

# 2013

SUSTAINABILITY REPORT



Klabin



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# Profile



## MESSAGE FROM THE MANAGEMENT



The market recognizes favorable results and progress in Governance.

115 years old, Klabin ended the period with the best results in the history of the company, completing ten consecutive quarters of growth in EBITDA, which came to R\$ 1.6 billion.

The year of 2013 was one of big decisions for Klabin and signified the start of a fresh cycle of company growth. The Puma Project, approved by the Board of Administration and the shareholders, involves the construction of a new pulp mill in the municipality of Ortigueira (PR). The biggest investment ever made by the company, with a total allocation of R\$ 5.8 billion – excluding forest assets, improvements in infrastructure and taxes – will raise production volume of the company twofold in just three years.

Board members and shareholders also approved alterations to the Statutory Bylaws, which allowed Klabin to improve its governance practices and join Level 2 of BM&FBovespa, already in 2014. An example of these alterations is the tag along, which has now become 100% for all classes of shares. This mechanism ensures a greater alignment of interests between potential investors, shareholders and other stakeholders.

These advances are intrinsically associated with Klabin's commitment, ever since its foundation, to sustainable development, which is borne out by the acknowledgements it has received from the market. Last year, Klabin joined the ISE (Corporate Sustainability Index) of BM&FBovespa. The WWF, one of the biggest organizations dedicated to environmental conservation in the world, also listed Klabin in its Environmental Performance Report in 2013. The company showed excellent performance in the survey, which appraised such aspects as the company's influence over forestry ecosystems, gas emissions and water pollution during the production process and its Environmental Management System.



To ensure that business partners subscribe to the same values of ethics, transparency and respect for the principles of sustainability, supply chain management has been improved, to include criteria covering human rights and labor practices as well as compliance with environmental legislation in the Policy for Contracting Suppliers. The Code of Conduct was also brought up to date, in order to reinforce values and commitments to different publics concerning the issues of fighting against work analogous to slavery and child exploitation, eradication of discriminatory practices and harassment and appreciation for diversity.

Klabin matured in its commitments to the Global Compact and the Millennium Goals of the UN, improving its management starting with a broad assessment of adherence between its practices and the Universal Principles established by the Compact. Furthermore, it became a signatory in 2013 to the National Pact for the Eradication of Slave Labor and upheld its commitment to the guidelines of the Corporate Pact for Integrity and Against Corruption.

In the business field, Klabin is investing over R\$ 400 million in the expansion of the Goiana Plant in Pernambuco, to accompany the growing demand from customers in the Northeast. The expansion includes installation of a new recycled paper machine, with production capacity of 110 thousand tons, which is forecast to come on stream in the fourth quarter of 2014, in addition to expansion of the corrugating plant, which has doubled its production capacity to reach 146 thousand tons/year with the installation of new corrugators and printers. The Plant also doubled its production capacity of industrial sacks, rising from 7 million sacks/month to 14 million sacks/month. By the end of 2014, the plant is expecting to produce 20 million sacks/month. In 2013, investment in a new kraft paper machine for sacks was also approved and concluded in November. Installed in the Correia Pinto Plant, in Santa Catarina, the machine performed extremely well and produced more than expected already in December.

In recognition, 12 awards were received throughout the year among them the Highlight of the Sector, for the first time in the Exame Directory of Sustainability. The company was also champion two years running in pertinent award presentations in the market, such as: Best company from the Pulp and Paper Segment in 2013, according to The Best and The Biggest directory, of Exame magazine; most admired company from the Pulp and Paper Sector in the 16th edition of the annual directory The Most Admired Companies in Brazil, of Carta Capital magazine; first place in the category Pulp and Paper in the ranking Best of Money, of the magazine IstoÉ Dinheiro.



Among its commitments to society and the environment, Klabin has medium and long-term goals and objectives to expand its self-sufficiency in power generation by 100%, to reduce water consumption and emissions of greenhouse gases, as well as certify its partners, small forest farmers.

Klabin is a 115-year-old company, which has enough energy to reinvent itself, to grow and to open up new markets. The transformations underway in the company are the fruit of the willpower of men and women who share values and believe that the future lies in a sustained equilibrium between growth, value creation and respect for natural resources and people.

The company wishes to thank its customers, suppliers, investors, business partners and employees who were part of all these conquests throughout 2013..

### ***The Management***

## K L A B I N

**The company has embraced a management style with a focus on sustainable development, in its quest for integrated and responsible growth.**

Klabin is a private Brazilian company, publicly traded and a member of the BM&FBovespa. It is the biggest producer in Brazil of packaging paper and board, corrugated boxes, industrial sacks and timber in logs. It is controlled by the holding company, Klabin Irmãos e Cia with 59% of the voting capital. Organized in three business units – Forestry, Paper (cartonboard, kraft paper and recycled paper) and Converting (corrugated boxes and industrial sacks) – it owns 15 industrial plants installed in eight Brazilian states and one in Argentina. The main markets, in which it operates, include the segments of food, such as milk, frozen meat and fruit; hygiene and cleaning products; cement; electro-electronic goods.

With 115 years of history behind it, the company has embraced a management style focused on sustainable development, in its quest for integrated and responsible growth, combining profitability, social development and environmental commitment. Its forest base is one of its most important assets. It has over 242 thousand hectares of forests planted with pines and eucalyptus for pulp production. Klabin also has 211 thousand hectares of preserved native woodlands on its properties.



**242**  
**thousand**  
**hectares of forests planted**  
**with pines and eucalyptus**  
**for pulp production.**



**211**  
**thousand**  
**hectares of preserved**  
**native woodlands on**  
**Klabin properties.**



It has pioneered the adoption of mosaic-pattern forest stewardship – a system that intermingles planted forests of pines and eucalyptus with preserved native woodlands.

With approximately 407 thousand hectares of certified areas, the company was the first in the pulp and paper sector in the Southern Hemisphere to be granted FSC® – Forest Stewardship Council® - certification in 1998, confirming management, which conserves natural resources, provides fair working conditions and encourages good relations with the community.

With its Forestry Incentives Program, it seeks to increase and diversify the income

of communities near its plants, by forming planted forests on rural properties. Set up in 1984, this program has already brought benefits to 19 thousand farmers and distributed over 160 million seedlings.

Concern for its nearly 15 thousand direct and indirect employees is a priority of the company, which is continually investing in training and developing people, as well as promoting the well-being and safety of all. Respect for the communities is, after all, Klabin's guiding value in every region it operates. To have clear criteria of governance, to act transparently and to promote engagement with the local public are ongoing concerns of the company in its management of the social impacts from its activities.

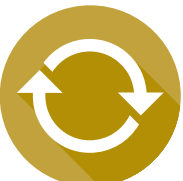


PRODUCTION PROCESSES

Klabin is organized in three integrated business units, enabling flexible management for the sale of its products to a variety of segments, with competitive differentials in each link of the value chain.



The entire chain of custody is FSC® certified.



Klabin products are biodegradable and recyclable.

**Forestry Business Unit** – It is responsible for the sustainable management of Klabin’s planted forests, which entails planning, planting and harvesting for the supply of the raw material to the company’s paper mills. Additionally, Klabin is the biggest Brazilian supplier of timber in logs originating from certified, planted forests to furniture industries, civil construction and sawmills. Every step follows the best practices of forest stewardship, certified by the FSC®.

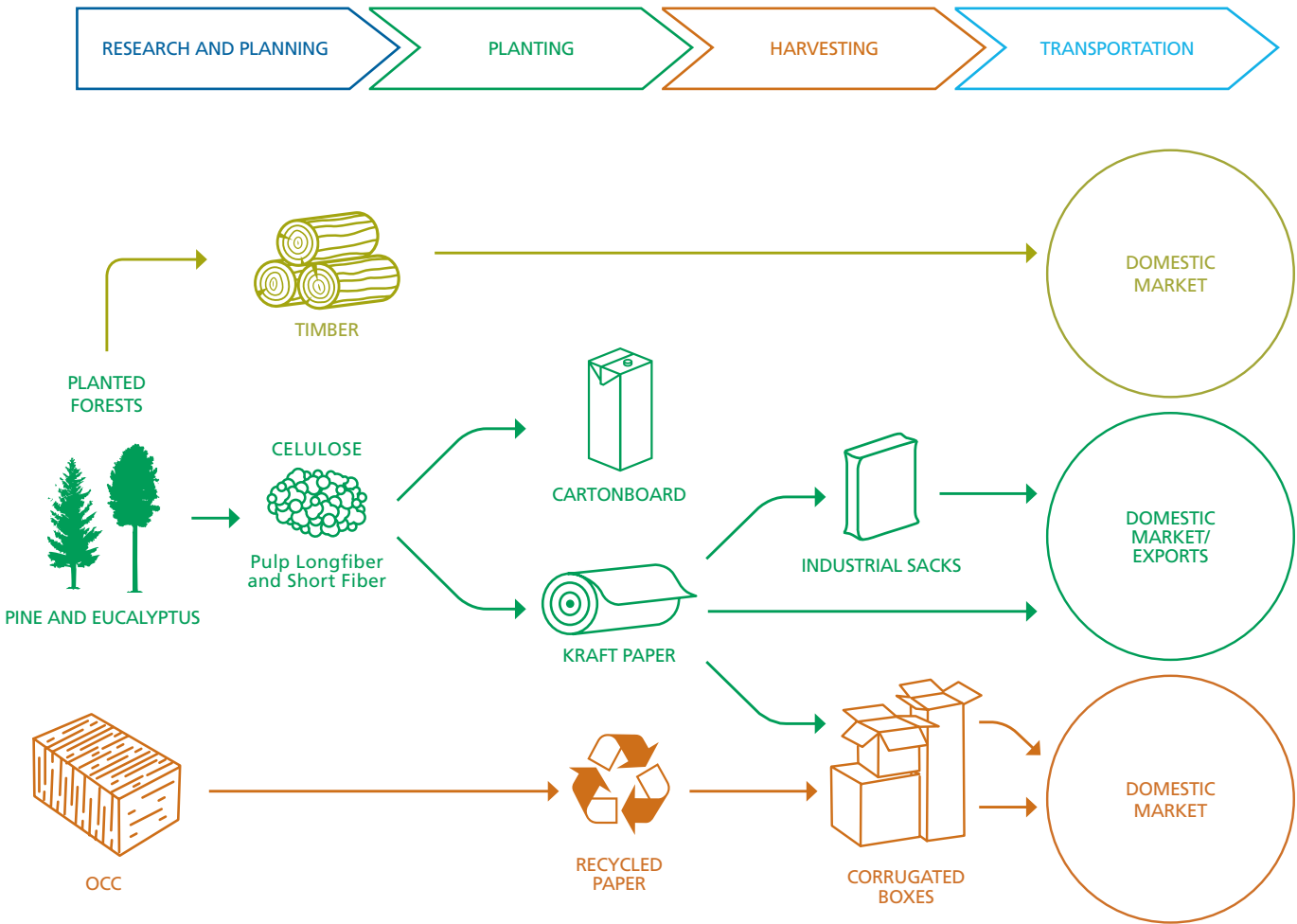
**Paper Business Unit** – A production process fully integrated with long and short fiber pulp. It produces with state-of-the-art technology the following items:

- **LPB** (*Liquid Packaging Board*): one of the biggest manufacturers worldwide of cartonboard for liquids;
- **Cartonboard**: leader in the Brazilian market of packaging for the segments of foods, hygiene and cleaning products, domestic appliances and others;
- **Kraft Paper**: leader in the Brazilian market of packaging paper, supplies Klabin’s Converting plants and exports to over 70 countries;
- **Recycled paper**: used in the manufacture of corrugated boxes.

**Converting Business Unit** – With 11 converting plants spread throughout Brazil and 1 in Argentina, it is the leader in Brazil of the segments of corrugated boxes and industrial sacks, converting kraft paper - both kraftliner and sack kraft.

- **Corrugated boxes**: Supplying different sectors such as food, beverage, market garden, electronics and health and hygiene.
- **Industrial sacks**: manufactured with 100% long fiber (pine). Supplying the domestic market and exporting to countries of Latin America, Africa, the United States and Europe.

PRODUCTION PROCESS



PRODUCTION CAPACITY

Production (tons/year)	
Sack kraft	160 thousand
Coated board	680 thousand
Kraftliner	800 thousand
Recycled paper	200 thousand

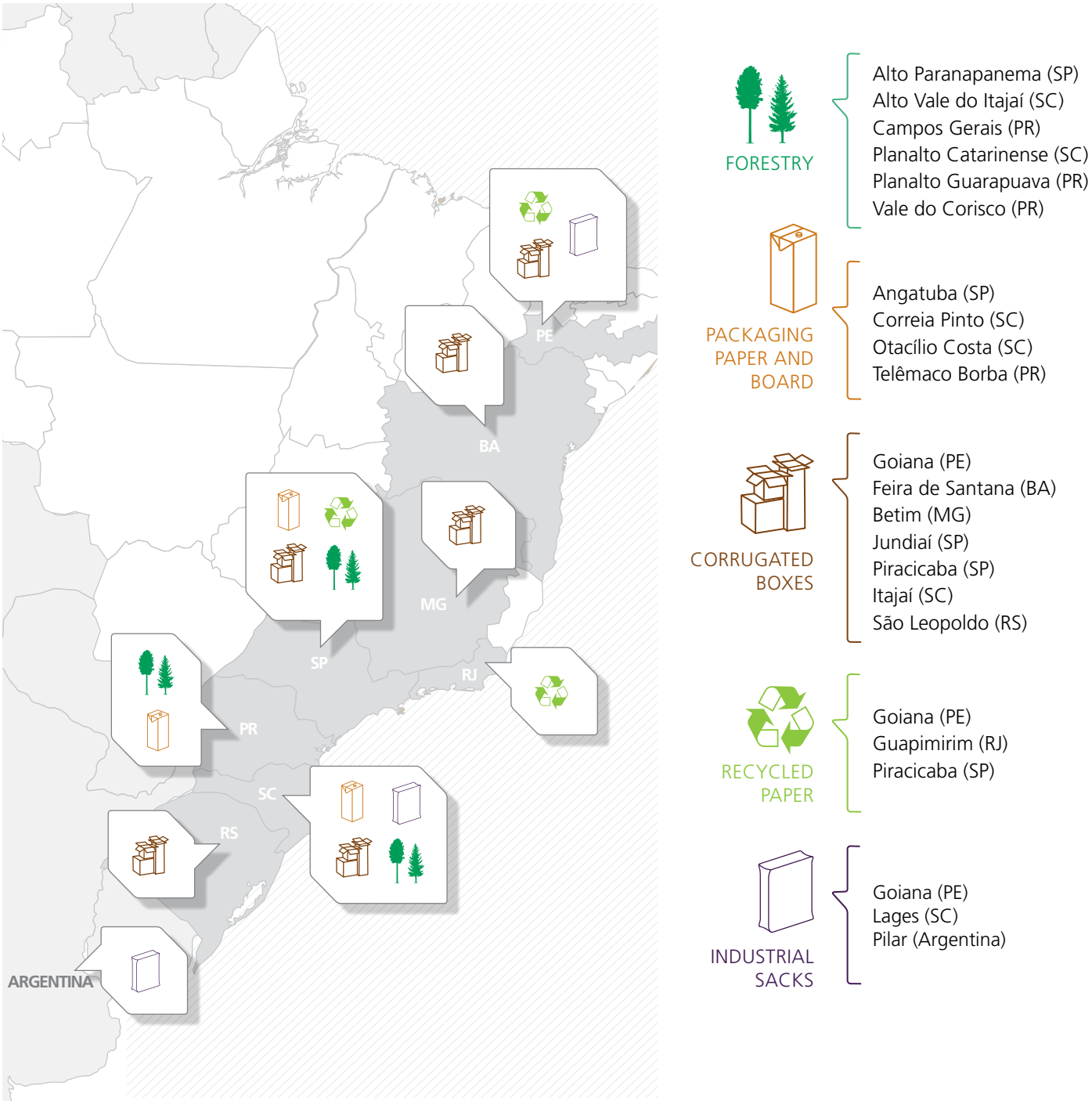
EXPORTS

Klabin exports its products to over 60 countries and is the only supplier of liquid packaging board in Latin America.

South Africa	South Korea	Hungary	Poland
Germany	Ivory Coast	India	Portugal
Saudi Arabia	Costa Rica	Indonesia	Puerto Rico
Argentina	Cuba	Iran	Czech Republic
Australia	Denmark	Israel	Dominican Republic
Bangladesh	Ecuador	Italy	Russia
Barbados	Spain	Jamaica	Senegal
Belgium	Ethiopia	Japan	Sweden
Bolivia	USA	Kuwait	Thailand
Cameroon	Philippines	Mexico	Taiwan
Canada	France	Nigeria	Trinidad and Tobago
Chile	Ghana	Netherlands	Turkey
China	Great Britain	Panama	Uruguay
Cyprus	Guatemala	Pakistan	Venezuela
Singapore	Guinea	Paraguay	Zambia
Colombia	Honduras	Peru	

MAP OF OPERATIONS

The head offices of Klabin are located in the city of São Paulo. The company has 16 industrial plants (15 in Brazil and one in Argentina), one branch office in the United States and one agent in Europe.



## CERTIFICATIONS

Klabin's certificates are proof that it is committed to the best practices of the market and the quality of its products, as well as its adoption of socially and environmentally responsible processes throughout the production chain.

In 2013, Klabin was awarded an unprecedented certification in the Brazilian pulp and paper sector, FSSC 22000 (Food Safety System Certification 22000), one of the most advanced norms used to ensure the origin of paper for food packaging. In 1998, Klabin was the first in the Southern Hemisphere to be granted FSC® certification for its forestry areas and the first in the world to certify non-wood forest products. It was also the first company from the sector in Latin America to guarantee the origin of the raw material used to manufacture its products, since it was awarded FSC® certification for the chain of custody of industrial sacks, cartonboard and kraft paper.

### KLABIN'S CERTIFICATIONS:

**FSC®:** assures responsible forest stewardship.

**ISO 14001:** defines the requirements for a company to establish and operate an Environmental Management System.

**ISO 9001:** guidelines ensure a management model able to guarantee uniformity of the product.

**OHSAS 18001:** permits the performance levels of health and safety management to be controlled and improved.

**FSSC 22000:** is one of the most advanced norms used to assure the origin of paper for food packaging.

**Isega (certification of the product):** guarantees the quality of the paper used to manufacture packaging that comes into contact with foods.

## AWARDS AND RECOGNITIONS

### Highlights in 2013:



**BEST & BIGGEST ANNUAL DIRECTORY**  
The Best Company from the Pulp and Paper Sector for the second year running. Exame annual directory.



**HIGHLIGHT OF THE SECTOR**  
For the second year running, the best Packaging Paper Manufacturer, elected by ABTCP (Brazilian Technical Association of Pulp and Paper).



**THE MOST ADMIRED COMPANIES IN BRAZIL**  
The Most Admired Company from the Pulp and Paper sector for the second year running. Carta Capital Magazine.



**BEST OF AGRIBUSINESS**  
The best company of the year in the category of Reforestation, Pulp and Paper. Globo Rural Magazine.



**AWARD TO COMPANIES THAT COMMUNICATE BEST WITH JOURNALISTS**  
One of the companies that have the best relationship with journalists in the Pulp and Paper category. for the second year running. Negócios da Comunicação Magazine.



**ANNUAL DIRECTORY THE BEST OF DINHEIRO**  
The Best Company from the Pulp and Paper Sector for the second year running. IstoÉ Dinheiro Magazine.



**THE BEST OF DINHEIRO RURAL**  
The best company in the Pulp and Paper category, thanks to its financial performance. IstoÉ Dinheiro Rural Magazine.



**EXECUTIVE OF VALUE AWARD**  
Fabio Schvartsman, CEO of Klabin, was chosen, for the second year running, as the best Chief Executive from the sector of Pulp, Paper and Corrugated Board at the 13th edition of the Executive of Value Awards.



**SANTA CATARINA INDUSTRY AWARD**  
Elected the Leading Santa Catarina Company in the Timber and Reforestation Segment – Pulp and Paper, by Santa Catarina.ind. Magazine



**ANNUAL DIRECTORY OF 500 BIGGEST COMPANIES IN THE SOUTH**  
Biggest Pulp and Paper Company from the South. (Ranked fifth among the 100 biggest companies from the state of Parana). Amanhã Magazine.



**22nd BRAZILIAN PACKAGING AWARDS – ROBERTO HIRAISHI TROPHY**  
The best supplier to the packaging industry in 2012, and awarded in the Technology & Quality category EmbaNews Magazine.



**ENTREPRENEUR AWARD**  
Chosen for the 15th time running, one of the 50 companies, which have contributed the highest percentage of return of ICMS added tax, in other words. Correio Lageano.



**LATIN AMERICAN CEO OF THE YEAR AWARD**  
The Chief Executive of Klabin, Fabio Schvartsman, was elected for the second year running Latin American CEO of the Year by RISI, the principal international news agency, which provides information on the forest products industry.



**9th SUSTAINABLE MANAGEMENT SURVEY**  
Placed fourth among the survey's 93 participants, Klabin won the Certificate of Sustainability, presented by Editora Expressão.



BOARD OF DIRECTORS

Statutory directors

- Fabio Schvartsman - *Chief Executive Officer (CEO)*
- Antonio Sergio Alfano - *Director of Finance (CFO) and Investor Relations*
- Paulo Roberto Petterle - *Director of Operations (COO)*
- Francisco César Razzolini - *Director of Planning, Projects and Industrial Technology*
- Arthur Canhisares - *Industrial Director of Paper in Monte Alegre*
- Cristiano Cardoso Teixeira - *Director of Supply Chain, Logistics and Materials*

Klabin Argentina

- Paulo Roberto Petterle - *President and Managing Director*
- Julio Alfredo Vieito - *Vice-president*
- Douglas Dalmasi - *Director*

Non Statutory directors

- Adriana Caruso - *Director of Strategic Planning and Sustainability (until 31/5/2014)*
- Douglas Dalmasi - *Director of Industrial Sacks*
- Edgard Avezum Junior - *Sales Director for Cartonboard*
- Gabriella Michelucci - *Director of Corrugated Boxes*
- José Soares - *Sales Director for Paper*
- José Totti - *Forestry Director*
- Sadi Carlos de Oliveira - *Industrial Director of Santa Catarina*
- Sergio Piza - *Director of People & Management*

Investor Relations

- Antonio Sergio Alfano - *Director*
- Vinicius José Ferreira Campos - *Manager*





# Governance



## Klabin joined the BM&FBovespa ISE (Corporate Sustainability Index) in 2013

Klabin's model of corporate governance is rooted in transparency, clarity of goals, respect for ethics and fairness in its relationships with all its stakeholders. The company is continually improving its management based on the excellence of processes and people, in a quest for the market's best practices, in order to achieve sustainable growth.

In 2013, Klabin joined the ISE (Corporate Sustainability Index) of BM&FBovespa. This is an

important acknowledgement of the practices adopted by the company to monitor and mitigate social and environmental impacts on the communities in which it is located and is confirmation of top management's commitment to the aspects of sustainability in the decision-making process and the formulation of strategy. Appraised in accordance with Getulio Vargas Foundation's methodology, Klabin has been successful in all the ISE's qualitative criteria of performance.





CODES AND POLICIES

In support of the management of its business and the tone of its relationship with stakeholders, Klabin adheres to a series of established guidelines in its codes and internal policies.



**Code of Conduct** – Is a compilation of the principles of corporate sustainability in economic, environmental and social spheres. It underscores the company's ethical, transparent and legal behavior in its relationship with interested parties and determines procedures to avoid conflicts of interest. In its revised version in 2013, the Code of Conduct included topics such as work analogous to slave labor, and child exploitation, eradication of discriminatory and harassment practices, appreciation for diversity, and fight against corruption. This new document was disclosed to all the employees. The Ombudsman was also restructured, expanding channels of attendance to both internal and external parties, by means of the institutional website and by telephone 0800 718 7814.



**Policy of Disclosure and Negotiation** – Defines the criteria and procedures concerning the disclosure of acts and facts pertinent to the company's performance.



**Sustainability Policy** – Orients the way Klabin conducts its business and investments, taking into account sustainable growth and generation of value for all its stakeholders.



**Policy of Social and Environmental Responsibility for Contracting Suppliers** – Establishes guidelines for Klabin's chain of suppliers.



**Policy of Stakeholder Engagement** – Introduced in 2013, this policy advises employees on different ways to engage with each stakeholder.



**Policy to Defend Free Competition** – Approved in 2013, it aims to prevent abusive conduct and endorses fair competition in the market.



**Marketing Policy** – Establishes guidelines of transparency for building relationships with customers and other stakeholders.



**Abrasca Code of Self-regulation** – Adherence to the code, which establishes good practices in the realm of publicly-traded companies.

BOARD OF ADMINISTRATION

The Board of Administration is comprised of 12 full members (and 12 more alternate members) elected by the Annual General Meeting of Shareholders, with a mandate of one year and the right to re-election. The Board has a deliberative function and is responsible for establishing the general orientation of the business and the long-term strategy of the company. In compliance with best practices of governance, the president of the Board of Administration does not perform any executive function in Klabin. Four members of the Board are independent (five, as of 2014), in accordance with the guidelines of the Abrasca Code of Self-regulation and Good Practices of Publicly-traded Companies.

COMPOSITION OF THE BOARD OF ADMINISTRATION

Full Members	Alternate members
Daniel Miguel Klabin	Amanda Klabin Tkacz
Pedro Franco Piva	Horácio Lafer Piva
Armando Klabin	Wolff Klabin
Celso Lafer*	Reinoldo Poernbacher
Israel Klabin	Alberto Klabin
Lilia Klabin Levine	Roberto Klabin Martins Xavier
Miguel Lafer	Fernando José da Silva
Paulo Sérgio Coutinho Galvão Filho	Graziela Lafer Galvão
Roberto Luiz Leme Klabin*	Edgar Gleich (até 29/4/2014)
Olavo Egydio Monteiro de Carvalho*	Agilio Leão de Macedo Filho
Rui Manuel de Medeiros D'Espiney Patricio*	Sergio Francisco Monteiro de Carvalho Guimarães
Vera Lafer	Francisco Lafer Pati

\*Independent member

STRUCTURE OF GOVERNANCE



The Annual General Meeting of Shareholders, the highest body of governance of the company, normally takes place in the first quarter of each year to approve the results of the previous period and to elect the members of the Board of Administration. Klabin makes contact channels available for its stakeholders via the institutional website [www.klabin.com.br](http://www.klabin.com.br), the Ombudsman and the department of Investor Relations.

FISCAL COUNCIL

Consisting of five members and five alternate members, elected at the Annual General Meeting for mandates of one year, with the possibility of re-election. It is responsible for appraising the financial statements, identifying opportunities to reduce tax costs and proposing solutions to impacts and contingencies arising from the legislation and fiscal regulations in force.

COMPOSITION OF THE FISCAL COUNCIL

Full members	Alternate members
Luis Eduardo Pereira de Carvalho	Gabriel Agostini
João Alfredo Dias Lins	Carlos Alberto Alves
Vivian do Valle Souza Leão Mikui	Antônio Marcos Vieira Santos
Wolfgang Eberhard Rohrbach	Tania Mara Camilo
Alessandro Golombiewski Teixeira	Paulo Roberto Araujo de Almeida

SHAREHOLDER STRUCTURE

The data reported on Klabin’s shareholder structure refers to the year of 2013.

COMMON			
Klabin Irmãos	Klabin Irmãos	188,497,407	0.594953
Monteiro Aranha	Monteiro Aranha	63,458,605	0.200294
Others		64,871,551	0.204753
Total		316,827,563	
PREFERRED			
The Bank of New York Department (ADR's)	The Bank of New York Department (ADR's)	56,502,205	
Black Rock Inc.	Black Rock Inc.	30,073,798	
BNDES	BNDES	79,647,040	
Monteiro Aranha	Monteiro Aranha	15,619,078	
Treasury	Treasury	30,613,500	
Others		388,400,112	
Total		600,855,733	

Data on 31/12/2013



# Management of processes

Klabin has an integrated management system for its production chain. The processes, which are structured within the company's own areas, range from the forest to the sale of end products.

## SUPPLY CHAIN, LOGISTICS AND MATERIALS

The Director of Supply Chain is responsible for negotiation, transportation of raw materials, acquisition of equipment and services, contract management, imports and logistics of the entire company. All the contracts are only signed after approval. Suppliers must comply with criteria of quality, punctuality, credit and fiscal ratings, respect for the legislation and, above all, the good practices of sustainability, such as the prohibition of child and forced labor and the adoption of measures to protect the environment.

In 2013, the matrix of supplier criticality was concluded, and from 2014 on, companies classified as having the most exposure to risks in the supply chain will be audited. The company has also established a Corporate Policy with socio-environmental criteria for the approval process of suppliers and chooses those suppliers who are preferably located close to its industrial plants and forests. The production plants use the GMD (Expense Management Matrix) program. This ongoing improvement in processes leads to a reduction of costs in operations. In 2013, the mapping of forestry operations identified significant opportunities to reduce costs.





Logistics

The Logistics department is responsible for transporting the principal raw material (wood) and for shipment of finished products with its own and third parties’ fleet of trucks. Klabin also utilizes the cabotage model to transport production. In 2013, 40 trucks were acquired to transport logs in Parana and to ship production from the Angatuba Plant (SP). Part of the forestry fleet is now monitored in real time. In one year, over 130 thousand trips are made. From the Forestry Unit, 9 million tons of timber are transported per year. In this same period, some 500 thousand tons of paper are transferred from one plant to another.

The company runs campaigns to raise truck drivers’ awareness. Strict compliance with the law is now included as a clause in contracts signed with transport companies. A risk management company has been contracted to monitor and audit Klabin’s plants.

MANAGEMENT TOOLS

**For more than 10 years, the Superar Program has contributed to ongoing improvements in the company by involving and showing appreciation for people. Developed at the Monte Alegre Plant (PR), Superar is now present in 14 plants, showing expressive results in process and product excellence.**

Management of legal requirements

The Environmental Management System run by Klabin monitors legal requirements, which involve environmental licenses and authorizations. This accompaniment is carried out monthly. In December 2013, Klabin monitored 1,992 prerequisites in all of its plants. Periodical, internal and external audits are conducted to ensure the accuracy of the data and evidence in the system. Consequently, the company has not been subjected to any legal proceedings, civil or criminal, connected with the environment in the last three years.

Impact assessment of the products

Currently, 70% of Klabin’s products are assessed for their impacts on health and safety at different stages of their life-cycles. The company is

intending to update the life-cycle of its products in the next two years. All the products for packaging of food or liable to have direct contact with it are developed in compliance with the requirements of Brazilian legislation, of the Food and Drug Administration (FDA) – an American agency which controls foods, medicines and cosmetics – and of the BfR (Federal Institute of Risk Assessment) – a German scientific body which studies food safety for humans. These products are also analyzed and certified by Isega (Institute for Analysis of Packaging Materials), of Germany, which evaluates the safety aspects of packaging components for human health. Finally, the evaluation of these products is included in the scope of ISO 22000 certification, an international norm which defines the requirements for food safety management systems

RISK MANAGEMENT

Klabin has adopted tools and procedures to mitigate the principal risks affecting the business, in such a way as to maintain the expected results from operations and guarantee the continuity of activities. Risk management is further intended to assess future events, able to cause negative impacts on both the activities and the company’s reputation and its relationship with its strategic stakeholders.

PRINCIPAL RISKS IDENTIFIED IN THE BUSINESS:



Environmental risks

Klabin has an Environmental Management System certified by ISO 14001 for industrial operations and by FSC® for forestry activities. The company also applies the Precautionary Principle, established during the Eco-92 conference, and constantly assesses all aspects, which present risks to the environment, to the health and safety of employees, customers and communities impacted by its activities. In 2013, a report and a vulnerability matrix regarding climate change were drawn up.



Credit risks

Continual mapping of credit risks enables Klabin to mitigate possible impacts from defaults in its customer portfolio. The company has specific norms for the registration, credit analysis and acceptance of customers. For its overseas commercial operations, Klabin contracts credit insurance policies.



Financial risks

In 2013, mapping of the main financial risks was concluded. Administration of these risks is done today through control systems, determining position limits and contracting credit protection instruments. No speculative operations are carried out in this respect and contracting derivatives is limited, subject to the exclusive approval by the company’s board of administration.



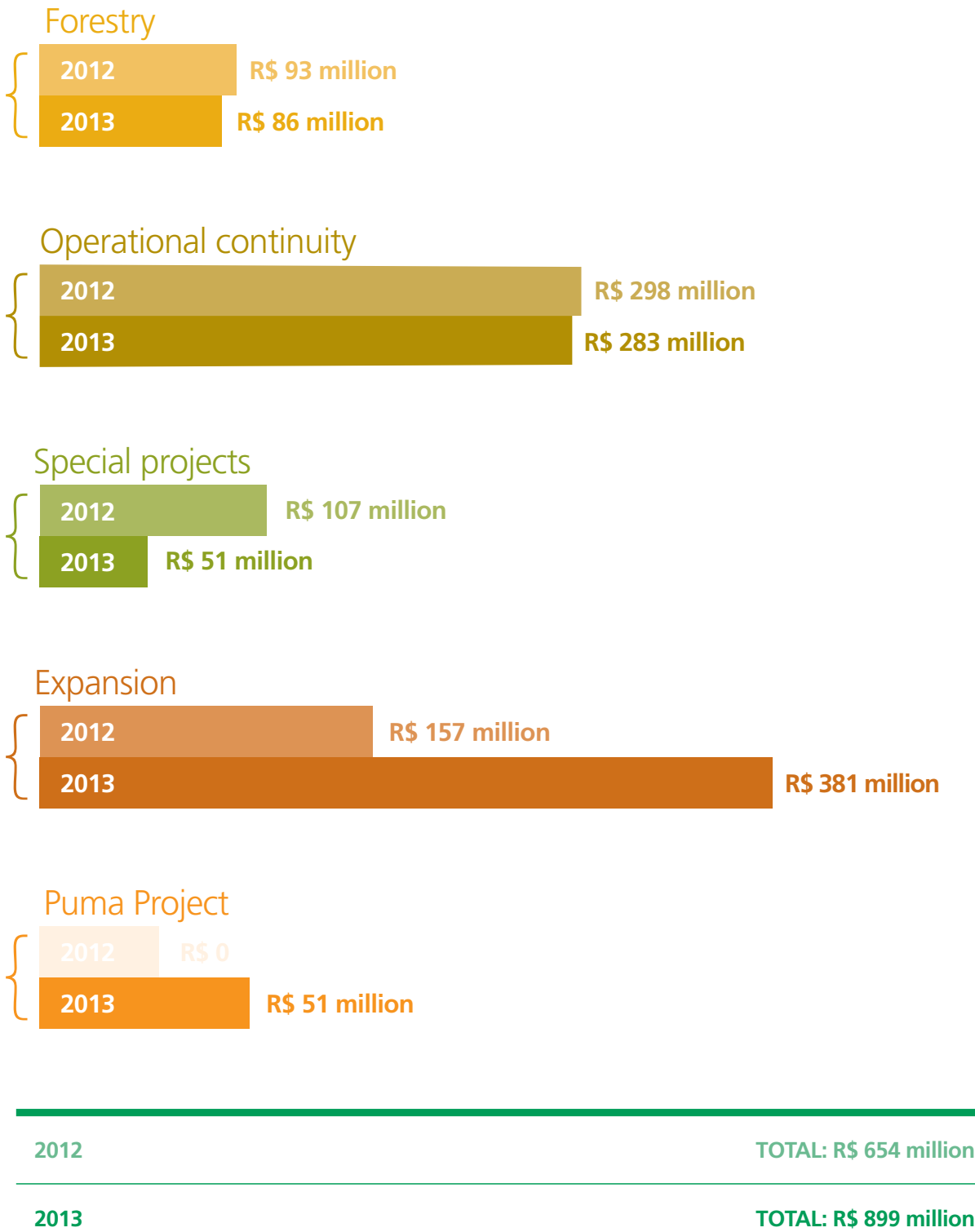
Market risks

The competition, markets and customer segments are systematically mapped to identify potential threats, which could impact the company’s activities. These studies are designed and prioritized to fit into its business strategy.



INVESTMENTS

The purpose of the investments made by Klabin is to increase its production capacity, develop innovations and solutions and retain the company's competitive leadership position in the sector. In 2013, R\$ 899 million were invested, with special mention for the capacity expansions of paper production which totaled R\$ 381 million.





# Strategy



**Puma Project.** With investments of R\$ 5.8 billion, the new mill will enable the company to double in size in three years, making it more agile in its logistics processes, more competitive and lower cost.

Every year, Klabin revises its Strategic Planning Cycle, known as a Mosaic, when the particularities of each business are aligned with one central objective, integrating all the areas to form one single growth plan for the company. The goals and annual budget are put together based on this plan. The Board of Administration validates the revised results of the Cycle, which are disseminated by the company down to coordination levels. In 2013, over 450 employees had access to the company's strategic plan.





## PUMA PROJECT

In 2013, Klabin assembled the necessary conditions to make the biggest investment in its history – the Puma Project. The total investment of the new mill, to be installed in the municipality of Ortigueira (PR), is of R\$ 5.8 billion, excluding forest assets, improvements to infrastructure and taxes.

With inauguration forecast for 2016, the mill will have an annual production capacity of 1.5 million tons of pulp, of which 1.1 million tons of hardwood pulp and 400 thousand tons of softwood pulp, part of which to be converted into fluff pulp (used in the manufacture of disposable diapers and feminine hygienic absorbents). To guarantee the supply of the new plant, the Company can count on 107 thousand hectares of planted forests, located within an average radius of 72 km from the mill.

### Development opportunity

The main benefits arising from the installation of the new mill in the region:



#### Distribution of ICMS

An agreement signed between the State Government, Klabin and the municipalities in the region defined the distribution of ICMS taxes arising from the operations of the new mill among twelve municipalities. Ortigueira will get 50% of this tax and the remaining 50% will be split between the towns of Cândido de Abreu, Congonhinhas, Curiuva, Imbau, Reserva, Rio Branco do Ivaí, São Jerônimo da Serra, Sapopema, Telêmaco Borba, Tibagi and Ventania.



#### Job creation

Nearly 85% of the workers employed in the earth-moving stage come from municipalities close to the enterprise. At the peak of construction, some 8,500 people will be working on the site. The new mill will have 1,400 job opportunities between the plant and the forest.



#### Training

Klabin has backed training and qualification of residents from the region through free courses, offered in conjunction with the Secretary of Labor and the National Program of Access to Technical Schooling and Employment (Pronatec). Since April of 2013, over 400 students from Imbau, Ortigueira and Telemaco Borba have graduated in various fields. New classes will be opened during 2014.



#### Improvements to the regional infrastructure

In May of 2013, the Government of the State of Parana and Klabin signed a letter of intent for investments in regional public infrastructure. Forecast to be built are a branch line of railway; transmission lines and works on about 100 kilometers of roads, such as the asphaltting of the roads of Campina and Minuano; improvements to the Strategic Highway and construction of a new road on the right bank of the Tibagi River.



#### Energy efficiency

The mill in Ortigueira will be self-sufficient in electrical power generation. Out of a total 270 MW, it is expected that 120 MW will be used for own consumption in the plant and the remaining 150 MW will be made available on the Brazilian grid system. All the energy produced will be clean energy, without burning fossil fuels, and will come from renewable sources.

## RESEARCH, DEVELOPMENT AND INNOVATION

In 2013, the company reorganized the area of Research & Development (R&D). It merged the forestry and industrial fronts and created the corporate department of RD&I (Research, Development and Innovation) under the Director of Planning, Projects and Technology. One of the objectives of the new area is to identify technologies that permit a steady increase in the use of eucalyptus short fibers in its paper production, while retaining the same properties of strength and quality.

The RD & I department is also focused on Klabin's value chain in order to assess customers' needs and expectations, create cost-saving solutions and develop new products with suppliers. Research is directed at studies to genetically improve the forest species used, helping to develop its products and to make advances in the fields of nanotechnology and bio-refinery, in partnership with important initiatives and research institutes in Brazil and overseas. Klabin has a network of cooperation with various Institutions of Science and Technology (ICT's) both inside and outside the country.

Among the partner institutions in Brazil are Cetea (Technological Center for Packaging), Campinas – SP) and Esalq (Luiz de Queiroz Agricultural College)/USP, Piracicaba – SP). Overseas, the company is partner of Innventia Institute and University of Lund, both in Sweden; of VTT Technical Research Centre, in Finland; and of the University of Toronto, in Canada.

# Sustainability



The Vision of Sustainability, devised in 2013, establishes guidelines and challenges and directs the company's strategic actions for the coming years.

Klabin manages sustainability from a multidisciplinary angle, which entails operational activities, respect for human rights, development of communities and employees, rational use of natural resources and compliance with ethical and legal criteria.

The success of this management model is ensured by a governance structure, which involves all hierarchical levels of the company. The Sustainability Committee is comprised of representatives from the Board of Directors and one external member. Its function is to introduce the concepts of sustainability into the management of the company and its decisions. The Sustainability Commission, composed of representatives from different areas of the company, has executive responsibility and manages projects relate to the issue, as well as disseminating the culture of sustainability throughout the company.

In one of the year's highlights, the WWF – one of the biggest non-governmental organizations dedicated to environmental conservation in the world – listed Klabin in its Environmental Performance Report in 2013. The company achieved a rating of 74.5% in the organization's evaluation.

## VISION OF SUSTAINABILITY

Devised in 2013, it establishes guidelines and challenges and directs the company's strategic actions for the coming years. The task to devise the Vision occupied over 40 employees from different areas and operational teams.





SUSTAINABILITY POLICY

All of Klabin's 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, in order 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 practice and promote the recycling of pulp fiber in its production chain.
- 4

To prevent and avoid pollution by means of reducing environmental impacts 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.

Public strategies

Klabin's relationship with its stakeholders is essential for growth of the business. The company is always developing and improving its operations and products in direct contact with this public through exclusive channels, by way of its institutional website and the ombudsman channel.









External commitments

By adhering voluntarily to commitments proposed by recognized institutions, Klabin seeks to play an active role in socio-environmental and economic issues:

- ISE (Corporate Sustainability Index)
- Millennium Goals
- Global Compact
- EPC (Companies for the Climate)
- IDLocal
- GHG Protocol
- Carbon Disclosure Project (CDP)
- National Pact to Eradicate Slave Labor
- Corporate Pact for Integrity and Against Corruption



Since the year of 2000, Klabin has been a signatory to the Global Compact, a United Nations initiative to encourage the corporate community throughout the world to adopt ten principles, which represent fundamental values of human rights, workers' rights, environment and the fight against corruption. In 2013, Klabin hired external consultants to assess the actions implemented by the company for more than a decade in support of the Global Compact's principles. In their analysis, the consultants point to adherence to the listed initiatives and recommend the inclusion of actions performed recently and/or the promotion of improvements. The consultants also recommend the publication of the correlation of GRI indicators with the principles of the Global Compact, so that all the stakeholders may accompany the topics as they evolve – Human Rights, Workers' Rights, Environment and Fight Against Corruption – through indicators of performance. Finally, they advise Klabin to establish goals for all the topics, as is already the case with the indicators of environment and production.

Principles of the Global Compact	Millennium Goals	Actions Performed by Klabin	Assessment of Adherence
Human Rights			
<div><div><b>RESPECT</b> and support human rights recognized internationally in its sphere of influence</div><div><b>GUARANTEE</b> the non-participation of the company in violations of human rights</div></div>	<div><div><b>1</b> ERADICATING EXTREME POVERTY AND HUNGER</div><div><b>2</b> ACHIEVING UNIVERSAL PRIMARY EDUCATION</div><div><b>4</b> REDUCING CHILD MORTALITY RATES</div><div><b>5</b> IMPROVING MATERNAL HEALTH</div><div><b>6</b> COMBATING HIV/AIDS, MALARIA, AND OTHER DISEASES</div></div>	<ul style="list-style-type: none"><li>• Donations to Funds for Children and Adolescents</li><li>• Volunteer work and campaigns for donations (warm clothing)</li><li>• Strategic management of supplies socio-environmental clauses in suppliers' contracts</li></ul>	<div><b>Positive points:</b><ul style="list-style-type: none"><li>• Support for the Fund for Children and Adolescents and volunteer work and campaigns for donations</li><li>• OHSAS 18001 Certification and Klabin's Program of Excellence in Occupational Health and Safety</li><li>• Adoption of socio-environmental clauses (such as prohibition of child and forced labor)</li></ul></div> <div><b>Recommendations:</b><ul style="list-style-type: none"><li>• Insertion of the topic into the Sustainability Policy</li><li>• Development of a policy of Klabin's salary practices</li><li>• Greater transparency in union agreements – with definition of processes and procedures.</li></ul></div>
Workers' Rights			
<div><div><b>SUPPORT</b> freedom of association and recognize the right to collective bargaining</div><div><b>ELIMINATE</b> all forms of slave or forced labor</div><div><b>ERADICATE</b> effectively all forms of child labor from its production chain</div><div><b>FOSTER</b> practices, which eliminate any kind of discrimination at work</div></div>	<div><div><b>3</b> PROMOTING GENDER EQUALITY AND EMPOWERING WOMEN</div><div><b>8</b> DEVELOPING A GLOBAL PARTNERSHIP FOR DEVELOPMENT</div></div>	<ul style="list-style-type: none"><li>• Code of Conduct</li><li>• OHSAS 18001 Certification</li><li>• Program to Manage Diversity and Inclusion</li><li>• Klabin Development Program</li><li>• Union agreements</li><li>• Klabin's Program of Excellence in Occupational Health and Safety</li><li>• Klabin's Quality of Life Program</li></ul>	<div><b>Positive points:</b><ul style="list-style-type: none"><li>• Structure and topics covered in the Code of Conduct</li><li>• Reports from internal and external audits of the OHSAS 18001 Certification and Klabin's Program of Excellence in Occupational Health and Safety</li><li>• Existence of programs such as Development of Competencies; of Program of Excellence in Occupational Health and Safety</li><li>• of Quality of Life Program</li></ul></div> <div><b>Recommendations:</b><ul style="list-style-type: none"><li>• Explanation of measures taken to support rights for freedom of association and collective bargaining</li><li>• More depth and details of Klabin's actions to eliminate slave or forced labor and to abolish child labor throughout the value chain.</li></ul></div>
Environment			
<div><div><b>ASSUME</b> a precautionary, responsible and pro-active approach to environmental challenges</div><div><b>DEVELOP</b> initiatives and practices to promote and disseminate socio-environmental responsibility</div><div><b>FOSTER</b> development and propagation of environmentally responsible technologies</div></div>	<div><b>7</b> ENSURING ENVIRONMENTAL SUSTAINABILITY</div>	<ul style="list-style-type: none"><li>• Sustainability Policy</li><li>• Sustainability Committee (consisting of company executives and external members)</li><li>• Sustainability Commission (comprised of key areas of the company)</li><li>• Sustainability Department</li><li>• Monte Alegre Ecological Park</li><li>• Caiubi Project</li><li>• Forest Stewardship (mosaic and ecological corridors)</li><li>• Monitoring of biodiversity</li><li>• Participation in the Consortium for Environmental Protection of the Tibagi River Basin</li><li>• FSC® (Forest Stewardship Council) Certification</li><li>• ISO 14011 Certification</li><li>• Adhesion to external initiatives (Companies for the Climate, Forest Dialogue, Corporate Movement for Conservation and Sustainable Use of Biodiversity, Sustainable Pro-Food Initiative, Sou Agro Movement, International Year of the Forests, Sustainable Cartonboard Forum)</li></ul>	<div><b>Positive points:</b><ul style="list-style-type: none"><li>• Creation/structuring of bodies for sustainability governance: area of Corporate Sustainability; Sustainability Committee; and Sustainability Commission</li><li>• Practices of forest stewardship and biodiversity monitoring</li><li>• ISO 14001 and FSC® (Forest Stewardship Council) Certification</li><li>• Voluntary participation in external initiatives</li></ul></div> <div><b>Recommendations:</b><ul style="list-style-type: none"><li>• Inclusion of the following actions linked to the Global Compact: Code of Conduct and Environmental Guards Programs; Guardians of Nature; and Monitored Visits.</li></ul></div>
Anti-corruption			
<div><div><b>FIGHT</b> corruption in all its forms, including extortion and bribery</div></div>		<ul style="list-style-type: none"><li>• Code of Conduct</li><li>• Ethics Committee</li><li>• Corporate Governance</li><li>• Adherence to the Abrasca Code of Self-Regulation</li><li>• External audit to validate economic-financial data</li><li>• Internal auditing</li><li>• Pact for Integrity and Against Corruption</li></ul>	<div><b>Positive points:</b><ul style="list-style-type: none"><li>• Highlight for Code of Conduct, which expresses basic values that orientate Klabin's decisions and attitudes</li><li>• Klabin's participation in the Pact for Integrity and Against Corruption (initiative between Ethos Institute, Program of the United Nations for Development – PNUD – and other institutions)</li><li>• Adherence to the Abrasca Code of Self-Regulation and Good Practices of Publicly-Traded Companies</li><li>• Company has been listed, since 2002, as Level 1 of Corporate Governance of BM&amp;FBovespa</li></ul></div> <div><b>Recommendations:</b><ul style="list-style-type: none"><li>• Transparency in working reports from the Ethics Committee and Ombudsman</li><li>• Training for the company's internal and strategic public in the topics of "Anti-corruption" and "Public Policies"</li></ul></div>



# Economic-Financial



Klabin ended 2013 with the best result in its history and completed ten consecutive quarters of EBITDA growth, which came to R\$ 1,562 million.

## NET REVENUE

The increase in sales volume, the improvement in product mix and the favorable exchange rate for exports had a positive impact on the company's results in 2013. The total volume of sales came to 1.788 million tons (excluding timber), 4% over the results of the previous year. This rise in volume, together with the improved sales mix and higher exchange rate, brought the net revenue (including timber) to R\$ 4,599 million, 10% higher than that recorded in 2012.

## EBITDA

The company continued its efforts to reduce costs in 2013, enabling it to obtain expressive results in the Forestry Unit. The process to increase operational cash generation (adjusted EBITDA) was accomplished once again during the period, leading to ten consecutive quarters of growth. In 2013, adjusted EBITDA came to a record R\$ 1,562 million, a jump of 16% in relation to 2012, with a margin of 34%, the best result in the history of the company.

## OPERATIONAL COSTS AND EXPENSES

Costs remained under control in 2013. The basis of the company's costs is reflected in the cash cost per unit, which remained at R\$ 1,718/t in 2013, 5% above the cash cost per unit of 2012, but even so below inflation for the period and in spite of the higher exchange rate.



## DEBT

On December 31st 2013, the company's gross debts totaled R\$ 6,964 million, an increase of R\$ 951 million in comparison with the third quarter of the same year. Of the total debt, R\$ 4,752 million, or 68%, is in dollars, mostly export pre-payments. Net debt came to R\$ 3,985 million, an increase of R\$ 390 million in comparison with R\$ 3,595 million on September 30th of the same year, affected by the impact of the exchange rate variation on the part of the debt in dollars, investments and dividend payments throughout 2013. The ratio of net debt to adjusted EBITDA was 2.6 times at the end December.

In the case of debt maturities, the average due date of financing was 43 months, or 39 months for loans in local currency and 45 months for foreign currency loans. Short-term debt at the end of 2013 was responsible for 16% of the total. The average cost for financing in local currency was 7.74% per annum and 4.75% per annum in foreign currency.

These results show that Klabin' debts are well balanced. Proof of this is the appraisal by the Standard & Poors agency, which raised the rating to BBB- (investment grade) on the global scale and from "brAA+" to "brAAA" on the national scale, with stable outlook, in recognition of its high degree of liquidity, strong cash position and adequate debt level in historical terms. This appraisal corroborates the "BBB-" rating given to Klabin by Fitch Ratings in June 2012.

## CAPITAL MARKET

For over 30 years, the company's shares have been traded on the BM&FBovespa, reflecting its model of good management practices. In 2013, Klabin's shares were negotiated at all the trading sessions of the Brazilian stock exchange, recording 1.6 million trades, involving 672 million shares and an average daily volume traded of R\$ 33 million, 33% higher than that recorded in 2012. In 2013, Klabin's preferred shares (KLBN4) dropped by 4%, while BOVESPA dropped 15%.

## ECONOMIC-FINANCIAL PERFORMANCE

R\$ million	2013	2012	△
<b>Sales volume (thousand t)</b>	<b>1,788</b>	<b>1,727</b>	<b>4%</b>
Domestic market	1,235	1,183	4%
Exports	553	544	2%
% Domestic Market	69%	69%	0 p.p.
<b>Gross revenue</b>	<b>5,554</b>	<b>4,997</b>	<b>11%</b>
<b>Net revenue</b>	<b>4,599</b>	<b>4,164</b>	<b>10%</b>
Domestic market	3,424	3,169	8%
Exports	1,175	995	18%
% Domestic Market	74%	76%	-2 p.p.
Variation in fair value of biological assets	336	886	-62%
Cost of products sold	(3,207)	(2,823)	14%
<b>Gross profit</b>	<b>1.729</b>	<b>2.227</b>	<b>-22%</b>
Gross margin	38%	53%	-15 p.p.
Sales	(363)	(345)	5%
General & administrative	(281)	(274)	2%
Other oper. (expenses) rev.	11	10	11%
<b>Total operational expenses</b>	<b>(632)</b>	<b>(608)</b>	<b>4%</b>
<b>Adjusted EBITDA</b>	<b>1.562</b>	<b>1.352</b>	<b>16%</b>
EBITDA margin	34%	32%	2 p.p.
<b>Net profit</b>	<b>290</b>	<b>752</b>	<b>-61%</b>
Net Assets	5,393	5,421	-1%
Net Debt	3,984	3,278	22%
<b>Net Debt/ EBITDA</b>	<b>2.6x</b>	<b>2.4x</b>	

*N.B: Some values presented in the charts and graphs were rounded off and may not express exact results.  
The EBITDA margin is calculated over the pro-forma net result, which includes the results of Vale do Corisco.*



INVESTMENTS

R\$ million	2013	2012
Forestry	86	93
Operational continuity	283	298
Special projects	50	107
Expansion	381	157
Puma Project	99	-
Total	899	655

PERFORMANCE OF THE BUSINESS UNITS

Forestry Business Unit

The Forestry Business Unit is not only responsible for supplying raw material to Klabin’s paper mills, but is also the biggest national supplier of logs originating from certified, planted forests to sawmills and veneer plants.

In 2013, approximately 10.2 million tons of logs, pine and eucalyptus chips and wood wastes for energy were transported. Of this total, 2.9 million tons were sold to sawmills and veneer plants, a similar volume to that of 2012 and the rest was transferred to the company’s plants in Parana, Santa Catarina and São Paulo. With a stable volume of sales, net revenues from sales of wood came to R\$316 million, 8% above 2012.

Paper Business Unit

The Paper Business Unit ended the year with a sales volume of kraftliner and coated cartonboard of 1,052 thousand tons, stable in comparison with 2012. Net revenues were R\$2,206 million, 9% up on the previous year. The company outlined its strategy for growth, which includes additional converting capacity, new kraft paper machines for sacks and recycled paper and the de-bottlenecking of existing machines. These projects, when concluded, will be able to raise the current capacity of paper production by 15%.



**Kraft paper** – Throughout 2013, the strategy of transferring more kraft paper to Klabin’s converting plants, combined with improvements to market and product mixes and the capacity increase from new paper machine nº 23, in Correia Pinto (SC) in the last quarter of the year, generated sales of 377 thousand tons. Net revenues came to R\$ 598 million, a growth of 13% over 2012.



**Recycled** – Klabin’s recycled paper plants supply the box plants and sell their production in the market in Brazil. In 2013, 130 thousand tons of OCC waste, 3% less than in 2012, or a volume of 194 thousand tons of recycled paper. The sales of this paper in the domestic market totaled 31.5 thousand tons, an increase of 1.6% in 2013, in relation to the 31 thousand tons recorded in 2012. The company also concluded the foundations for the recycled paper machine at the Goiana Plant.



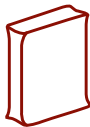
**Cartonboard** – The volume of cartonboard sold by Klabin, including liquid packaging, totaled 675 thousand tons in 2013, 1% above 2012, bearing in mind that the company has reached the limit of its cartonboard production capacity. Net revenues from the sales of coated cartonboard came to R\$1,608 million, a growth of 7% in comparison with the previous year. A highlight in 2013 was the approval for expansion of board machine nº 9 at the Monte Alegre mill (PR). With start-up programmed for June 2014, the project will add 50 thousand tons/year to coated cartonboard capacity.

Converting Business Unit

The sales volume of converted products totaled 693 thousand tons and net revenues came to R\$ 2,017 million. Compared to 2012 the increase in volume was 9% while revenue showed growth of 13%.



**Corrugated Boxes** – Driven by the increase of 44% in the prices of OCC in Brazil in 2013, Klabin’s revenues from the sale of corrugated boxes also grew. The company has the biggest nominal installed capacity of corrugated box production in the country, of 680 thousand tons/year, with eight box plants located to provide the Brazilian market with quick service. With increasing demand mainly observed in the Northeast, the company decided to increase its production of corrugated boxes at the Goiana plant, reaching 146 thousand tons/year.



**Sacks** – Considering the scenario of constant growth in demand, the company decided to increase its production capacity of industrial sacks at the Goiana plant from 7 million sacks/month to 14 million sacks/month. By the end of 2014, the plant is expected to produce 20 million sacks/month.

Furthermore, at the end of 2013 the new paper machine, PM 23 for sack kraft production, came on stream in Correia Pinto (SC). Its start-up was considered a success: with just 23 days of operation, daily production of PM 23 reached a production level of nominal capacity. The new machine will add 80 thousand tons to Klabin’s annual paper capacity.



# Social



## Company invests in its people to make an Extraordinary Klabin

Klabin has mechanisms to monitor, alert and correct the eventual impacts from its activities. The company has adopted action plans to mitigate such impacts and to leverage practices which contribute to social development, in particular that of the communities near its plants.

The values and principles, which steer the company's relationships with its stakeholders, are published in its Code of Conduct, a document shared with 100% of its employees

and other stakeholders in a digital version on the company's website. In 2013, the contents of the Code of Conduct were revised and brought up to date. Some items were expanded, such as antitrust, the fight against corruption and management of social matters in the value chain.

Moreover, as a way to control corruption-related risks, employees in the commercial departments received an Antitrust Leaflet, published in 2013.







### Diagnosis of Organizational Climate

Every two years Klabin conducts a Diagnosis of the Organizational Climate. The last edition of the survey was conducted in 2012 in all the company's plants and its results led to the elaboration of an action plan put into practice during 2013. The plants promoted other initiatives to deal with specific questions identified in the Diagnosis of Organizational Climate. One of the points with the highest evaluation in the survey concerns the health and safety of employees.

### Development of People

360° Evaluation process of leadership takes place regularly and involves Directors, Managers, Coordinators and Specialists, whose competencies are appraised by their hierarchical superior, peers and subordinates. In order to complete the process, these professionals also make a self-evaluation.

### Training and Development

Self-advancement is encouraged at Klabin as a way of preparing its teams for future challenges. The company offers its professionals an ample training program. Using the 360° Evaluation, each employee in the program accompanied by his superior, establishes a PDI (Individual Development Plan).

Another successful initiative, the School of Business was set up in 2013 and is based on a partnership with educational institutions to offer classroom courses and development of specific contents and, for the School portal, a platform with online learning. The 26 classes organized throughout the first year of the School received support from institutions such as FGV (Getulio Vargas Foundation), ESPM (Superior School of Propaganda and Marketing) and Insper (Institute of Teaching and Research).

During the year R\$ 5.9 million were allocated to programs of training and professional qualification. These resources provided for 425,664 hours of training – an increase of 44,024 hours in comparison with 2012 – with a total 8,861 participants and an average of 48 hours per employee.

## PEOPLE & MANAGEMENT

The competence and behavior of its employees have paved the way for Klabin throughout its history and have enabled it to attain good results. Part of the motive for this increasing progress of recent years has been the continual investment in people made by the department of People & Management. Besides preparing professionals to face the challenges of the present and the future, the company's strategy has led to the creation of an organizational culture founded on agility and flexibility. The strategy of people management also entails the focus, alignment and engagement of its teams.

Klabin's professionals are responsible for adapting the company to market dynamics, without losing its essence and it is this capacity for daily transformation, which is the basis for building an Extraordinary Klabin.

This cohesive, engaged team consists of 14,672 direct and indirect employees, 3.2% more than were registered in 2012. A growth of 12.3% was higher among its own employees, with 1,119 new job openings.

The expansion of its staff of professionals reflects the growth achieved by the company in recent years in all its businesses. In addition, Klabin has continued its process to bring its workforce in forestry activities in-house. In 2013, a further 600 people were contracted directly by Klabin.

All these professionals were hired under the strictest observation for labor legislation. Because of the geographical spread and other characteristics of its operations, nearly 80% of the management positions at supervisory level and shift leaders consist of residents from the locations where Klabin is operating.

### Remuneration and benefits

Transparency in remuneration was one of the topics chosen as a priority by the People & Management department in 2013, after having evaluated the results from the Diagnosis of the Organizational Climate. One of the actions implemented in this respect was the Benefits Fair, an itinerant initiative, which took suppliers and partners to the employees in all plants to clarify any doubts about the benefits offered by Klabin.

In 2013, employees also received the Benefits Manual, a complete guide with all the services offered by Klabin and the Extract of Total Remuneration, which shows each employee's remunerative package with details of the available benefits.

During the year, employees' remuneration totaled R\$ 446 million, in addition to R\$ 149.3 million in compulsory social security contributions and R\$ 113.5 million in benefits, such as medical and dental assistance, complementary pension plans, drugstore agreements, transportation, meals, life insurance among others. Apprentices, in turn, receive meals, medical assistance, life insurance and transport vouchers. Temporary workers also have a right to meals and transport vouchers.

### Health and safety

In order to maintain a culture of safety-minded behavior and reduce the risks of accidents in all its plants, Klabin places a lot of emphasis on training, qualifying, raising awareness and inspection of activities from the standpoint of safety. The information generated in this continuous process lends support to Klabin's entire Program of Occupational Health and Safety (SSO). To finalize, each plant has its own Internal Commission of Accident prevention (Cipa), ensuring that 100% of the employees are represented on formal health and safety committees.

In addition to Cipa, there is a Safety Committee, composed of plant managers and their principal leader. Contractors also have Occupational Health and Safety Committees, in compliance with Contract guidelines and in conformity with the norms of Klabin. Klabin's operations do not present the risk of a high incidence of occupational illnesses for employees. Even so, the company has prepared initiatives to promote the health of its professionals.

### Diversity and inclusion

The promotion of diversity and the offer of growth opportunities are continuously monitored at Klabin in order to stimulate inclusion, respect and team spirit between people. Among the initiatives driving diversity in the company is the Program to Include People with Special Needs (PCD), introduced in 2011. In 2013 nearly R\$ 356 thousand were invested in accessibility, consultancy and equipment for these employees. Although the staff of employees is predominantly male, there are women also present. Between 2012 and 2013, the percentage of women rose from 8.35% to 9.18%.

## SUPPLIERS

Klabin's relationship with its suppliers extends beyond the commercial aspects. The company looks for long-term partnerships, founded on respect and confidence, and encourages them to adopt best practices in the performance of their activities. The principles and guidelines established in Klabin's Code of Conduct govern this relationship, as does the Policy of Contracting Suppliers.

In 2013, the company drew up the criticality matrix of suppliers as well as defining and identifying critical suppliers, who began to be monitored according to the commitments and practices established in the Policy of Social and Environmental Responsibility for Contractors. The document stipulates the criteria of responsible socio-environmental activity in Klabin's relations with its suppliers





## SOCIETY



Investments in socio-environmental initiatives made by Klabin in the regions close to its plants contribute to the development of the local communities. In 2013, the company invested a total of R\$ 13.3 million in 13 towns in various states with actions in the sectors of culture, health, education, sport and environment. In one of the outstanding initiatives of the year, Funbio (Brazilian Fund for Biodiversity) conducted a survey in Telemaco Borba, Ortigueira and Imbau (PR) to identify the community's priority issues. The Puma Project is being installed in this region, the biggest investment in Klabin history, which will double the size of the company in three years. The survey provided the necessary information to

define what kind of social actions are required by the company for the region, as a result of the construction of the new venture.

Monitoring the impacts from Klabin's activities on the communities is carried out based on open and constant dialogue with its stakeholders. In the industrial plants, assessments of impacts are planned whenever there are significant changes to the operations of the company, such as expansions or reductions. In the Forestry area, the company has made channels of communication available – such as suggestion boxes visibly placed in locations with easy access.

### Private social investment

Of a total of R\$ 13.3 million invested in socio-environmental projects during 2013, R\$ 6.8 million of own funds were destined to welfare, teaching, health, sport, culture and leisure entities. Another R\$ 6.5 million went to support the initiatives of social organizations based on fiscal incentive laws (Rouanet, Audiovisual and Sports Law). The company gives support to over 160 projects, which promote social development. One of them is the Luthier Project, run by the IFPR (Federal Institute of Parana), which teaches professional technicians to make wood and string instruments from reforested timber. During the Warm Clothing Campaign of 2013, Klabin donated more than 25 thousand corrugated boxes and 100 thousand paper bags in the State of São Paulo, proving once again to be the biggest partner of the Solidarity Fund of the State of São Paulo.

The company also has its own projects in a number of regions, such as the Caiubi, which disseminates the concepts of ecological awareness to teachers and students from towns in Parana and Santa Catarina. In the Guardians of Nature, the company teaches the concepts of environmental preservation and citizenship to students from the public schools system, in conjunction with the Environmental Police of Parana and Santa Catarina. It is also a partner to several schools in Brazil and the administrator of some social associations such as the Marques de Salamanca Institute in Rio de Janeiro, which provides children's education and citizenship teaching to residents of the community in Santa Teresa.

Klabin has run the Apiculture and Meliponiculture Program, started at the Monte Alegre Plant, in Telemaco Borba (PR) since 2007. The proposals of this project include making good use of the abundant flora in forestry areas, preserving the biodiversity and generating income for local communities. In this program, the company gives access to its forests to drive development of production chains, which bring benefits to the environment and to communities, particularly in the form of additional income.

With the backing of the partners, the Apiculture Association of Telemaco Borba and the Caminhos de Tibagi Cooperative, this program runs a processing unit, which prepares and distributes the honey and its by-products in accordance with legal and market requirements. The 34 beekeepers from the region who participate in the program have 50 apiaries installed with an average of 25 beehives to each apiary.

For 2014, Klabin has plans to run projects involving education, sports, health, volunteer work, social welfare, culture and the environment. Additionally, it will promote new volunteer actions in all its plants, except Pilar (Argentina), directed to kindergarten and elementary education and with a focus on environment and society.



# Environmental



Klabin's environmental impacts are managed by means of policies and guidelines, aligned with its strategic planning, which target the rational use of natural resources, monitoring risks to the business associated from climate change, the preservation of biodiversity and natural resources and waste management.

In 2013, the company invested R\$ 23.93 million in initiatives and technologies to protect the environment. The principal items were the treatment of ash from the recovery boiler at the Otacilio Costa Plant (SC); the start of a project to collect and burn Diluted Non-condensable Gases (DNCG) at the Monte Alegre Plant (PR); and improvements to the effluent treatment plant at the Monte Alegre Plant (PR). One of the highlights of 2013 was the reduction of 54% in water consumption in the last three years at the Otacilio Costa Plant.

Helping to manage environmental impacts are integrated systems such as the Corporate Portal of the Environment, among others, which allow the performance of each plant to be monitored. These management systems are certified by the ISO 14001 norm.

## ENERGY

Klabin's goal is to raise the share of renewable sources in its energy matrix to 88%, in up to five years. In 2013, this ratio reached 86.7%, a growth of 8.5% over 2012. One of the ways to raise the energy efficiency of its plants is continuous investment in its equipment and in improvements in its processes, enabling an increased use of renewable and clean sources of energy, such as biofuel, black liquor and hydro (own electrical power). In Klabin, biofuel is produced from leaves and branches not used for papermaking. After crushing, this material is put into boilers to generate steam used for the production of energy.



## CLIMATE CHANGE AND CARBON FOOTPRINT

Klabin established guidelines to be followed during the planning and operation of its activities to administer climate change and thus reduce its emissions of Greenhouse Gases (GHG's). It also invests continually in the renovation of its energy matrix, installing biofuel-driven boilers, to substitute fuel oil. Consequently, between 2004 and 2013, the company has managed to reduce its GHG emissions (kg CO<sub>2</sub> eq/ t paper) by 59.1%.

The amount of energy acquired by the company from the concessionaire is not included in the calculation of the energy matrix. However, the company has a contract with an independent concessionaire, where a part of this resource originates from certified, renewable sources. Thus the emissions avoided in 2013 with this acquisition of renewable energy are equivalent to 15,284.78 t CO<sub>2</sub> eq or the planting of 106,993 trees. This action contributes to the reduction of emissions of greenhouse gases and, consequently the reduction of global warming.

### Voluntary initiatives

Klabin participates in several voluntary initiatives to discuss options of mitigation and adaptation to the effects of climate change, such as:

- Carbon Disclosure Project (CDP);
- GHG Protocol;
- Program of Companies for the Climate (EPC) – initiative of FGV (Getulio Vargas Foundation);
- ICO<sub>2</sub> (Carbon Efficiency Index) – of the BM&FBovespa;
- Contract of voluntary consumption of electrical energy from renewable sources.

### Atmospheric emissions

With the utilization of the cabotage model to ship its production, emissions for transport of the same quantity of paper have been reduced by 91% in comparison with road transport. Klabin also reduced the emissions of sulphur oxides (SOx), nitrogen oxides (NOx) and particulate materials in the industrial plants last year. For 2014, the target is to reduce greenhouse gas emissions, reaching a maximum of 185 kg CO<sub>2</sub> equivalent (CO<sub>2</sub>eq) per ton of paper produced within the next 3 to 5 years.

### Emissions originating from road transport versus cabotage model of transport of paper between plants (thousand t CO<sub>2</sub>)

	2012	2013
Road transport	36.8	24.8
Maritime transport	3.3	2.3
Emissions avoided with maritime transport	33.5	22.6

## MATERIALS

To attend its industrial processes, Klabin uses different kinds of organic and inorganic raw materials. One of the company's actions is to reduce use of non-renewable materials, without affecting the efficiency of the process.

### Materials used, by weight or volume (thousand t)

	2010	2011	2012	2013
<b>Indirect materials</b>				
Wood for processing	5,850	6,048	6,233	6,183
OCC purchased from the market (recycled)	220	220	135	206
Purchased pulp (pulp and CTMP)	52	44	28,4	21,1
<b>Total</b>	<b>6,122</b>	<b>6,312</b>	<b>6,396</b>	<b>6,410</b>
<b>Non-renewable materials</b>				
Sulphuric acid	9.4	7.3	6.58	6.48
Caustic soda	24.7	27	27	27.1
Sodium sulphate	19.5	19	16.57	12.1
Aluminum sulphate	22.6	26.5	25.4	26.5
Virgin lime	38.3	26.7	29.6	53.8
Clay	23.3	15	21.3	21.7
<b>Total</b>	<b>137.8</b>	<b>121.5</b>	<b>126.45</b>	<b>147.68</b>
<b>Material originating from recycling</b>	<b>3.5%</b>	<b>3.4%</b>	<b>2.2%</b>	<b>3.3%</b>



EFFLUENTS AND WASTE

Klabin monitors all its areas for sorting and disposal of wastes to ensure that there is no contamination of the soil or groundwater sources. All the waste produced by the industrial plants is submitted to a procedure to assess how it can be reused. As a last option, the unused material is sent to its final destination (landfill).

The Effluent Treatment Plants in the paper mills ensure that over 80% of the biological oxygen demand is removed, guaranteeing that legal requirements and emissions below established limits are met when discharging its effluents, which are monitored by all Klabin’s operating plants. This procedure is controlled by reporting and periodical laboratory analyses, which ensure the quality of this effluent discharge into bodies of water with regard to the legislation and the equilibrium of the local hydrographic basins. The water quality of the rivers that receive the effluents is monitored both upriver and downriver from the discharge.

In 2013, Klabin was notified for an administrative infraction by the Ministry of Agriculture, Livestock and Supply, and fined R\$ 2,784.52 for “Producing a soil acidity corrective – Lime Mud – registered on the map with a magnesium oxide content outside the established tolerance limit, in relation to the registered guarantee”. To ensure the accuracy of data, lime mud quality is verified every month, prior to its liberation for sale.

WATER

Klabin endeavors to reduce the consumption and use of water in all its industrial and forestry operations. The company constantly makes investments to improve its processes and make the best use of this natural resource. At the Otacilio Costa Plant (SC), for example, less than 28m³ of water were used for each ton of paper produced, a rate that represents a reduction of 54% in comparison with 2009 and was achieved after the introduction of a project to optimize refrigeration in the production process. In the last year, the industrial plants of the area of Paper consumed on average 37m³ of water for each ton of paper produced – below the target of 40m³ stipulated for the last year – anticipating the target of 38m³ set for up to five years.



Reuse

The company has authorization to withdraw water from artesian wells and water sources and finds ways to reuse water in irrigation procedures, cleaning equipment and in industrial processes.

GOALS AND TARGETS

In order to achieve its growth aspirations, Klabin has defined the following goals and targets for 2014 and the medium term as the principal ones:

Goal	Target 2013	Result 2013	Target 2014	Average target time (3 to 5 years)
Reduce emissions of greenhouse gases <sup>(1)</sup>	190 kg CO <sub>2</sub> eq/t paper	201,6 kg CO <sub>2</sub> eq/t papel	205 kg CO <sub>2</sub> eq/t paper (Klabin S.A)	185 kg CO <sub>2</sub> eq/t paper (Klabin S.A)
Reduce direct, absolute emissions of greenhouse gases	-	442,800 t de CO <sub>2</sub> eq	Reduce 0.5% (Klabin S.A.)	-
Reduce water consumption(2)	40 m³ t/paper	37.02 m³ t/paper	39 m³ t/ paper	38 m³ t/ paper
Increase the participation of renewable sources in the energy matrix	85%	86.7%.	87%	88%
Increase self-sufficiency in generation of energy	57% of needs	55.6%	57%	100% of needs

(1) Including the target for CO<sub>2</sub> equivalent for Klabin S.A referring to scopes 1 and 2 of the GHG Protocol, in which approximately 87% of the emissions are related to scope 1 and 13% related to scope 2.  
(2) Specific consumption of water (m3/t) – Paper Business Unit



BIODIVERSITY

Of the 494 thousand hectares of lands owned by Klabin, 211 thousand hectares are preserved, native woodlands of the Atlantic Rainforest. In these areas, the company practices an ample program of research and conservation of the fauna and flora, by monitoring the biodiversity in its forests and identifying species considered rare or endangered. The program, run in conjunction with universities, research institutes and specialized companies, entails the survey of birds, mammals, reptiles, insects and species of vegetation.

The Stewardship Plan of the forestry units is prepared every year and, among others, includes biodiversity data, in order to reduce impacts as well as recuperate areas and improve the environmental conditions of the native reserves. In 2013, these actions involved 215.25 hectares, in Parana, and 546 hectares, in Santa Catarina.

Klabin also runs a program to monitor the forest wild animals, with the help of sighting cards, which are filled out by its employees. On sighting species of fauna in the areas of the company, the workers fill out a card, which is later registered in the system and helps the follow-up of native fauna. In 2013, there were 1,826 sightings of animals of 72 different species – among them endangered animals, such as the giant anteater, the maned wolf and the puma – in the company’s forests.

AREAS OF HIGH BIODIVERSITY OUTSIDE PROTECTED AREAS |GRI EN11|

	Parana (Telemaco Borba and surroundings)			Santa Catarina (Lages and surroundings)			São Paulo (Angatuba and surroundings)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Size of the operational unit, in km²	1,343	1,103	1,079	622	659	666	47	36	36
Type of operation	Conservation			Conservation			Conservation		
Value of the biodiversity	Mixed and seasonal semi-deciduous ombrophylous forests			Dense and mixed ombrophylous forests and Grasslands, within the Atlantic Rainforest			Dense and mountainous ombrophylous and seasonal semi-deciduous forests and forested savanna		

LEGAL WOODS AND RPPN’S

Run in conjunction with Apremavi (Association for the Preservation of the Environment and Life), the Legal Woods program advises small and medium-sized landowners on how to be more efficient and profitable, while focusing on the preservation of ecosystems. It offers courses, working parties, lectures, exchange visits, and free native seedlings for environmental recuperation of properties. The program also encourages silviculture with forests planted with pine and eucalyptus, enrichment of secondary forests, organic agriculture and ecotourism.

With the creation of RPPN’s (Private Natural Heritage Reserves), private companies such as Klabin became responsible for the preservation of areas and were able to create sustainable activities and business with low environmental impact, enhancing conservation of biodiversity, scientific research and the interests of the communities. The first of Klabin’s areas recognized as

a RPPN, with 3,852 hectares, is located on the Monte Alegre Farm, in Telemaco Borba (PR).

In Santa Catarina, the process with the State’s environmental organ to create the RPPN Serra da Farofa Complex, with approximately 5 thousand hectares, has been concluded. The reserve is located in a mountainous region, at an altitude of 1,700 meters, in one of the coldest places in the country. The sources of the Canoas and Caveiras Rivers, which flow through the towns of Otacilio Costa, Correia Pinto and Lages are located on the farm. The Serra da Farofa is of considerable significance for the biodiversity of the Atlantic Rain Forest because it contains important formations of vegetation such as the araucaria forests on its slopes. Scientific work carried out in the areas of RPPN has already identified almost 600 species of flora and 75 species of fauna.





# The report

## ABOUT THE REPORT

Klabin is publishing its 15th Sustainability Report, in accordance with the guidelines of the Global Reporting Initiative (GRI), an organization internationally recognized for defining indicators and standards to report on performance and economic and socio-environmental management.

The publication reports to all the stakeholders and society on the economic-financial and socio-environmental performance of the company during the period extending from January 1st to December 31st 2013. Klabin's Sustainability Report fulfills GRI application level B+. **GRI 3.1; 3.2**

The financial indicators cover all the company's operational units in Brazil and Argentina. The scope of social and environmental information, which complies with the norms determined by the ABNT (Brazilian Association of Technical Norms), encompasses only the operations in national territory. Some human resources indicators do include, however, the data from the industrial sack plant in Pilar, Argentina. **GRI 3.6; 3.8**

The accounting statements, audited by Deloitte, Touche Tomatsu Independent Auditors, are presented in accordance with Brazilian standards and the international accounting norms of the International Financial Reporting Standards (IFRS). BSD Consulting audited the information disclosed in this report.

The full version of Klabin's Sustainability Report is published at [rs.klabin.com.br](http://rs.klabin.com.br)



MATERIALITY

Klabin organized two discussion panels in 2011 in order to identify which main topics and concerns shared by the various stakeholders should guide the company’s management of sustainability projects.

These forums helped to build the materiality matrix, in which Klabin prioritizes the issues taken into consideration when drawing up its strategic planning. In 2013, this matrix was used as the basis for selecting the contents presented in this report. Besides this, additional information on the performance of the company and innovations in processes and administration were collected through interviews with Klabin’s leaders and managers. [\[GRI 3.5, 4.15\]](#)

The panels, conducted either through personal conversation or by e-mail, involved 77 people, among whom customers, employees, investors, suppliers, public bodies, the community and non-government organizations. The issues presented were arranged in hierarchical order and displayed in a quadrant graph, in accordance with their score, comparing the two axes of the matrix (point-of-view of the external public and internal point-of-view of the company).

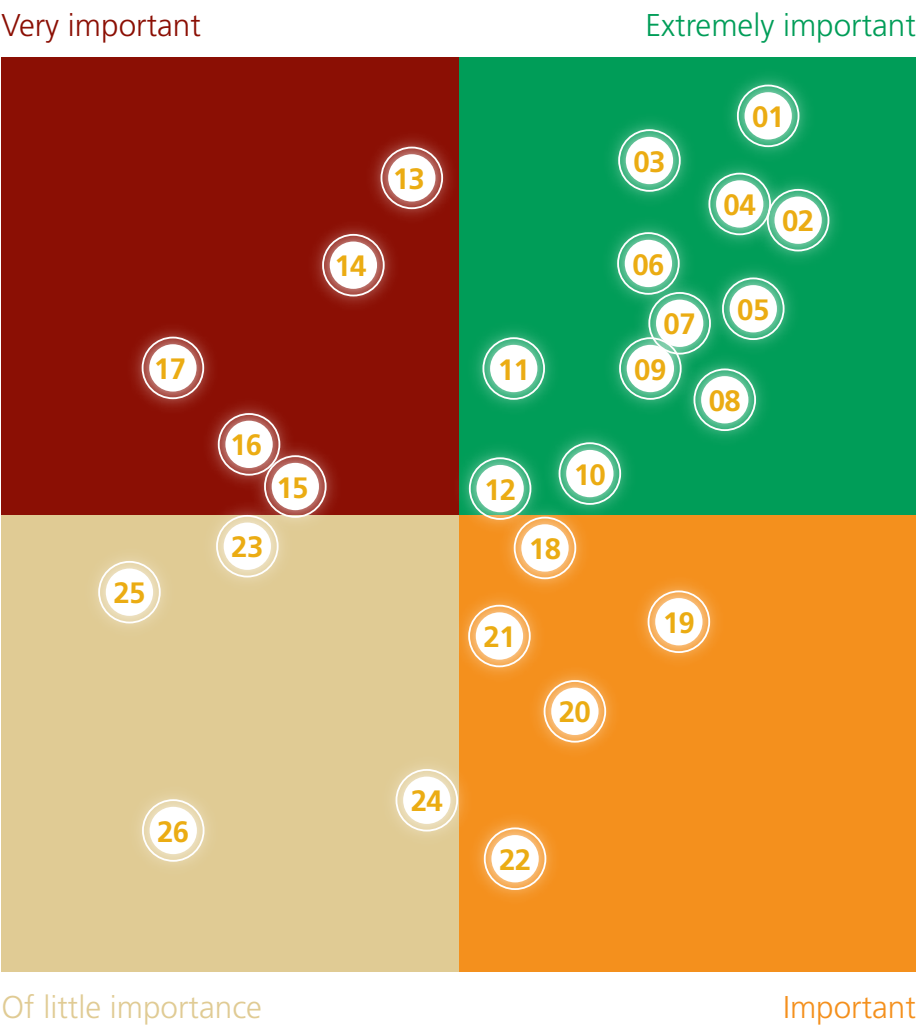


THE MOST RELEVANT ISSUES ARE FIVE [\[GRI 4.17\]](#):

-  ETHICAL BEHAVIOR
-  ECONOMIC-FINANCIAL RESULTS
-  RATIONAL CONSUMPTION OF NATURAL RESOURCES
-  COMPLIANCE WITH LAWS AND REGULATIONS
-  HUMAN RIGHTS



MATRIX OF MATERIALITY



Extremely important

- 01 Ethical behavior (anticorruption practices, respect for human rights, relations with competitors)
- 02 Economic-financial results (revenues, cash flow, results)
- 03 Rational consumption of natural resources (reuse and reduction of water consumption, development of renewable sources of energy)
- 04 Compliance (with environmental, social, fiscal, product and service laws and regulations)
- 05 Human rights (nondiscrimination, combatting slave and child labor, freedom of association, and others)

- 06 Socio-environmental criteria in the selection of suppliers and in investments/ Value chain (human and workers' rights, environmental controls)
- 07 Biodiversity (abundance and variety of the natural environment, forest stewardship, preservation of native areas and of fauna and flora)
- 08 Health and safety of own and contract workers
- 09 Activities of environmental control practiced by Klabin
- 10 Certification / auditing of management systems (ISO 14001, ISO 9001, ISO 22000, OHSAS 18001, FSC®, Isega, and others)
- 11 Quality of the products and services
- 12 Customer relations (frequency, dialogue, conditions)

Very Important

- 13 Waste management (recycling of materials, proper transport and disposal of hazardous wastes)
- 14 Climate change (measures to mitigate the impact from operations on the climate, as for example control of greenhouse gas emissions throughout the production chain – carbon footprint)
- 15 Commitments to external initiatives (e.g. Global Compact, Millennium Goals, Corporate Sustainability Index – ISE, Companies for the Climate etc.)
- 16 Innovation in the offer of products and services
- 17 Relationship and support developing suppliers (selection criteria, stimuli to improve production and management systems, dialogue)

Important

- 18 Klabin's brand and reputation
- 19 Training and development of employees
- 20 Market presence (relevance for communities / local economies, leadership in segments where active)
- 21 Diversity and equal opportunity (social inclusion)
- 22 Remuneration and benefits for employees and contract workers

Of little importance

- 23 Corporate governance (transparency, broad disclosure of information, relations with majority and minority shareholders)
- 24 Job generation
- 25 Investment in production capacity
- 26 Investment in the community, in infrastructure and in services for the public benefit



## ASSURANCE STATEMENT

BSD Consulting engaged in an independent assessment of the preparation process of Klabin's 2013 Sustainability Report, conducted in compliance with the guidelines of **GRI G3.1** (Global Reporting Initiative). The assessment process has been carried out for the fourth year running and is intended to provide Klabin's stakeholders with an independent opinion on the quality of the report; the engagement processes with stakeholders; adherence to the principles of AA1000AS 2008; and the company's management of sustainability.

### INDEPENDENCE

We work independently and we guarantee that no member of BSD has any consulting contract or other commercial link with Klabin. BSD Consulting is licensed by AccountAbility as an assurance provider (AA1000 Licensed Assurance Provider), under registration nº 000-33.

### OUR COMPETENCY

BSD Consulting is a company specialized in sustainability. The work has been carried out by a team of experienced professionals, trained in processes of external assessment.

### RESPONSIBILITIES OF KLABIN AND OF BSD

Klabin is responsible for the preparation of the Sustainability Report and also the definition of its contents. The purpose of BSD's work has been to assess the report and verify the application level of **GRI G3.1** guidelines. Verification of financial statements has not been the object of BSD Consulting's work.

### SCOPE AND LIMITATIONS

The scope of our work involves the information contained in the complete version of Klabin's 2013 Sustainability Report, for the period covered by the report from January 1st 2013 to December 31st 2013.

The independent assessment process has been carried out in accordance with norm AA1000AS 2008 (AA1000 Assurance Standard 2008), under Type 1 verification conditions, providing a moderate level of assurance. The objectives of the Assurance Statement are to inform stakeholders of BSD's conclusions regarding the process to appraise the adherence of Klabin's accountability procedures to the three principles: Inclusion, Materiality and Responsiveness. Verification of financial statements was not the object of BSD Consulting's work.

## METHODOLOGY

### The extent of the AA1000 assessment process consisted of:

- Appraisal of the contents of the 2013 Sustainability Report;
- Comprehension of the flow of procedures to obtain and generate information for the Sustainability Report;
- Research into public information on the sector and the company (press, websites and legal background);
- Interviews with managers of key areas concerning the relevance of the information for reporting and managing sustainability;
- Whenever relevant, confirmation of information on sustainability performance in the understanding of the company's directors;
- Analysis of the relevance of information in the Sustainability Report from the point of view of external stakeholders;
- Based on sample tests, confirmation of information in the Sustainability Report with corroborating documentation, internal managerial reports and official correspondence;
- The activities of this assurance process were carried out in the corporate offices in São Paulo – SP and at the Klabin Packaging plant in Goiana – PE.

## PRINCIPAL CONCLUSIONS ON ADHERENCE TO THE PRINCIPLES OF AA1000AS (2008)

### Inclusion – covers the participation of stakeholders in the development of a process to manage sustainability transparently and strategically.

- The process of consultation with Klabin's stakeholders was conducted at the end of 2011 and the beginning of 2012. It is important for the company to carry out a review of relevant stakeholders, while using clear criteria for their prioritization, with a focus on consultation and the manner of approach in the report.
- There are a small number of initiatives in dialogue and mapping stakeholders' demands. The relationship with partners receiving incentives, in the forestry area, and the mapping of demands of stakeholders of the Puma Project are relevant initiatives conducted by Klabin. It is important that the initiatives in dialogue with stakeholders are integrated in the company so that they contribute to action strategy, sustainability management planning and materials definition for the sustainability report.
- There are channels in the plants open to the external public to present its demands and complaints. It is recommended that a structured process be established to promote dialogue with external stakeholders.
- There is an opportunity for improvement in the alignment of management processes between corporate areas and local plants. It is important to divulge and monitor the company's programs and initiatives in all the operations.



**Materiality (or Relevance) – essential issues to enable the stakeholders to draw conclusions on the economic, social and environmental performance of the organization.**

- The result of the process to define materiality, conducted in 2011, was used again for the sustainability report of 2013. It is important that this process of reviewing material topics occurs continuously, taking into consideration alterations in the company's operational structure as well as changes which affect the context of sustainability of the company and the sector.
- As in the previous year's reporting process, the relevant topics, resulting from the process of materiality, are generic such as conformity, human rights, biodiversity, health and safety, quality, environmental control and customer relations. It is recommended that specific topics for the sector be assessed during the process, such as the handling of regional issues, in accordance with the context of each plant and the organization's activity (forestry, pulp and paper, packaging, cartonboard).
- Material topics identified in the context of sustainability, like impacts from transport, attention to the socio-environmental demands of the Puma Project and the consolidation of the company's new Sustainability Vision are initially broached in the sustainability report. It is important that these topics be presented in greater depth, given their relevance to Klabin.
- The Report can cover more profoundly topics considered to be of high materiality such as: human rights, ethical behavior, and socio-environmental criteria in the selection of suppliers.

**Responsiveness – covers the actions taken by the organization in response to stakeholders' specific demands.**

- There was a process to put together the Sustainability Vision, which consulted internally with different areas of the company, including top management. The results from internal consultations were used for this process, considering the sustainability actions and programs already in force in the company. It is important to divulge the contents of the Sustainability Vision to the corporate areas and business units of the company.
- The preparation of the Critical Analysis Matrix of Suppliers, in an introductory phase, has been concluded. The purpose of this tool is to provide analysis, from a technical and legal conformity standpoint, regarding the socio-environmental aspects of suppliers. It is important that the matrix is effectively disseminated and communicated to all the plants and that it is considered a reviewal process of the sustainability aspects used in the analysis.
- The process of monitoring sustainability data and indicators is carried out continuously in the company, but there are opportunities to improve the compilation of information for the report. It is important for the reporting procedure to include a phase of critical analysis of the information

to be reported, thus helping to improve information quality, to put the data presented into context and to avoid omitting information relevant for the company's sustainability performance.

- Klabin has significant participation in the discussions of the sector, through forums and specific entities, such as IBA (Brazilian Tree Industry – previously BRACELPA), Forest Dialogue and FSC Brasil. It is important that the company's representation in these forums be given more attention in the sustainability report.
- The matter of health and safety is a corporate guideline and includes continual monitoring of indicators for own and outsourced employees. It is important that the company expands managerial reporting of this issue based on existing programs and reinforces the health and safety culture with its plants.
- The goals and objectives of Klabin's sustainability are aligned with business strategy, with a special focus on eco-efficiency. It is recommended that future challenges, such as the National Policy of Solid Wastes and management of the supply chain be incorporated into the strategic management of sustainability, by establishing specific goals and objectives.

## LEVEL OF APPLICATION | GRI G3.1 |



In accordance with the guidelines laid down by **GRI G3.1**, BSD declares that the 2013 sustainability report of Klabin S.A. is classified as Application Level B+. The report covers the items related to the profile of the company and information concerning all the categories, aspects and indicators: economic, environmental, human rights, labor practices, society and product responsibility.

### FINAL CONSIDERATIONS

In the assessment of BSD Consulting, Klabin's management of sustainability showed progress in 2013 with the establishment of its Sustainability Vision. However, the process of prioritizing stakeholders and defining material topics should be improved in order to guide strategic sustainability management, considering the context in which the company is situated.

São Paulo, June 10th, 2014.

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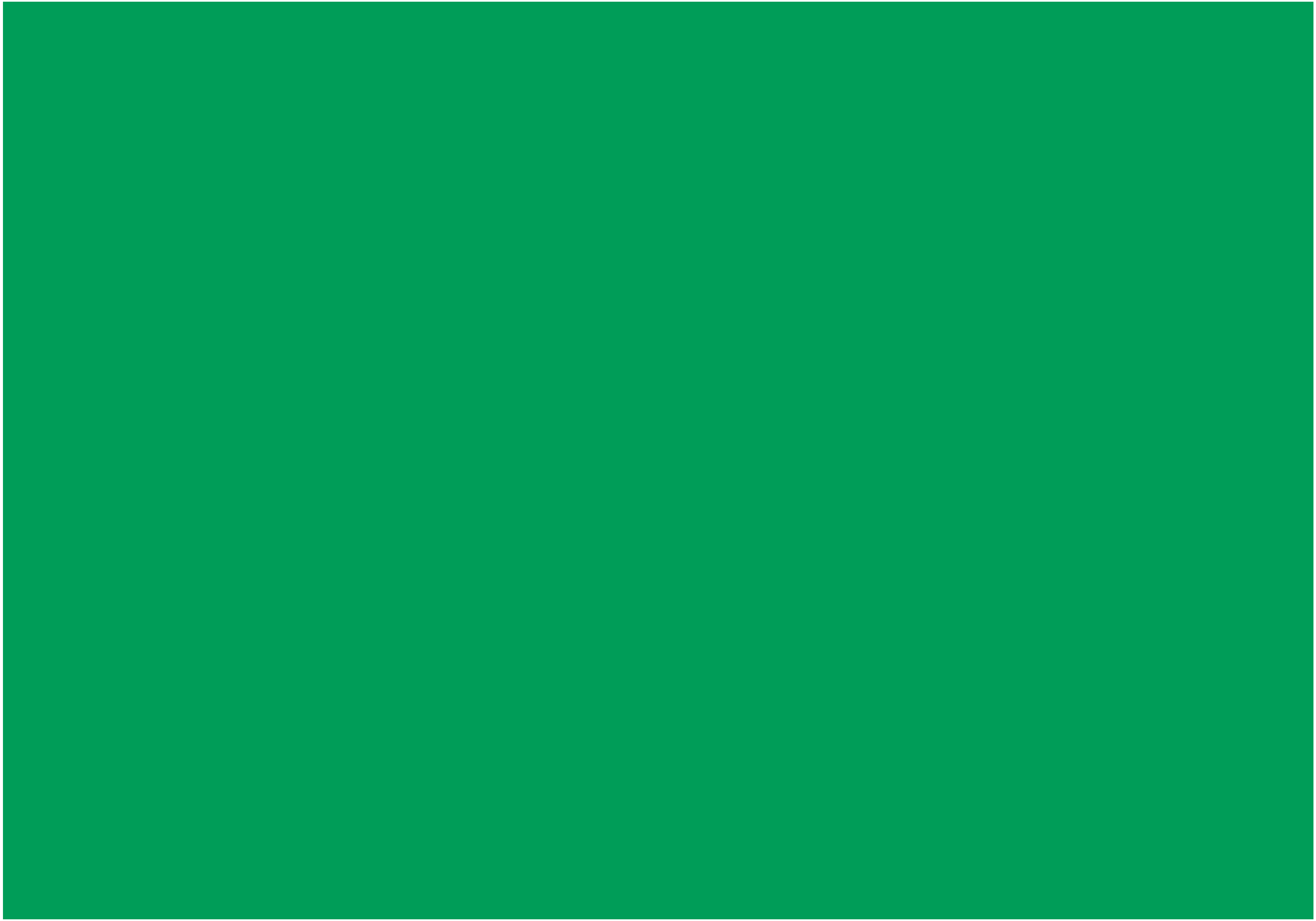
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