

PROJECT ABSTRACT

AUGUST 7, 2014

Country:	Brazil
Sector:	Forestry/Pulp and Paper
Project Name:	Klabin – Project Puma
Project Number:	BR-L1404
Borrower:	Klabin S.A.
Proposed A Loan:	Up to US\$150 million

PROJECT OVERVIEW

Brazilian pulp producers enjoy the lowest production costs and highest yields in the world due to favorable climate and soil conditions. Klabin's proposed project will be constructed in the municipality of Ortigueira in the state of Paraná, which has forestry yields higher than the Brazilian average. Project Puma ("Puma" or the "Project") will have one of the lowest production costs in the world due to the competitiveness of its forestry base and inbound/outbound logistical advantages.

Project Puma is being undertaken by Klabin S.A. ("Klabin" or the "Company"). Publically traded on the Sao Paulo Stock Exchange for over 35 years, Klabin is the largest integrated manufacturer of packaging paper in Brazil, and the country's market leader in paperboard, corrugated boxes and industrial sacks. Klabin has 15 industrial plants in Brazil and one in Argentina. The Company sells approximately 75% of its products domestically and exports the remainder to 70 countries around the world. When completed, Puma will almost double Klabin's pulp production capacity and provide the raw material required for the Company's future vertically-integrated expansion.

PROJECT DESCRIPTION

Project Puma consists of the development of a greenfield pulp production facility with an annual production capacity of 1.5 million tons. It will be located near Klabin's existing paper mill in Telêmaco Borba in Paraná. Alongside the pulp mill, the facilities to be constructed as part of the Project include: (1) a 270 MW biomass electricity generation facility that will make the Project energy self-sufficient and generate an excess of 150 MW (equivalent to the energy consumption for a city of approximately 500,000 inhabitants) that will be available to sell to the national grid; (2) a 42 km 230 Kv transmission line that will connect the Project to the national grid; (3) storage facilities in the port of Paranaguá; and (4) a 22 km secondary railway that will connect the pulp mill with an existing rail network, providing access to dedicated port facilities. Puma is expected to cost approximately US\$3.4 billion.

When completed, Puma will produce 1.1 million tons of bleached hardwood pulp and 400 thousand tons of bleached softwood pulp annually. The hardwood pulp produced by the Project will be both exported and sold in the domestic market, while the Project's softwood pulp output

will be sold domestically and used in part to produce fluff pulp.¹ Puma will be one of the few softwood market pulp producers in the country and will be Brazil's first producer of fluff pulp. The fluff pulp output from Puma will be sold entirely to the domestic market, which is currently supplied by imports.

DEVELOPMENT IMPACT

Ortigueira has an HDI (Human Development Index) of 0.620, one of the lowest in the state of Paraná and below the Brazilian average index of 0.764 (according to the 2010 Census). During its construction, Puma will create an estimated 8,500 jobs. Following the start of operations, the Project is expected to create close to 1,400 jobs (1,000 direct and 400 indirect). After completion, Klabin will be one of the largest employers in the region. Additionally, the Project is expected to pay over US\$50 million in state-level sales tax annually. The Company has reached an agreement with the Government of Paraná to redistribute 50% of the ICMS collected to 11 neighboring municipalities, which are among the poorest in Paraná. In addition to renewable energy generation, Puma will have a positive environmental impact, contributing to carbon sequestration via a forestry base of over 106 thousand FSC-certified planted hectares, as well as more than 94 thousand hectares of native forests that will be preserved in compliance with environmental regulations.

IDB'S ADDITIONALITY

The Bank will provide financial additionality by offering a longer tenor than what is available in the local commercial banking market and expanding Klabin's banking relationships with an expected A/B loan mobilization ratio of 1:1. IDB will also foster project compliance with international environmental and social standards during the life of the IDB loan through its guidelines and policies.

In addition, IDB plans to support Klabin in an innovative US\$2 million investment aimed at preserving biodiversity in Ortigueira using concessional financing of the Global Environmental Fund (GEF).

Significant non-financial additionality will be realized through cooperation with the Bank's Public Sector Side. Resources of the project Urban Development and Municipal Public Investment: Parana Urbano III (BR-L1356) have been set aside for local government capacity building in Ortigueira. The aim is to ensure that the local municipal finance system will be prepared to manage the increase in proceeds and economic activity which will result from the Puma Projects.

PROJECT CONTRIBUTION TO IDB OBJECTIVES

Puma is aligned with GCI-9 lending priorities in that it contributes to poverty reduction and equity enhancement through job creation. In addition, industry best practices regarding environmental performance, carbon footprint reduction and biodiversity will be implemented throughout the Project's components. Puma will strengthen local infrastructure through investments in railways, road networks and port facilities. In these ways, the Project is consistent

¹ Fluff pulp is used to produce diapers and personal care products.

with the IDB Country Strategy for Brazil 2012-2014, which calls for Bank support of (a) country infrastructure improvements, (b) sustainable management of natural resources and (c) the promotion of development through the private sector.