species, 24 of which are

considered endangered by IBAMA (Brazilian Environmental Agency).

Klabin's approximately three thousand regular customers can count on products certified by the FSC (Forest Stewardship Council). The forests of Parana and Santa Catarina and all the industrial plants of paper, cartonboard, industrial sacks and corrugated boxes in Brazil have the right to use this international trademark, which attests to the traceability of raw materials at every step of production, thus denoting sustainable performance. In 2008, Klabin completed ten years of forest certification, the first to do so in the Southern Hemisphere among companies from the sector.

All its business units have been certified for quality (ISO 9001) and environmental (ISO 14001) management. The Monte Alegre Plant, in Telemaco Borba (PR), also has OHSAS 18001 certification for work and health safety and ISO 22000 which regulates Management

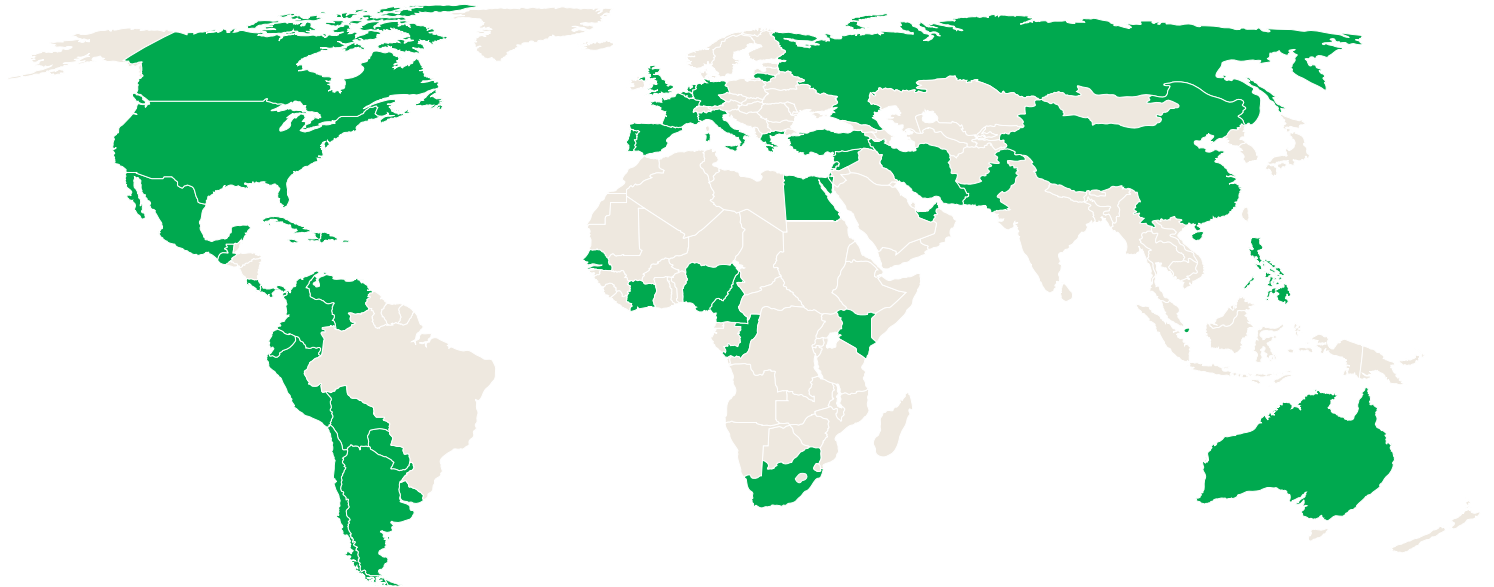
Systems for Food Safety. Furthermore, its packaging papers have been approved by the German institute ISEGA for use in direct contact with foods.

A publicly traded company, it is controlled by the Klabin Irmaos holding company, which retains 59.5% of the voting stock. Its shares have been traded on the Sao Paulo Stock Exchange (Bovespa) since 1979. During the year, consolidated sales volume (excluding timber) totaled 1,579 thousand tons. Gross revenue reached R\$ 3.7 billion and net revenue R\$ 3.1 billion.

In 2009, Klabin will be 110 years old. And it is preparing for a new round of commitments to its customers, employees, suppliers, shareholders, the environment and society. Throughout its history, Klabin has been able to renew itself, creating value and growing. Now it is ready for fresh challenges and triumphs in the future.

## Global Presence

### Map of Export Destinations



#### South America

Argentina  
Bolivia  
Chile  
Colombia  
Ecuador  
Paraguay  
Peru  
Uruguay  
Venezuela

#### Central America

Costa Rica  
Cuba  
Guatemala  
Haiti  
Jamaica  
Panama  
Puerto Rico  
Dominican Republic  
Trinidad and Tobago

#### North America

Canada  
USA  
Mexico

#### Europe

Germany  
Belgium  
Spain  
France  
United Kingdom  
Greece  
Holland  
Italy  
Lithuania  
Portugal  
Russia  
Turkey

#### Africa

South Africa  
Cameroun  
Congo  
Ivory Coast  
Egypt  
Nigeria  
Kenya  
Senegal

#### Asia

China  
Iran  
Israel  
Lebanon  
Pakistan  
Philippines  
Singapore  
Syria  
United Arab Emirates

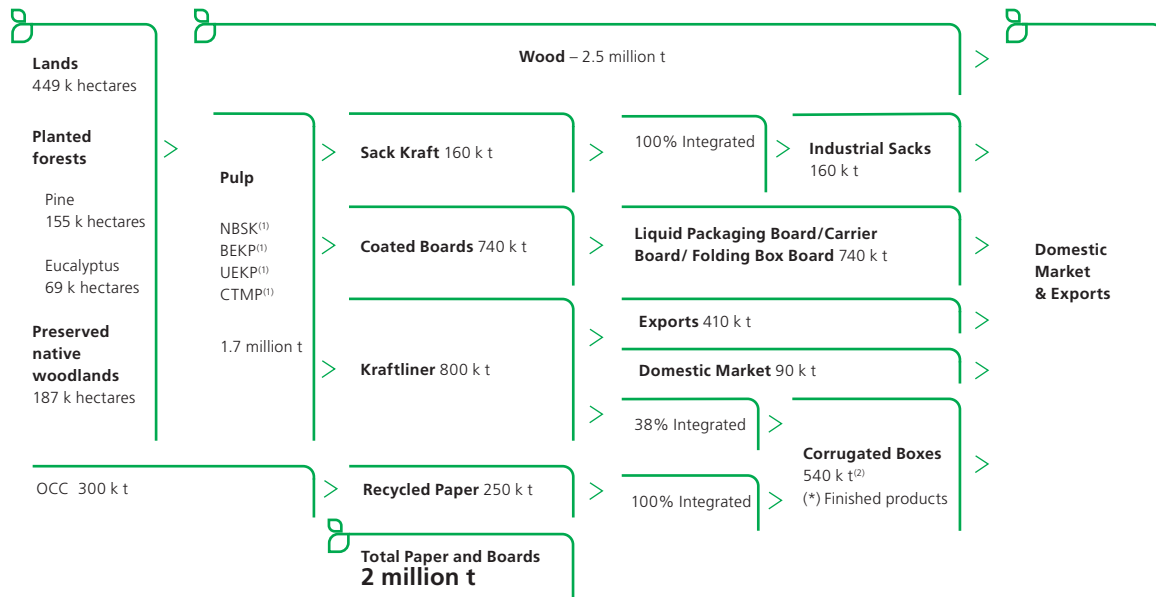
#### Oceania

Australia

## Map of Operations



## Production Capacity – on 12/31/2008



- (1) **NBSK:** Northern Bleached Softwood Kraft (pulp originating in the North, from bleached long fiber)  
**BEKP:** Bleached Eucalyptus Kraft Pulp (short fiber from bleached eucalyptus)  
**UEKP:** Unbleached Eucalyptus Kraft Pulp (short fiber from bleached eucalyptus)  
**CTMP:** Chemical-Thermo Mechanical Pulp (short fiber – eucalyptus pulp produced by a chemical, thermo-mechanical process)
- (2) Capacity of finished products
- (\*) The numbers refer to installed production capacity





Capybaras – Klabin's forestry area

## Klabin's Sustainability Policy

Klabin S.A. is a producer of timber, packaging paper, cartonboard, corrugated boxes and sacks. It operates on domestic and international markets and all its activities related to its products and services are predicated on the following principles of sustainability:

- 1.To seek competitive quality, aiming at sustained improvement of results, continuously perfecting processes, products and services so as to meet the expectations of customers, employees, shareholders, communities and suppliers.
- 2.To ensure supply of its industrial units with wood from planted forests, in a sustainable way and without any damage to either natural or associated ecosystems.
- 3.To exercise and promote the recycling of pulp fiber in its production chain.
- 4.To prevent and avoid pollution by means of reducing environmental impact from effluents, solid wastes and emissions to air.
- 5.To promote employees' personal and professional advancement, and to strive for continuous improvement of their working environment, health and safety.
- 6.To exercise social responsibility with a focus on the communities where the Company is present.
- 7.To comply with laws and regulations applicable to product, environment, health and safety.



Ronaldo Rufino

Ecological Park, Monte Alegre Farm

## Message from the Management

We are convinced that we owe our history of success principally to the performance of people who contribute daily to building a solid enterprise, committed to sustainable development.

### Producing more with less

The completion of Expansion Project MA-1100 at the Monte Alegre Plant, in Telemaco Borba (PR), the adoption of a new system of forest harvesting and the restructuring of the organization were the highlights of Klabin in 2008.

Project MA-1100 signified an investment of R\$ 2.2 billion, which allowed us to increase our installed capacity from 1.6 million to 2 million tons/year of paper and board. The start-up of Paper Machine 9 has provided a greater volume of top quality, high technology board, making us more competitive even in the adverse scenario arising from the economic crisis, which has been sweeping global markets in the last quarter of the year. It is precisely because we are striving to become more competitive that we have concentrated our resources on the technological modernization of our production lines.

The Monte Alegre Plant has become a benchmark in ongoing improvement systems, having received the Total Productive Management (TPM) Award, a certification by the Japan Institute of Plant Maintenance (JIPM), of the Japanese Ministry of the Economy, Trade and Industry. With this certification, Klabin became the first Brazilian company from the pulp and paper sector to receive this recognition, measured by several industrial indicators,

namely productivity, loss reduction in processes, reduction in machinery failures and stable product quality.

We are guided by innovation, economic returns and efficient use of natural resources, all of which are platforms for our sustainable growth. With this vision in mind, we have expanded the forest area and implemented an innovative system of mechanized harvesting, in which we have invested R\$ 77 million. It is a model with a holistic view of wood production, safer and more convenient for the workers, and aligned with sustainable practices, including a major training program and the acquisition of state-of-the-art equipment.

Besides greater productivity, the new machinery will bring benefits to activities in Parana and Santa Catarina such as improved use of the wood and lower cost of replanting the forest. The new process will also make it feasible to utilize forest wastes – branches and toppings – which will be turned into biofuel to generate clean energy at the mill. Also in the forestry area, we have made progress researching and developing varieties of pine and eucalyptus adapted to different climates and soils, by planting clones to accelerate this process.

We have reorganized our structure in order to make communication easier, identify synergies and speed up decision-making. The Executive Board is now comprised of four main areas: Operations, Technology, Finance and Investor Relations and Planning and Controlling.

The Executive Director of Operations is responsible for maximizing synergies, by coordinating industrial and commercial activities, and also by managing the directorships of the Business Units of Forestry, Paper, Corrugated Packaging and Industrial Sacks, as well as the area of Logistics. As a result we have optimized our resources and concentrated on one single image for the market, while keeping our focus on the customer. The Director of Projects, Industrial Technology and Procurement is in

charge of modernizing industrial processes and innovation, which allows him to steer additional efforts towards research and development and the usage of more efficient technologies. The Directorships of Control and Planning, Finance and Investor Relations are temporarily under the command of one director, while the Directorship of Human Resources is directly answering to the CEO.

We are stepping up our investments in research and development. An example of this is our triplex cartonboard, which is being targeted at packaging segments such as cosmetics, foods and promotional flyers which require bleached pulp on both sides of the board.

We strive continuously to meet the requirements of our customers who, after all, are the principal drivers of our business. We also depend on the efforts of both our employees, in whom we invest with development programs and all our partners with a special mention for the participants of the Forestry Incentives Program.

Klabin knows how to conduct its business in a way to minimize the impacts of the international crisis, even though we are not yet able to foresee the outcome. In 110 years of our history, we have been faced with and overcome other difficult moments in the economy.

Initiatives involving volunteer work as well as human resources actions have helped develop teamwork and constantly improve the internal climate.

We are convinced that our history of success is due mainly to the involvement of people who have contributed daily to building a solid company committed to sustainable development. We wish to express our thanks to our employees for this attitude; to our shareholders for their support of our plans to expand and create value for Klabin; to our suppliers and the communities, for their partnership and to our customers for their trust and loyalty to our products.



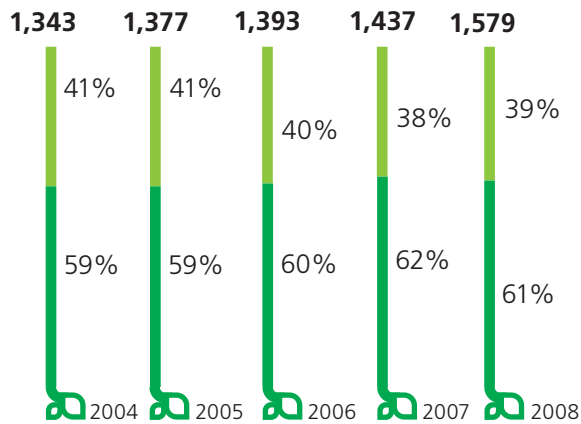
Detail of office – head office

## Key Indicators

Prior to Law 11.638/07 coming into effect

	2004	2005	2006	2007	2008
<b>Sales volume (thousand t)</b>					
<b>Total volume</b>	<b>1,343</b>	<b>1,377</b>	<b>1,393</b>	<b>1,437</b>	<b>1,579</b>
Domestic Market	789	810	838	888	956
Export Market	554	567	555	549	623
<b>Results (R\$ million)</b>					
Gross Revenue	3,202	3,236	3,247	3,365	3,714
Net Revenue	2,730	2,706	2,713	2,796	3,097
Domestic Market	1,915	1,978	1,976	2,081	2,244
Export Market	815	728	737	715	853
Gross Profit	1,256	1,026	963	952	857
Operating Results (EBIT)	759	509	466	498	325
EBITDA	991	755	709	741	738
Net Results	457	309	474	621	(316)
<b>Margins</b>					
Gross Margin	46%	38%	35%	34%	28%
EBITDA Margin	36%	28%	26%	27%	24%
<b>Financial</b>					
Total Assets (R\$ million)	4,368	4,696	6,123	8,010	8,301
Net Assets (R\$ million)	2,108	2,245	2,461	2,741	2,302
Return on Net Assets	22%	14%	19%	23%	-
Total Capitalization	2,755	2,732	3,385	4,997	6,078
Net Debt (R\$ million)	498	319	702	2,007	3,748
Net Debt/EBITDA	0.5	0.4	1.0	2.7	5.1
Net Debt/ Total Capitalization	18%	12%	21%	40%	62%
Investments (R\$ million)	337	370	836	1,711	653
<b>Social</b>					
Number of employees	8,137	7,459	7,332	7,384	7,498
Number of contract workers	5,064	5,514	5,782	6,120	5,934
External social investment (R\$ million)	-	5,069	5,506	7,200	4,781
<b>Environmental</b>					
Specific consumption of water (m³/t) – average (paper)	ND	49.85	49.41	53.44	46.27
Environmental investment (R\$ million)		44	100	214	50

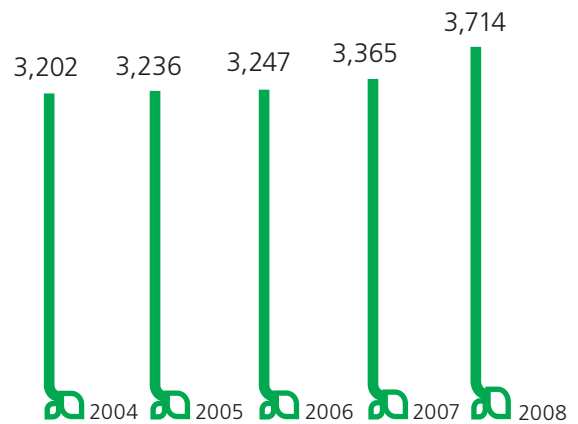
### Sales Volume by Market (thousand tons) (\*)



Export market  
Domestic market

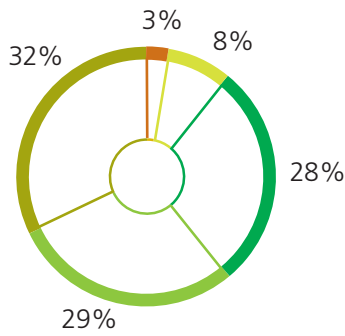
(\*) Not including wood

### Gross Revenue (R\$ million) (\*)



(\*) Including wood

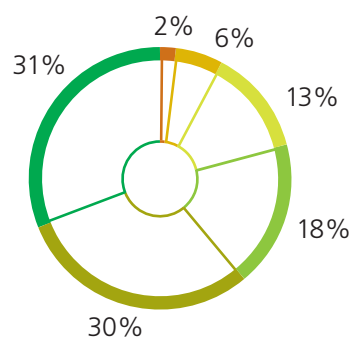
### Sales Volume by Product 2008 (\*)



Corrugated Boxes  
Kraftliner  
Cartonboard  
Industrial Sacks  
Others

(\*) Not including wood

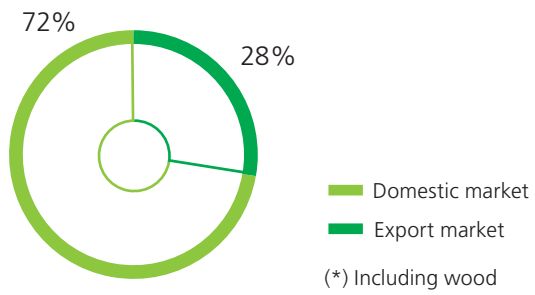
### Net Revenue by Product 2008 (\*)



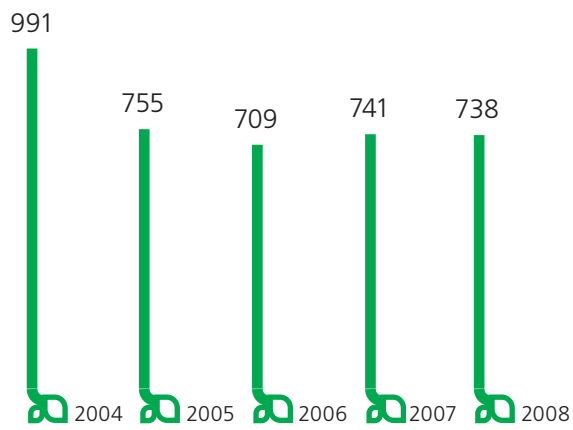
Corrugated Boxes  
Kraftliner  
Cartonboard  
Industrial Sacks  
Wood  
Others

(\*) Including wood

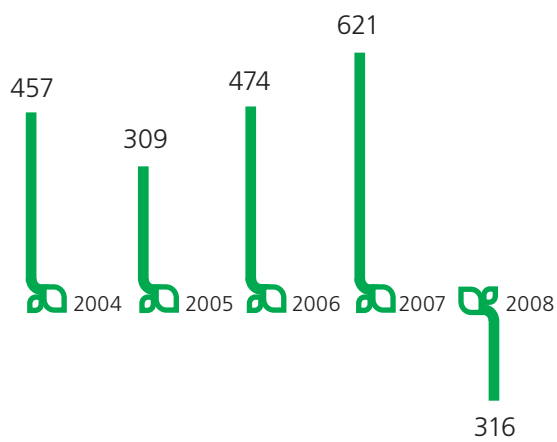
## Distribution of Net Revenue 2008 (\*)



## EBITDA (R\$ million)



## Net Results (R\$ million)



## Investments

### Expansion and modernization

Klabin invested R\$ 653 million in 2008, the greater part of which was allocated to the Expansion Project MA-1100, at the Monte Alegre Plant, in Telemaco Borba (PR), to land acquisition, to forest planting and to a new system of harvest mechanization in Parana and Santa Catarina. In the last five years, the company has invested R\$ 3.8 billion in expansion projects, modernization and operational continuity.

Recognized as an ecological mill, the Monte Alegre Plant has become one of the ten largest integrated pulp and paper mills in the world. This is Klabin's biggest investment, to the tune of R\$ 2.2 billion and one of the most important ever made by a Brazilian company from the pulp and paper sector. The paper production capacity of the plant rose from 700 thousand tons to 1.1 million tons/year. Thus the company's total production of packaging paper grew from 1.6 million tons to 2 million tons/year.

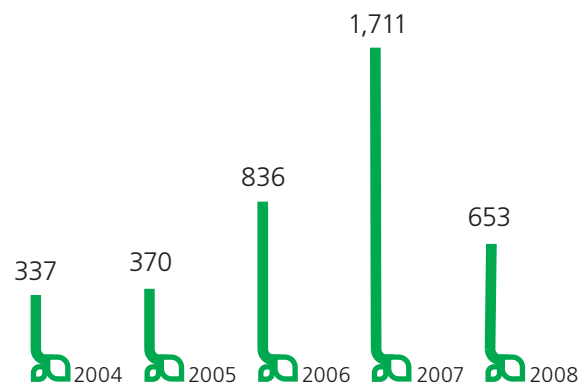
During the implementation of the project, R\$ 350 million in taxes were collected by the Parana State and federal governments, which had a direct impact on the economy of the region and the State.

The purchase of machinery to alter the mechanization of the forest harvesting process received funds to the amount of R\$ 30 million in 2008, out of a total of R\$ 77 million. The

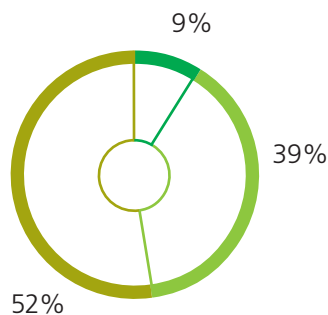
total amount of investments absorbed by the Forestry Business Unit was R\$ 301 million, also used for the purchase of lands and for research and development.

The Industrial Sacks Business Unit invested in innovation projects, in technological modernization, in the automation of production processes and in new products. The Corrugated Packaging Business Unit is boosting productivity in plants located in the South and Southeast Regions, including the purchase of new printers and the technological updating of corrugators and other machinery.

### Investments (R\$ million)



### Allocation of Investments



- Corrugated Boxes, Industrial Sacks and other
- Paper
- Forestry





Involvement with the community where Klabin is located

## Relations with Stakeholders

Long-term, durable relationships ensure that sustainable value is created for shareholders, investors, customers, employees, communities, suppliers and the society.

### Focus on the long term

Klabin enjoys long-term relationships with its principal stakeholders, consisting of investors and shareholders, customers, employees, communities in the towns where it has operations, suppliers, the press, society and the government. It gets involved through its attention to the public, channels of communication, participation in events and disclosure of the performance of the company's businesses. It seeks to ensure the creation of sustainable value for its shareholders, and treats all of its investors on an equal basis; it backs and runs socioeducational actions with communities close to or within the areas where it is located.



Stakeholders	Relationship actions and communication channels
Shareholders and investors	<ul style="list-style-type: none"><li>▪ Site on the internet with economic-financial information</li><li>▪ e-mail to communicate with the area of Investor Relations</li><li>▪ Participation in presentations made by executive directors at meetings of Apimec (Association of Investment Analysts and Professionals of the Capital Market)</li><li>▪ Legal Publications – Quarterly and annual managerial reports to CVM (Securities Exchange Commission of Brazil) and Bovespa (Sao Paulo Stock Exchange)</li><li>▪ Spontaneous publications – Sustainability Report</li><li>▪ Programmed visits</li><li>▪ Program of visits to company plants</li></ul>
Customers	<ul style="list-style-type: none"><li>▪ Participation in the main global fairs and events of the sector</li><li>▪ Site on the internet with products for sale</li><li>▪ Phone channel</li><li>▪ Visits to customers</li><li>▪ Program of visits to company plants</li><li>▪ Programs to develop products and services</li></ul>
Employees	<ul style="list-style-type: none"><li>▪ Printed and digital information channels</li><li>▪ Intranet</li><li>▪ Internal Climate Study</li><li>▪ Events with the directors</li><li>▪ Program of visits to company plants</li></ul>
Suppliers	<ul style="list-style-type: none"><li>▪ Site on the internet</li><li>▪ Ombudsman</li><li>▪ Contacts</li><li>▪ e-procurement</li><li>▪ Program of visits to company plants</li></ul>
Communities	<ul style="list-style-type: none"><li>▪ Project meetings and socio-environmental programs run by the company</li><li>▪ Support and sponsorship of events</li><li>▪ Communication of the company's activities via press communiques</li><li>▪ Program of visits to company plants</li></ul>
Government and society	<ul style="list-style-type: none"><li>▪ Participation in forums and sectorial committees</li><li>▪ Program of visits to company plants</li><li>▪ Participations in and contributions to associations and institutions</li></ul>



Paper Machine 9

## Strategy and Outlook

Klabin's activities are predicated on the concept of creating sustainable value, as a result of its commitment with shareholders, customers, employees, partners, suppliers, society and the environment.

### Creating sustainable value

With an integrated business model – production of wood, packaging papers and paper-made packaging – and a focus on the customer, Klabin is well-placed to compete in a variety of circumstances and macro-economic settings, in both domestic and overseas markets. It is forging ahead with its long-term strategy targeted on the businesses of cartonboard, packaging paper and paper-made packaging, segments which have shown the highest average consistent growth over the long run.

Innovation, economic return and efficiency in the use of natural resources, which are the platforms for sustainable growth, are driving the company. Its activities are predicated on the concept of creating sustainable value, the result of 110 years of commitment to shareholders, customers, employees, partners, suppliers, society and the environment.

It has prepared itself to meet the demands of customers and new market opportunities by expanding capacities and developing new products. The company has made the most of the favorable conditions for planting forests in Brazil, ensuring access to low-cost fibers, and at the same time has invested in research and technology in both its plants and forestry areas.

This investment has yielded increased forest productivity, in the areas of both pines and eucalyptus, and consequently costs have been lowered and the need to utilize own funds

has decreased. The fact that the forests are located in regions of high production potential is yet another competitive edge. Klabin has readied itself along these lines to develop forest operational systems with a broad vision of the long term and ongoing improvements.

In addition, the company is striving to preserve its long term debt profile and, principally, cash availability as a strategy to get it through this period of credit shortage and high interest rates that have arisen from the instability in the global financial markets. At the end of December, cash equivalents

totaled R\$ 1.7 billion, an amount superior to the amortization of financing due in the next two and a half years.

Determined to stay competitive in a climate of uncertainties, Klabin is working equally to reduce expenses and fixed and variable costs, to optimize quality and productivity in its plants and to develop processes, including those to train people. In 2009 it will give priority to current investments which are needed for safety, quality and operational continuity.

## Opportunities

In its activities, the company has identified growth opportunities arising from factors such as:

- Brazilian competitiveness: more wood per hectare and more pulp per cubic meter of wood.
- Products with a mix of long (pine) and short (eucalyptus) fibers, meaning a combination of strength and excellent printability.
- Multiple uses for eucalyptus and pine.
- Availability of lands.
- Growth of domestic market.
- Capacity closures of competing mills in North America and Europe, thus increasing the opportunities for companies with better cost structure, such as Klabin.
- Products for new applications.



Exporting kraftliner reels

## Economic Performance

Klabin's model of corporate governance is founded on transparency. The company enjoys partnership relations with its shareholders and the capital market.

### Efficiency and competitiveness

#### Forestry Business Unit

A pioneer in the Americas, Klabin became the first company from the pulp and paper sector to complete ten years with sustainable forest management certification by the Forest Stewardship Council (FSC). This international organization attests to the fact that the company adheres to the principles and criteria of forest stewardship, tracing and certifying the products deriving from these forests throughout the chain of production. Practically 100% of Klabin's forests have FSC certification, which covers Parana and Santa Catarina. In 2008, the forests in Parana were awarded recertification, valid for the next five years.

During the year, Klabin transported 8.4 million tons of pine and eucalyptus logs and chips and biomass for power generation, a volume which was 16% higher than in 2007. Of this total, 6.1 million tons were transferred to mills in Parana, Santa Catarina and Sao Paulo. The volume of log sales to sawmills and veneer plants was 2.3 million tons in 2008, 5% below that of 2007, affected by the downturn in the North American housing market, the main export destination for solid wood products from the company's customers.

In 2008, Klabin continued expanding its forestry areas in the States of Parana and Santa Catarina, thereby pursuing



Forest planted in mosaic

opportunities to guarantee the company's future growth. During the year, 16 thousand hectares were planted on its own lands and six thousand hectares on third parties' lands. At year-end Klabin had, on its own and partners' land areas, 224 thousand hectares of planted forests – 155 thousand hectares with pines and araucaria and 69 thousand hectares with eucalyptus - and 187 thousand hectares of preserved native woodlands, a growth of 4% and 7% respectively when compared to 2007.

An important alteration was introduced this year to the system of harvesting and collection of forest residues, reflecting an overall view of the long term and of ongoing improvements. Started in Parana and extended to Santa Catarina, one of its main goals is to optimize the wood harvesting process and the production of biofuel as a source of energy, employing sustainable practices. Every step has been fine-tuned, which has made it possible to build a well-structured model with higher productivity and lower cost. The project for the new model, known as Harvest Module, will require a total investment of R\$ 77 million, R\$ 30 million of which was allocated in 2008, and it is expected to be completed in 2009. It will provide:

- More safety and comfort for machine operators, who will work in ergonomic cabins, protected against tipping over.
- 90% reduction in wood breakage.
- Additional gains from the removal and usage of forest wastes (branches and tree toppings), which are turned into biofuel for clean energy generation at the mill.
- Better soil conservation, thanks to less pressure from the machinery on the terrain, and ease of soil preparation for future forest plantation.

- The felling operation is carried out with precision to avoid damage to the areas of preservation.

Computerized processors can measure the diameters and lengths required of the logs, cutting them exactly to size. They also provide reports on the quantity of logs and volume cut up in a work shift. The diesel motors which equip the machines are latest generation, designed to emit the least possible amount of gas pollution. Another concern was to guarantee that maintenance and management of the harvesting modules were placed close to operations. A well-stocked workshop and a mobile office, hooked up to Klabin systems by satellite, are a part of each operational module.

## Forestry Incentives

Since the start of the Forestry Incentives Program in 1984, 18 thousand landowners have been benefited, with 87 thousand hectares planted and 145 million seedlings distributed in 76 municipalities of Parana, Santa Catarina and Sao Paulo states. In 2008, 14 thousand hectares received incentives and 4.7 thousand rural producers were involved. During the year they were responsible for 9% of the wood supply consumed by the industrial plants. The target is for this share to rise to 20% of consumption by 2012.

The goal of the program is to increase income in rural areas, by forming forests in idle and marginal parts of the properties. Not only do these actions help to recover the native woodlands but they also help to settle rural populations, since they ensure future savings for small and medium sized landowners. The forestry incentives also bring environmental benefits because forests are preserved, soils are protected from erosion, rivers stop silting up and the water flows and rainwater are controlled.

People receiving incentives can count on Klabin's technical assistance in every stage of planting – from the supply of seedlings and proper forest management to notions on how to sell the timber. This activity is backed by Pronaf (National Program to Fortify Family Farming) and by Propflora (Program of Commercial Forest Planting and Recuperation), both financing schemes in which Klabin is the co-signer for the farmers. They also have a guarantee from the company that it will buy the product at the market price.

## **Legal Woods Program**

The Legal Woods Program, established in 2005 and aimed at those receiving incentives, has already benefited more than 200 farmers in Santa Catarina and 140 in Parana where it began in 2008. Run in partnership with Apremavi (Association for Preservation of the Environment and Life), it is intended to help the farmers plan their properties, in conformity with environmental legislation,

by developing sustainable activities. A specialized technical team is responsible for teaching the farmers concepts of ecology and for coaching them on activities such as agriculture, ecotourism and forestry incentives. This results in compliance with the environmental norms in force and also makes it an agreeable place both to live and work.



## Paper Business Unit

The sales volume of paper and cartonboard was 964 thousand tons (including LPB – Liquid Packaging Board), 18% above the previous year. Net revenue came to R\$ 1.48 billion, 21% higher than that of 2007. This positive result is due to the new machine, which came on stream with Expansion Project MA-1100, together with features such as technological innovation, commercial presence, corporate structure, certification and environmental management. Klabin's share participation in domestic jumped from 12% in 2007 to 18% in 2008 (excluding LPB).

Investments in research and development enabled the production of new grades of paper with lower basis weights, which retain the same technical and structural properties and quality. In the lines of cartonboard and kraftliner, the reduction in basis weight varied between 4% and 10%, with economic gains for customers and the environment, by using less fiber to make the packaging.

### Cartonboard

With the start-up of PM9 in Monte Alegre, sales volume of Klabin's cartonboard rose to 506 thousand tons, an increase of 43% in comparison with 2007. Net revenue totaled R\$ 935 million, a growth of 35% over the previous year.

The growth of cartonboard sales in the overseas market in 2008 was 110% year on year. The exported volume was

216 thousand tons and represented 43% of the total sold throughout the year (29% in 2007). This is mostly due to a greater availability of board after the capacity expansion in the Monte Alegre Plant, which was a project carried out with the latest available cutting-edge industrial and environmental technology.

In addition, the mix of long (from pine) and short (from eucalyptus) fibers gives Klabin board an important competitive edge, by combining the best qualities of both fibers: strength and good printability.

Inaugurated during the second half of 2008, the new sales structure in Europe has achieved excellent results, with new business contracts signed and proposals. The company has also invested in expanding its sales into the markets of Australia and New Zealand.

Klabin is the only manufacturer in the Southern Hemisphere of the Liquid Packaging Board grade (LPB), to package liquids and viscous foodstuffs. It also makes board for packaging in general – food products (chilled and frozen), hygiene and cleaning products, toys, footwear and home appliances – and for the multipack type of packaging (for beers, soft drinks and yoghurts).

During the year, a triplex cartonboard was developed, aimed at market segments which need the reverse side of certain packaging to be white, as with fast food, cosmetics and promotional flyers.



Boxes made with Klabin cartonboard

## Kraftliner

Kraftliner sales in 2008 totaled 458 thousand tons, 1% below 2007. Net revenue came to R\$ 545 million, a growth of 3%. The average international price of kraftliner in 2008 was US\$ 732/ton, 2% higher compared with the average price in 2007, according to data from FOEX – a private company located in Helsinki, Finland, which compiles, on a weekly basis, average prices of the principal grades of pulp and paper traded in Europe.

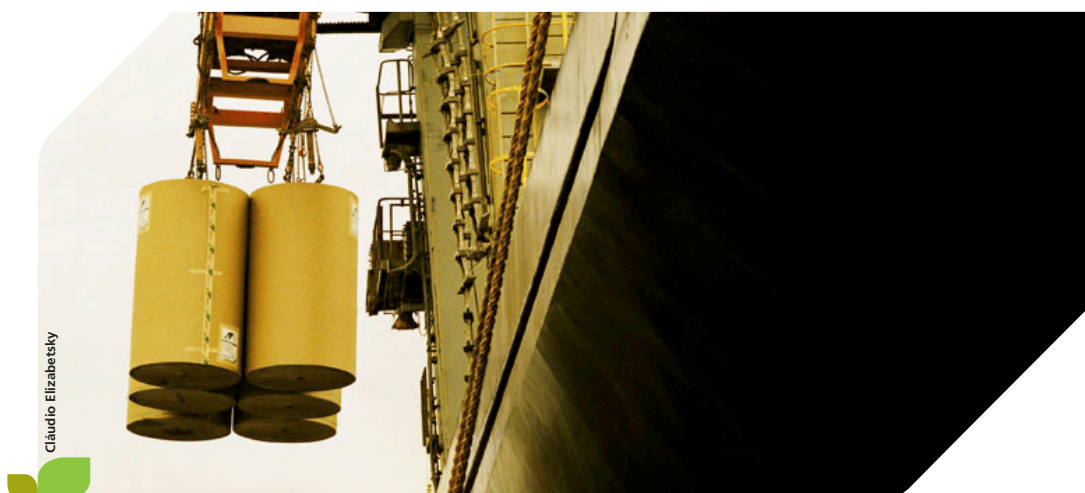
Klabin supplies kraftliner board made by the company to its nine corrugated box plants and exports it to over 50 countries. The company is the major supplier of this grade in several Latin American markets.

Klabin is a pioneer and leader in the production and export of this paper grade in the region and is responsible for 74% of Brazilian exports.

Currently Klabin retains 6% of the international kraftliner trade.

The company continued to offer the market increasingly competitive and sustainable packaging solutions in 2008, so the basis weights of 140gsm and 115gsm of kraftliner board were reduced to 135gsm and 110gsm respectively, retaining similar physical properties. The white top liner of grade was also reduced in basis weight from 150gsm to 140gsm.

The advantages are both economic and environmental since, with a reduction in basis weight, a square meter costs less for the customer and uses fewer raw materials to make the end product thus lowering transport costs and, most of all, diminishing waste.



Claudio Elizabetsky

Jumbo rolls



## Corrugated Packaging Business Unit

In a market as widespread as Brazil's, Klabin has an outstanding position where box production is concerned, focusing its strategy on quality, cost and production capacity in order to meet customers' requirements. Company performance is completely oriented to the needs of the customers and to handling specific orders. The unit mainly supplies the sectors of food, hygiene and cleaning products, poultry and fruits.

Klabin's market share stayed at 20%, with sales of 446 thousand tons. Net revenue was R\$ 947 million, 5% up on that of 2007. Preliminary data from the ABPO (Brazilian Association of Corrugated Board) point to a total shipment of boxes, sheets and accessories throughout the country of 2.27 million tons in 2008, 1% above 2007.

In 2008, Klabin acquired new printers for the plants in Betim (MG), Piracicaba (SP), Sao Leopoldo (RS) and Goiana (PE). It also introduced technological innovations on the corrugators in Jundiai (SP), Betim (MG) and Sao Leopoldo (RS). With these investments, it became feasible to produce more competitive boxes with gains in print quality, thus improving customer service.

The paper used in the corrugated boxes which package food is produced exclusively with virgin fibers from planted forests, and has a certified origin. The recycled paper, which is part of the composition of other boxes, has a mixed certification (attesting to the origin of the virgin fiber, but not the secondary fiber). The final destination of around 20% of the boxes shipped by Klabin to the domestic market is the overseas market, in particular for the segments of tobacco, fruit, frozen and food products (beef and chicken).



Corrugated boxes

## Industrial Sacks Business Unit

The sales volume of industrial sacks from the plants in Brazil and Argentina totaled 127 thousand tons, 1% below that of 2007. Net revenue came to R\$ 411 million, a growth of 5% over the previous year. In 2008, 859 million multiwall sacks were invoiced in Brazil and Argentina.

A multiwall sack with a polyethylene-coated external sleeve, which can be welded with ultra-sound, was officially launched in 2008. This innovative technology, which was developed to package wheat flour, means that, after filling and closing, the sacks will not be exposed to any kind of contamination of their contents and furthermore they will not tear.

Another innovation was the development of new starch-based adhesives, adapted to keep their properties under different climatic conditions. Not only is there a cost reduction with this material, but the initiative represents partial substitution of a chemical product, with non-renewable raw material (a petroleum derivative) for an organic and renewable product (derived from wheat).



Industrial sacks

Another important conquest was the acquisition of high-tech equipment to make clichés, with a laser engraving system. The speed of this equipment, which also does not use solvents, is 3.5 m<sup>2</sup> an hour.

At Klabin's Industrial Sack Plant in Argentina, there was gain in average productivity, thanks to improvements in machinery, preventive maintenance and an intensive training program for the operators.

## Innovation

### Gains in quality and productivity

Klabin has made strides in consolidating its research and development activities covering forests, paper, board and converted products. In this process it has worked in partnership with a number of R&D centers, among which is the Swedish STFI-Packforsk, specialized in the pulp and paper industry and a world benchmark in the innovation of high added value paper and packaging.

In this work it pursues competitive quality, continually perfecting its processes, products and services with initiatives which are notable for gains in productivity, quality and rationalization of costs, allied with respect for the environment and for regional development.

Innovation is geared to meeting the needs of the customers who are also partners in the development of products, processes and materials, providing gains in both productivity and quality. The work is carried out with support from equipment and raw material suppliers as well.

Thanks to its solid integration with the forestry area, the manufacturing process in all of Klabin's plants is able to increase efficiency and reduce operating costs. The R&D area also participates in the production of knowledge and technologies for manufacturing systems, placing special emphasis on clean technologies.

Our proposal is the unrelenting pursuit of sustainability. The company, which is concerned with guaranteeing the proper management of its plantations and minimizing potential environmental impacts, has invested in technological development that includes the use of modern resources of geographical information and the establishment of studies to monitor the impacts of silviculture on water sources, soils and biodiversity and has further invested in equipment.

Klabin has been making studies to raise productivity in its forestry area. This work involves the introduction of genetic material with a higher potential to develop and produce wood suitable for various end uses, as also species adapted to different conditions

of climate and soil. Consequently, in the areas planted in 2008, the company will produce 30% more eucalyptus fibers per hectare in comparison with the areas planted in 2005.

### Genetic improvement

In 2009 commercial planting will begin of *Pinus taeda* clones, produced using the technique of somatic embryogenesis and which are the first to originate from genetic material developed in Brazil, through our Program of Research and Development. By the end of 2010, the target is to plant around 1.5 thousand hectares of clonal forests in the state of Parana which, along with Santa Catarina, offers the best conditions in the world to grow subtropical pines namely climate, soil quality and availability of water.

The commercial planting of clones is a result of Klabin's strategy of sustainability. Since they have better growth and selected fibers, clones allow more paper to be produced of better quality in each hectare planted, that is to say they guarantee more productivity per cultivated area. Fewer losses in production, reduced costs and more uniformity in the manufacturing process are also to be noted.

Klabin is taking part in the most important international project studying the eucalyptus genome, run by the Joint Genome Institute (JGI), of the United States Department of Energy. The project of complete sequencing of the eucalyptus genome, led by researchers from Brazil, South Africa and the USA, will yield important data to be used in the selection and improvement of trees which are more productive, more resistant to pests and diseases and to environmental stress (like drought and frost), with wood technologically suitable for its different application.

Klabin's participation came about through the Genolyptus Project which conducted part of the sequencing in Brazil. Genolyptus was run between 2002 and 2006 by an integrated network of 14 forestry companies, seven universities and Embrapa (Brazilian Company for Research of Agriculture and Cattle-farming), financed by the Ministry of Science and Technology and by companies.

This research is considered fundamental for preserving the competitiveness of producers of pulp and paper, solid wood products and energy.

To generate and introduce forestry technology, the company is associated with the main research institutes in Brazil. Examples of these are: IPEF (Institute of Forestry Research and Studies of the University of Sao Paulo), SIF (Society of Forestry Investigation of the Federal University of Viçosa), Fupef, (Parana Foundation for Forestry Studies of the Federal University of Parana) and Cepef (Center for Forest Study and Research of the Federal University of Santa Maria). The company is also a member of Central America and Mexico Coniferous Resources (Camcore), an international cooperative to conserve tropical pines, based at the University of North Carolina (USA).

### Superar program

With the goal of raising productivity, several of the industrial plants have adopted the Superar Program, which encourages employees to contribute with ideas and suggestions for the continuous improvement of operations. Its basic tenets are as follows: to make resources available, to act on critical points, to acknowledge and encourage people and to define goals for improvement.



Superar program

The program encourages the formation of Improvement Teams (TIM's), which make use of specific tools and routines for each kind of project. The purpose is to realize actions which will eliminate losses. At the Monte Alegre Plant 399 Improvement Teams have already been

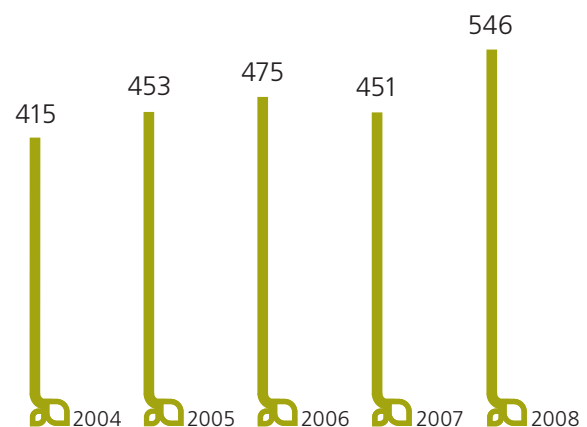
in operation between 2002, when the project was introduced, and the end of 2008.

The team anticipates problems, which could be experienced by production or by customers, and then develops solutions in advance, in order to ensure that the product is used correctly and that it performs optimally. In Monte Alegre, this has meant a productivity gain of 8% between 2003 and 2008, when 2,869 improvements were made. These range from a new method of storing materials and the immediate elimination of areas which accumulate dirt to measures to prevent recurrences – a measure which has resulted in extending the period between maintenance shutdowns on the paper machine from 30 to 45 days.

The reduction of losses in the production process has practically reached R\$ 190 million, with a 28% drop in breakages on Paper Machine 7 (pilot machine for the program). On average, each of the 1.4 thousand employees at the mill has spent 42 hours in training per year.

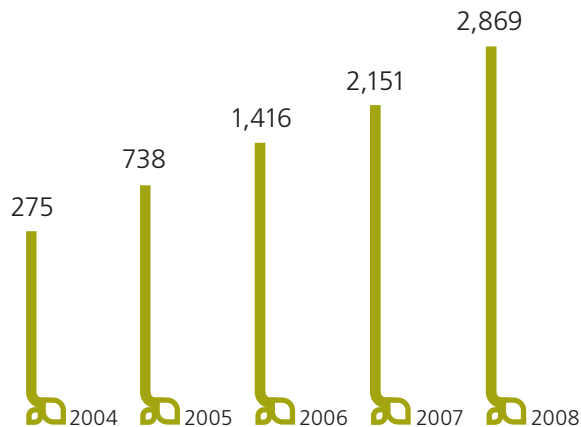
This performance meant that, in 2008, the Plant qualified to receive the Total Productive Management Award (TPM), a certification issued by the Japan Institute of Plant Maintenance (JIPM), a body connected with the Japanese Ministry of the Economy, Trade and Industry. With this certification, Klabin is the first Brazilian company from the pulp and paper sector to have become a benchmark in continuous improvement systems, in accordance with Japanese standards of industrial excellence.

### Productivity (t/man/yr) (\*)



(\*) Monte Alegre Plant

## Improvements (No./yr) (\*)



(\*) Monte Alegre Plant

## Information technology

In 2008, Klabin started using a specific module of its integrated management system (SAP) in order to automate the practice known as OEE (Overall Equipment Effectiveness), which had already been incorporated into the company's control system since 2003. This speeds up data collection and access to performance indicators, allowing the company to control – with quality and efficiency – all the machines in its mills, and thereby their production.

With this kind of automation, it is possible to know exactly what the bottlenecks are and to adopt immediate corrective actions; the result has been one production record after another, as well as maximum efficiency. The next step is to implement the same system in the other plants.

Yet another important success this year was automation to consolidate results, by means of a Business Intelligence (BI) project. The organization consists of a number of business units and various plants, making data consolidation quite complex. Automation has accelerated this process, reducing the amount of time dedicated to the task and its conclusion, as well as permitting a broad view of the business on which to base a decision, so as to make the most suitable offer to a customer at the very beginning of the month.

Another innovation in 2008 has been the travel module – this integrates the company's system with airlines and credit cards. From every terminal it is now possible to make reservations, plan an entire trip and principally estimate the costs in advance. Our greatest

expectation for 2009 is that we will begin to reap the benefits of many actions which have been put into practice with the revision of Klabin's systems. The company has reached stability and it now intends to turn data into information that is valuable for both people and the business.



Central Control Room

## Economic-financial Performance

### Growth in volumes

In 2008, consolidated sales volume (excluding timber) totaled 1,579 thousand tons, 10% above that of 2007. Sales in the domestic market grew 8% and export volume increased 13%.

Gross revenue (including timber) in 2008 came to R\$ 3.7 billion, the equivalent of US\$ 2.0 billion. Net revenue totaled R\$ 3.1 billion, 11% more than 2007. Revenue from exports represented 28% of the total net revenue.

#### After Law 11.638/07 came into effect

R\$ million	2008	2007	Variation %
<b>Gross Revenue</b>	<b>3,714</b>	<b>3,365</b>	<b>10%</b>
<b>Net Revenue</b>	<b>3,097</b>	<b>2,796</b>	<b>11%</b>
<b>Domestic Market</b>	<b>2,244</b>	<b>2,081</b>	<b>8%</b>
<b>Exports</b>	<b>853</b>	<b>715</b>	<b>19%</b>
% Exports	28%	26%	2 pp.
<b>Gross Profits</b>	<b>810</b>	<b>926</b>	<b>-13%</b>
Gross margin	26%	33%	- 7 pp.
<b>EBIT</b>	<b>325</b>	<b>474</b>	<b>- 31%</b>
<b>EBITDA</b>	<b>729</b>	<b>718</b>	<b>2%</b>
EBITDA Margin	24%	26%	- 2 pp.
<b>EBITDA prior to Law 11.638/07</b>	<b>738</b>	<b>741</b>	<b>0%</b>
EBITDA Margin prior to Law 11.638/07	24%	27%	- 3 pp.
<b>Net Result</b>	<b>(349)</b>	<b>604</b>	<b>-</b>
<b>Net Result prior to Law 11.638/07</b>	<b>(316)</b>	<b>621</b>	<b>-</b>
<b>Sales volume (thousand t)</b>	<b>1,579</b>	<b>1,437</b>	<b>10%</b>
<b>Domestic Market</b>	<b>956</b>	<b>888</b>	<b>8%</b>
<b>Exports</b>	<b>623</b>	<b>549</b>	<b>13%</b>
% Exports	39%	38%	1 pp.
<b>Shareholders' Equity</b>	<b>2,247</b>	<b>2,714</b>	<b>- 17%</b>
<b>Net Debt</b>	<b>3,748</b>	<b>2,007</b>	<b>87%</b>
<b>Total Capitalization</b>	<b>6,023</b>	<b>4,969</b>	<b>21%</b>
<b>Net Debt/Total Capitalization</b>	<b>62%</b>	<b>40%</b>	<b>22 pp.</b>
<b>Net Debt/EBITDA (annualized)</b>	<b>5.1</b>	<b>2.8</b>	<b>84%</b>

The Company opted for full compliance with Law 11.638/07, with the norms published by the CVM and with MP 449/08 on Financial Statements, which all modified and introduced new clauses to Law 6.404/76, in order to align itself with international accounting norms (IFRS). Company information referring to years 2007 and 2008 is shown based on consolidated numbers and in millions of reais, except where otherwise indicated.

### Operation results

**Cost of goods sold** in 2008 was R\$ 2.3 billion, 22% higher than in 2007, mainly influenced by the bigger volume of sales, the increase in depreciation, the increased share of board in the product mix and the rise in cost of inputs for production – most notably chemical products, electrical power and fuel oil. During the year additional costs were incurred, arising from difficulties with the start-up operations of the expansion project in Monte Alegre.

**Fixed costs** without depreciation rose 17% due to the increase in direct labor for the new equipment in the mill at Monte Alegre and for forest harvesting, to salary raises and to a new level of maintenance costs at the Plant.

**Gross profit** in 2008 was R\$ 810 million, 13% below that of 2007. Gross margin was 26%, 7% lower than 2007.



**Selling expenses** in 2008 were R\$ 318 million, 21% higher than 2007, reflecting the increase in export volumes and the rise in the price of oil, both of which have a direct impact on the cost of freights that represents 63% of total selling costs.

**General and administrative expenses** totaled R\$ 186 million in 2008, 3% over the previous year, affected also by the salary increases which occurred during the period.

**Other operating revenue** totaled R\$ 19 million, compared to expenses of R\$ 7 million in 2007.

**Operating cash generation** (EBITDA), after the effects of Law 11.638/07, came to R\$ 729 million with an EBITDA margin of 24%. Prior to Law 11.638/07, EBITDA was R\$ 738 million, stable when compared to the year of 2007.



Reels of cartonboard

Financing (R\$ millions)	12/31/2008			12/31/2007		
	Local Currency	Foreign Currency	Total	Local Currency	Foreign Currency	Total
Short Term	396	83	479	145	99	243
Long Term	2,092	2,880	4,972	1,919	1,944	3,862
<b>Gross Debt</b>	<b>2,488</b>	<b>2,963</b>	<b>5,451</b>	<b>2,063</b>	<b>2,042</b>	<b>4,106</b>
Cash, cash equiv. stocks & share			(1,703)			(2,099)
<b>Net Debt</b>			<b>3,748</b>			<b>2,007</b>

## Financial results and indebtedness

In 2008, Klabin managed to keep a debt it's that profile, with short term debt representing just 9% of total debt. The proportion of local and foreign currency debt to total debt is 46% and 54% respectively. Average debt term changed from 55 months in December 2007 to 48 months in December 2008. Cash equivalents on 31<sup>st</sup> of December totaled R\$ 1.7 billion, an amount superior to the financed loans due to be amortized in the coming two and a half years.

The impact of the real's 32% depreciation against the dollar in 2008 (final selling rate) generated a negative result from exchange variation without cash effect of R\$ 674 million before taxes, which impacted the net results of 2008. The result of this depreciation of the real should benefit total export revenues and, over the coming years, more than compensate for the losses occurred in financial expenses.

The financial strategy of the Company is to remain focused on the maintenance of a high level of available cash and on a long term debt profile.

## Net results

Net loss in 2008 was R\$ 349 million. Prior to the effects of Law 11.638/07, net loss came to R\$ 316 million. This result is mainly due to financial losses arising from the effects of the real's depreciation against the dollar.

## Capital Market

Klabin's preferred shares (KLBN4), following the trend of Ibovespa which fell 41%, also fell 47%. The Company's shares were traded in all the auctions of Bovespa with 254 thousand registered transactions, involving 390 million shares and an average daily trade of R\$ 7.9 million.

Klabin's capital stock consists of 917.7 million shares, of which 316.8 million are common shares and 600.9 million are preferred shares.

At the end of 2008, Klabin's treasurer was holding 16.9 million of the company's own preferred shares.

## Dividends

In 2008, the amount of R\$ 237 million was paid out in dividends, of which R\$ 120 million



Planted and preserved native forest

corresponded to supplementary dividends for the year of 2007 and R\$ 117 million in intermediary dividends for the year of 2008, using profit reserves.



## Corporate Governance

Klabin's model of corporate governance is based on transparency. The company enjoys a partnership with its shareholders and the capital market, working together in a continuous process of improvement and growth. Its actions are intended to improve management processes, to facilitate transparency and comprehension of the business for the external public, to better human relations at a professional level and to strengthen established ethical values.

Since December 2002, Klabin has been rated Level 1 in Corporate Governance on the Sao Paulo Stock Exchange (Bovespa) – one of the special trading sections of the Sao Paulo exchange which lists the shares of companies committed to rules of transparency. Another differential is the maintenance of "tag along", a mechanism which guarantees preferred shares the right to be included in a public offering arising from an eventual change in the control of the company. In this case, a price equal to 70% of the value paid for a common share which is part of the controlling block is guaranteed, without jeopardizing the advantages attributed to them – that is to say, the right to receive a dividend payment

per preferred share 10% more than that attributed to common shares.

The Board of Directors is composed of 12 members and their respective alternates, three of which are independent, and it is responsible for conducting the business and defining strategies, supervising their execution, and also watching over and examining accounts and contracts. It is also responsible for the distribution of dividends and the issue of shares. It is also up to the Board to elect Klabin's Executive Directors, and allot the funds used to remunerate the management. The Board ordinarily meets every two months and extraordinarily whenever necessary. Decisions are taken with the participation of the majority of the members, none of whom has an executive function.

### Independent auditors

The company's policy regarding the services provided by independent auditors and unrelated to the External Audit is based on the principles designed to preserve the auditors' independence. During the year of 2008, the external auditors were only responsible for auditing the financial statements.



Dario Zalis

Jundiá Plant – Tijucó Preto

## Risk Management

### Focus on security

Klabin has worked unremittingly on contingency plans to improve the security of its activities, with specific emphasis on industrial environments, on people and on its assets.

**Operational risk** – The company contracts insurance coverage to protect its assets as well as actions resulting from operations in general, for values considered to be adequate for the coverage of eventual losses considering the concept of maximum potential loss.

A specific policy of self-protection for its forests has been adopted, bearing in mind the nature of its activities, the geographical distribution of these forests and the preventive measures taken against fires and other risks in the forestry area.

Losses caused by failures which turn into accidents – the result of which are fires, explosions and electrical damages – are covered by policies for nominated risks and contracted for all the industrial and administrative units.

Intending to protect itself against operational events which may cause damage to people and third parties' property, Klabin has contracted overall civil responsibility coverage, involving material and human damages and also civil responsibility for products.

In order to have protection for damages arising from natural disasters which are common and well-known to occur in the national territory, the company has insurance intended to provide coverage for some of these occurrences such as floods, storms, lightning and other such events.

**Market risk** – Klabin is unable to influence the behavior of the prices of commodities and raw materials or variations in their demand. Follow-up of trends in the paper and packaging markets is an attempt to monitor these risks, by way of helping the management to take decisions regarding production and sales.

**Financial risk** – The company and its subsidiaries participate in operations which involve financial instruments, all of which are registered in accounts that are designed to meet their operational needs, as well as reduce their exposure to financial risk, principally of credit, currency and interest rates. The administration of these risks is made by defining strategies, establishing control systems and determining limits for positions. No operations are carried out which involve financial instruments for speculative purposes.

The company runs operations in the overseas market which are exposed to market risks arising from changes in foreign currency rates. To counteract this exposure, it has a sales plan with a projected flow from export revenues which covers the flow for the payment of liabilities.

In addition to this, it has made use of some financial derivatives to manage the financial risks from short term exchange rates, which are represented by forward dollar contracts.

The company also has exposure to the fluctuation of Long Term Interest Rates due to financing contracts signed with the BNDES, and also the LIBOR rate which is tied into export financing contracts.

**Credit risk** – This risk is governed by specific norms of acceptance by the customers, credit analysis and the establishment of exposure limits per customer. In the case of exports, the company contracts credit insurance, thus guaranteeing the flow of receivables in the case of non-payment by any customer.



Singing Girls' Choir

## Social Performance

At 110 years old, Klabin is preparing for a fresh cycle of commitments with its customers, employees, suppliers, shareholders, the environment and society.

### Employees

#### Developing potential

The mission of Klabin's Human Resources is as follows:

1. To take steps to develop organizational competencies aligned with the trends of the organization, providing continual and permanent training to leadership and working groups.
2. To make an ongoing contribution to the improvement in technical knowledge and behavioral development, equipping the organization with new tools, systems and methodology and enabling the use of best practices and the adoption of equitable and coherent criteria.
3. To ensure that there is a trained and motivated workforce ready to meet the challenges of an increasingly competitive global market, thus helping to perpetuate the organization.

The company owes its history of 110 years of success mainly to the commitment of people who have made a daily contribution to building a solid enterprise. At the end of 2008, the company listed 7,498 of its own employees (7,403 of which were in Brazil and 95 in Argentina) and 5,934 contract workers, making a grand total of 13,432 people.



Employees

The recruiting and selection process is set up in such a way as to ensure the alignment of concepts and the uniformity of standards in the process of analysis, evaluation and selection of candidates.

Each and every admission to the company payroll is preceded by a technical selection process, with a commitment to treat all the candidates under analysis equally. Internal employees who are identified as having the qualifications for the function get priority whenever a job opening arises. The decision on who is the most suitable human resource must result from a technical process, based on the appropriate strategies, instruments and methodology to appraise candidates and obey requirements concerning relevant legal, technical and behavioral criteria to choose them.

Minors below 18 years of age are hired only as apprentices, in the terms of the law, and sometimes for administrative areas.

## Breakdown of Direct Employees – Brazil

Functional group	No.
Administrative	677
Technical level	763
Operational	5,709
Directors, managers, coordinators	254
<b>Gender</b>	
Male	6,826
Female	577
<b>Color</b>	
Not informed	54
White	6,202
Yellow	44
Mulatto	817
Black	286
<b>Age group</b>	
Below 30 yrs	2,265
From 30 to 50 yrs	4,670
More than 50 yrs	468

## Rotation (Variations in Payroll in 2008 – Brazil)

	Hired	Fired
Number	927	974
<b>Rotation rate – Total</b>	<b>12.44%</b>	
<b>By gender</b>		
Male	839	877
Female	88	97
<b>By age group</b>		
Below 30 yrs	632	450
From 30 to 50 yrs	288	434
More than 50 yrs	7	90

## Total Number of Workers

Hired workers	No. of people
Employees	7,498
Contract workers	5,934
<b>Total</b>	<b>13,432</b>
<b>Region</b>	
South	9,562
Southeast	2,856
Northeast	908
Argentina	106

## Health and Safety

Klabin's Program of Excellence in Health and Safety has yielded an 80% reduction in accident rates since its beginning in 2005. The model was improved in order to implement and divulge techniques and tools of work safety and health management, which are part of a system that makes it possible to identify the risks and treatment for effective control, intended to guarantee the life, health and physical integrity of people.

The program consists of 11 guidelines and 75 managerial tools/requirements, 17 of which have already been implemented and 13 are in progress. More than 800 professionals have been taught to observe employees' behavior with regard to safety at work.



Safety

The program is monitored by a Safety Committee made up of senior management. Furthermore, all the plants have a Work Health and Safety Committee, composed of managers who establish preventive actions. The plants also have a committee with representatives from the workers and the company, which is the Internal Commission of Accident Prevention (Cipa).

The company encourages the right of the employee to refuse to carry out any job in situations of risk, which is an issue that is also included in union agreements.

## Accidents at Work – 2008

### Accidents with absence

Employees	40
Contract workers	87

### Accidents without absence

Employees	102
Contract workers	68
Days lost	4,115

### Rate of Accident Frequency

Employees	2.65
Contract workers	5.95
Global rate	3.79

### Rate of Accident Gravity

Employees	273
Contract workers	-
Global rate	-

## Training in Prevention and Health

	2008
No. of training events	1,482
No. of participations	24,205
Hours/employee	14.25

## Training and education

The number of participations in training activities totaled 76,508 in 2008 and involved all hierarchical levels. There were 5,278 events, representing an average of 44.6 hours per employee. Investment allocated to development and training totaled R\$ 4.3 million during the period.

At the Industrial Sacks Business Unit, a minimum of eight hours a month have been dedicated to training each employee during normal working hours, an unprecedented initiative which has received union support. Klabin has been investing in the education of its employees in a wide variety of topics, such as behavior, operational efficiency, health, safety and others. Besides classroom activities, the employees visit customers, the paper mill and attend lectures on topics concerning the production process.

Working groups have also been formed, in which specialized operators train the other machine operators. Groups with 120 people were trained outside the work environment.





Mariu Martins

Employee

### Competencies of Klabin Management –

The target public is the directors, managers and coordinators – approximately 285 executives. The main objective is to orient the preparation and development plans of the company's managers, so that they can act cohesively and in keeping with the organization's values and goals. The program is an integral part of the management's pursuit of excellence in which team spirit, an entrepreneurial mentality and a capacity to renovate all play important roles. The Basic Program to Build Competencies takes place on a regular basis, for the purpose of promoting alignment and a common language regarding competencies among the managers.

Also part of this process is the implementation of the Center to Accompany Executive Performance (Cape), an integrated system which provides a way to renovate Klabin's leadership practices, using the following tools: Performance Analysis, Identification of Potential, Individual Development Plan (PDI), Career Management and Successor Identification; backed up by information from the Census (compilation of knowledge, experience and education). The PDI functions as a career development project for each manager and takes into consideration: personal aspirations, interests, potential and performance; and the requirements and perspectives offered by Klabin. Emphasis is placed on self-managing development, with support offered by the company.

**Team building** – Held upon request, this attends all hierarchical levels. The programs are tailor-made aiming to achieve optimum

results, by developing behavioral aspects and managerial skills of the people and teams, exploring the day-to-day reality of each area and developing attitudes and behavior which facilitate the interactive process between the teams.

**Study scholarships** – In 2008, 295 employees received study scholarships following criteria defined in Klabin's Education Policy:

- The company's percentage share of the monthly payment, including registration, should be no more than 30% of the value, limited to R\$ 300 per month.
- Eligibility criteria: the requested course must be connected with the employee's area; the applicant should have been at least six months in the company and cannot have been involved in any work accident which caused his absence in the 12 months prior to concession of the scholarship.

### Remuneration and benefits

Klabin's remuneration policy is permanently monitored to ensure competitive conditions in comparison with the market; a part is fixed and the other part is variable, linked to performance and results.

The main feature of the Program of Participation in Results (PPR) is additional compensation based on the company's indicators of operational results, such as EBITDA (operational cash generation), volume of production, costs and indicators of safety, quality and the environment. In 2008, the amount of R\$ 12.1 million was disbursed.

## Average Salary, by Gender

Functional group	Men	Women	Salary – Difference M/W
Managers (*)	12,652.40	10,733.60	18%
Technical level	4,066.37	3,967.59	2%
Operational level	1,279.67	979.64	31%
Administrative	3,235.88	2,339.40	38%

(\*) Directors, managers and coordinator

Besides medical assistance, transport and meal vouchers, Klabin offers a series of other benefits to its employees: dental assistance, life insurance, personal loans deducted from paychecks, coverage in the case of incapacity/disability and exceptional assistance (for children).

The Program for Medicine Benefits is run in all the plants by one single operator. Not only does it facilitate the acquisition of medicines, usually subsidized by the company, but the system also helps to identify, evaluate and take actions to promote good health.

Since 1998, a private pension plan has been maintained to complement the benefits paid by the INSS (National Institute of Social Security) and provide a better retirement income. At the end of 2008, there were 1801 participants who contributed a total of R\$ 3,823,264.40, of which R\$ 1,977,961.80 were voluntary contributions paid in throughout the year. The company's share was R\$ 3,672,660.00. At year end the fund's net assets totaled R\$ 112,145,081.09.

Klabin supports the decision to save for retirement and its contribution is proportional to the application of a percentage over the Basic Contribution, defined by the length of service and varying from 100% to 200%.

## Klabin's Supplementary Retirement Program

	2008
Company contribution (R\$ thousand)	3,672
Number of participants	1,801
Net assets (R\$ thousand)	112,145
% of salary for employee's contribution, according to age (*)	
Up to 34 yrs and 11 months	1%
From 35 to 39 yrs and 11 months	up to 3%
From 40 to 44 yrs and 11 months	up to 5%
From 45 to 49 yrs and 11 months	up to 7%
Above 50 yrs	up to 9%

(\*) Basic Contribution – minimum value equivalent to R\$ 5.00

## Company Contribution

Time of service	Percentage over participant's contributions (*)
Up to 4 yrs 11 months	100%
From 5 to 9 yrs 11 months	125%
From 10 to 14 yrs 11 months	150%
From 15 to 19 yrs 11 months	175%
Above 20 yrs	200%

(\*) Contribution Salary is the difference of the nominal salary less 25 URKs (R\$ 4,736 – base Nov/08).



Employee



## Relations with the company

With the exception of the Executive Directors, 100% of Klabin's employees are included in agreements made through collective bargaining. Freedom of association and access to collective bargaining are both encouraged and well looked upon. Even without a formal procedure, the company provides an adequate time and place for the unions to reach agreements between employees and their union. There is no record of any attitude in the plants or other sectors which might inhibit employees in the exercise of this right.

Employees have total liberty to refuse to work overtime. In cases of major operational changes, employees are communicated and involved to the degree and amount of time needed for proper handling of the management of the change.

## Organizational climate

An action plan to improve the organizational climate is underway in every plant, entailing approximately 700 actions, of which 205 are in progress and 392 have already been concluded. The plans were drawn up using the results from the 2007 Organizational Climate Study. There are both a corporate plan, coordinated by the Directorship of Human Resources and involving all the employees and local plans in each one of the plants, which deal with the specific questions of that location.

## Quality of life

Launched in March of 2005, Klabin's Quality of Life Program encompasses actions of preventive work medicine, physical activities, alternative therapies, educational lectures,

nutritional orientation and much more.

Noteworthy among the activities carried out:

### Preventive medicine:

- Extended periodic exams, involving clinical history, people, family, habits and lifestyles.
- Program to prevent and treat nicotine addiction.
- Ophthalmology.
- Campaign to fight high blood pressure.
- Liver steatosis group.
- Monitoring of chronic diseases.
- Metabolic syndrome group.
- Campaign to fight diabetes.

**Alternative therapies:** since its implementation in 2005, more than ten thousand consultations have been given.

- Quick massage.
- Shiatsu.
- Reflexology.
- Auriculotherapy.

**Nutritional orientation:** initially priority has been given to attending those employees who presented an altered Body Mass Index (BMI), hypercholesterolemia and hypertriglyceridemia. Also included in these professional consultations, aimed at promoting good health not just weight control:

- Clinical consultation.
- Check-up of weight and height in campaign to control obesity.
- Check-up of abdominal circumference in campaign for World Heart Day.
- Follow-up and orientation of groups: obesity, nicotine addiction, metabolic syndrome.



Office – head office

**Physical activity/integration:** besides encouraging physical activity, actions incorporate employee self-esteem and integration, as well as approximating family and company.

- Work-time gymnastics.
- Women's Day.
- Mother's Day.
- Father's Day.
- Men's Day.
- Children's Day.

**Educative actions:** all actions which give information to the employees, as well those shared with their family. (brochures)

- PMT and eating habits.
- Personal finances and quality of life.
- How to make your life more active.
- HPV (*Human Papiloma Virus*).
- First aid.
- The importance of a healthy diet in harmony with the practice of physical activity.
- Good humor in our daily lives.



Worktime gymnastics

## Suppliers

Klabin's Procurement area is responsible for conducting all the commercial relations of the companies in the group with their suppliers, in the spirit of the supply-chain concept, encouraging a permanent quest for high quality standards and ethical conduct. At the end of 2008, listed suppliers totaled 2,063 national companies and 170 international ones – 54% of maintenance materials, 33% of investments and services and 13% of raw materials.

The suppliers must prove technical quality to be able to attend the company's requirements in quality, time and volume, to supply a sample/lot of its products for evaluation when necessary; to adopt social responsibility practices and also ensure basic benefits for its employees, providing a safe, productive and participative working environment; not to use child labor; to collaborate with strengthening the supply chain, promoting respect for free trade; to offer a technical visit to appraise the installations, equipment, production processes etc., and to demonstrate good standards of environmental responsibility.

The Ombudsman of the Procurement area is available for Klabin's suppliers through a direct channel – via website [www.klabin.com.br/suprimentos/ouvidoriadesuprimentos](http://www.klabin.com.br/suprimentos/ouvidoriadesuprimentos) – to report confidentially any commercial problem which occurs regarding the company.



Worktime gymnastics

## Contract workers

Where contract workers are concerned, Klabin has an official procedure which determines an inspection/audit of its suppliers to verify compliance with labor laws. According to this procedure, inspections are made of labor documentation and of the places where the contract is being carried out to ensure decent working conditions and the non-existence of child labor.

All such inspections are presented in specific visit reports to third parties and the respective hiring managers and procurement sector must be notified of any irregularities identified during inspections, so that steps may be taken such as: written communication to the supplier on suspension of payment until proof of regularization has been presented; a statement that recurrence will result in disqualification of the supplier. Recurrence in a two-year period automatically disqualifies a supplier.

A disqualified supplier can only be re-contracted after two years have passed since the contract was rescinded. If irregularities occur during the period of the new contract, the supplier will be disqualified definitively.

The manager responsible and the sector of procurement, together with HR, will be communicated of any irregularities noted during inspection, so that the necessary measures may be taken and any payments of bills to the service suppliers should be frozen until the pending matter has been completely resolved.

## Society

### The goal is community development

Klabin's relationship with the community is the cornerstone of the many different social actions that it runs in towns where it is operating. Initiatives cover a wide variety of fields, like health, social assistance, culture, technical and environmental education – and employees are encouraged to participate voluntarily.



Youth with a Future Program

### Youth with a Future

Klabin's Youth with a Future Program is directed to supporting youngsters as agents of community development in the towns where the company has a manufacturing plant. The program was implemented in 2005 in the towns of Jundiá and Piracicaba (SP), Telemaco Borba (PR), Lages, Otacílio Costa, Correia Pinto and Itajaí (SC), São Leopoldo (RS), Ponte Nova (MG), Feira de Santana (BA) and Goiana (PE). In 2006, the program was extended to the towns of Angatuba (SP), Betim (MG) and Guapimirim (RJ).

The Network already boasts a membership of more than 900 people, who represent more than 400 organizations, and is established in 14 municipalities. Since the launching of the program, the networks have already developed some 40 actions together, benefitting two thousand young people in all the towns.

### Environmental education

Klabin supports the work of Copati (Consortium for Environmental Protection of the Tibagi River Basin), in eight of the 36 municipalities in which the entity is active:

Telemaco Borba, Tibagi, Ortigueira, Ventania, Imbau, Sapotema, Curiúva and Reserva (PR). In 2008, the program worked on training 4,960 students from the fourth grade of municipal schools in Paraná. Both teachers and students are involved in the program which deals with the environment and the preservation of water.

It also gives support to Ecoa – Ecologia & Ação, a Brazilian NGO, which is running the project to map the vegetation of the upper Paraguay basin (in the Brazilian Pantanal). The target is to compare the advance in deforestation of the Pantanal between 2002 and 2008. The project is still in progress, and scheduled for conclusion in June 2009.

The company donated funds to two projects of the SOS Mata Atlântica Foundation. The first – De olho na Mata, a subproject of the Atlas of Remaining Atlantic Rainforests – is being run by the entity in conjunction with Inpe (National Institute of Space Research), for the purpose of analyzing the situation of remaining forests in critical areas or which have potential for conserving the biodiversity of the Atlantic Rainforest. The second – Strategic Studies of the Atlantic Coast program to conserve coastal and marine zones – began in 2008 backing the Artificial Marine Reefs project, in the district of the Conservation Units of the Paraty (RJ) region, in partnership with the Cairucu Association.

The Junior Ecological Brigade of Ilha Grande (RJ) was another organization to receive funds from Klabin. The Brigade's mission is to preserve nature and to make the town's residents and tourists more aware of the environment. The goal is to preserve the island, keeping the beaches and trails clean, and to promote environmental education. The activity is carried out by students between 14 and 17 years old, contributing to their education and preparing them to exercise their rights and duties as citizens.

The donation was used to pay for scholarship assistance for some 50 youngsters, the upkeep of their center and operating expenses. Part of the donations is allocated to purchasing equipment and investments in the project work.

**Caiubi Program** – Run in the States of Paraná and Santa Catarina, Klabin's Caiubi Program





Caiubi Program Klabin's Environmental Education

promotes both environmental education by training teachers and monitored visits by students from the state and municipal school system. Set up in October 2001, Caiubi offers seminars and lectures, theoretical and practical courses in environmental education and helps to prepare critical citizens, conscious of their role in helping preserve the environment.

In 2008, these educational meetings focused on protecting the forests, with concepts of forest fire prevention and control and more appropriate management systems for the preservation of biodiversity and water sources. As well as educational lectures on theory, the participants of the courses held in Parana make practical visits to the company's forest nursery, the Ecological Park and the Scientific Breeding Ground for Wild Animals. In Santa Catarina, the participants have the chance to use the Ecological Trail, where they come into contact with important ecological topics.

**Junior Green Force** – The program promotes activities to make children aware of environmental preservation and to form multipliers of information on the subject.

It is run in Parana, in partnership with the Battalion of Green Force Environmental Police, the State Secretary for the Environment and the Parana Institute of the Environment. Part of the project is to stimulate respect for people and the environment, while the other part is related to social development and the restoration of citizenship.

The classes are made up of students from schools located in the regions with lowest the HDI (Human Development Index) ratings. The children take part in classes on environmental legislation, pollution, biodiversity, first aid, civism, morals and ethics. In 2008, 80 children graduated in Telemaco Borba (PR) in two classes. They carried out several activities, one of which was planting seedlings of native trees, donated by the company, on the banks of one of the tributaries of the Tibagi River. The purpose of this action was to help recuperate the riverside vegetation, to regulate and maintain the quality of water flow, to form a habitat for fauna and to prevent erosion, among other benefits.

**Environmental Guards** – The program has been run since 2005 by the Environmental

## Participants of the Caiubi Program

	Rounds	No. of Schools	No. of Teachers	No. of Students
Parana	17	450	2,184	151,294
Santa Catarina	8	115	295	37,157
<b>Total</b>	<b>25</b>	<b>565</b>	<b>2,479</b>	<b>188,451</b>

Police of Santa Catarina with the support of Klabin and local town halls and has already taught 115 children and youngsters from four Santa Catarina towns. The program prepares children and youth to become multipliers of the best environmental practices. As well as classes on environmental legislation and the conservation of biodiversity, the children learn first aid, civism, morals and ethics. To become an Environmental Guard, the children are selected through a general knowledge test. The course lasts 200 hours and classes are given once a week in the Environmental Police barracks.

## Social actions

Klabin's concern with education is evident in the donations made to schools and institutions. One of these is the ABC Foundation, which has used the funds for scientific research and for the upkeep of its structure and administration. The Foundation performs social actions in the fields of education and health and promotes social assistance for children, adolescents, adults, the elderly and people with special needs in the municipalities of Santo Andre, Sao Bernardo do Campo, Sao Caetano do Sul, Diadema, Maua, Ribeirao Pires and Rio Grande da Serra in Sao Paulo State.

In Sao Paulo, the company collaborates with the Creche Baroneza de Limeira and Uniao Brasileiro-Israelita do Bem-Estar Social (Unibes). In Rio de Janeiro (RJ), the Associação Projeto Roda Viva and Obras Profissionais e Sociais Santa Rita de Cassia both receive support.

## Supporting the community

Klabin contributes to a number of entities linked to communities of the regions where its industrial plants are installed, either with monetary donations, campaigns of awareness, or collection of products. In 2008, it supplied the corrugated boxes used for the Warm Clothing Campaign, an initiative of Fundo de Solidariedade e Desenvolvimento Social e Cultural of Sao Paulo State.

It also contributes every year to Apae (Association of Parents and Friends of the Exceptional), in the towns where it has plants, with the allocation of funds or

with the donation of materials to make handicrafts. Another institution to receive donations was Childhood Brasil (Brazil's WCF Institute), the Brazilian arm of the World Childhood Foundation. With Klabin's support the institution has been able to print and distribute 4 thousand copies of the second edition of the brochure Navegar com Segurança, which alerts parents to the risks of using the internet. The company also donates to asylums, orphanages and class and community institutions.

## Volunteer work

The Terra Viva Volunteer Association, a non-profit entity established in 2003, is a tool used to encourage and organize the volunteer work in the company. Klabin allocates funds every month, from a previously established annual budget, while employees and suppliers make sporadic donations. Employees and their families from the towns of Sao Paulo and Jundiai (SP), Telemaco Borba (PR), Feira de Santana (BA), Sao Leopoldo (RS), Otacilio Costa, Correia Pinto and Lages (SC) and Ponte Nova (MG) participate.

In 2008, several campaigns were held to collect materials (books, food and warm clothing) on behalf of social institutions registered by the entity. It also supported culture and music, promoting cultural events such as trips to the theater and parks for the children, elderly and people with special needs, as well as guitar lessons for children given by volunteers at a public school from the Sao Leopoldo (RS) community with instruments donated by Terra Viva.



Marilu Martins

Terra Viva Volunteers

Another important initiative was the campaign to donate blood held in the offices and industrial plants, with an expressive participation by employees. Spot campaigns were also held with festivities in several communities close to Klabin which benefited more than 1.8 thousand children on Children's Day and 1.7 thousand people at Christmas, including children, the elderly and those with special needs.

## Help for Santa Catarina

The Terra Viva Association's principal initiative in 2008 was the movement to help employees at the Itajai Plant and the communities affected by the floods in Santa Catarina. Besides raising two tons of food and ten thousand items including clothes, shoes and products for cleaning and personal hygiene, Terra Viva opened a dedicated bank account and collected R\$ 132 thousand, of which R\$ 18 thousand were donated by the association itself.

The funds were used to buy diapers, furniture and household appliances for the employees who were affected by the floods, and toys given at Christmas to 185 children, dependents of the employees. The balance (R\$ 50 thousand) will be used to rebuild the nursery which receives the children of employees or from social institutions.

Klabin also made direct donations, which came to R\$ 327 thousand, including drinkable water, food baskets, medicines, corrugated boxes, a kit with bed, mattress, sheets, pillow, eiderdown, blanket and bath towel, and it also transported these donations.

## Apiculture and meliponiculture

Rational apiculture is an important alternative for small and medium-sized farmers and also offers great integration potential with forestry activities, adding value to non-wood forest products.

Run in partnership with the Beekeepers' Association of Telemaco Borba (PR), the Apiculture and Meliponiculture Program brings 14 honey producers from the region together. The beehives are installed on Klabin's property, so as to take full advantage of the flora in its areas, preserving the biodiversity and practicing social responsibility centered on the communities where it is operating.

The company gives real support to the production chain, encouraging diversification of honey production and of other apicultural products – such as propolis, royal jelly and beeswax. Beekeepers consequently earn professional qualifications and can diversify their activities and generate more income for their families.

The Association is responsible today for the Honey Treatment Unit, which prepares the product in accordance with legal and market requirements. Beekeepers can also participate in the Caminhos do Tibagi Cooperative, set up in 2007, to distribute and sell honey and its by-products. The cooperative covers the Parana towns of Telemaco Borba, Ortigueira, Imbau, Reserva, Tibagi, Curiuva, Figueira and Ventania. In 2008, each beehive in the partnership produced on average 21 kilos of



Ricardo Cunha

Employee and seedling nursery



honey, exceeding the national average of 16 kilos. This productivity can increase with the work on genetic improvement of the hives which are still developing.

Klabin is intensifying its efforts to study, identify and preserve native/indigenous bees – meliponiculture. This work also contributes to the preservation of the ecosystem, as the melipone bees are responsible for up to 90% of the pollination of flora in the forests. So far 21 species of native bee have been identified, like the jatai, irai and manduri, considered to be producers of top quality honey which has therapeutical properties for use in phytotherapy.

The mandaçaia species of bee (*Melipona quadrifasciata*), native to Brazil and on the list of endangered species, has been found in Klabin's forest in the Parana region. A record of this species is of fundamental importance, because it confirms the good conditions of preservation and biodiversity that exist there, reasserting the company's trajectory, which is one of sustainable development in harmony with nature.

The multiplicity products from the forest drives a number of different production chains, bringing important social and environmental benefits to the community.



Apiculture

## Health

Klabin allocated funds in the health area to hospitals, institutes, teaching centers, associations dedicated to research, surgeries and rehabilitation activities in 2008. Among those entities receiving benefits are: Procep (Center for Pro-Cardiac Learning and Research), from Rio de Janeiro (RJ); Pro-Criança Cardíaca, from Rio de Janeiro (RJ); Indatir (Thyroid Institute), with head office in São Paulo (SP), and active in national and international events; Lar da Caridade – Hospital do Fogo Selvagem (Uberaba, MG); AACD (Association to Assist Children with Special Needs), active in São Paulo, Pernambuco, Minas Gerais, Santa Catarina, Rio Grande do Sul and Rio de Janeiro; Pro-Matre Association, from Rio de Janeiro (RJ); ACTC (Association to Assist Children with Cardiac Problems and Heart Transplants) from São Paulo; Anima Civil Association (São Paulo, SP); ABBR (Brazilian Beneficent Association for Rehabilitation) from Rio de Janeiro (RJ); and Sociedade Beneficente Israelita Brasileira Hospital Albert Einstein, from São Paulo (SP).

## Phytotherapy

The Phytotherapy Program – activity certified by the FSC and still unprecedented in the area of non-wood products in the world – attends patients through a self-managed health plan. Five basic illnesses are treated, representing practically half of all the health problems presented: flu and colds, wounds and skin lesions, dyspepsias, diarrhoea and slight arterial hypertension. Employees and their families at the Monte Alegre Plant (PR) are benefited by this program. In all, there are around 50 intermediary products, which result in 60 basic phyto-products which undergo manipulation in the institutional pharmacy. The program utilizes viable assets from the forests, managed rationally and sustainably, and combines nature preservation with social responsibility in the pursuit of quality of life.

## Culture

A sociocultural project run at the Monte Alegre Plant, in Parana, is Klabin's Singing Girls Choir which makes a contribution to the practice of moral and ethical values and, above all, to the formation of children, daughters of company employees. Established in August of 2004, the group is made up of



Singing Girls' Choir

76 girls aged between seven and 16 years old. With a varied repertory, the girls have already given presentations in a number of towns in the states of Parana, Sao Paulo and Santa Catarina, to a public of over five thousand people.

Klabin sponsors other cultural and artistic initiatives, such as the Cresci na Mangureira project, of the audiovisual producer Bossa Nova Films, and the documentary Doce Brasil Holandes, made for TV by M. Schmiedt Produções, scheduled to be released in September 2009.

The company has also made donations to the Assis Chateaubriand Museum of Art in Sao Paulo (MASP), used in the project Masp 2007 – Annual Plan, for the museum's general maintenance. The Society of Friends of Museums – SAM Nacional – (Mube) received a donation in 2008, via the Rouanet Law, for the museum's upkeep, maintenance and activities. The foundations set up by sisters Eva Klabin and Ema Gordon Klabin were also benefited for the maintenance of their important collection of rare books and art.

## Expansion Project MA-1100

Klabin's most ambitious project in recent years, MA-1100 evolved with a focus on sustainability, which assures the highest standards of economic and environmental performance as well as the management of impacts on the community of Telemaco Borba (PR).

Social benefits include the creation of direct and indirect jobs in mill operations and in the forestry area – with an injection of R\$ 13 million per year in salaries into the region – and the expansion of the forestry incentives and leasing programs.

**Employment** – During construction there were, on average, 4.5 thousand temporary workers present, with peaks of up to eight thousand. In total, 24 thousand workers participated in the project's installation. To stimulate hiring of local labor, Klabin in conjunction with Senai (National Service of Industrial Training) promoted training for more than 1.5 thousand workers in the town of Telemaco Borba (PR) and the region.

Approximately 60% of those who worked on the mill expansion – the construction site and industrial assembly – were residents of the town, of nearby towns and of other locations in Parana. For the workers who came from other regions, the company offered lodging in two dormitories with space for three thousand people.

The project infrastructure consisted of five dining halls, three first aid posts, entrance gates with exclusive access to the areas of the project, classrooms, reception center, safety training and administrative control of the hired workers. In the dormitories, recreation activities were organized on an ongoing basis, coordinated by Sesi (Social Service for Industry), such as tournaments of indoor and outdoor football, cards, chess, table football and others.



General overview of Monte Alegre Plant

At the time of dismissal, Klabin kept a register of individual information – together with the Labor Agency – which was of assistance in later placement of workers. Those workers who came from other regions returned to their place of origin and were relocated to builders' and contractors' sites in other towns.

**Training** – Over 1.5 thousand people in 130 shifts were trained in the areas of civil construction and industrial assembly, to be used on the site of the project. The courses were run in conjunction with Senai. There was also a specific technical course in pulp and paper.

**Infrastructure** – To increase safety for drivers and pedestrians, a roundabout was built on state highway PR-160.

**Community** – R\$ 350 million were paid out in taxes during implementation of the project.

### Social benefits

- Job creation.
- Expansion of forestry incentives and leasing programs.
- Injection of R\$ 13 million per year in salaries in the region of Telemaco Borba (PR).
- Creation of 4.5 thousand monthly jobs on average during implementation of the project.
- Taxes during implementation of the project: R\$ 350 million.

## Public policies

Through various forums, associations and other groups which involve entities from the forestry sector, Klabin has participated in and sought to influence the elaboration of public policies directed to creating conditions for development of the communities where it is operating, as well as to defend the

interests of the sector in which it is active. To this end, directors and managers represent the company in associations and entities, for example ABPO (Brazilian Association of Corrugated Board), and Abre (Brazilian Packaging Association) – both presided over, in 2008, by one of Klabin's directors.

## Participation in Entities in 2008

Entity	Position
Bracelpa (Brazilian Pulp and Paper Association)	Coordinator of Forestry and Market Intelligence Committees, Sustainability and Communication Committee Member
Agesserra (Development Agency of Santa Catarina Highlands)	Vice-president
Abre (Brazilian Packaging Association)	President, Consulting Board
Abrace (Brazilian Association of Large Energy Consumers)	Alternate Board Member
ABPO (Brazilian Association of Corrugated Board )	President
ABTCP (Brazilian Technical Association of Pulp and Paper)	Board Member, Coordinator of Working Group for Standardization Committee of Recovery and Energy
Association of Santa Catarina Forestry Companies	Vice-president
Anpei (National Association of R & D and Engineering of Innovative Companies)	Member
Cetea (Technological Center for Packaging)	Member of Consulting Board
Cempre (Corporate Commitment to Recycling)	Board Member
Fiesp (Federation of Industry of Sao Paulo State)	Union Delegate
FNQ (National Foundation for Quality)	Member
Sepaco Hospital	Vice-president of the Board of Administration
ICCA (International Corrugated Case Association)	Director
SIP (Union of Chemical and Mechanical Pulp and Paper Industry in the State of Sao Paulo)	Managing Director
Sinpesp (Union of Sao Paulo Pulp and Paper Industry)	Director
Sinpesc (Union of Santa Catarina Pulp and Paper Industry)	Vice-president of the Administrative Council, Fiscal Board
Sinpacel (Union of Parana Pulp and Paper Industry)	Alternate Director
STFI – Packforsk (Swedish research Institute)	Member

## Global Compact

In keeping with its commitment to sustainability, Klabin adhered to the Global Compact in 2002, as a result of the invitation extended to the private sector in 1999 by the ex-Secretary General of the United Nations, Kofi Annan, who asked companies to contribute to the pursuit of a more sustainable and inclusive global economy, by abiding by the ten principles of sustainability. These principles encompass human rights, labor, environment and anti-corruption.

As a measure of its adherence to the Global Compact, Klabin is also supporting the Eight

Millennium Development Goals, a challenge to be met by 2015 with concrete actions by governments and society. The Millennium Declaration was approved in 2000 by the United Nations Organization (UN) and undersigned by 191 countries, including Brazil, in a consensus to commit to: eradication of hunger and poverty; good quality education for all; non-discrimination; reduction of infant mortality; maternity health care for women; the fight against disease; quality of life and respect for the environment; and universal opportunities for work.

## Principles of the Global Compact



### Human Rights

**Principle 1** – To support and respect protection of internationally proclaimed human rights within the sphere of influence.

**Principle 2** – To make sure that the business is not party to human rights abuses.



### Labor

**Principle 3** – To support freedom of association and effective recognition of the right to collective bargaining.

**Principle 4** – To support the elimination of all forms of compulsory and forced labor.

**Principle 5** – To support the effective eradication of child labor.

**Principle 6** – To support the elimination of discrimination regarding employment and occupation.



### Environment

**Principle 7** – To adopt a precautionary approach to environmental challenges.

**Principle 8** – To undertake initiatives to promote greater environmental responsibility.

**Principle 9** – To encourage the development and diffusion of environmentally friendly technologies.



### Anti-corruption

**Principle 10** – To fight corruption in all its forms, including extortion and bribery.

## Millennium Development Goals







Ocelot – Klabin's preserved native woodland

## Environmental Performance

Klabin is guided by innovation, economic returns and efficient use of natural resources, which are the platforms for sustainable growth.

### Preservation and reduction of impacts

Klabin's Sustainability Policy is committed to preservation and the reduction of environmental impacts. The company runs its forestry and manufacturing activities predicated on the concept of sustainable development, in order to guarantee biodiversity and the balance of ecosystems in the regions where it operates.

The manufacturing activities incorporate technologies for clean production, the rational use of resources, the minimization of solid waste generation and the control of atmospheric emissions and hydric effluents, thus diminishing the effects of the production process on the environment. In 2008, only 18% of the energy consumed originated from fossil fuels or non-renewable sources (fuel oil and natural gas).

In 2008, Klabin became the first Brazilian company from the pulp and paper sector to complete ten years of FSC (Forest Stewardship Council) certification, which currently covers the areas of Parana and Santa Catarina. The recertification of Klabin's forests in Parana is valid for the next five years.

The ISO 14001 certification of Industrial Sack Plants Lages 1 and Goiana, and of all the box plants, was one

of the year's important successes, since this standard of environmental management quality now covers all the company's businesses in Brazil.

### Expansion with improvements

Of the total R\$ 2.2 billion invested in the entire Project MA-1100 for expansion of the Monte Alegre Plant, R\$ 300 million were allocated to improving environmental performance. Among other benefits, this permitted a reduction in water consumption; a decrease of 15% in the volume of effluents per ton produced; a reduction of 20 thousand tons/year of fuel oil, as steam generation started in the biofuel boiler. This equipment also consumes waste wood from the local industrial district and thereby eliminates the town's environmental liability.

### Environmental benefits

- Reduction of 25% in the specific load of COD and 22% in the specific load of BOD<sub>5</sub> to the Tibagi River.
- Integral utilization of biofuel, reducing solid wastes.
- Reduction from 36 m<sup>3</sup>/t to 30 m<sup>3</sup>/t in water consumption.
- Reduction of fuel oil consumption by 20 thousand tpy with the installation of the new biofuel boiler.
- Reduction of 15% in volume of effluents per ton produced.
- Carbon credits.

## Klabin Materials Balance 2008



2008

Wood for processing (t)	6,271,856
Wood for sale (t)	2,242,200
OCC (recycled) (t)	252,793
Purchased pulp(chemical and CTMP) (t)	43,727
Caustic soda (t)	24,965
Sodium sulfate (t)	16,638
Purchased electrical power (MWh)	939,598,158
Fossil fuel (GJ)	10,136,120
Water (thousand m <sup>3</sup> )	74,077



## Energy

The Company's global energy consumption was 14% higher than that of 2007, rising from 38,104,762 GJ to 43,378,000 GJ produced, mainly due to the increase in Monte Alegre's production with the completion of Project MA-1100. Taken into account are a new cartonboard machine with a capacity of 350 thousand tons, new

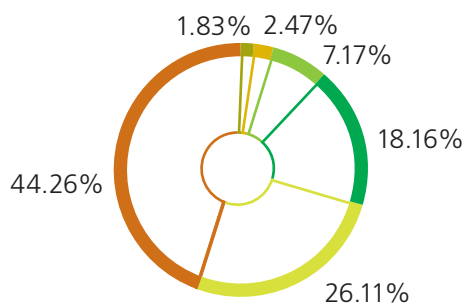
recovery boiler, new lime kiln, high-yield pulp plant (CTMP), rebuild of the pulp and bleaching plant, new biofuel boiler, new wood processing line, capacity increase in the area of board sheeting and duplication of the effluent treatment plant. The plant's production capacity rose from 700 thousand to 1.1 million tons/year.

### Klabin's Energy Sources – annual GJ

	2005	2006	2007	2008
Natural gas	1,070,905	1,368,945	942,394	1,523,326
Fuel oil	6,306,604	6,875,856	6,923,028	8,612,794
Biofuel	8,905,509	8,694,772	9,948,677	9,615,050
Black liquor	17,181,337	17,711,406	16,863,328	19,477,369
Own hydro-EE	737,303	585,995	696,016	763,713
Purchased EE	2,479,347	2,711,536	2,731,320	3,385,748
<b>Total</b>	<b>36,681,005</b>	<b>37,948,510</b>	<b>38,104,762</b>	<b>43,378,000</b>

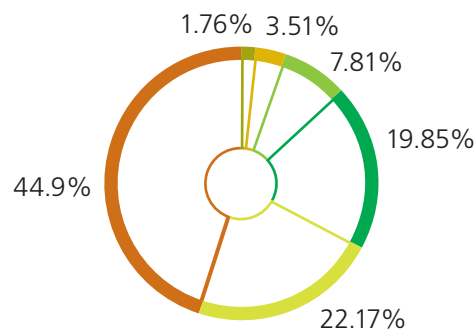
Note: Values of PCI for diesel and fuel oil adjusted for previous years.

### Klabin Energy Sources – 2007 (38,104,762 GJ)



- Own hydro-EE
- Natural gas
- Purchased EE
- Fuel oil
- Biofuel
- Black liquor

### Klabin Energy Sources – 2008 (43,378,000 GJ)



- Own hydro-EE
- Natural gas
- Purchased EE
- Fuel oil
- Biofuel
- Black liquor

The increase of production capacity after Expansion Project MA-1100 was accompanied by gains in energy efficiency obtained from the installation of complementary equipment, such as new recovery and biofuel boilers and a turbogenerator, which increased the energy self-sufficiency of the Monte Alegre Plant to 70%.

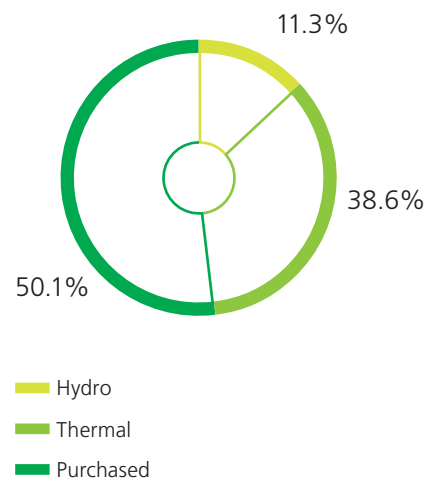
Power generation from biofuel dropped 4% and energy from fuel oil increased 1.62% in 2008, mainly due to the delay in the scheduling of the new biofuel boiler. The start-up of this boiler – in July 2008 – provided a reduction of 70% in the consumption of fuel oil for steam generation, which declined from an average of 8,280 to 2,460 t/month.

Thermal energy consumption rose by 4%, mostly due to the start-up (in March 2008) of the new 70 MW turbogenerator. The total consumption of energy grew 28% in comparison with the year before, principally because of the increase in production after inauguration of Project MA-1100 which boosted sales volume of the company's paper by 10% in the period.

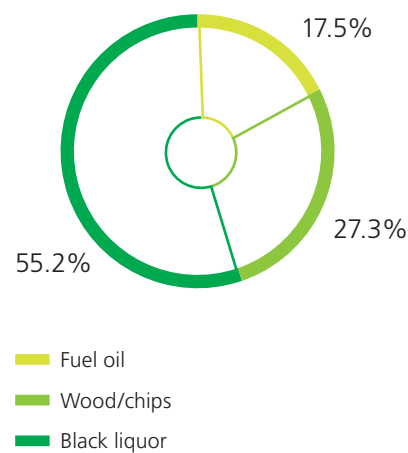
Thermal energy generated by the steam turbines totaled 723,772 MWh in 2008, an increase of 42% over 2007, mainly due to the new turbogenerator at the Monte Alegre Plant.

The participation of fossil fuels in co-generation of electrical power reached 18%. This was an increase of 3% over the year before, particularly because of the delay in the installation timeline of the new biofuel boiler, which meant that demand for steam was met by the fuel oil boilers.

### Consumption of Electrical Energy – 2008 (1,875,312 MWh)



### Thermal Energy – 2008 Paper Business Unit (723,772 MWh)



## Water

In 2008, the total consumption of water in Klabin plants was 74,076,942 m<sup>3</sup>, an increase of 5% in relation to the year before, and compatible with the 10% increase in the company's total volume of paper sales. With the termination of the expansion project at the Monte Alegre Plant, specific consumption of water reached 34 m<sup>3</sup> per ton of paper. This rate should drop to 30 m<sup>3</sup> per ton of paper with the implementation of projects to close the water loop in the wood yard and on the paper machines, the same specific consumption as in the most modern mills in the world.

The quest to reduce water consumption and the closing of loops is a part of the investments in all the company's businesses. In packaging and in industrial sacks, the closed water loop has been adopted in the majority of the plants.

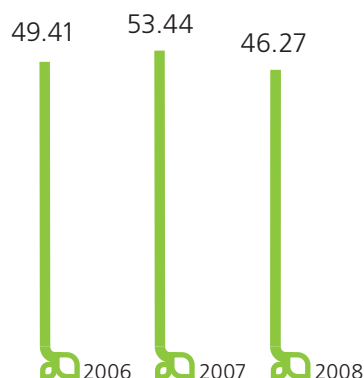
With the ultrafiltration project at the Monte Alegre Plant, it will now be possible to reuse the effluent which comes from this stage of the process thanks to its excellent quality, thus achieving a considerable reduction in water consumption.

The specific consumption of water of the paper mills in 2008 was 13% below the previous year, mainly due to the conclusion of Project MA-1100 and to the good operational performance in the plants of Correia Pinto and Otacilio Costa (SC) and Angatuba (SP).

The implementation of the System of Environmental Management in the packaging and industrial sack plants offered a reduction in specific consumption of water resulting

from the standardization of operational procedures, improvement in environmental controls and increase of employees' and contract workers' awareness.

### Specific Consumption of Water (m<sup>3</sup>/t) Klabin Paper



## Emissions and effluents

The manufacturing plants have not only internal environmental indicators but also ones defined by the environmental legislation. The biochemical and chemical oxygen demands (BOD<sub>5</sub> and COD) are the main parameters monitored and are a part of the operational license of all the plants. Klabin complies with the legislation and strives to exceed it, with programs to reduce loss of inputs and raw materials, rational use of resources and improvement of processes, to prevent and limit environmental impacts related to hydric effluents, emissions to air and solid wastes.

Emission of COD declined by 16% and of BOD<sub>5</sub> by 19%, mainly due to the performance of the Effluent Treatment Plant (ETP) at the mills in Otacilio Costa (SC) and Monte Alegre (PR). Part of the expansion project at the Parana plant included investments of R\$ 70 million in the duplication of the ETP, with the installation of a new mechanical grating, automatic cleaning of the sand box, new primary and secondary decanters, a new cell in the cooling tower, aerobic selector and new aeration tank.

The project adopted a global technological innovation, unprecedented in pulp and paper mills: the ultrafiltration of industrial effluents as a third-stage treatment, which will enable



Effluent Treatment Plant in Monte Alegre

future reuse in the mill. The process also means that effluent can be delivered to the receptacle with an organic and inorganic load well below the limits established by environmental legislation. The unit's capacity of ultrafiltration is 1,640 m<sup>3</sup>/hr.

With industrial sacks, the year's highlight was the effluent treatment in the Lages Plant (SC). Improvements were made to minimize environmental impacts with an increase in the concentration of liquid sludge and reduction of moisture by 30%. Selective waste collection was also adopted and the system to impound rainwater was consolidated, with an increase in tanks and consequently more economy in the quantity of water used in various activities, such as washing parts.

## Atmospheric emissions

The pulp and paper industry's major challenge today is the control of emissions to air. Environmental controls are intended to reduce particulate materials (PM), sulfur oxides (SO<sub>x</sub>), carbon monoxide (CO), nitrogen oxides (NO<sub>x</sub>) and the odor from pulp production (TRS) in order to minimize

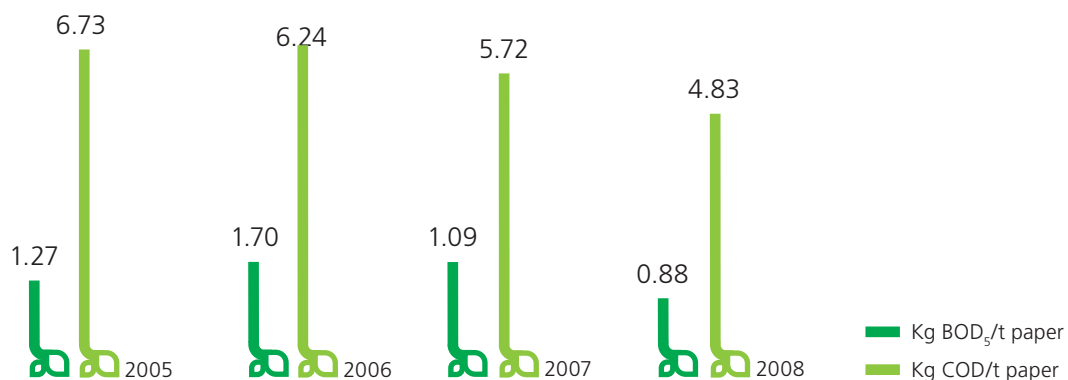
relevant environmental impact and comply with environmental legislation.

To control emissions to air some mitigating measures are adopted:

- Collection and incineration of odorous gases and control of the resulting SO<sub>x</sub> emissions.
- New equipment containing burners with low emissions of NO<sub>x</sub>.
- Emissions of total reduced sulfur (TRS) from the recovery boilers are efficiently controlled in combustion; in the lime kiln, they are mitigated by controlling excess air and sodium residues in the lime mud.
- The combustion gases from the auxiliary recovery boilers and lime kiln are controlled by electrostatic precipitators.
- The burning of liquors and biofuel is used for co-generation of energy.
- Optimization of biofuel consumption to reduce consumption of fossil fuels which in turn reduces greenhouse gases.

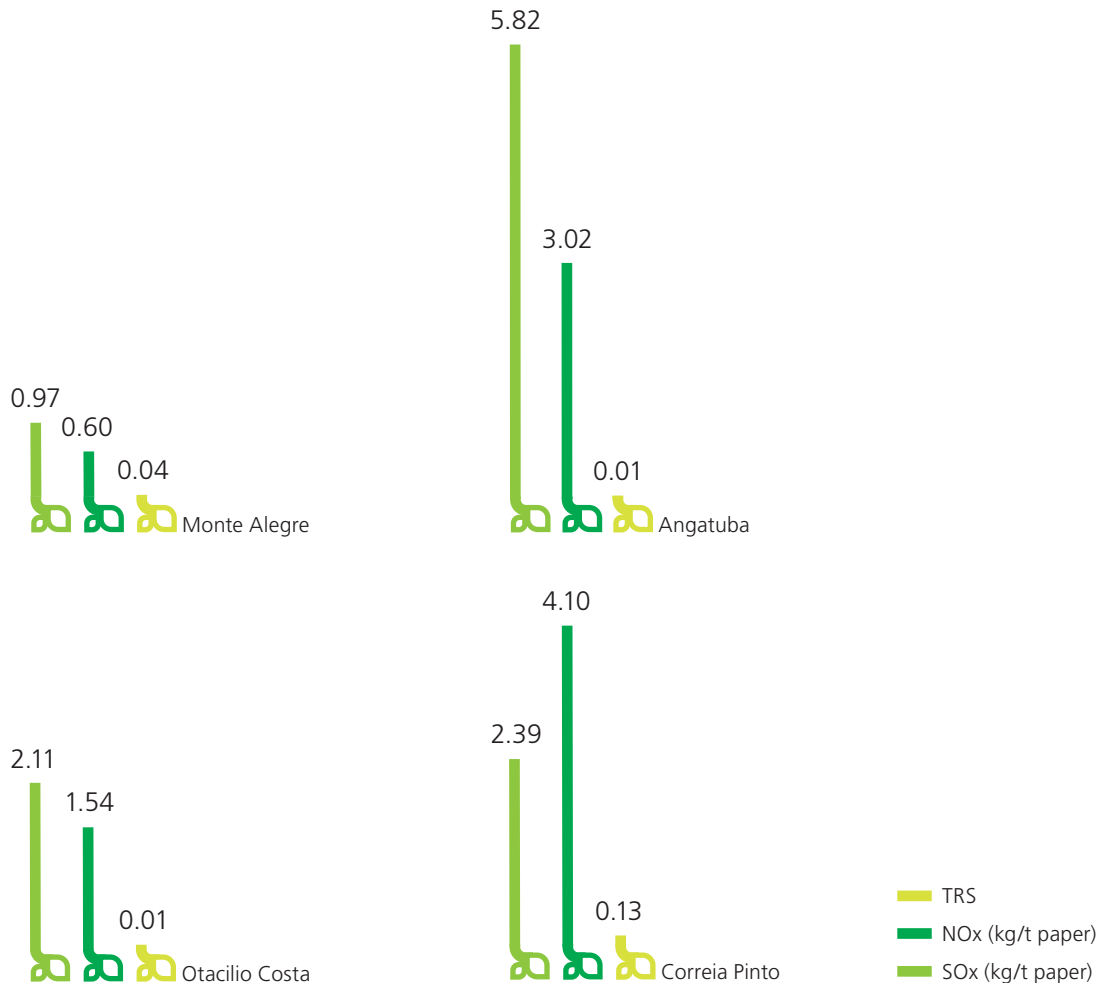
Environmental projects in the plants of Correia Pinto and Otacilio Costa (SC) are being considered in the investment plan for coming years, with the intention to reduce atmospheric emissions.

### Emission of BOD<sub>5</sub> and COD (kg/t paper) Klabin Paper



Correia Pinto Plant (SC)

## Atmospheric Emissions – kg/t paper



## Greenhouse Gases (GHG)

Klabin is continually seeking alternatives to clean its energy sources, with the use of alternative fuels and improved technology for lower emissions of Greenhouse Gases (GHG). A recent example was the installation of a new biofuel boiler at the Monte Alegre Plant, in Telemaco Borba (PR), with 250t/hr of steam production. This equipment will eliminate the consumption of 20 thousand tpy of fuel oil, thus contributing to the reduction of GHG. Furthermore it is driving the use of renewable energy sources by Klabin, since it uses biofuel wastes generated in the forest harvesting operations and in timber processing at the sawmills in the timber pool of Telemaco Borba (PR). Operating at 500°C and 100 bar pressure, the boiler is the most efficient cogeneration plant in the pulp and paper sector in Brazil.

Emissions originating from the use of biofuel in its various forms, that is to say clean or

neutral, represent 83% of the direct emissions from production. Biofuel comes from planted forests, sustainably managed, which during their growing phase sequester CO<sub>2</sub> from the atmosphere through the process of photosynthesis. However, equilibrium is established in the end.

Emissions of GHG from the use of natural gas rose 3% and from fuel oil presented a reduction of 1% year on year. The plants of Piracicaba (SP), Jundiai – Distrito Industrial (SP), Guapimirim (RJ), Goiana (PE), Del Castilho (RJ) and Betim (MG) use natural gas as a fuel to generate steam. Of the fossil fuels, it is the cleanest and this substitution means a reduction from 76kg to 56kg of CO<sub>2</sub>/GJ, or 26% less emissions of GHG per unit of energy.

In 2008, 87% of fossil fuel emissions came from the use of heavy fuel oil, 11% from natural gas and 2% from LPG (Liquified Petroleum Gas).

## Emission of Greenhouse Gases (thousand tpy)



### Carbon credits

In the month of May 2008, Klabin concluded its second sale of carbon credits, which are certificates sold to companies that need to take measures to reduce and control greenhouse gases (GHG). This was the first sale made by the company based on a CDM (Clean Development Mechanism) project and in accordance with the criteria of the Kyoto Protocol. The project was registered at the United Nations Framework Convention on Climate Change (UNFCCC), in July of 2006. 87 thousand tons of CO<sub>2</sub> were sold to a European company from the energy sector.

The CDM project substituting fuel oil with natural gas, installed at the Piracicaba Plant (SP), can reduce CO<sub>2</sub> emissions by 26% and consequently generate around 150 thousand tons of carbon credits by 2010. In 2009, Klabin plans to sell the approximately 63 thousand tons remaining.

A second CDM project is being prepared. Linked to Expansion Project MA-1100, the mechanism will be based on the installation of cutting edge technology to burn biofuel in a CFB (Circulating Fluidized Bed) boiler. The main characteristics of the equipment, which is the first in the Brazilian pulp and paper sector, are high efficiency and fuel flexibility, as well as allowing emissions to air below the legal limits. With this, the burning of fuel oil to generate steam will be at a minimum in the plant.

### Solid wastes

One of the challenges in making pulp and paper is to minimize the generation of waste on a large scale and to adequately discharge residues from the production process. The main residues are non-inert ones (grits, dregs, lime mud, reject fibers, etc.) which require proper disposal. The disposal and separation areas are accordingly monitored, ensuring that there is no contamination of water tables. Final disposal of residues is carried out by duly regulated third parties.

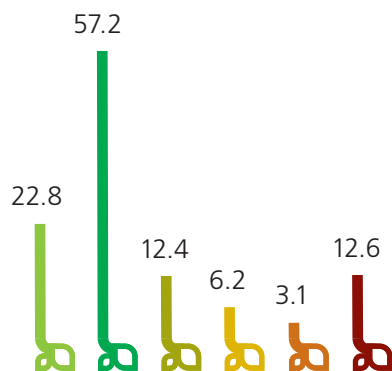
In November, the new industrial landfill for non-toxic wastes came on stream at the plant in Goiana (PE).



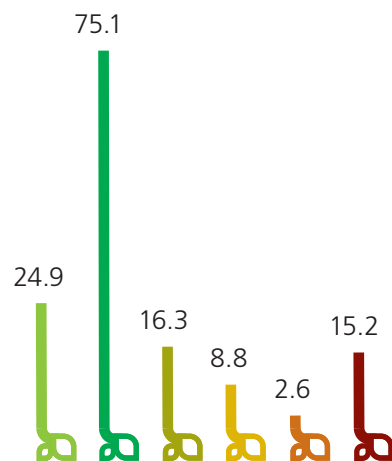


## Solid Wastes (thousand t) Klabin Paper

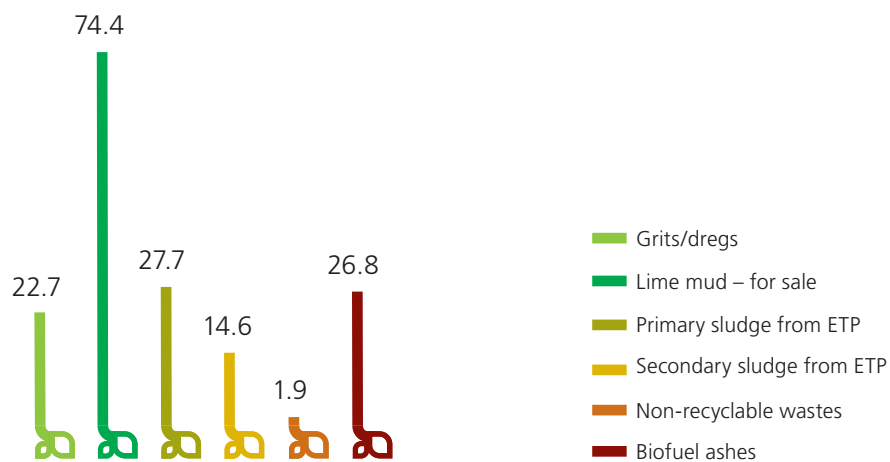
2006



2007



2008



- Grits/dregs
- Lime mud – for sale
- Primary sludge from ETP
- Secondary sludge from ETP
- Non-recyclable wastes
- Biofuel ashes



## Biodiversity

Klabin's properties intersperse planted forests with extensive areas of preserved native woodlands. This mosaic system of planting helps form ecological corridors, allows rich biodiversity to thrive in its forests and reduces the risk of impacts. Thanks to this stewardship, it became the first company in the country to receive an award from Rainforest Alliance (organization which is committed to preserving ecosystems and biodiversity, by means of environmental projects in conjunction with companies, local communities and landowners) and to be considered a trendsetting company in sustainable development.

On the 31<sup>st</sup> of December, Klabin owned 83 hectares of preserved native woodland for every 100 hectares of planted forest. Some of the company's areas are considered to be of high conservation value such as Tabual do Maua and Varanal (PR), Fazenda Farofa (SC).

With the help of the Legal Woods Program, the company also encourages the recuperation and restoration of areas of partners who participate in the Klabin's Forestry Incentive Program (more information under Forestry Business Unit). In these cases, lands which were previously used for agriculture can be reformed as preservation areas or legal reserves and managed in a sustainable manner.

Recently purchased areas are environmentally upgraded in accordance with the environmental legislation and restoration work is carried out to recompose the areas of permanent preservation, and legal reserves with native woodlands.



Maned wolf – The Scientific Breeding Ground for Wild Animals

## Area of Preservation

Region	Hectares
Monte Alegre	110,520
Guarapuava	12,081
Santa Catarina	60,966
Angatuba	3,674

## Ecological Park

Located in Telemaco Borba (PR), Klabin's Ecological Park occupies a total area of 11,196 hectares, of which 7,883 consist of native woodlands, in the form of araucaria forest. Some of these forests are still in their primitive state or only very slightly altered. In 2008, the park received 33,224 visitors.

The Scientific Breeding Ground for Wild Animals installed in the park is a space for species from the region, especially those considered to be endangered, to breed in captivity. Visitors encounter pens and cages for mammals and birds, as well as a serpentarium.

### Preservation in the spotlight

By the end of 2008, 899 animal species had been identified in Klabin's forests in Parana and Santa Catarina. In Parana, there are 84 mammals, 405 birds, 40 amphibians, 40 reptiles, 12 bees, 6 crustaceans and 58 fishes. Of this total, 75 species are considered to be endangered by IAP (Parana Environmental Institute), 15 by Ibama (Brazilian Environmental Agency) and 51 by IUCN (International Union for Conservation of Nature). The total number of species identified in Klabin's forests in Parana represents 40% of all the species that exist in the state. In Santa Catarina, nine of the total species identified are considered to be endangered by Ibama.

### Number of Species Identified

	Amphibians	Birds	Mammals	Fishes	Reptiles	Bees	Crustaceans	Total
<b>Parana</b>	40	405	84	58	40	12	6	<b>645</b>
<b>Santa Catarina</b>	7	214	29	0	4	0	0	<b>254</b>

### Investments

In addition to Project MA-1100, the company also invested R\$ 20 million in environmental improvements, of which the most important projects were:

- Termination of the new non-condensable gas incinerator; development of a system to remove mud from the WTP (Water Treatment Plant); closing of water loops on paper machine no.1 and in causticizing; treatment of rainwater in the wood yard; continuous monitoring of gases from different stationary sources at Monte Alegre Plant, in Telemaco Borba (PR).
- Termination of upgrading Effluent Treatment Plant at Otacilio Costa Plant (SC).
- Substitution of piping to discharge effluents, rebuild of dewatering press, and installation of aerators in the ETP at Correia Pinto Plant (SC).
- Construction of holding ponds (ETP/RWTP), a warehouse for inflammables, upgrading effluent treatment processes and new filter press for Lages 1 Plant (SC).
- Conclusion of the project for noise reduction at the Sao Leopoldo Plant (RS).
- New domestic waste treatment with septic tank and dust-trap system in the area of the press in Betim Plant (MG).
- Impermeabilization of the ETP emergency pond and construction of artesian well at the Ponte Nova Plant (MG).
- Optimization of steam and condensate system, filter installation for system and closing off water and waste compactor at Piracicaba Plant (SP).
- Upgrading industrial installations, construction of containment of chemical products, acquisition of environmental emergency kits, operational training, receptacles for selective waste collection, upgrading of storage area for inflammable products and identification of areas in several of the company's plants.



Agouti – Klabin's preserved native woodlands



Leandro Taques

Klabin's planted forest

## Awards and Acknowledgements

### Awards of national prestige

#### Economic Dimension

**Biggest and Best of Exame Magazine** – Second out of the ten Biggest Pulp and Paper Companies; 37<sup>th</sup> out of 100 Biggest Publicly Traded Companies by Market Value; 103<sup>rd</sup> out of 500 Biggest Companies by Sales; seventh out of 500 Biggest Companies by Net Working Capital; third out of 15 Best by Market Segment; third in Investment in Plant, out of ten Biggest in Pulp and Paper sector; second in Market Leadership, out of ten biggest in Pulp and Paper sector; fourth in Current Ratio out of ten biggest in Pulp and Paper sector; fourth in Profitability out of ten biggest in Pulp and Paper sector; 71<sup>st</sup> out of 100 biggest Groups by Sales – Exame Magazine, Abril Publishers.

**BrandFinance and Gazeta Mercantil** – 88<sup>th</sup> out of 100 companies evaluated for Brand value: R\$ 476 million. The 100 companies with biggest brand values in the market are active in various sectors such as banks, beverages, vehicles, food, oil, telecommunications, department stores, supermarkets, media, electrical energy, home appliances, cosmetics, aviation, iron and steel, pulp and paper.

**The Most Plugged-in Companies in Brazil** – 30<sup>th</sup> out of 100 companies which invested most in IT – InfoExame Magazine

**Total Productive Management Award** – International certification awarded to the paper mill at Klabin's Monte Alegre Plant, in Telemaco Borba (PR). Issued by the Japan Institute of Plant Maintenance (JIPM), public organ linked to the Japanese Ministry of the Economy, Trade and Industry, in recognition of the system of continuous improvement, in accordance with Japanese standards of industrial excellence. With this certification, Klabin has become the first Brazilian company from the pulp and paper sector to reach the first degree of this award.

**VI Parana Foreign Trade Award** – 15<sup>th</sup> place out of 100 Biggest Exporters in Parana and 10<sup>th</sup> place out of 40 Biggest Importers in Parana – Faciap (Federation of Trade and Business Associations of the State of Parana), Fesp (Foundation of Social Studies of Parana) and the newspaper Industria & Comercio.

**7<sup>th</sup> Export Quality Prize** – Pulp and Paper – Among ten biggest exporters from the sector – Madeira Magazine.

**Febrafarma Quality Award** – Finalist in the Corrugated Boxes category – Febrafarma.

**The Most Sustainable Websites of Companies Listed on Ibovespa** – 15<sup>th</sup> out of 47 best companies in communication of sustainability – Management & Excellence and GrowAssociates.

**Las 50 Latinas** – Fourth place out of 50 best in Latin America – Mari Papel Magazine.

**8<sup>th</sup> Abre Award for Design & Packaging** – Packaging Technology, from ABRE (Brazilian Association of Packaging), in recognition of the microwave pizza box.

**Highlights of the Sector Award** – Packaging paper manufacturer and Preservation of the Environment – ABTCP (Brazilian Technical Association of Pulp and Paper).

**Ranking of Large & Leading Companies** – Fifth out of 100 biggest companies in Parana – Amanha Magazine.

**Foreign Trade Analysis Directory** – Sixth out of ten companies which have grown most in percentage of export trade and sixth biggest exporter.

**Referencia Prize** – Ten Top Highlights of the Year – Referencia magazine.

**Highlight of Preference 2008** – Corrugated Box – Pack magazine.

## Environmental Dimension

**16<sup>th</sup> Expressao Ecology Award** – Conservation of Wild Life – Klabin Program to Monitor Biodiversity – Editora Expressao.

**16<sup>th</sup> Expressao Ecology Award** – Conservation of Natural Resources – Legal Woods Program, run in conjunction with Apremavi – Editora Expressao.

**16<sup>th</sup> Expressao Ecology Award** – Environmental Education – public-private partnership – Junior Green Force, run in conjunction with Battalion of Green Force Environmental Police – Editora Expressao.

**6<sup>th</sup> Brazilian Environmental Benchmarking** – Klabin Program to Monitor Biodiversity – Mais Projetos Corporativos.

**Biggest and Best in Brazilian Bakery** – Product of the Year – Environment category – Panificação Brasileira magazine.

## Social Dimension

**Jose Paschoal Baggio Entrepreneur Prize** – Winner for the 10<sup>th</sup> time running of the Entrepreneur Prize as one of the 50 companies with the highest rates of return of ICMS tax and which has made the biggest contribution to socioeconomic development of the Catarina highlands – Correio Lageano newspaper.





Klabin's planted forest

## Certifications

Forest stewardship and chain of custody (production process) for Klabin's cartonboard, kraftliner, industrial sacks and corrugated boxes have international certification from the FSC (Forest Stewardship Council).

### 10 years with the FSC trademark

Klabin became the first company from the pulp and paper sector in Latin America to complete ten years with Forest Stewardship Council (FSC) certification, the most recognized green trademark in the world, present in about 80 countries and supported by organizations like WWF, Friends of the Earth and Greenpeace. Klabin's forests in Parana and Santa Catarina were certified for forest stewardship by Imaflores (Institute of Forestry and Agricultural Stewardship and Certification). The recertification of Klabin's forests in Parana is valid for the next five years.

Not only was it the first among companies from the sector in the Southern Hemisphere to obtain use of the trademark for its forests in Parana, but it was also the first company in the world to have non-wood forest products certified, thanks to its handling of medicinal plants and the chain of custody for its phytotherapy and phytocosmetic products. Today Klabin is certified by the FSC (Forest Stewardship Council) for forest management and its chain of custody (production process) of cartonboard, kraftliner, industrial sacks and corrugated boxes, confirming that the company runs its activities within the highest possible socioenvironmental standards.

Certifications	Plants	Issuing Body
FSC – Forest Management of Wood	Forests of Otacilio Costa and Correia Pinto (SC) and of Telemaco Borba (PR)	Imaflora
FSC – Chain of Custody of Non-wood	Forests of Telemaco Borba (PR)	Imaflora
FSC – Chain of Custody of cartonboard and kraftliner	Telemaco Borba (PR), Angatuba (SP), Otacilio Costa and Correia Pinto (SC)	Imaflora
FSC – Chain of Custody of industrial sacks	Lages 1 and Lages 2 (SC), Goiana (PE)	Imaflora
FSC – Chain of Custody of corrugated boxes	Jundiai – Tijuco Preto and Distrito Industrial – and Piracicaba (SP), Itajai (SC), Betim (MG), Del Castilho (RJ), Feira de Santana (BA), Sao Leopoldo (RS) and Goiana (PE)	Imaflora
FSC – Chain of Custody of recycled papers	Goiana (PE), Guapimirim (RJ), Ponte Nova (MG) and Piracicaba (SP)	Imaflora
ISO 22000:2006 (Management System of Safety in Food)	Telemaco Borba (PR)	BVC
ISO 14001:2004 (Environmental Management System)	Otacilio Costa and Correia Pinto (SC), Telemaco Borba (PR), Angatuba (SP), Sao Paulo (SP), Betim (MG), Del Castilho (RJ), Feira de Santana (BA), Itajai (SC), Jundiai – Tijuco Preto and Distrito Industrial (SP), Sao Leopoldo (RS), Guapimirim (RJ), Ponte Nova (MG), Goiana (PE), Piracicaba (SP) and Lages 1 and 2 (SC)	BVC
ISO 9001:2000 (Quality Management System)	Goiana (PE), Jundiai – Tijuco Preto and Distrito Industrial –, Piracicaba and Angatuba (SP), Sao Leopoldo (RS), Betim (MG), Feira de Santana (BA), Lages 1 and 2, Itajai, Correia Pinto and Otacilio Costa (SC) and Telemaco Borba (PR)	BVC
OHSAS 18001:2007 (Management System of Work Health and Safety)	Angatuba (SP) and Telemaco Borba (PR)	BVC
OHSAS 18001:1999 (Management System of Work Health and Safety)	Otacilio Costa and Correia Pinto (SC)	BVC
Isega	Cartonboard and kraftliner, for use in direct contact with foods	Isega Institute (Germany)

**Imaflora:** Forestry and Agriculture Stewardship Management and Certification Institute

**BVC:** Bureau Veritas Certification





Employees

## Social Balance – Ibase Model

	2008	2007
<b>1 - Basis for Calculation</b>	<b>Value (thousand reais)</b>	<b>Value (thousand reais)</b>
Net revenue (NR)	3,096,580	2,796,442
Operating results (OR)	580,347	824,839
Gross payroll (GP)	359,437	313,573

	2008			2007		
<b>2 - Internal Social Indicators</b>	<b>Value (thousand)</b>	<b>% over GP</b>	<b>% over NR</b>	<b>Value (thousand)</b>	<b>% over GP</b>	<b>% over NR</b>
Meals	19,246	5.35%	0.62%	17,403	5.55%	0.62%
Compulsory payroll charges	114,900	31.97%	3.71%	94,030	29.99%	3.36%
Private pension plan	3,672	1.02%	0.12%	3,848	1.23%	0.14%
Health care	18,288	5.09%	0.59%	17,489	5.58%	0.63%
Work health and safety	14,244	3.96%	0.46%	12,607	4.02%	0.45%
Education	229	0.06%	0.01%	265	0.08%	0.01%
Culture	NA (*)	NA	NA	NA	NA	NA
Training and career development	4,018	1.12%	0.13%	3,373	1.08%	0.12%
Nurseries or nursery assistance	274	0.08%	0.01%	99	0.03%	0.00%
Participation in profits or results	12,093	3.36%	0.39%	18,600	5.93%	0.67%
Others	NA	NA	NA	NA	NA	NA
<b>Total – Internal social indicators</b>	<b>186,964</b>	<b>52.02%</b>	<b>6.04%</b>	<b>167,714</b>	<b>53.48%</b>	<b>6.00%</b>

(\*) Not available

	2008			2007		
	Value (thousand)	% over OR	% over NR	Value (thousand)	% over OR	% over NR
<b>3 - External Social Indicators</b>						
Education	519	0.09%	0.02%	547	0.07%	0.02%
Culture	684	0.12%	0.02%	1,713	0.21%	0.06%
Sports	-	-	-	-	-	-
Others	3,578	0.62%	0.12%	4,940	0.60%	0.18%
<b>Total contributions to society</b>	<b>4,781</b>	<b>0.82%</b>	<b>0.15%</b>	<b>7,200</b>	<b>0.87%</b>	<b>0.26%</b>
Taxes (excluding payroll charges)	329,587	56.79%	10.64%	512,737	62.16%	18.34%
<b>Total – External social indicators</b>	<b>334,368</b>	<b>57.62%</b>	<b>10.80%</b>	<b>519,937</b>	<b>63.03%</b>	<b>18.59%</b>

	2008			2007		
	Value (thousand)	% over OR	% over NR	Value (thousand)	% over OR	% over NR
<b>4 - Environmental Indicators</b>						
Investments related to production/ operations of the company	50,000	8.62%	1.61%	214,000	25.94%	7.65%
Investments in programs and/or external projects	154	0.03%	0.00%	66	0.01%	0.00%
<b>Total investments in environment</b>	<b>50,154</b>	<b>8.64%</b>	<b>1.62%</b>	<b>214,066</b>	<b>25.95%</b>	<b>7.65%</b>
Regarding “annual targets” to minimize waste, consumption in general, in production/ operations and to increase efficiency in use of natural resources, the company		( ) has no targets ( ) meets 51 to 75% ( ) meets 0 to 50% (x) meets 76 to 100%			( ) has no targets ( ) meets 51 to 75% ( ) meets 0 to 50% (x) meets 76 to 100%	

	2008	2007
<b>5 - Staff Indicators (1)</b>		
No. of employees at end of period	7,403	7,293
No. of admissions during period	927	997
No. of contract workers	5,923	6,110
No. of trainees	81	16
No. of employees over 45	1,379	1,307
No. of women working in the company	577	586
% of leadership positions occupied by women	0.42%	0.45%
No. of blacks working in the company	286	289
% of leadership positions occupied by blacks	0.03%	0.03%
No. of people with handicaps or special needs	268	288

6 - Relevant information on practice of corporate citizenship				Target 2009		
2008						
Proportion between highest and lowest salaries in the company	NA <sup>(1)</sup>			NA		
Total number of work accidents	40			0		
The social and environmental projects run by the company were decided by:	( ) directors	(x) directors and managers	( ) all the employees	( ) directors	(x) directors and managers	( ) all the employees
Safety and health standards in the work environment were decided by:	(x) directors and managers	( ) all the employees	( ) all + Cipa	(x) directors and managers	( ) all the employees	( ) all + Cipa
Regarding union freedom, the right to collective bargaining and internal representation of workers, the company:	(x) does not get involved	( ) follows ILO norms	( ) promotes and follows ILO	(x) will not get involved	( ) promotes and follows ILO	( ) promotes and follows ILO
The pension plan covers:	( ) directors	( ) directors and managers	(x) all the employees	( ) directors	( ) directors and managers	(x) all the employees
Participation in profits or results covers:	( ) directors	( ) directors and managers	(x) all the employees	( ) directors	( ) directors and managers	(x) all the employees
In the selection of suppliers, the same standards of ethics and social and environmental responsibility, adopted by the company:	( ) are not considered	( ) are suggested	(x) are required	( ) will not be considered	( ) will be suggested	(x) will be required
Regarding the participation of employees in volunteer programs, the company:	( ) does not get involved	(x) supports	( ) organizes and encourages	( ) will not get involved	(x) will support	( ) will organize and encourage
Total number of consumer claims and complaints:	in the company	in Procon <sup>(2)</sup>	in court	in the company	in Procon	in court
% of claims and complaints attended to or resolved:	in the company	in Procon	in court	in the company	in Procon	in court
Total additional value to distribute (in thousand (R\$):	In 2008:			In 2007:		
Distribution of Additional Value (DAV):	24% government 28.6% employees 46.5% shareholders 93.9% third parties 0.0% retained			31.8% government 20.0% employees 33.3% shareholders 14.9% third parties 0.0% retained		

(1) Not available

(2) Government organization to defend the consumer

## 7 - Other Information

For further information, please get in touch via email: [rs2008@klabin.com.br](mailto:rs2008@klabin.com.br)

This company does not use child labor, work that is degrading or similar to slavery, is not involved with prostitution or sexual exploitation of children or adolescents and does not get involved with corruption.

# Corporate Information



## Board of Directors

### Members

1. Miguel Lafer – Chairman
2. Armando Klabin
3. Celso Lafer
4. Daniel Miguel Klabin
5. Israel Klabin
6. Lilia Klabin Levine
7. Olavo Egydio Monteiro de Carvalho
8. Paulo Sérgio Coutinho Galvão Filho
9. Pedro Franco Piva
10. Roberto Luiz Leme Klabin
11. Rui Manuel de Medeiros D’Espiney Patrício
12. Vera Lafer

### Alternate Members

Fernando José da Silva  
 Wolff Klabin  
 Alfred Lobl (in memoriam)  
 Amanda Klabin Tkacz  
 Alberto Klabin  
 Roberto Klabin Martins Xavier  
 Celi Elisabete Julia Monteiro de Carvalho Rosa  
 Graziela Lafer Galvão  
 Horácio Lafer Piva  
 Edgar Gleich  
 Sérgio Francisco Monteiro de Carvalho Guimarães  
 Francisco Lafer Pati

## Fiscal Council

### Members

Adolpho Gonçalves Nogueira  
 Antônio Marcos Vieira Santos  
 João Alfredo Dias Lins  
 Luis Eduardo Pereira de Carvalho  
 Wolfgang Eberhard Rohrbach

### Alternate Members

Antonino Giacometti  
 Vivian do Valle Souza Leão Mikui  
 Carlos Alberto Alves  
 Thaís Lopes Petrilli Aguiar  
 Tania Maria Camilo



## Executive Board

1. Reinoldo Poernbacher  
CEO
2. Antonio Sergio Alfano  
Planning & Control Director and acting as of CFO  
and Director of Investors Relations
3. Francisco Cesar Razzolini  
Director for Projects, Industrial Technology,  
and Supply
4. Paulo Roberto Petterle  
COO

## Directors

Antonio Andrucio  
Klabin Industrial Sacks Unit Director

Arthur Canhisares  
Klabin Paper Unit Industrial Director – PR and SP

Edgard Avezum Junior  
Klabin Paper Unit Sales Director – Cartonboard

José Artemio Totti  
Forestry Director

José Gertrudes Soares  
Klabin Paper Unit Sales Director – Kraftliner

Paulo Sérgio Peres  
Klabin Packaging Unit Director

Roberto Tonioli  
Human Resources Director

Sadi Carlos de Oliveira  
Klabin Paper Unit Industrial Director – SC

## Klabin Argentina S.A.

Paulo Roberto Petterle  
President and Managing Director

Julio Alfredo Vieito  
Vice-president

## Investor Relations

Antonio Sergio Alfano  
Director

Luiz Marciano Candalaft  
Manager

### Address:

Av. Brigadeiro Faria Lima, 3.600 – 3º andar  
Itaim Bibi – 04538-132 – Sao Paulo/SP – Brasil  
tel.: 55 11 3046-8404  
fax: 55 11 3046-5833  
e-mail: marciano@klabin.com.br

## Shareholder Services

Banco Itau S.A.

### Address:

Av. Eng. Armando de Arruda Pereira, 707 – 9º andar  
Jabaquara – 04344-902 – Sao Paulo/SP – Brasil  
Torre Eldoro Villela

## Stock Market in Brazil

Sao Paulo Stock Market  
Tickers:  
KLBN3 and KLBN4

## International Stock Market

North American OTC (over-the-counter) Market

Ticker:  
KLBAY

## Independent Auditors

Deloitte, Touche & Tohmatsu  
Auditores Independentes

## Newspapers for Public Announcements

*Valor Economico*  
*Diario Oficial do Estado de Sao Paulo*

## Addresses:

Klabin S.A. – Corporate Head Office – Sao Paulo  
Av. Brigadeiro Faria Lima, 3.600 – 3º, 4º and 5º andares  
Itaim Bibi – 04538-132 – Sao Paulo/SP – Brasil  
tel.: 55 11 3046-5800

Klabin S.A. – Branch  
Praia do Flamengo, 154 – 3º andar – sala 301 – part  
22210-030 – Rio de Janeiro/RJ – Brasil  
tel.: 55 21 3235-8300

Klabin Argentina S.A.  
Calle del Canal, 467  
Parque Industrial of Pilar – B1629 MXA – Buenos Aires – Argentina  
tel.: 54 2322 49-6244



## Credits

### General Coordination

Comunicação e Responsabilidade Social

### Creation and Graphic Design

Ana Couto Branding & Design

### Text and Editing

Editora Contadino

### Translation

Simon A. Kennedy

### Proofreading

Emília Tereza Mercaldi

### Photos

Cláudio Elisabetsky:

cover (reel), 20, 24 and 25

Dario Zalis:

21, 32, 33, 57 and 60

Daniel Zielonka:

67

Emmanuelle Bernard:

70 (photos 1 to 6 and 8 to 12)

Franklin Xavier:

18, 47, 48 and 56

Guto Seixas:

23 and 71

João Musa:

9, 44, 52, 61 and 62

Ken Chu:

35

Leandro Taques:

63

Luciano Candisani:

29 and 31

Marilu Martins:

12, 28, 36, 37, 38, 39, 40, 41, 42, 43,  
45 and 48

Mônica Zanon:

16

Paulo Vilar:

26

Ricardo Cunha:

cover (employee and seedling nursery)  
and 26

Ronaldo Rufino:

10

Zig Koch:

cover (forest) and 4

Klabin Archive:

65 and 70 (photo 7)

This report was put together with contributions from all the professionals who help to make Klabin a better company.