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Klabin S.A.



Klabin

**Financial statements at
December 31, 2014 and 2013
and independent auditor's report**

PricewaterhouseCoopers Auditores Independentes

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Independent auditor's report

To the Board of Directors and Shareholders
Klabin S.A.

We have audited the accompanying financial statements of Klabin S.A. ("Parent Company"), which comprise the balance sheet as at December 31, 2014 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Klabin S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Klabin S.A.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Klabin S.A. and of Klabin S.A. and its subsidiaries as at December 31, 2014, and the parent company and consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Other matters

Supplementary information - statements of value added

We have also audited the parent company and consolidated statements of value added for the year ended December 31, 2014, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but they are considered supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

São Paulo, February 10, 2015

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Tadeu Cendón Ferreira
Contador CRC 1SP188352/O-5

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Directors' statement on the financial statements and independent auditor's report

We, as directors of KLABIN S.A., a corporation headquartered in the city of São Paulo, State of São Paulo, at Avenida Brigadeiro Faria Lima, 3.600, 3rd, 4th and 5th floors, Itaim Bibi, CEP 04538-132, enrolled in the National Corporate Taxpayers' Registry (CNPJ) under No. 89.637.490/0001-45, declare that we have reviewed, discussed and agreed with the set of financial statements, as well as the opinions expressed in the independent auditor's report dated February 10, 2015, related to the financial statements for the year ended December 31, 2014.

São Paulo, February 10, 2015

Fabio Schwartsman - CEO

Antonio Sergio Alfano - Financial and Investor Relations Officer

Francisco Cezar Razzolini - Officer

Paulo Roberto Petterle - Officer

Arthur Canhisares - Officer

Cristiano Cardoso Teixeira - Officer

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Opinion of the Statutory Audit Board

Based on the documents examined, the clarifications given by the representatives of the Company's management and the unqualified opinion issued by PricewaterhouseCoopers Auditores Independentes on the Financial Statements, the members unanimously agree that the aforementioned financial statements fairly reflect the financial position and the activities of the Company during the year ended December 31, 2014 and that, together with the Management Report, the capital budget proposal and the dividend distribution proposal, can be submitted to the appreciation of the General Meeting of Stockholders.

The members of the Statutory Audit Board also analyzed the Management's proposal for an increase in the Company's capital, without the issue of new shares, by R\$ 104.5 million, using the legal reserve and the tax incentive reserve, and concluded that it can be submitted to the appreciation of the General Meeting of Stockholders.

São Paulo, February 10, 2015

Antonio Marcos Vieira Santos

João Alfredo Dias Lins

Luís Eduardo Pereira de Carvalho

Mauricio Tiomno Tolmasquim

Wolfgang Eberhard Rohrbach

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MANAGEMENT REPORT

MESSAGE FROM MANAGEMENT

In a challenging economic scenario, flexibility and resilience are absolutely essential for the healthy performance of any company. Throughout 2014, Klabin proved that it was fully prepared to confront adversities, taking advantage of its product mix and highly competitive processes to rapidly adapt to market trends. This ability allowed us to close the year with our best ever result and our 14th consecutive quarter of operating cash flow growth.

Last year was also characterized by intense work on Klabin's biggest ever investment, the Puma Project. The works of the new pulp plant in Ortigueira (PR) recorded significant progress, in line with the schedule and budget established. With start-up expected at the beginning of 2016, the facility will add 1.5 million tonnes of pulp to the Company's existing capacity and ensure even greater business flexibility thanks to the differentiation of its products: hardwood pulp (eucalyptus), softwood pulp (pine) and fluff (used in the production of diapers and sanitary towels), as well as power generation. The unit will have an energy surplus of 150 MW for Brazil's national grid, sufficient to supply a city with 500,000 inhabitants.

At the same time, we moved ahead with our paper production expansion projects, a process that began in 2013 and which will be concluded at the beginning of 2015, giving the Company an annual production capacity of 2 million tonnes of paper and sustaining the growth of our results in 2015.

In 2014 we also advanced on other fronts. In January, Klabin's shares began trading in BM&FBovespa's Corporate Governance Level 2 segment, and were subsequently grouped into Units. The Company was also listed for the first time in BM&FBovespa's Corporate Sustainability index (ISE), and has been included again in 2015, strengthening our commitment to sustainability, which is an integral part of our entire value chain from the forest base to our relations with our business partners.

Underlining its historical commitment to the environment, Klabin was named the company that most encouraged good forest management practices in 2014 by the Carbon Disclosure Project (CDP). It was also highlighted for the second year in a row by *Exame* magazine's Sustainability Guide. Both reports emphasized the pioneering project, with the support of Klabin, to achieve FSC® (Forest Stewardship Council®) certification for the Médio Tibagi Forest Producers' Group in Paraná state. This certification recognizes responsible forest management and adds value to the output of the fostered producers, benefiting the entire production chain.

Internally, we continued to strive for excellence in the people management area, reflected in our selection as one of the 150 Best Companies to Work For in Brazil by *Guia Você S/A*. Developed by the University of São Paulo's Business Institute Foundation (FIA), in association with the Editora Abril publishing company, the *Guia* recognized the quality and commitment of our leadership and our employees.

Looking ahead, Klabin is also undertaking a major investment in research, development and innovation through the creation of a major research center in Paraná, which is still under construction. We firmly believe that innovation will become increasingly important as a driver for the growth of our business.

In 2014, Klabin proved that it was capable of confronting multiple challenges and performing better every day. This was only possible thanks to the quality and cohesion of our team in pursuit of the same objectives. We would like to thank our customers, investors, business partners, suppliers and employees who helped us advance even further in laying the foundations for a new Klabin, a company that will double in size and open up even more markets in 2016.

INITIAL CONSIDERATIONS

Overview of 2014

2014 in Brazil was marked by the soccer World Cup and the presidential elections, both of which had a direct impact on the country's economy. The reduced number of business days and the uncertainties regarding the economic policy to be adopted in a scenario of low growth and high inflation led to an atmosphere of market pessimism. Factoring in the political turbulence and the fact that the winner of the elections was unclear until the last minute, 2014 was a year of exceptional volatility.

The international scenario was also characterized by uncertainties over the continuity of strong Chinese growth, the recovery of the Eurozone and a possible increase in US interest rates, culminating in a hefty year-end slide in commodity prices, further jeopardizing the economies of countries like Brazil.

The packaging paper markets were not immune to this situation, and sales volume in Brazil recorded a decline over 2013 despite the depreciation of the Brazilian Real.

For Klabin, 2014 was a year of challenges which highlighted the flexibility of its product line. Given the less buoyant domestic market and the year-long devaluation of the Brazilian Real, the ability to operate competitively in various markets allowed the Company to route higher volumes to export, and to increase sales revenue. This factor, together with the continuing efforts to reduce costs, led to yet another year of consecutive EBITDA growth, which climbed by 10% over 2013.

Klabin recorded important progress in terms of its growth strategy when the full capacity of the new Sack Kraft machine in Correia Pinto (SC) came on-stream, together with the addition of capacity of 50 thousand tonnes of coated boards to paper machine no. 9 in Monte Alegre (PR) and 35 thousand tonnes of paper capacity in Angatuba in December. In addition, the new recycled paper machine in Goiana (PE) produced its first reel on February 2, 2015, which, together with the reform of the recycled paper line in the Piracicaba plant scheduled for April 2015, will raise Klabin's packaging paper capacity from 1.7 million to 2 million tonnes/year, ensuring the continuation of the Company's growth trajectory in 2015.

The year also saw an acceleration of the Puma Project in Ortigueira (PR), Klabin's biggest ever expansion project, which was approved in 2013 and will add 1.5 million tonnes of pulp to the current capacity.

With the earth-leveling works of the main areas concluded, the foundation preparation and construction stages were initiated at the beginning of 2014 and advanced throughout the year. Important equipment has already arrived at the site and its installation has begun. At the end of

December, there were around 8.5 thousand workers engaged at the site, the physical works were 38% complete and 31% of the budget had been disbursed. As a result, the project enters 2015, a key year for the construction, on schedule and within budget, with the inauguration and the start-up of pulp production expected in the first quarter of 2016.

As part of the corporate restructuring for the Puma Project, in January 2014 Klabin was included in the Corporate Governance Level 2 trading segment of the São Paulo Stock Exchange (BM&FBovespa), which includes the shares of companies with a high level of corporate governance. The Company also implemented a program of share deposit certificates (Units), each composed of one common share and four preferred shares. Shareholders voluntarily requested the issue of Units pegged to this multiple of shares during conversion windows opened by the Company throughout the year.

At the close of December, Klabin once again received due recognition for its respect for and concern with the social and environmental areas when it was included in the BM&FBovespa's Corporate Sustainability Index (ISE) for the second consecutive year.

Among the Company's main operating and financial results in 2014, it is particularly worth highlighting the sales volume of 1.8 million tonnes of paper and packaging, net revenue of R\$4.9 billion and adjusted EBITDA of R\$1.7 billion.

BUSINESS PERFORMANCE

Forestry Business Unit

Klabin handled approximately 10.2 million tonnes of pine and eucalyptus logs and wood chips, as well as waste for energy production, in 2014. Of this total, 2.9 million tonnes were sold to sawmills and planer mills, virtually identical to the 2013 figure, while the rest was transferred to the Company's plants in Paraná, Santa Catarina and São Paulo.

Wood product exports to Klabin's clients were fueled by the higher exchange rate, especially in the second half of the year. Consequently, log sales were concentrated in the same period, offsetting the weak performance in the opening months of 2014, which were impacted by strong rainfall, jeopardizing wood harvesting.

Given the stable sales volume, net revenue from wood sales totaled R\$331 million, 5% up on 2013.

At the year end, the Company held 491 thousand hectares, 239 thousand of which were planted forest and 211 thousand preserved native forests. Throughout 2014, Klabin planted 16 thousand hectares, 14 thousand on its own land and 2 thousand on third party land (fostering program).

Paper Business Unit

Kraftliner and coated board sales volume totaled 1,026 thousand tonnes in 2014, 3% down on the year before, chiefly due to the lower volume of coated boards available in the second and third quarters due to the work on paper machine no. 9 in Monte Alegre (PR). Net revenue came to R\$2,300 million, 4% up on 2013.

In June 2014, there was a stoppage to modify paper machine no. 9 in the Monte Alegre plant, which added 50 thousand tonnes to the unit's coated boards production capacity. The stoppage lasted 17 days and affected period output. Even after the de-bottlenecking, the machine required several months to reach operational stability, generating production losses and therefore reducing sales volume. It was only at the end of October that coated boards production began operating at levels compatible with the capacity increase.

However, the reduction in the volume of coated boards available for sale did not result in any significant loss of positioning. According to the Brazilian Tree Industry (IBÁ, formerly Bracelpa), the Brazilian coated boards market, excluding liquid packaging boards, shrank by 3% over 2013, while Klabin's own domestic coated boards sales, including liquid packaging boards, remained stable. Given the restrictions on production capacity, export volume fell and total coated boards sales volume came to 637 thousand tonnes, 6% less than the previous year.

However, the greater share of domestic sales in the sales mix and the increase in the average exchange rate in the second half more than offset the reduction in sales volume and net coated board sales revenue grew by 3% over 2013 to R\$1,661 million.

Klabin's Kraftliner and Sack Kraft sales volume increased by 3% over 2013, reaching 389 thousand tonnes, primarily driven by the additional capacity of the Sack Kraft machine in Correia Pinto (SC) installed in November 2013. With the decline in scrap prices and less buoyant markets throughout the year in Brazil, Klabin's flexibility allowed it to increase export volume, taking advantage of the year-on-year increase in the average exchange rate. According to FOEX, the average Kraftliner price in Euros fell by 5% over 2013, but climbed by 3% in Reais due to the devaluation of the Brazilian currency.

As a result, net revenue from Kraftliner sales totaled R\$639 million, 7% more than the year before.

Conversion Business Unit

In 2014, converted product sales volume stood at 712 thousand tonnes, 3% up on 2013, while net revenue came to R\$2,171 million, up 8%. It is particularly worth noting the substantial growth in corrugated boxes sales in an overall market that remained flat throughout the year.

According to ABPO's preliminary figures, Brazilian annual corrugated box shipments totaled around 3.4 million tonnes, virtually identical to the previous year. In a scenario of increased energy costs, the price of fuel oil, chemicals and other production inputs impacted corrugated box

producers, especially non-integrated ones, sustaining the sales price of this product, with a positive impact on the Company's revenue from this segment.

Construction performed poorly in 2014, directly impacting Brazil's cement market and, consequently, Klabin's industrial bags segment. However, its positioning in the Northeast, where it tripled capacity and accompanied the region's growth, as well as sales to other segments such as flour, animal feed and chemicals, minimized the decline in those segments linked to construction, such as cement, mortar, lime and gypsum.

In the conversion markets, Klabin once again made use of its good positioning in regions that outperformed the market average, especially in the Northeast, where the Goiana (PE) plant is located. This unit, in addition to its industrial bags and corrugated boxes, has a particularly strong position in the fruit packaging market.

FINANCIAL PERFORMANCE

R\$ Million	2014	2013	Δ
			2014/2013
Sales Volume (thousand tonnes)	1,771	1,788	-1%
Domestic Market	1,227	1,235	-1%
Exports	545	553	-2%
% Domestic Market	69%	69%	0 pp.
Gross Revenue	5,900	5,554	6%
Net Revenue	4,894	4,599	6%
Domestic Market	3,679	3,424	7%
Exports	1,215	1,175	3%
% Domestic Market	75%	74%	1 pp.
Variation in the fair value of biological assets	924	336	175%
Cost of Products Sold	(3,574)	(3,207)	11%
Gross Profit	2,244	1,729	30%
Gross margin	46%	38%	8 pp.
Selling Expenses	(380)	(363)	5%
General & Administrative Expenses	(298)	(281)	6%
Other Revenues (Expenses)	85	11	639%
Total Operating Expenses	(593)	(632)	-6%
EBITDA	1,718	1,562	10%
EBITDA Margin	35%	34%	1 pp.
Net Income	730	290	152%
Net Debt	5,242	3,984	32%
Net debt/EBITDA	3,0x	2,6x	

Notes: Due to rounding, some figures in tables and graphs may not result in a precise sum.

EBITDA margin is calculated over a pro-forma net revenue, which includes revenues from Vale do Corisco.

Operating Result

Sales volume (excluding wood) totaled 1,771 thousand tonnes in 2014, 1% down on the previous year, primarily due to the de-bottlenecking of machine no. 9 in Monte Alegre (PR) in order to increase coated board production capacity. On the other hand, Kraftliner sales volume grew by 3%, fueled by the new Sack Kraft machine installed in November 2013.

Nevertheless, **net revenue** (including wood) grew 6% over 2013 to R\$4,894 million, reflecting Klabin's improved product and market mix.

The **unit cash cost**, including general and administrative expenses, came to R\$1,815/t. Excluding non-recurring effects in the final quarter, however, the figure stood at R\$1,830/t. in line with annual inflation of 6.4% and reflecting the solidity of Klabin's cost control programs implemented throughout the last few years, despite the higher sales volume of converted products. The **cost of goods sold** stood at R\$3,574 million, 11% up on 2013, also impacted by increased depreciation.

The net non-cash effect of the **variations in the fair value of biological assets** (variations in the fair value of forests less depletion) on EBIT was a gain of R\$310 million, versus a loss of R\$137 million in 2013. The improvement was chiefly due to the increase in the prices used to assess the fair value and the remanagement of the forest cutting plan due to the new pulp plant.

Selling expenses came to R\$380 million, 5% up on 2013, reflecting the increase in net revenue. Selling expenses represented 7.8% of net revenue in 2014, in line with the previous year.

General and administrative expenses totaled R\$298 million, 6% more than in 2013.

Operating cash flow (adjusted EBITDA) came to R\$1,718 million, 10% up on 2013 and the Company's best ever result, with an EBITDA margin of 35%.

Financial Result and Indebtedness

Consolidated **gross debt** closed 2014 at R\$10,985 million, R\$1,755 million of which (16% of the total) short term. The annual upturn in gross debt was due to the contracting of long term loans at competitive costs in order to ensure sufficient funds for the Puma Project.

Cash and financial investments ended the year at R\$5,743 million, an increase of R\$2,764 million on the close of 2013, due to the capitalization and the contracting of financing for Puma Project funding, as well as the Company's strong operating cash flow.

Consolidated **net debt** totaled R\$5,242 million, mainly impacted by the investments in the Puma Project and the effect of exchange variations on dollar-denominated debt throughout 2014. The **net debt/EBITDA** ratio stood at 3.0x at the year end, versus 2.6x at the close of 2013. It is worth emphasizing that the exchange variation effect is purely of an accounting nature, and most of its impact is on financing related to export pre-payment facilities not linked to the Puma Project and already backed by Klabin's future exports.

Net Income

Net income totaled R\$730 million in 2014, versus R\$209 million in 2013, impacted on the one hand by the Company's healthy operating cash flow and the revaluation of the fair value of biological assets, and on the other by the non-cash effect on debt of the appreciation of the US Dollar against the Brazilian Real.

CAPEX

R\$ million	2014	2013
Forestry	102	86
Maintenance	282	283
Special Projects	74	50
Expansion	245	381
Project Puma	2,242	99
Total	2,945	899

Klabin invested R\$2,945 million in 2014, R\$2,242 million in the Puma Project. The Company's new pulp plant in Ortigueira (PR) will have a capacity of 1.5 million tonnes per year. The works are moving ahead in line with the previously established schedule and were 38% complete by the end of the year, with 31% of the budget having been disbursed.

In addition to the Puma Project, the Company focused on several paper capacity expansion projects, which absorbed R\$245 million along the year. It is particularly worth mentioning the de-bottlenecking of coated boards machine no. 9 in Paraná and the construction of the recycled paper machine in Goiana (PE).

At the end of December, Klabin finalized the project to add paper production capacity of 35 thousand tonnes/year to the Angatuba (SP) plant. On February 2, 2015, the new 110 thousand tonnes/year recycled paper machine in Goiana (PE) began operations. Output from this machine will supply the Company's existing conversion machines in the region.

CAPITAL MARKET

On January 9, 2014, in recognition of its commitment to market transparency and equal treatment for all shareholders, Klabin was listed in the São Paulo Stock Exchange's Corporate Governance Level 2 trading segment, which includes the shares of companies with a high level of corporate governance.

The Company's shares have been traded on BM&FBovespa for more than 30 years. In line with best management practice, Klabin grants tag-along rights to preferred shareholders and common shareholders who are not part of the controlling block, ensuring that they receive a price for their shares equivalent to 100% of the amount paid to the common shareholders making up the controlling block in the event of a takeover.

The company also implemented a program for the issue of share deposit certificates (Units), each unit comprising one common (ON) share and four preferred (PN) shares. Trading in the Units

began on January 10, 2014 and shareholders voluntarily requested the issue of Units pegged to this combination of shares.

Klabin announced five conversion windows, and by the end of the year more than 95% of the Company's preferred shares had been incorporated into Units (KLBN11). The Units reached an average daily traded volume of R\$41.8 million in the final quarter, versus R\$28.3 million for preferred shares in the same period in 2013, representing a liquidity increase of 48%.

The closing price of the Units at the year end was 20% higher than the closing price of the Company's preferred shares in 2013 (the most liquid asset at the time). In the same period, Ibovespa recorded a 3% decline.

Also, last year, Klabin, through its subsidiary Klabin Finance S.A., finalized the issue of 10-year debt securities (Notes) totaling US\$500 million at 5.25% p.a., allowing the Company to access a new source of financing and extend the average term of its debt. The Notes are traded on the secondary market of the Luxemburg Stock Exchange.

The Company retained its global-scale investment-grade credit rating of "BBB-" by the rating agencies Standard & Poor's and Fitch Ratings, in recognition of its high level of liquidity, strong cash position and sufficient debt to cover the execution of the Puma Project.

In 2014, the Company paid complementary dividends of R\$90 million for fiscal year 2013, and interim dividends for 2014 of R\$242 million, totaling R\$332 million.

Management has proposed complementary dividends for 2014 of R\$102 million, to be approved by the Annual Shareholders' Meeting of March 19, 2015.

Following the reverse split of shares in the first quarter and the conversion of shares to Units, Klabin's capital stock at the year end consisted of 4,729,789,565 shares with no par value, 1,848,592,200 of which were common shares and 2,881,197,365 preferred shares.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

In 2014, with the support of Klabin, a group of 41 fostered producers with properties in the Médio Rio Tibagi region of Paraná state received the world's most renowned forestry certification from the FSC® (Forest Stewardship Council®). The seal recognizes responsible forest management and allows its holders to sell wood with higher added value, thereby benefiting the entire production chain. The initiative is part of Klabin's objective of achieving certification for 100% of the wood used in its process.

Given that it reinforced the Company's pioneering approach to the pursuit of sustainable development, the certification of the fostered producers was highlighted in the reports of highly regarded institutions that recognized Klabin's efforts in relation to social and environmental practices in 2014.

It was named as the company that most encouraged good forest management practices, including control of its environmental impact and the implementation of initiatives involving the engagement of its suppliers, and the certification and traceability of its wood in order to ensure a value chain free of deforestation. This recognition was granted in a report by the CDP (Carbon Disclosure Project), a non-profit international organization that encourages sustainable economies. A total of 152 companies from various sectors were surveyed worldwide.

Klabin was also included, for the second consecutive year, in *Exame* magazine's Sustainability Guide, which also highlighted the project with the fostered producers. The publication lists the 61 companies with the best sustainability practices and policies in Brazil.

Also in 2014, Klabin was included for the first time in the portfolio of BM&FBovespa's Corporate Sustainability Index (ISE), which contains shares of companies recognized for their high level of commitment to the sustainability of their businesses and the country as a whole. The aim of the ISE is to create an investment environment compatible with sustainable development needs and encourage ethical responsibility through good business practices.

Participants are selected annually, based on criteria established by the São Paulo Business Administration School and the Getulio Vargas Foundation (EAESP-FGV). Klabin is also part of the new portfolio, which will remain in effect between January 5, 2015 and January 2, 2016.

Environmental Responsibility

One of Klabin's main concerns is the preservation of biodiversity in its forestry operation areas. One example is the maintenance of RPPNs (Private Natural Heritage Reserves), areas of native vegetation subject to conservation and scientific research.

In May, 2014 Klabin inaugurated a new conservation area - the Serra da Farofa Complex RPPN, in Santa Catarina. Covering almost five thousand hectares, the reserve encompasses the headwaters of the Caveiras and Canoas rivers, which are of great importance to the region, and has already identified around 600 plant species and 75 animal species. This is the second RPPN maintained by the Company, the first being in Fazenda Monte Alegre, in Telêmaco Borba (PR), which has 3,852 hectares.

As part of its commitment to issues related to energy generation and consumption, Klabin has continued to strive towards its target of having 88% of its energy matrix produced from renewable sources by 2017. In order to do this, it invests in improving its production processes. The renewable sources used by Klabin are structured under three pillars: the burning of black liquor (a production byproduct), boilers fueled by biomass (replacing fuel oil), and proprietary hydroelectric power generation. The Company also uses electricity from clean sources such as wind and solar energy.

Social Responsibility

In order to help produce a fairer society, Klabin develops and supports programs to provide young people with professional qualifications and provide the surrounding communities with environmental education. In 2014, the Company invested more than R\$16 million in social, environmental and cultural projects, including:

- Cultural incentive initiatives, including sponsorship of exhibitions and cultural preservation associations
- Projects and entities focused on the education of young people and teenagers in situations of social risk
- Projects and entities focused on the inclusion of and accessibility for the disabled
- Environmental monitoring, protection, renewal and educational initiatives.

It is particularly worth mentioning the *Crescer Lendo* (Grow by Reading) project, undertaken in association with *United Way Brasil*, which promotes the training of teachers and is responsible for the installation of ten new children's libraries in municipal schools in São Leopoldo (RS), Lages, Otacílio Costa and Correia Pinto (SC), Jundiaí (SP), Betim (MG), Guapimirim (RJ), Feira de Santana (BA) and Goiana (PE).

The Company also donated R\$1.15 million to the Children's and Teenagers' Fund (FIA) in 2014, which was allocated to those municipalities where Klabin maintains a presence.

RESEARCH, DEVELOPMENT AND INNOVATION

Klabin invests constantly in research, development and innovation throughout its production chain, from the performance of its forests through its productive processes to managing the impact of its products, in order to become more competitive. The company is currently undertaking its biggest ever investment in this area - the construction of a major research center in the Monte Alegre (PR) plant, scheduled for inauguration in 2016.

With a broader vision and more strategic initiatives, the RD&I area operates across several links in the production chain:

- The improvement of planting processes and the management of pine and eucalyptus forests in order to boost productivity
- The development of new products and improvements to existing projects in order to adjust them to clients' needs or to ensure a better financial and environmental performance
- The optimization of suppliers' processes in order to improve the flexibility of the units in terms of input and service purchases
- Solutions for issues related to the physical properties of packaging, such as barriers (water, steam, fat, pests), porosity, permeability and roughness, and in conversion (cutting, creasing, gluing, closing and printing)

-
- The evaluation of product performance in terms of environmental, quality, productivity, health and safety aspects.

In order to perform more efficiently, the RD&I area maintains partnerships with input and equipment suppliers and receives support from research institutes and universities in Brazil and abroad.

PEOPLE MANAGEMENT

At Klabin, the strategic guidelines are the starting point for the definition of competency profiles and development and compensation plans, designed to ensure the alignment of professional performance and business objectives. Development and Corporate Education are crucial issues for the Company, and can therefore rely on the active participation of strategic areas of organizational and people management. The strengthening of a talent development culture is currently one of the pillars for building a new Klabin in order to ensure the delivery of superior results and the sustainable growth of the Company's value. The integration of organizational and personal development management has led Klabin to increase its investments and improve tools and processes associated with this issue in recent years, especially in 2013 and 2014.

Carried out every two years, the 360° Performance Evaluation program for leaders involves self-assessment and feedback from the leaders of peer areas and five subordinates. Three hundred and twenty leaders, including executive officers, managers, coordinators and specialists, took part in the last program, totaling 2,502 assessments with an adherence rate of 98%.

Another of Klabin's significant achievements in 2014 was the consolidation of the Corporate University in order to provide support for employees in the Company's current growth phase. Known as the Klabin Business School (ENK), its objective is to improve the skills needed for the new Klabin through a consistent personal development process.

The Klabin Development Program is designed to ensure the dynamic alignment of the management team (officers, managers and employees), as well as the continuous improvement of management skills so that the Company can maintain its outstanding position in the business scenario.

In practical terms, professionals are subject to close monitoring in terms of their careers, enabling the Company to identify their particular skills, plan their progress and ensure future successors for key positions. It is worth emphasizing that encouraging self-development, a focus on dialogue and the support provided by the People & Management area are fully aligned with the Company's growth strategy, which requires motivated, responsible and multidisciplinary professionals, as well as more flexible processes.

Klabin closed 2014 with 16,945 employees, 11,449 of whom were direct employees, 3,860 outsourced and 1,636 temporary.

(A free translation of the original in Portuguese)

BALANCE SHEET AT DECEMBER 31, 2014 AND DECEMBER 31, 2013
(All amounts in thousands of Reais)

	Note	Parent company		Consolidated	
		12/31/2014	12/31/2013	12/31/2014	12/31/2013
ASSETS					
Current assets					
Cash and cash equivalents	4	4,030,951	2,401,822	5,245,833	2,729,872
Marketable securities	5	497,604	249,511	497,604	249,511
Trade receivables:					
. Trade receivables from customers	6	1,005,569	981,039	1,193,921	1,192,452
. Provision for impairment of trade receivables	6	(45,177)	(47,153)	(45,245)	(47,298)
. Related parties	7	431,656	373,637	-	-
Inventory	8	496,736	457,636	563,709	495,852
Taxes recoverable	9	323,529	113,687	331,968	120,050
Prepaid expenses - related parties	7	2,613	5,297	2,613	5,297
Prepaid expenses - third parties		24,625	22,490	25,207	22,570
Other assets		82,598	56,972	84,066	57,842
Total current assets		6,850,704	4,614,938	7,899,676	4,826,148
Non-current assets					
Long term receivables					
Related parties	7	844	1,526	-	-
Judicial deposits	17	83,257	89,537	84,689	90,969
Taxes recoverable	9	428,884	123,684	428,884	123,684
Other assets		230,684	167,001	236,050	171,322
		743,669	381,748	749,623	385,975
Investments:					
. Interests in subsidiaries	11	1,243,659	1,134,094	483,205	455,039
. Other		11,542	11,542	11,542	11,542
Property and equipment	12	8,111,467	5,670,990	8,351,387	5,909,507
Biological assets	13	3,010,395	2,819,598	3,667,085	3,321,985
Intangible assets		11,169	9,133	11,337	9,300
		12,388,232	9,645,357	12,524,556	9,707,373
Total non-current assets		13,131,901	10,027,105	13,274,179	10,093,348
Total assets		19,982,605	14,642,043	21,173,855	14,919,496

(continued)

BALANCE SHEET AT DECEMBER 31, 2014 AND DECEMBER 31, 2013
(All amounts in thousands of Reais)

	Note	Parent company		Consolidated	
		12/31/2014	12/31/2013	12/31/2014	12/31/2013
LIABILITIES AND EQUITY					
Current liabilities					
Borrowing	14	1,452,240	1,126,153	1,479,788	1,124,976
Debentures	15	275,201	-	275,201	-
Trade payables	16	429,003	342,126	438,864	345,384
Tax obligations		46,653	37,899	55,137	43,298
Provision for income tax and social contribution	10	-	16,860	-	18,209
Social security and labor obligations		137,650	125,415	139,879	127,356
Related parties	7	11,037	52,912	3,567	3,437
Enrollment - Tax Recovery Program (REFIS)	17	50,400	50,400	50,400	50,400
Other payables and provisions		66,246	48,082	76,037	66,453
Total current liabilities		2,468,430	1,799,847	2,518,873	1,779,513
Non-current liabilities					
Borrowing	14	7,366,116	5,842,135	8,160,320	5,838,621
Debentures	15	1,070,263	-	1,070,263	-
Deferred income tax and social contribution	10	1,485,248	1,045,201	1,699,823	1,220,187
Tax, social security, labor and civil provisions Payables - Investors in Special Partnership Companies (SPCs)	17	80,642	95,904	80,642	95,905
Enrollment - Tax Recovery Program (REFIS)	17	384,607	393,492	384,607	393,492
Other payables and provisions		68,975	72,797	69,477	73,344
Total non-current liabilities		10,455,851	7,449,529	11,596,658	7,747,316
Total liabilities		12,924,281	9,249,376	14,115,531	9,526,829
Equity					
Share capital		2,271,500	2,271,500	2,271,500	2,271,500
Capital reserves		1,295,919	4,419	1,295,919	4,419
Revaluation reserve		48,767	49,269	48,767	49,269
Revenue reserves		2,534,303	2,159,949	2,534,303	2,159,949
Carrying value adjustments		1,065,446	1,065,437	1,065,446	1,065,437
Treasury shares		(157,611)	(157,907)	(157,611)	(157,907)
Total equity	18	7,058,324	5,392,667	7,058,324	5,392,667
Total liabilities and equity		19,982,605	14,642,043	21,173,855	14,919,496

The accompanying notes are an integral part of these financial statements.

(A free translation of the original in Portuguese)

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All amounts in thousands of Reais unless otherwise stated)

	Note	Parent company		Consolidated	
		12/31/2014	12/31/2013	12/31/2014	12/31/2013
Net sales revenue	19	4,837,835	4,489,717	4,893,882	4,599,337
Change in fair value of biological assets	13	788,317	309,474	924,104	336,289
Cost of products sold	20	<u>(3,577,543)</u>	<u>(3,174,847)</u>	<u>(3,573,609)</u>	<u>(3,206,917)</u>
Gross profit		<u>2,048,609</u>	<u>1,624,344</u>	<u>2,244,377</u>	<u>1,728,709</u>
Operating income (expenses)					
Selling	20	(356,795)	(331,518)	(379,726)	(362,638)
General and administrative	20	(289,858)	(273,267)	(298,350)	(280,526)
Other, net	20	<u>80,440</u>	<u>10,289</u>	<u>84,785</u>	<u>11,472</u>
		(566,213)	(594,496)	(593,291)	(631,692)
Equity in the results of investees	11	<u>148,775</u>	<u>90,440</u>	<u>48,649</u>	<u>22,235</u>
Profit before finance result and taxes		1,631,171	1,120,288	1,699,735	1,119,252
Finance result	21	(630,498)	(751,637)	(646,112)	(739,034)
Profit before taxes on income		1,000,673	368,651	1,053,623	380,218
Income tax and social contribution					
Current	10	167,544	(231,083)	154,171	(241,442)
Deferred	10	<u>(437,887)</u>	<u>152,529</u>	<u>(477,464)</u>	<u>151,321</u>
		<u>(270,343)</u>	<u>(78,554)</u>	<u>(323,293)</u>	<u>(90,121)</u>
Profit for the year		<u>730,330</u>	<u>290,097</u>	<u>730,330</u>	<u>290,097</u>
Basic and diluted earnings per common share - R\$	23	<u>0.1389</u>	<u>0.0614</u>	<u>0.1389</u>	<u>0.0614</u>
Basic and diluted earnings per preferred share - R\$	23	<u>0.1389</u>	<u>0.0676</u>	<u>0.1389</u>	<u>0.0676</u>

The accompanying notes are an integral part of these financial statements.

(A free translation of the original in Portuguese)

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All amounts in thousands of Reais)

	Parent company and Consolidated	
	12/31/2014	12/31/2013
Profit for the year	730,330	290,097
Other comprehensive income:		
Foreign currency translation adjustments (i)	(4,635)	(6,871)
Actuarial liability restatement (ii)	4,948	(9,791)
Total comprehensive income for the year, net of taxes	730,643	273,435

(i) Effects that may impact profit (loss) in the future.

(ii) Effects that will never impact profit (loss).

The accompanying notes are an integral part of these financial statements.

(A free translation of the original in Portuguese)

STATEMENT OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013
 (All amounts in thousands of Reais)

Parent company and Consolidated

	Share capital	Capital reserves	Revaluation reserve		Revenue reserves			Carrying value adjustments	Treasury shares	Retained earnings	Total
			Own assets	Legal	Tax incentives	Biological assets	Proposed dividends				
At December 31, 2012	2,271,500	1,423	49,980	47,381	-	1,578,337	76,002	468,495	1,081,379	(153,576)	5,420,921
Profit for the year	-	-	-	-	-	-	-	-	290,097	-	290,097
Other comprehensive income for the year	-	-	-	-	-	-	-	-	(16,662)	-	(16,662)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	(16,662)	-	273,435
Realization of revaluation reserve	-	-	(711)	-	-	-	-	-	-	711	-
Complementary dividends for 2012 - approved at the General Meeting of Stockholders	-	-	-	-	-	-	(76,002)	(67)	-	-	(76,069)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(8,821)	-	(8,821)
Stock option plan:	-	-	-	-	-	-	-	-	-	-	-
. Treasury shares sold	-	2,996	-	-	-	-	-	-	1,900	-	4,896
. Award of treasury shares	-	-	-	-	-	-	-	(2,590)	2,590	-	-
. Recognition of the stock option remuneration	-	-	-	-	-	-	-	3,310	-	-	3,310
Allocation of profit for the year:	-	-	-	-	-	-	-	-	-	-	-
. Legal reserve	-	-	-	14,505	-	-	-	-	-	-	(14,505)
. Realization of biological assets reserve (own)	-	-	-	-	-	(290,029)	-	-	-	290,029	-
. Biological assets reserve (own)	-	-	-	-	-	204,253	-	-	-	(204,253)	-
. Biological assets reserve (subsidiaries) (*)	-	-	-	-	-	3,500	-	-	-	(3,500)	-
. Constitution of tax incentive reserve	-	-	-	-	5,583	-	-	-	-	(5,583)	-
. Dividends prepaid in the year	-	-	-	-	-	-	-	-	-	(225,005)	(225,005)
. Complementary dividends for 2013 - proposed	-	-	-	-	-	-	90,006	-	-	(90,006)	-
. Reserve for investment and working capital	-	-	-	-	-	-	-	37,985	-	(37,985)	-
At December 31, 2013	2,271,500	4,419	49,269	61,886	5,583	1,496,061	90,006	506,413	1,065,437	(157,907)	5,392,667
Profit for the year	-	-	-	-	-	-	-	-	-	730,330	730,330
Other comprehensive income (loss) for the period	-	-	-	-	-	-	-	-	313	-	313
Comprehensive income for the year	-	-	-	-	-	-	-	-	313	-	730,643
Realization of revaluation reserve	-	-	(502)	-	-	-	-	-	-	502	-
Complementary dividends for 2013 - approved at the General Meeting of Stockholders	-	-	-	-	-	-	(90,006)	(90)	-	-	(90,096)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(5,822)	-	(5,822)
Issue of debentures convertible into shares	-	1,288,543	-	-	-	-	-	-	-	-	1,288,543
Profit sharing of mandatory debentures convertible into shares	-	-	-	-	-	-	-	-	-	(26,517)	(26,517)
Stock option plan:	-	-	-	-	-	-	-	-	-	-	-
. Treasury shares sold	-	2,957	-	-	-	-	-	-	2,434	-	5,391
. Award of treasury shares	-	-	-	-	-	-	-	(3,684)	3,684	-	-
. Recognition of the stock option remuneration	-	-	-	-	-	-	-	5,472	-	-	5,472
Allocation of profit for the year:	-	-	-	-	-	-	-	-	-	-	-
. Legal reserve	-	-	-	36,517	-	-	-	-	-	-	(36,517)
. Realization of biological assets reserve (own)	-	-	-	-	-	(389,783)	-	-	-	389,783	-
. Realization of deemed cost of land (own)	-	-	-	-	-	-	-	(2,092)	-	2,092	-
. Biological assets reserve (own)	-	-	-	-	-	520,289	-	-	-	(520,289)	-
. Biological assets reserve (subsidiaries) (*)	-	-	-	-	-	102,950	-	-	-	(102,950)	-
. Constitution of tax incentive reserve	-	-	-	-	2,027	-	-	-	-	(2,027)	-
. Dividends prepaid in the year	-	-	-	-	-	-	-	-	-	(241,957)	(241,957)
. Complementary dividends for 2014 - proposed	-	-	-	-	-	-	102,000	-	-	(102,000)	-
. Reserve for investment and working capital	-	-	-	-	-	-	-	90,450	-	(90,450)	-
At December 31, 2014	2,271,500	1,295,919	48,767	98,403	7,610	1,729,517	102,000	596,773	1,065,446	(157,611)	7,058,324

(*) The effect is net between the constitution, reversal or realization of the balances included in the equity in results of subsidiaries.

(A free translation of the original in Portuguese)

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All amounts in thousands of Reais)

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Net cash provided by operating activities	1,192,275	929,137	1,555,391	1,032,322
Cash from operations	1,945,480	1,030,631	2,208,713	1,064,600
Profit for the year	730,330	290,097	730,330	290,097
Depreciation and amortization	289,480	245,755	277,783	237,241
Changes in the fair value of biological assets	(788,317)	(309,474)	(924,104)	(336,289)
Depletion of biological assets	652,476	496,785	674,182	529,312
Deferred income tax and social contribution	437,887	(152,529)	477,464	(151,321)
Interest and foreign exchange variations on borrowing	1,018,725	934,678	1,262,068	934,217
Interest, monetary variations and share of the results of debentures	85,744	-	85,744	-
Amortization of adjustments to present value of balances	51,596	-	51,596	-
Payment of interest on borrowing	(392,969)	(306,533)	(392,969)	(306,533)
Accrued interest - REFIS	46,263	39,973	46,263	39,973
Results on the disposal of assets	(33,288)	2,258	(33,288)	2,258
Equity in the results of subsidiaries	(148,775)	(90,440)	(48,649)	(22,235)
Income tax and social contribution paid	(7,453)	(115,283)	(11,052)	(149,719)
Other	3,781	(4,656)	13,345	(2,401)
Changes in assets and liabilities	(753,205)	(101,494)	(653,322)	(32,278)
Trade receivables and related parties	(82,549)	(150,874)	(1,469)	(164,803)
Inventory	(39,100)	(19,545)	(67,857)	(22,194)
Taxes recoverable	(507,589)	136,755	(506,066)	169,697
Marketable securities	(248,093)	(9,434)	(248,093)	(9,434)
Prepaid expenses	549	(5,455)	47	(5,535)
Other assets	(24,186)	(15,329)	(26,511)	(13,075)
Trade payables	226,315	65,522	232,918	64,262
Tax obligations	(8,106)	(52,713)	(6,370)	(49,975)
Social security and labor obligations	12,235	1,481	12,523	1,549
Other liabilities	(82,681)	27,736	(42,444)	(2,770)
Transfer of balances - merger of subsidiary (i)	-	(79,638)	-	-
Net cash used in investment activities	(2,851,022)	(684,501)	(2,909,308)	(865,358)
Purchases of property and equipment	(2,836,877)	(727,282)	(2,842,350)	(818,316)
Planting costs of biological assets	(62,863)	(59,520)	(103,085)	(81,095)
Proceeds from disposal of assets	18,277	16,203	18,277	16,203
Acquisition of investments and payment of capital in subsidiaries	(5,408)	(12,297)	-	-
Dividends received from subsidiaries	35,849	98,395	17,850	17,850
Net cash provided by financing activities	3,287,876	38	3,869,878	45,596
New borrowing	2,254,427	1,411,497	2,837,527	1,407,193
Obtaining of debentures (net of obtaining costs)	2,470,151	-	2,470,151	-
Repayment of borrowing	(1,104,217)	(1,106,458)	(1,104,217)	(1,106,384)
Purchases of treasury shares	(5,822)	(8,821)	(5,822)	(8,821)
Disposal of treasury shares	5,391	4,894	5,391	4,894
Entry of investors - SPCs	-	-	-	50,000
Withdrawal of investors - SPCs	-	-	(1,098)	(212)
Dividends paid	(332,054)	(301,074)	(332,054)	(301,074)
Increase in cash and cash equivalents	1,629,129	244,674	2,515,961	212,560
Cash and cash equivalents at the beginning of the year	2,401,822	2,157,148	2,729,872	2,517,312
Cash and cash equivalents at the end of the year	4,030,951	2,401,822	5,245,833	2,729,872

(i) Corresponding to the dissolution of SPC Leal and the merger of subsidiaries Centaurus Holdings and Klabin Celulose, as mentioned in Notes 1 and 3.

The accompanying notes are an integral part of these financial statements.

(A free translation of the original in Portuguese)

STATEMENTS OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(All amounts in thousands of Reais)

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Revenue				
. Sales of products	6,062,082	5,658,120	6,142,522	5,788,689
. Changes in the fair value of biological assets	788,317	309,474	924,104	336,289
. Other income	85,902	16,203	85,902	16,203
. Provision for impairment of trade receivables	1,977	(1,966)	2,054	(1,635)
	6,938,278	5,981,831	7,154,582	6,139,546
Inputs acquired from third parties				
. Cost of products sold	(991,559)	(942,159)	(996,725)	(946,497)
. Materials, electricity, outsourced services and other	(2,074,996)	(1,958,201)	(2,091,678)	(2,001,629)
	(3,066,555)	(2,900,360)	(3,088,403)	(2,948,126)
Gross value added	3,871,723	3,081,471	4,066,179	3,191,420
Retentions				
. Depreciation, amortization and depletion	(941,956)	(742,540)	(951,965)	(766,553)
Net value added generated by the Company	2,929,767	2,338,931	3,114,214	2,424,867
Value added received through transfers				
. Equity in the results of investees	148,775	90,440	48,649	22,235
. Finance income, including exchange variations	627,865	265,461	627,874	276,015
	776,640	355,901	676,523	298,250
Total value added to distribute	3,706,407	2,694,832	3,790,737	2,723,117
Distribution of value added:				
Personnel				
. Direct compensation	606,738	524,268	617,401	539,175
. Benefits	153,342	124,739	153,804	125,262
. Government Severance Indemnity Fund for Employees (FGTS)	47,543	39,833	47,655	39,933
	807,623	688,840	818,860	704,370
Taxes and contributions				
. Federal	748,500	517,305	805,970	532,109
. State	152,517	173,501	152,517	173,501
. Municipal	9,074	7,991	9,074	7,991
	910,091	698,797	967,561	713,601
Third party capital remuneration				
. Interest	1,258,363	1,017,098	1,273,986	1,015,049
	1,258,363	1,017,098	1,273,986	1,015,049
Remuneration of own capital				
. Dividends	241,977	225,005	241,977	225,005
. Profits reinvested for the year	488,353	65,092	488,353	65,092
	730,330	290,097	730,330	290,097
	3,706,407	2,694,832	3,790,737	2,723,117

The accompanying notes are an integral part of the financial statements.

(A free translation of the original in Portuguese)

The accompanying notes are expressed in thousands of Reais unless otherwise stated.

1 GENERAL INFORMATION

Klabin S.A. (the "Company") and its subsidiaries operate in segments of the paper and pulp industry serving domestic and foreign markets, supplying wood, packaging paper, paper sacks and corrugated cardboard boxes. Their operations are fully integrated, from forestry to the production of the final products. Klabin S.A. is a publicly held corporation whose shares and certificates of deposit of shares ("Units") are traded on the São Paulo Commodities, Futures and Stock Exchange (BM&FBOVESPA). The Company is domiciled in Brazil and headquartered in São Paulo.

The Company also has investments in Special Partnership Companies (SPCs) for the specific purpose of raising funds from third parties for reforestation projects. The Company, as an ostensible partner, has contributed forest assets, mainly forests and land, by granting the right to use, whereas the other investing stockholders have contributed cash to these SPCs. The SPCs give Klabin S.A. a preemptive right to acquire forestry products at market prices and conditions.

The Company also has ownership interests in other companies (Notes 3 and 11) whose operational activities are related to the Company's business objectives.

These financial statements were approved for disclosure by the Board of Directors on February 10, 2015.

1.1 Approval of pulp project ("Puma Project")

The Board of Directors, on October 21, 2013, decided to proceed with the Company's capitalization process to facilitate the construction of a new pulp plant in the City of Ortigueira (PR), with a capacity of 1.5 million metric tons per annum, which was approved by Management on June 11, 2013.

The estimated cost of the project is R\$ 5.8 billion. In addition, R\$ 0.8 billion will be paid in recoverable taxes on machinery and equipment and R\$ 0.6 billion on infrastructure construction, also recoverable through Value-added Tax on Sales and Services (ICMS) credits, according to the agreement with the Government of the State of Paraná.

The funds for the project were obtained through the issue of shares and bonds convertible into shares, after the proper approval of the applicable agencies. The remainder of the funds are obtained with a line of credit from the National Bank for Economic and Social Development (BNDES) as well as from multinational import agencies.

In addition to the approved proposal for the project, the Company started to be listed in the Level 2 segment of the São Paulo Commodities, Futures and Stock Exchange - BM&FBOVESPA with a tag-along of 100% for the non-controlling common stockholders and holders of preferred shares.

1.2 Creation of SPC Monte Alegre

On September 18, 2013, the Company established a new SPC named Monte Alegre, with the specific purpose of raising funds from third parties for reforestation projects.

The Company, as an ostensible partner, contributed R\$ 122 million in forestry assets and the right to use land for the constitution of this new SPC and the other investing stockholders contributed R\$ 50 million in cash. The SPC gives Klabin S.A. the preemptive right to acquire forestry products at market prices and conditions.

1.3 Mergers of subsidiaries Centaurus Holdings S.A. e Klabin Celulose S.A.

At the Extraordinary General Meeting held on December 27, 2013, the stockholders approved the merger, at book value, of the subsidiaries Centaurus Holdings S.A. ("Centaurus") and Klabin Celulose S.A. ("Klabin Celulose"), with no increase in the subscribed capital. The respective subsidiaries were wholly-owned subsidiaries of the Company.

The equity of Centaurus on the date of the merger corresponded to R\$ 151 million, comprising mainly forestry assets (land and forests) held by the subsidiary. The equity of Klabin Celulose corresponded to R\$ 215 thousand. Both were merged into the Company's parent company balance sheet.

The aforementioned corporate restructuring aimed to align the Company's structure with its strategy.

1.4 Corporate restructuring

On January 7, 2014, the Company published in the market a Significant Event Notice, the effectiveness of the resolutions approved by the Stockholders' Extraordinary General Meeting held on November 28, 2013, corresponding to:

Listing in Level 2 of BM&FBovespa

The Company began to adhere to the special listing segment Level 2 of BM&FBovespa, and the Company's shares started to be book entry shares and traded accordingly from January 9, 2014.

Issue of new shares

After the corporate restructuring of the controlling stockholders Klabin Irmãos & Cia ("KIC") and Niblak Participações ("Niblak"), 28,274,611 new common shares in the Company were issued and granted to the controlling stockholders.

After this issue of new shares, the Company's fully subscribed and paid-up capital corresponded to 945,957,907 shares, with 345,102,174 registered common shares (ON) and 600,855,733 registered preferred shares (PN).

These shareholding changes occurred before the stock splits on March 20, 2014.

Changes in the bylaws

Reviews and adjustments of the bylaws were approved in relation to the items mentioned above, as well as the change to the authorized capital to 1,120,000,000 shares, eliminating the additional dividend of 10% to the stockholders holding preferred shares and granting them the right to vote, as approved by the Special Meeting of Stockholders holding preferred shares, held on November 29, 2013.

Certificates of deposit of shares ("Units")

The Company implemented the program of issuance of certificates of deposit of shares ("Units"), which comprise one common share (ON) and four preferred shares (PN). The negotiations concerning "Units" began on January 10, 2014.

During the first quarter of 2014, three conversion windows were open, which resulted in the conversion of 598 million units. During the period from April 24 to April 29, the Company opened a new conversion window, thereby permitting the formation of another 14 million units. During the third quarter of 2014, the movements in shares resulted in the formation of 2 million more units, totaling 614 million units for the whole program. In November 2014, a new conversion window was opened, with the purpose of allowing the conversion of the shares from the American Depositary Receipt ("ADR") program into Units, thus totaling 689 million Units under the program.

The Company had the following share composition (in millions of shares) at December 31, 2014:

	<u>Within Units</u>	<u>Outside Units</u>	<u>Total</u>
Common shares	689	1,160	1,849
Preferred shares	2,756	125	2,881
	<u>3,445</u>	<u>1,285</u>	<u>4,730</u>

1.5 Stock split

At the Extraordinary General Meeting held on March 20, 2014, the stockholders approved a 3-for-1 stock split of shares of the same class and type.

Therefore, the Company's capital on March 20, 2014 was represented by 4,729,789,535 shares, with 1,684,897,850 registered common shares and 3,044,891,685 registered preferred shares.

The Company's Bylaws were also changed to reflect the changes amounting to shares, and the capital limit was changed to 5,600,000,000 shares.

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

2.1 Basis of presentation of the financial statements

The Company presents the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and accounting practices adopted in Brazil, based on the technical pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), in convergence with the IFRS, as well as the standards established by the Brazilian Securities Commission (CVM).

The parent company financial statements were prepared in accordance with the accounting practices adopted in Brazil, as issued by the CPC. Because the accounting practices adopted in Brazil applicable to the parent company financial statements from 2014 do not differ from the IFRS applicable to separate financial statements, considering that it now allows the use of the equity method of accounting for subsidiaries in separate statements, they also are in compliance with the IFRS issued by the IASB. These financial statements are disclosed together with the Company's consolidated financial statements.

2.2 Summary of significant accounting practices adopted

The main accounting practices adopted by the Company and its subsidiaries are defined below, and were consistently applied to the years presented.

a) Functional currency and translation of foreign currencies

The financial statements are presented in Brazilian Reais (R\$), which is the functional and presentation currency of the Company and its subsidiaries, except for the subsidiary Klabin Argentina (Note 3), which has as its functional currency the Argentine Peso (A\$), and Klabin Finance (Note 3), which has as its functional currency the US Dollar (USD).

(i) Transactions and balances

Foreign currency transactions are originally recorded at the exchange rate effective on the transaction date. Foreign exchange gains and losses resulting from differences between the translation of assets and liabilities in foreign currency at the end of the reporting period are recognized in the Company's statement of income.

(ii) Foreign subsidiaries

Foreign subsidiaries with the characteristics of a branch have the same functional currency as the Company. The exchange differences arising in a subsidiary which has a different functional currency, resulting from the translation of its financial statements, are recorded separately in an equity account, named "carrying value adjustments" (comprehensive income). Upon the sale of a foreign subsidiary, the accumulated deferred amount recognized in equity relating to this foreign subsidiary is recognized in the statement of income.

The assets and liabilities of this foreign subsidiary are translated using the exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the exchange rates prevailing at the dates of the transactions.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and highly liquid short term investments that are readily convertible into a known amount of cash and are subject to an immaterial risk of changes in value.

c) Financial instruments

Financial instruments are initially recognized at fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the financial asset or financial liability. They are subsequently measured at the end of each reporting period based on the classification of financial instruments in the following categories: 1) financial assets: (i) measured at fair value through profit or loss, (ii) loans and receivables, and (iii) available for sale; 2) financial liabilities: (i) measured at fair value through profit or loss, and (ii) other financial liabilities.

(i) Marketable securities

Securities are considered as available-for-sale and are recognized in finance income (costs), according to their fair value.

(ii) Borrowing

The balance of borrowing refers to the amount of funds raised, plus interest and charges incurred proportional to the period, less installments paid, and includes the exchange variations on the liability, if applicable.

(iii) Debentures

The balance of debentures mandatorily convertible into shares, defined as hybrid (composed) financial instruments due to their nature, as divided in the issue by components of debt and equity, represented in liabilities at fair value, which will be paid to the debenture holders up to the conversion date, measured at present value, plus monetary variations recognized in liabilities, when applicable.

The debentures not mandatorily convertible are represented in liabilities by the amount corresponding to the funds raised, plus interest and charges proportional to the period incurred, less installments and interest paid.

Financial assets and liabilities are offset, and the net amount is presented in the balance sheet, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legal right should not be contingent on future events, and should be applicable during the normal course of business and, in the case of default, insolvency or bankruptcy of the company or its counterparty.

d) Trade receivables

Trade receivables are stated at the original amounts of the invoices for the sale of products, plus exchange variations when applicable. The provision for the impairment of trade receivables is recorded based on an individual analysis of the receivables, and at an amount considered by management as sufficient to cover probable losses on their realization, which can be modified as a result of the recovery of receivables from default customers or of a change in a customer's financial situation.

The adjustment to present value of trade receivables is not material due to the short period of their realization.

e) Inventory

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

When necessary, inventory is reduced by a provision for losses, which is set up in cases of inventory devaluation, obsolescence of products and physical inventory losses. In addition, because of the nature of the Company's products, obsolete finished products may be recycled for reuse in production.

f) Income tax and social contribution

The Company calculates current and deferred corporate income tax (IRPJ) and social contribution on net income (CSLL) based on the rate of 15%, plus a 10% surcharge on the taxable profit exceeding R\$ 240, for income tax and 9% on taxable profit for social contribution. The balances are recognized in the Company's results on an accruals basis.

The amounts of deferred income tax and social contribution are recorded net in the balance sheet, in non-current assets or liabilities.

Subsidiaries have their taxes calculated and accrued in accordance with the legislation of their home country and/or their specific tax system, including, in some cases, presumed profit. The provision for current income tax and social contribution for the period is stated in the balance sheet net of tax prepayments made during the year.

g) Investments

These refer to investments in subsidiaries and jointly-controlled subsidiaries accounted for using the equity accounting method, based on the Company's ownership interests in these companies. The financial statements of subsidiaries and jointly-controlled subsidiaries are prepared for the same reporting period as that adopted by the Company. Where necessary, adjustments are made to bring their accounting policies into line with those adopted by the Company.

Unrealized gains and losses resulting from transactions between the Company and its subsidiaries and jointly-controlled subsidiaries are eliminated for equity accounting purposes in the parent company balance sheet, as well as for consolidation purposes.

At the end of each reporting period, the Company determines whether there is objective evidence that the investment in the subsidiaries or jointly-controlled subsidiaries is impaired. If there is an indication of impairment, the Company calculates the amount of the impairment loss and recognizes it in the statement of income.

The exchange variations on the investments in foreign subsidiaries recognized in "Comprehensive income" are classified as carrying value adjustments and realized through the realization of the investment to which it refers.

In the consolidated financial statements, the investors' interests in SPCs (Notes 3 and 11) are presented in the balance sheet in liabilities, under "Other payables - investors in SPCs", as it refers to financial liabilities, and not to equity instruments, in accordance with CPC 39, "Financial instruments: Presentation".

The Company's management treats Special Partnerships as independent entities with the characteristics of subsidiaries, which are recorded in the parent company financial statements under the equity accounting method.

h) Property and equipment

Property and equipment are stated at their acquisition or construction cost, less taxes to be offset, when applicable, and accumulated depreciation. Based on the option exercised by the Company on the first-time adoption of IFRS, the deemed cost of property and equipment (land) was determined.

Depreciation is calculated on the straight line basis taking into consideration the estimated useful lives of the assets, based on the expected future economic benefits, except for land, which is not depreciated. The estimated useful lives of the assets are reviewed annually and adjusted, if necessary, and may vary based on the technological stage of each unit. The useful lives of the Company's assets are stated in Note 12.

The costs of maintaining the Company's assets are allocated directly to profit for the period when realized. Finance charges are capitalized to property and equipment, when incurred on construction in progress, if applicable.

i) Impairment of assets

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

The recoverable amount of an asset is the higher of the net sales price and the value in use of the asset or its Cash-generating Unit (CGU), and is determined individually for each asset, unless the asset does not generate cash inflows that are independent of those of other assets or groups of assets. In estimating the value in use, estimated future cash flow are discounted to their present values, using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the net sales price and the value in use of that asset.

j) Biological assets

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

The significant assumptions used to determine the fair value of biological assets are stated in Note 13.

The valuation of biological assets is carried out on a quarterly basis by the Company, and any gain or loss is recognized in the statement of income in the period in which it occurs, in a specific line item named "Change in fair value of biological assets". The depletion of biological assets is measured based on the amount of wood cut, evaluated at fair value.

k) Non-current assets and liabilities

Non-current assets and liabilities comprise receivables and payables maturing more than 12 months after the end of the reporting period, plus corresponding charges and monetary variations incurred, if applicable, through the end of the reporting period.

l) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, when applicable.

m) Provisions

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

The expenses related to any provision is presented in the statement of income, net of any reimbursement. If the time effect of the amount is material, the provision is discounted using a discount rate that reflects the risks specific to the obligation, if applicable.

The Company records provisions for tax, social security, labor and civil claims, which are accrued when lawsuits are assessed by the Company's legal counsel and management as likely to lead to losses. This assessment is effected considering the nature of the lawsuits, similarities to prior lawsuits and the progress of pending litigation.

When the Company expects that the amount of the provision will be fully or partially reimbursed, this asset is recognized only when realization is considered clear and certain, with no recognition of assets in scenarios of uncertainty.

n) Sales revenue

Sales revenue is stated net of taxes, discounts and rebates, and is recognized when all the risks and rewards of ownership of the product are transferred to the buyer, to the extent that it is probable that economic benefits will be generated and will flow to the Company and its subsidiaries and jointly-controlled subsidiaries, and when it can be reliably measured based on the fair value of the consideration received or receivable, net of discounts, rebates and taxes or charges on sales.

o) Employee benefits and private pension plan

The Company grants employee benefits such as life insurance, healthcare, profit sharing and other benefits, which are recognized on an accruals basis and are discontinued at the end of the employment relationship with the Company.

Additionally, the Company granted a private pension and healthcare plan to former employees who had retired by 2001. In relation to these benefits, the Company adopts practices for the recognition of the liability and the result based on an actuarial valuation by an independent expert. Gains and losses on the actuarial valuation of benefits generated by changes in actuarial assumptions are recognized in an account in equity named "Carrying value adjustments" (comprehensive income), as required by CPC 33 (R1), "Employee Benefits".

p) Stock option plan

The stock option plan offered by the Company is measured at its fair value on the date on which it is granted, and the related expense is recognized in the statement of income during the period in which the granting right is acquired, against equity in the "Carrying value adjustments" group.

q) Government grants

The government grants obtained by the Company are recognized to the extent that the conditions related to the obtaining of such grants are met. Grants received for the offsetting of expenses are recognized as a reduction of the expenses that are to be offset.

Regarding government grants for investments in assets, the benefits are recorded in the balance sheet as they were granted by the government agency, and they may be recorded in liabilities as deferred income, recognized as revenue on a systematic basis during the useful life of the asset acquired, or deducted from the asset related to the grant, being then recorded as income through a credit to the depreciation recorded as an expense in the statement of income.

If the non-distribution to partners of the benefits received as government grants is mandatory, the related amounts are reclassified from the appropriation of the result for the year to a specific account ("Tax Incentive Reserve") in equity.

r) Significant accounting judgments, estimates and assumptions

In preparing the financial statements, judgments, estimates and assumptions are utilized to account for certain assets, liabilities, income and expenses for the periods. The accounting judgments, estimates and assumptions adopted by management are made by utilizing the best information available at the financial statement reporting date, involving experience of past events, forecasts of future events and the assistance of experts, when applicable.

The financial statements include various estimates, including, but not limited to, the realization of deferred tax assets, the fair value measurement of biological assets, and the provision for tax, social security, civil and labor claims and adjustment at the present value of the balances.

Actual results may differ from these estimates, and the Company could be exposed to material losses.

s) Statement of value added

The Brazilian corporate legislation requires listed companies to present the statement of value added as part of the set of the financial statements of a company. This statement is intended to provide evidence of the wealth created by a company and its distribution during the years presented.

The IFRS do not require the presentation of this statement. Consequently, this statement is presented as supplementary information, and not as part of the required set of financial statements.

2.3 New technical pronouncements, revisions and interpretations adopted

The following standards and amendments to standards were adopted for the first time for the year ended December 31, 2014, and the major impacts are described below. Other amendments and interpretations became effective during the same year, but had no relevant impacts for the Company.

(i) Amendment to CPC 39 (IAS 32), "Financial Instruments: Disclosure"

This amendment clarifies that the right to offset financial assets and liabilities should not be contingent on a future event, and that it should be legally applicable for all counterparties in the normal course of business. This amendment also considers what the settlement mechanisms are.

(ii) CPC Orientation (OCPC) 07, "Disclosures in General-purpose Accounting and Financial Reports"

This orientation deals with qualitative and quantitative aspects of disclosures in explanatory notes, reinforcing the existing requirements of accounting standards and highlighting that only information which is relevant to the users of financial statements should be disclosed.

(iii) Review of CPC 07, "Equity Accounting Method in Separate Financial Statements"

This review amends the wording of CPC 35, "Separate Financial Statements" in order to include the changes made by IASB to the IAS 27, "Separate Financial Statements" and allow the adoption of the equity method of accounting in subsidiaries in separate financial statements (parent company), thus aligning the accounting practices adopted in Brazil with the IFRS. The early adoption of the amendment to IAS 27 was carried out in 2014.

2.4 New technical pronouncements, revisions and interpretations not effective yet

Up to the disclosure of these financial statements, new technical pronouncements, changes and interpretations, which are not yet in effect and were not adopted in advance by the Company, were approved and issued by IASB.

The revision of the pronouncement is as follows:

(i) IAS 41, "Agriculture" (equivalent to CPC 29, "Biological Assets and Agricultural Produce")

This standard currently requires that biological assets relating to agricultural activities be measured at fair value less costs to sell. When reviewing the standard, the IASB decided that "bearer plants" should be recorded as property and equipment (IAS16/CPC 27), that is, at cost less depreciation or impairment. "Bearer plants" are defined as those used to produce fruit for many years, but which, once mature, do not undergo significant biological transformations. Their only future economic benefit arises from the agricultural production that they generate.

Examples of bearer plants include apple and orange trees and grapevines. In the case of plants that have their roots maintained in the soil for a second harvest or cut, and when the roots are not sold, the roots meet the definition of a bearer plant, and, therefore, equivalent to forests that are expected to undergo more than one cut during their management. The forests of the Company are harvested and replanted and, therefore, there is no second cut. Therefore, Management has concluded that the adoption of this reviewed standard does not have an impact on current accounting practices, nor on the calculation of the fair value of its forests. The standard is applicable from January 1, 2016.

(ii) IFRS 15, "Revenue from Contracts with Customers"

This new standard establishes the principles that an entity must apply to determine the measurement of revenue, and when it is recognized. It becomes effective in 2017 and replaces IAS 11, "Construction Contracts", IAS 18, "Revenue" and the corresponding interpretations. Management is evaluating the impact of its adoption.

(iii) IFRS 9, "Financial instruments"

This standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The objective of IFRS 9 is, ultimately, to replace IAS 39, "Financial Instruments: Recognition and Measurement". This standard becomes effective from 2018, but has been revised since its issue. Management has not yet concluded the evaluation of the impact of its adoption.

It should be pointed out that the equivalents of such revisions and new standards have not been issued by the CPC in new or revised standards as part of the accounting practices adopted in Brazil, and they have not been approved by the competent regulatory agencies. In general, the accounting practices adopted in Brazil do not incorporate anticipated new or revised standards and interpretations, although this is encouraged by the IASB, and are not permitted or are not available in the accounting practices adopted in Brazil. Therefore, these new and/or revised standards are not included in the Company's financial statements.

3 CONSOLIDATION OF FINANCIAL STATEMENTS

Subsidiaries are fully consolidated from the date of acquisition of control and continue to be consolidated until the date on which such control ceases to exist, except for jointly-controlled subsidiaries (joint ventures), which are accounted for using the equity accounting method both in the parent company and in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as that of the parent company, utilizing accounting policies consistent with the policies adopted by the parent company. The following criteria are adopted for consolidation purposes: (i) investments in subsidiaries and equity in the results of investees are eliminated and (ii) profits from intercompany transactions and the related assets and liabilities are also eliminated. The consolidated financial statements comprise Klabin S.A. and its subsidiaries as at December 31, 2014 and 2013, as follow:

	<u>Country</u>	<u>Activity</u>	<u>Holding</u>	<u>Holding - %</u>	
				<u>12/31/2014</u>	<u>12/31/2013</u>
Subsidiaries:					
Klabin Argentina S.A.	Argentina	Industrial sacks	Direct/indirect	100	100
Klabin Ltd.	Cayman Islands	Investments in other companies	Direct	100	100
. Klabin Trade	England	Sales of products in the foreign market	Indirect	100	100
Klabin Forest Products Company	USA	Sales of products in the foreign market	Direct	100	100
IKAPÊ Empreendimentos Ltda.	Brazil	Hotels	Direct	100	100
Klabin do Paraná Produtos Florestais Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100
Klabin Florestal Ltda.	Brazil	Forestry	Direct	100	100
Klabin Finance S.A.	Luxembourg	Financial	Direct	100	100

	<u>Country</u>	<u>Activity</u>	<u>Holding</u>	<u>Holding - %</u>	
				<u>12/31/2014</u>	<u>12/31/2013</u>
SPCs:					
Correia Pinto	Brazil	Reforestation	Direct	90	91
CG Forest	Brazil	Reforestation	Direct	73	67
Monte Alegre (i)	Brazil	Reforestation	Direct	70	65
Joint ventures (not consolidated):					
Florestal Vale do Corisco S.A.	Brazil	Reforestation	Direct	51	51

(i) New subsidiary constituted, as disclosed in Note 1.

Investments in joint ventures

The investment in Florestal Vale do Corisco S.A., considering its characteristics, is classified as a joint venture and is recorded under the equity method of accounting.

4 CASH AND CASH EQUIVALENTS

In accordance with its policy, the Company has made low-risk investments with no significant risk of changes in value with financial institutions considered by management as prime banks both in Brazil and abroad, based on their ratings from risk ratings agencies. Management considers these financial assets as cash and cash equivalents due to their immediate liquidity with financial institutions, with an insignificant risk of changes in value.

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
Cash and banks - local currency	45,700	27,453	87,656	28,105
Cash and banks - foreign currency (i)	-	-	18,138	102,790
Investments - local currency	3,798,943	2,374,369	3,880,452	2,521,195
Investments - foreign currency (i)	186,308	-	1,259,587	77,782
	<u>4,030,951</u>	<u>2,401,822</u>	<u>5,245,833</u>	<u>2,729,872</u>

(i) In US Dollars

Financial investments in local currency, relating to Bank Deposit Certificates (CDBs) and other repurchase transactions, are indexed to the variations of the Interbank Deposit Certificate (CDI) with an average annual yield of 11.78% (9.92% at December 31, 2013), and financial investments in foreign currency, relating to time deposits in US Dollars, with an average annual yield of 0.55% (0.21% at December 31, 2013). The investments have daily liquidity guaranteed by the financial institutions.

The increase in cash and cash equivalents in 2014 is a result of the debentures obtained (Note 15) in Brazilian Reais, in addition to the issue of Bonds (Note 14) in US Dollars abroad. The funds obtained will be used in the normal course of the Company's business, according to its strategy, and in investment projects.

5 MARKETABLE SECURITIES

Marketable securities refer to National Treasury Bills (LFT), with yields indexed to the variations of the Special System for Settlement and Custody (SELIC) interest rate, and maturities up to 2016. At December 31, 2014, the balance of these securities was R\$ 497,604 (R\$ 249,511 at December 31, 2013). Management classified these securities as available-for-sale financial assets. There is an active trading market for these securities. Considering its characteristics, the fair value is basically the principal plus the interest originally established on these securities.

The marketable securities are included in Level 1 of the fair value measurement hierarchy, according to the hierarchy of CPC 46 (equivalent to IFRS 13), "Fair Value Measurement", since they are assets with prices quoted in the market.

6 TRADE RECEIVABLES

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
<u>Customers</u>				
. Local	864,440	847,056	864,513	847,103
. Foreign	141,129	133,983	329,408	345,349
Total trade receivables	<u>1,005,569</u>	<u>981,039</u>	<u>1,193,921</u>	<u>1,192,452</u>
Provision for impairment of trade receivables	(45,177)	(47,153)	(45,245)	(47,298)
	<u>960,392</u>	<u>933,886</u>	<u>1,148,676</u>	<u>1,145,154</u>
Overdue	113,609	101,246	138,697	116,419
% total of portfolio (without provision for impairment of trade receivables)	6.81%	5.51%	7.83%	5.80%
1 to 10 days	4,073	8,213	4,073	8,213
11 to 30 days	16,674	23,982	33,748	34,610
31 to 60 days	20,468	13,613	21,532	17,509
61 to 90 days	7,817	3,364	14,767	3,364
Over 90 days	64,577	52,074	64,577	52,723
Not yet due	891,960	879,793	1,055,224	1,076,033
Total portfolio	<u>1,005,569</u>	<u>981,039</u>	<u>1,193,921</u>	<u>1,192,452</u>

The average collection period of trade receivables is approximately 100 days for domestic market sales and approximately 120 days for foreign market sales, and interest is charged after the contractual maturity date. As mentioned in Note 25, the Company has rules for monitoring receivables and past-due notes as well as for the risk of not receiving the amounts arising from term sale transactions.

The provision for the impairment of trade receivables is considered sufficient to cover any losses on the outstanding receivables. The changes in the provision for the impairment of trade receivables were as follow:

	<u>Parent company</u>	<u>Consolidated</u>
At December 31, 2012	(45,187)	(45,663)
Provisions for the year	(7,442)	(7,566)
Reversal of receivables	5,476	5,931
At December 31, 2013	(47,153)	(47,298)
Provisions for the year	(5,536)	(5,541)
Reversal of receivables	7,512	7,594
At December 31, 2014	(45,177)	(45,245)

The balance of the provision for the impairment of trade receivables relates mainly to trade notes overdue for more than 90 days. The expense on the recognition of the provision for the impairment of trade receivables was recorded in the statement of income, under "Selling expenses".

7 RELATED PARTY TRANSACTIONS

a) Balances and transactions with related parties

									Parent company	
									12/31/2014	12/31/2013
Type of relationship	Klabin Trade (i) and (vi) Subsidiary	Klabin Argentina (i) Subsidiary	Klabin Finance (vi)	Soc. Conta de Holding Correia Pinto (ii) and (v) Subsidiary	Monteiro Aranha S.A. (iii) Stockholder	Klabin Irmãos & Cia. (iii),(iv), (viii) Stockholder	BNDES (vi) Stockholder	Other (vii) and (viii)	Total	Total
Balances										
Current assets	418,223	4,184		1,326		2,613		7,923	434,269	378,934
Non-current assets	134							710	844	1,526
Current liabilities	8,627		1,551	1,508	535	2,612		576,594	591,847	476,212
Non-current liabilities	2,656		531,240					1,578,085	2,111,981	1,325,543
Transactions										
Sales revenue	687,093	3,702		4,968				29,633	725,396	819,493
Purchases				(21,179)					(21,179)	(33,554)
Interest expenses on financing	(771)		(6,241)					(115,679)	(122,691)	(109,581)
Guarantee commission - expenses								(13,580)	(13,580)	(14,420)
Royalty expenses					(6,147)	(30,002)		(4,824)	(40,973)	(38,095)

- (i) Balance receivable from product sales transactions carried out under terms and conditions established between the parties
(ii) Purchase of timber at usual market prices and on normal terms and conditions
(iii) Licensing for use of brand
(iv) Prepaid expenses for guarantee commission, calculated based on the BNDES financing balance of 1% semiannually
(v) Supply of seedlings, seeds and services at usual market prices and on normal terms and conditions
(vi) Loans raised in usual market conditions
(vii) Advances on future capital payments, and
(viii) Other

					Consolidated	
					12/31/2014	12/31/2013
	Monteiro Aranha S.A.	Klabin Irmãos & Cia.	BNDES	Other	Total	Total
Type of relationship	(i) Stockholder	(i), (ii), (iv) Stockholder	(iii) Stockholder	(iv)		
Balances						
Current assets		2,613			2,613	5,297
Current liabilities	535	2,612	576,594	420	580,161	425,508
Non-current liabilities			1,578,085		1,578,085	1,322,029
Transactions						
Interest expenses on financing			(115,679)		(115,679)	(109,121)
Guarantee commission - expenses		(13,580)			(13,580)	(14,420)
Royalty expenses	(6,147)	(30,002)		(4,824)	(40,973)	(38,095)
(i) Licensing for use of brand						
(ii) Prepaid expenses for guarantee commission, calculated based on the National Bank for Economic and Social Development (BNDES) financing balance of 1% semiannually						
(iii) Loans raised in usual market conditions, and						
(iv) Other						

b) Management remuneration and benefits

Management remuneration is determined by the stockholders at the Annual General Meeting, in accordance with the Brazilian corporate legislation and the Company's bylaws. Accordingly, at the Annual General Meeting held on March 20, 2014, the stockholders established the overall amount of the annual remuneration of the members of the Board of Directors and Supervisory Board at up to R\$ 35,800 for 2014. The compensation approved for 2013 amounted to R\$ 34,200.

The table below shows the remuneration of the members of the Board of Directors and Supervisory Board.

	Parent company and Consolidated					
	Short term		Long term		Total benefits	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Board of Directors and Statutory Audit Board	31,120	27,914	848	769	31,968	28,683

Management remuneration includes the fees of the Board members, along with the fees and variable remuneration of officers. Long term benefits relate to contributions made by the Company to the pension plan. These amounts are mainly recorded under "Operating expenses - administrative".

In addition, the Company grants a stock option plan to the statutory directors and other executives, as described in Note 22.

8 INVENTORY

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Finished products	100,512	98,313	135,260	122,749
Raw materials	141,015	133,465	167,457	142,474
Timber and logs	112,226	106,072	112,226	106,072
Fuel and lubricants	6,905	4,110	6,905	4,110
Maintenance supplies	136,095	124,159	140,187	126,365
Provision for losses	(15,664)	(21,780)	(15,900)	(21,780)
Other	15,647	13,297	17,574	15,862
	496,736	457,636	563,709	495,852

Raw materials inventory includes paper rolls transferred from paper units to conversion units.

The expenses on the recognition of the provision for inventory losses is recorded in the statement of income under "Cost of goods sold". During the years ended December 31, 2014 and 2013, the provision for inventory losses decreased by R\$ 6,116 and increased by R\$ 10,155, respectively.

The Company does not have any inventory pledged as collateral.

9 TAXES RECOVERABLE

	12/31/2014		12/31/2013	
	Current assets	Non-current assets	Current assets	Non-current assets
Value-added Tax on Sales and Services (ICMS)	58,237	325,652	58,184	44,367
Social Integration Program (PIS)	1,512	9,990	2,102	8,868
Social Contribution on Revenue (COFINS)	4,963	57,698	9,672	52,001
Corporate Income Tax (IRPJ)/Social Contribution on Net Income (CSLL)	218,895	-	9,811	-
Other	39,922	35,544	33,918	18,448
Parent company	323,529	428,884	113,687	123,684
Subsidiaries	8,439	-	6,363	-
Consolidated	331,968	428,884	120,050	123,684

The Company recognized credits from taxes and contributions levied on purchases of property and equipment, as permitted by the prevailing legislation, in addition to the ICMS-related government grant obtained from the Government of the State of Paraná regarding the Puma Project, which are being utilized for future offsetting against taxes payable, of the same or different nature.

Based on analyses and the budget projections approved by management, the Company does not foresee any risk of non-realization of these tax credits.

PIS/COFINS and ICMS on current assets are expected to be offset against the same taxes payable in the next 12 months, according to management's estimates.

The balance of income tax and social contribution was impacted by the change in the tax regime for the recognition of the foreign exchange rate variation, as mentioned in Note 10.

10 INCOME TAX AND SOCIAL CONTRIBUTION

a) Nature and expected realization of deferred taxes

The deferred tax assets and liabilities at December 31, 2014 and 2013 were as follow:

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Provisions for tax, social security, labor and civil contingencies	24,787	28,526	24,787	28,526
Write-off of deferred tax (Law 12,973/14)	9,205	12,096	9,205	12,096
Income tax and social contribution losses	57,464	-	57,464	100
Deferred foreign exchange variations (*)	-	354,658	-	354,658
Actuarial liability	19,251	19,492	19,251	19,492
Other temporary differences	52,046	47,827	52,133	47,826
Non-current assets	162,753	462,599	162,840	462,698
Fair value of biological assets	737,769	670,564	879,811	773,030
Review of useful life of property and equipment (Law 12,973/14)	276,642	229,008	276,642	229,008
Deemed cost of property and equipment (land)	492,044	493,122	564,664	565,742
Adjustment to present value of balances	46,792	47,897	46,792	47,897
Asset revaluation reserve	25,124	25,382	25,124	25,382
Capitalized interest (Law 12,973/14)	25,189	-	25,189	-
Other temporary differences	44,441	41,827	44,441	41,826
Non-current liabilities	1,648,001	1,507,800	1,862,663	1,682,885
Net balance in the balance sheet (liabilities)	1,485,248	1,045,201	1,699,823	1,220,187

(*) Up to the end of 2013, management opted for the tax recognition of the foreign exchange variations of its receivables and payables on a cash basis, thereby generating temporary differences, while for 2014, it started to adopt the accruals basis to recognize foreign exchange variations, without constituting temporary differences.

In 2008, the Company adopted the Transitional Tax System (RTT) established by Law 11,941/09, for the tax treatment of income tax and social contribution on the effects arising from the adoption of CPCs. The early adoption of the effects of Law 12,973/14 was carried out for 2014.

Management, based on the budgets approved by the Board of Directors, estimates that tax credits arising from temporary differences will be realized as follow:

	12/31/2014	
	Parent company	Consolidated
2015	93,766	93,766
2016	28,006	28,006
2017	40,547	40,547
2018	434	521
2019 onwards	-	-
	162,753	162,840

The above projection of the realization of the balance may not materialize if the estimates utilized in the preparation of the budgets differ from the actual amounts.

Information on the Company's taxes under litigation is disclosed in Note 17.

b) Analysis of income tax and social contribution

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Current tax expense	(83,359)	(249,004)	(96,732)	(259,363)
Adoption of accruals basis for foreign exchange variations (*)	243,045	-	243,045	-
Prior-year adjustments	7,858	17,921	7,858	17,921
Current	167,544	(231,083)	154,171	(241,442)
Recognition and reversal of temporary differences	(60,606)	159,048	(60,607)	157,164
Adoption of accruals basis for foreign exchange variations (*)	(262,416)	-	(262,416)	-
Revision of useful lives of property and equipment	(47,634)	(50,707)	(47,634)	(50,707)
Variations in fair value and depletion of biological assets	(67,231)	44,188	(106,807)	44,864
Deferred	(437,887)	152,529	(477,464)	151,321

(*) Up to the end of 2013, management opted for the tax recognition of the foreign exchange variations of its receivables and payables on a cash basis, thereby generating temporary differences, while for 2014 it started to adopt the accruals basis to recognize foreign exchange variation, without constituting temporary differences.

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

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Profit before income tax and social contribution	1,000,673	368,651	1,053,623	380,218
Income tax and social contribution at the statutory rate of 34%	(340,229)	(125,341)	(358,232)	(129,274)
Tax effect on permanent differences:				
Difference in taxation - subsidiaries	-	-	4,589	6,599
Equity in the results of investees	50,584	30,750	16,541	7,560
Other effects	19,302	16,037	13,809	24,994
	(270,343)	(78,554)	(323,293)	(90,121)
Income tax and social contribution				
. Current	167,544	(231,083)	154,171	(241,442)
. Deferred	(437,887)	152,529	(477,464)	151,321
Income tax and social contribution expense	(270,343)	(78,554)	(323,293)	(90,121)

d) Evaluation of impacts of Law 12,973/14

On May 13, 2014, Provisional Measure (MP) 627 was converted into Law 12,973/14, revoking the Transitional Tax System (RTT), among other provisions. The MP is effective from 2015, but may be early adopted in 2014. The Company prepared a study and opted for the early adoption of the effects of Law 12,973/14 for 2014. The main impacts related to the early adoption were:

- (i) Dividends: with the early adoption, the dividend calculated based on the results obtained up to the end of 2013 is tax free.
- (ii) Capitalized interest: allows the option for the deductibility of the capitalized interest in fixed assets, to the extent that the interest is incurred or with the depreciation of the fixed asset to which it was allocated. The tax effect is temporary, but the early adoption of the tax deductibility benefit is allowed.

11 INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED SUBSIDIARIES

	Klabin Ltd. (i)	Klabin Argentina S.A.	Centaurus Holdings S.A.	Forestry Vale do Corisco S.A. (ii)	Soc. Conta de Participação Correia Pinto	Soc. Conta de Participação CG Forest	Soc. Conta de Participação Mt Alegre (iv)	Other	Total
At December 31, 2012	76,912	43,269	205,686	450,651	429,510	52,736	-	8,491	1,267,255
Acquisition and capital contribution	995		3,989				92,578	7,313	104,875
Dividends distributed	(60,519)			(17,850)	(20,026)				(98,395)
Equity in the results of subsidiaries (iii)	29,091	10,445	13,317	22,238	18,568	(1,899)	1,590	(2,910)	90,440
Incorporation due to the dissolution of subsidiaries (v)			(222,992)					(218)	(223,210)
Foreign exchange variations on investments abroad		(6,871)							(6,871)
At December 31, 2013	46,479	46,843	-	455,039	428,052	50,837	94,168	12,676	1,134,094
Acquisition and capital contribution								5,408	5,408
Capital reduction								(1,500)	(1,500)
Dividends distributed				(20,484)	(17,999)				(38,483)
Equity in the results of subsidiaries (iii)	21,434	13,513		48,649	53,552	17,566	24,595	(30,534)	148,775
Foreign exchange variations on investments abroad		(4,635)							(4,635)
At December 31, 2014	67,913	55,721	-	483,204	463,605	68,403	118,763	(13,950)	1,243,659

Summary of financial information of subsidiaries at December 31, 2014:

Total assets	67,913	79,475	-	1,287,252	678,995	112,606	212,153	
Total liabilities	-	23,277	-	339,790	158,861	16,845	47,392	
Equity	67,913	56,198	-	947,461	520,134	95,761	164,761	
Profit for the year	16,534	13,513	-	95,391	60,900	17,566	24,595	

(i) Parent company of Klabin Trade.

(ii) Vale do Corsico is not consolidated because it is a joint venture (Note 3), being the only investment presented in the consolidated balance sheet as an investment with the recognition of equity accounting.

(iii) Includes the effects of variations in and realization of the fair value of biological assets (Note 13).

(iv) Corresponding to the creation of the new subsidiary named SPC Monte Alegre, mentioned in Notes 1 and 3.

(v) Refers to the merger of the subsidiaries Centaurus Holdings S.A and Klabin Celulose S.A., as mentioned in Notes 1 and 3.

12 PROPERTY AND EQUIPMENT

a) Composition

			<u>12/31/2014</u>	<u>12/31/2013</u>
<u>Parent company</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Net book value</u>
Land	1,784,065	-	1,784,065	1,785,738
Buildings and construction	667,259	(217,397)	449,862	445,688
Machinery, equipment and facilities	4,742,801	(2,002,554)	2,740,247	2,512,681
Construction in progress	2,948,566	-	2,948,566	780,192
Other (i)	396,255	(207,528)	188,727	146,691
	<u>10,538,946</u>	<u>(2,427,479)</u>	<u>8,111,467</u>	<u>5,670,990</u>
<u>Consolidated</u>				
Land	2,013,562	-	2,013,562	2,014,311
Buildings and construction	673,247	(219,763)	453,484	450,102
Machinery, equipment and facilities	4,760,937	(2,015,260)	2,745,677	2,517,458
Construction in progress	2,949,530	-	2,949,530	780,357
Other (i)	398,076	(208,942)	189,134	147,279
	<u>10,795,352</u>	<u>(2,443,965)</u>	<u>8,351,387</u>	<u>5,909,507</u>

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

The information on property and equipment pledged as collateral in transactions carried out by the Company is disclosed in Note 14, and information on the insurance coverage of assets is disclosed in Note 27.

b) Summary of changes in property and equipment

	<u>Parent company</u>					
	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery, equipment and facilities</u>	<u>Construction in progress</u>	<u>Other</u>	<u>Total</u>
At December 31, 2012	1,639,159	420,754	2,307,403	623,105	13,286	5,003,707
Purchases (i)	-	-	-	480,745	209,582	690,327
Disposals	(14)	(75)	(3,122)	-	(6,644)	(9,855)
Depreciation	-	(22,539)	(196,286)	-	(23,805)	(242,630)
Internal transfers	-	47,548	405,169	(404,276)	(48,441)	-
Merger of subsidiaries (ii)	146,593	-	-	84,402	2,027	233,022
Other	-	-	(483)	(3,784)	686	(3,581)
At December 31, 2013	1,785,738	445,688	2,512,681	780,192	146,691	5,670,990
Purchases (i)	-	-	14	2,697,425	-	2,697,439
Disposals	(17,788)	(1,377)	(15,827)	-	(3,210)	(38,202)
Depreciation	-	(22,592)	(234,577)	-	(28,572)	(285,741)
Internal transfers	16,115	28,130	478,522	(596,523)	73,756	-
Capitalized interest (iii)	-	-	-	74,085	-	74,085
Other	-	13	(566)	(6,613)	62	(7,104)
At December 31, 2014	1,784,065	449,862	2,740,247	2,948,566	188,727	8,111,467

	Consolidated					
	Land	Buildings and construction	Machinery, equipment and facilities	Construction in progress	Other	Total
At December 31, 2012	2,002,793	425,976	2,313,454	623,350	13,853	5,379,426
Purchases (i)	3,967	-	352	565,177	211,865	781,361
Disposals	(14)	(75)	(3,177)	-	(6,648)	(9,914)
Depreciation	-	(22,724)	(197,326)	-	(23,969)	(244,019)
Internal transfers	-	47,547	405,252	(404,358)	(48,441)	-
Other	7,565	(622)	(1,097)	(3,812)	619	2,653
At December 31, 2013	2,014,311	450,102	2,517,458	780,357	147,279	5,909,507
Purchases (i)	2,500	35	931	2,699,260	186	2,702,912
Disposals	(19,288)	(1,603)	(15,813)	-	(3,270)	(39,974)
Depreciation	-	(22,734)	(235,446)	-	(28,726)	(286,906)
Internal transfers	16,115	28,130	479,514	(597,515)	73,756	-
Capitalized interest (iii)	-	-	-	74,085	-	74,085
Other	(76)	(446)	(967)	(6,657)	(91)	(8,237)
At December 31, 2014	2,013,562	453,484	2,745,677	2,949,530	189,134	8,351,387

(i) Net of recoverable taxes (Note 9)

(ii) Refers to the merger of the subsidiaries Centaurus Holdings S.A and Klabin Celulose S.A., as mentioned in Notes 1 and 3.

(iii) Interest capitalized to property and equipment, as related to the borrowing obtained for costing investment projects such as the PumaProject (Notes 14 and 21).

Depreciation was mainly allocated to production costs for the period.

c) Useful lives and depreciation method

The table below shows the annual depreciation rates calculated under the straight line method, which were applicable to the periods ended December 31, 2014 and 2013, defined based on the economic useful lives of assets:

	<u>Rate - %</u>
Buildings and construction	2.86 to 3.33
Machinery, equipment and facilities	2.86 to 10 (*)
Other	4 to 20

(*) Prevailing rate of 6%.

At the end of 2014, management reviewed the useful lives of the Company's property and equipment and decided to maintain the depreciation rates being applied.

d) Construction in progress

The balance of construction in progress at December 31, 2014 relates to the following main projects: (i) the modernization of the wood preparation process in the Telêmaco Borba (PR) unit; (ii) construction of the new pulp plant ("Puma Project"); (iii) biomass drying process in the Otacilio Costa (SC) unit; (iv) increase in the coated board production capacity of the Monte Alegre (PR) unit; and (v) current investments in the continuing operations of the Company.

Puma Project

At December 31, 2014, the general physical progress of the Puma Project reached 38% and the estimated related financial disbursement totaled 31%. The total budgeted for the project amounts to R\$ 7.2 billion (not considering contractual readjustments). At December 31, 2014, the disbursements totaled R\$ 2.4 billion. For 2015, the payment of R\$ 3.4 billion is estimated.

The funds necessary for the feasibility of the investment are guaranteed by contracts related to borrowing and debentures issued by BNDES in 2014, totaling R\$ 4.2 billion, in addition to R\$ 1.0 billion to be granted by Finnvera, a Finnish agency related to the export credit, and to another R\$ 0.7 billion obtained with the Inter-American Development Bank (IBD), thus totaling R\$ 5.9 billion.

During the project, the Company capitalizes interest from borrowing and financing used in the project's funding. Total interest capitalized to fixed assets in 2014 with the Puma Project, in addition to other ongoing projects of the Company, amounted to R\$ 74,085, with a weighted average cost of 8% p.a.

e) Commitments

Due to the Puma Project described in Note 1, contracts with suppliers taking part in the project were negotiated, relating to the main machinery, equipment and service of R\$ 5.5 billion at December 31, 2014. The amount must be disbursed during the project up to the commencement of operations of the new factory, expected for the end of 1Q16.

f) Impairment of property and equipment

The Company did not identify indicators of impairment of its assets at December 31, 2014 and 2013.

13 BIOLOGICAL ASSETS

The Company's biological assets comprise the planting of pine and eucalyptus trees for the supply of raw materials for the production of the pulp used in the manufacture of paper and for sales of logs to third parties. Including its interest in the forestry area of its jointly-controlled subsidiary Florestal Vale do Corisco, the Company owned 239 thousand hectares of planted areas at December 31, 2014 (242 thousand hectares as at December 31, 2013), not including the permanent preservation areas and legal reserve that are maintained in compliance with Brazilian environmental legislation.

The balance of the Company's biological assets consist of the costs to grow forests and the fair value difference on the growing cost, less the costs necessary to prepare the assets for use or sale, so that the balance of biological assets as a whole is recorded at fair value, as follows:

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
Cost of development of biological assets	856,364	863,304	1,094,836	1,064,325
Fair value adjustment of biological assets	<u>2,154,031</u>	<u>1,956,294</u>	<u>2,572,249</u>	<u>2,257,660</u>
	<u>3,010,395</u>	<u>2,819,598</u>	<u>3,667,085</u>	<u>3,321,985</u>

The fair value measurement of biological assets considers certain estimates, such as the price of wood, the discount rate, the harvesting plan for the forests and productivity level, all of which are subject to uncertainties, and could have impacts on the Company's future results due to their fluctuations.

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

The Company recognizes its biological assets at fair value, utilizing the following assumptions:

(i) Eucalyptus forests are maintained at historical cost through the third year of planting and pine forests through the fifth year of planting, based on management's understanding that, during this period, the historical cost of biological assets approximates their fair value.

(ii) After the third and fifth years of planting, eucalyptus and pine forests, respectively, are measured at fair value, which reflects the sales price of the asset less the costs necessary to prepare the assets for the intended use or sale.

(iii) The methodology used in the fair value measurement of biological assets corresponds to the discounted future cash flow estimated according to the projected productivity cycle of the forests, taking into consideration price variations and the growth of biological assets.

(iv) The discount rate used for cash flow is the Company's Weighted Average Cost of Capital (WACC), which is reviewed by Management on an annual basis.

(v) The projected productivity volumes of forests are determined using a stratification based on forest type, genetic material, handling system, productive potential, rotation and age. The set of these characteristics forms an index named the Average Annual Growth (AAG), expressed in cubic meters per hectare/year, which is used as a basis for the productivity projections. The Company's harvesting plan varies mainly from six to seven years for eucalyptus trees and 14 to 15 years for pine trees.

(vi) The prices of biological assets, denominated in R\$/cubic meter, are obtained using market price surveys disclosed by specialized firms and prices charged by the Company on sales to third parties. The prices obtained are adjusted by deducting the capital costs relating to land, since they refer to assets that contribute to the planting of forests, and other costs necessary to prepare the assets for sale or consumption.

(vii) Planting expenses relate to the costs of the development of biological assets.

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

(ix) The Company decided to review the fair value of its biological assets on a quarterly basis since it understands that this period is sufficient to prevent any significant gap in the balance of the fair value of the biological assets recoded in the financial statements.

b) Reconciliation and movements in fair value variations

	<u>Parent company</u>	<u>Consolidated</u>
At December 31, 2012	2,944,187	3,441,495
Development expenses	59,520	81,095
Depletion:		
. Historical costs	(57,347)	(61,068)
. Fair value adjustments	(439,438)	(468,244)
Changes in fair value due to:		
. Price	111,330	103,186
. Growth	198,144	233,103
Capital increase in the new SPC (i)	(121,463)	-
Incorporation due to dissolution of subsidiaries (ii)	124,665	-
Transfers	-	(7,582)
At December 31, 2013	2,819,598	3,321,985
Development expenses	62,863	103,085
Depletion:		
. Historical costs	(61,894)	(64,212)
. Fair value adjustments	(590,582)	(609,970)
Changes in fair value due to:		
. Price	310,378	383,503
. Growth	477,939	540,601
Sale of assets	(7,907)	(7,907)
At December 31, 2014	3,010,395	3,667,085

(i) Corresponding to the creation of the new subsidiaries denominated SPC CG Forest and SPC Monte Alegre, mentioned in Notes 1 and 3.

(ii) Refers to the deconsolidation of Centaurus Holdings S.A mentioned in Notes 1 and 3.

In 2014, the Company highlights the variations in the fair value and the increase in the prices charged and the revision of the harvesting plans, mainly due to the reallocation of production, aiming at the pulp project, which is expected to begin in 2016.

The depletion of biological assets in the periods presented was mainly allocated to production costs, after an allocation to inventory through the harvesting of forests and their use in the production process or for sale to third parties.

c) Sensitivity analysis

In accordance with the hierarchy of CPC 46 (equivalent to IFRS 13), "Fair Value Measurement", the calculation of biological assets is classified at Level 3 due to its complexity and calculation structure.

Assumptions utilized include sensitivity to the prices used in the evaluation and the discount rate used in the discounted cash flow. Prices refer to the prices obtained in the regions in which the Company is located. The discount rate corresponds to the average cost of capital, taking into consideration the basic interest rate (SELIC) and inflation levels.

Significant increases (decreases) in the prices used in the appraisal would result in an increase (decrease) in the measurement at fair value of biological assets. The average price used in the appraisal of the biological assets for the quarter ended December 31, 2014 was R\$ 75/m³ (R\$ 67/m³ at December 31, 2013).

The effects of a significant increase (decrease) in the discount rate used in the measurement of the fair value of biological assets would result in a decrease (increase) in the values measured. The Company's WACC is updated on an annual basis, and the new rate is applied from the date of the first-quarter evaluation for each year, and this rate remains unchanged for the year. The discount rate used in the appraisal of the biological assets for the quarter ended December 31, 2014 was 5.9% in constant currency (5.7% at December 31, 2013).

14 BORROWING

a) Composition of borrowing

	Annual interest rate - %	12/31/2014		
		Current	Non-current	Total
In local currency				
. BNDES - MA1100 Project	TJLP + 2.0 and basket (i) + 1.5	297,169	37,892	335,061
. BNDES - Puma Project	TJLP + 2.5	1,776	200,500	202,276
. BNDES - Other	TJLP + 4.8 and basket (i) + 3.3	172,194	652,243	824,437
. BNDES - FINAME	2.5 to 4.5	71,800	315,587	387,387
. Export credit notes (in R\$)	100% of CDI	37,299	780,500	817,799
. Other	1.0 to 6.8	127,554	91,818	219,372
		707,792	2,078,540	2,786,332
In foreign currency (ii)				
. BNDES - Puma Project	USD + 6.6	2,443	180,800	183,243
. BNDES - Other	USD + 5.2 to 7.4	31,212	191,063	222,275
. Export prepayments	USD + LIBOR 6M + 1.1 to 6.4	537,189	3,255,450	3,792,639
. Export credit notes	USD + 5.0 to 9.0	155,205	1,126,367	1,281,572
. Export prepayments in subsidiaries	USD + 3.1 to 5.7	4,216	533,896	538,112
. Other	USD + 1.9	14,183	-	14,183
		744,448	5,287,576	6,032,024
Total Parent company		1,452,240	7,366,116	8,818,356
Subsidiaries:				
In foreign currency (ii)				
. Bonds (Notes)	USD + 5.2	31,764	1,328,100	1,359,864
. Elimination of prepayments in subsidiaries		(4,216)	(533,896)	(538,112)
		27,548	794,204	821,752
Total Consolidated		1,479,788	8,160,320	9,640,108

	Annual interest rate - %	12/31/2013		
		Current	Non-current	Total
In local currency				
. BNDES - Project MA1100	TJLP + 4.5 and basket (i) + 1.5	258,936	328,407	587,343
. BNDES - Other	TJLP + 4.5 and basket (i) + 1.5	130,079	672,512	802,591
. BNDES - FINAME	2.5 to 4.5	15,475	187,502	202,977
. Export credit notes (in R\$)	100% of CDI +0.6	10,581	473,333	483,914
. Other	1.0 to 6.8	42,534	92,842	135,376
		457,605	1,754,596	2,212,201
In foreign currency (ii)				
. BNDES - Other	USD + 5.7 to 6.3%	17,633	133,608	151,241
. Export prepayments	USD + LIBOR 6M + 1.1 to 6.4	541,694	2,838,491	3,380,185
. Export credit notes	USD + 3.9 to 8.1	108,044	1,111,926	1,219,970
. Export prepayments in subsidiaries	USD + 3.1	1,177	3,514	4,691
		668,548	4,087,539	4,756,087
Total Parent company		1,126,153	5,842,135	6,968,288
Subsidiaries:				
In foreign currency (ii)				
. Elimination of prepayments in subsidiaries		(1,177)	(3,514)	(4,691)
		(1,177)	(3,514)	(4,691)
Total Consolidated		1,124,976	5,838,621	6,963,597

(i) Currency basket basically comprising US Dollars
(ii) In US Dollars

BNDES - FINAME - National Bank for Economic and Social Development - Government Agency for Machinery and Equipment Financing
 CDI - Interbank Deposit Certificate
 LIBOR 6M - Six-month London Interbank Offered Rate
 TJLP - Long term Interest Rate

BNDES

The Company has agreements with BNDES for the financing of industrial development projects, such as the construction of the new paper machine in Correia Pinto (SC), the construction of a new recycled paper machine in Goiana (PE) and the paper segment expansion project, referred to as MA 1100, which will be settled up to January 2017, and the construction project of the pulp unit Puma Project, with settlement estimated for 2025. This financing is paid monthly along with the related interest.

Export prepayments and export credit notes

Export prepayment and credit note transactions were carried out for the purposes of working capital management and the development of the Company's operations. These agreements will be settled through May 2022.

Bonds (Notes)

The Company, through its wholly-owned subsidiary Klabin Finance S.A., issued securities representing debt (Notes) in the international market, which were listed on the Luxembourg Securities Exchange (Euro MTF). The Notes, of the Senior Notes 144A/Reg S type, amount to USD 500 million, maturing within ten years, with a coupon of 5.25% paid semi-annually. The raising of funds, which was concluded on July 16, 2014, had the objective of financing the activities of the Company and its subsidiaries in the normal course of business in accordance with their business objectives.

Finnvera (Finnish export credit agency)

As part of the necessary funding for executing the Puma Project, the Company entered into a contract for fundraising to be used in the financing of acquired assets. This commitment amounts to USD 460 million, divided into two tranches: the first amounting to USD 414 million and interest of 3.4% p.a. and the second amounting to USD 46 million and interest of six-month LIBOR + 1% p.a., which will be granted during 2015 and 2016, to the extent that the payments to the suppliers related to the projects are made.

b) Schedule of non-current maturities

The maturity dates of the Company's borrowing at December 31, 2014, classified in non-current liabilities in the consolidated balance, are as follow:

Year	2016	2017	2018	2019	2020	2021	2022	2023 onwards	Total
Value	899,686	1,261,679	1,324,916	1,144,706	978,750	564,353	380,831	1,605,399	8,160,320

c) Summary of changes in borrowing

	<u>Parent company</u>	<u>Consolidated</u>
At December 31, 2012	6,035,104	6,035,104
Borrowing	1,411,497	1,407,193
Accrued interest	315,406	315,333
Foreign exchange and monetary variations	619,272	618,884
Repayments and payments of interest	<u>(1,412,991)</u>	<u>(1,412,917)</u>
At December 31, 2013	6,968,288	6,963,597
Borrowing	2,254,427	2,837,527
Accrued interest	435,542	518,638
Foreign exchange and monetary variations	657,285	817,532
Repayments and payments of interest	<u>(1,497,186)</u>	<u>(1,497,186)</u>
At December 31, 2014	8,818,356	9,640,108

d) Guarantees

The financing agreements with BNDES are guaranteed by the land, buildings, improvements, machinery, equipment and facilities of the plants in Correia Pinto (SC), Telêmaco Borba (PR) and Ortigueira (PR). The financing is also guaranteed by escrow deposits and sureties from the controlling stockholders.

The financing with Finnvera is guaranteed by the industrial plants located in Angatuba (SP), Lages (SC), Piracicaba (SP) and Goiana (PE).

Export credits, export prepayments, and working capital loans are not collateralized.

e) Restrictive covenants

At the end of the reporting period, the Company and its subsidiaries did not have any financing agreements containing restrictive covenants requiring compliance with financial ratios on contracted transactions, where non-compliance could accelerate the maturity of the debt.

15 DEBENTURES

a) 6th issue of debentures

The Company concluded on January 7, 2014 the subscription and payment of the totality of 27,200,000 debentures issued in a private placement, with a unit par value of R\$ 62.50, totaling R\$ 1.7 billion. The debentures issued are subordinated, issued in a single series and in local currency, without guarantees, and mandatorily convertible into shares. The conversion of the debentures will be in the proportion of one debenture for five units (considering the stock split mentioned in Note 1), and the certificate of deposit of shares is comprised of one common nominative share (ON) and four preferred nominative shares (PN).

The funds obtained in the issue of the debentures will be allocated to the construction of a pulp plant related to the Puma Project, with an annual production capacity of 1.5 million metric tons of pulp.

The debentures will have a maturity term of five years, with maturity on January 8, 2019, and will be remunerated at 8% p.a., plus the variations of the Brazilian currency in relation to the US Dollar.

They also are included in any profit distribution to the Company's stockholders, being calculated as if the shares to be converted in the future already existed, with their amount being deducted from equity because of their nature as equity instruments.

The conversion may be carried out at any time during the effectiveness of the debentures, after the lock-in period of 18 months from the date of issue.

In accordance with CPC 39, "Financial Instruments: Presentation", the Company recorded these debentures as a hybrid (composed) instrument, and the present value of the interest up to the conversion was determined and recognized as a financial liability, while the carrying amount of the equity instrument was recorded at the net amount, that is, the total amount of the debentures less the present value of the interest payable and less the issuance costs of the security, was recorded in the "Capital Reserve" account in equity.

b) 7th issue of debentures

On June 23, 2014, the Company concluded the 7th issue of debentures, and 55,555,000 simple debentures were issued, with personal sureties, combined with a subscription bonus, at the unit nominal amount of R\$ 14.40, totaling R\$ 800 million, divided into two series of 27,777,500 debentures each, simultaneously.

	Number	Unit value	Total amount in thousands of R\$	Interest rate	Maturity	Amortization	Interest	Nature	Subscription bonus
1 st series	27,777,500	14.40	399,996	IPCA + 7.25%	6/15/2020	without amortization	semi-annual	Convertible debt	Yes
2 nd series	27,777,500	14.40	399,996	IPCA + 2.50%	6/15/2022	semi-annual	semi-annual	Debt	No
	<u>55,555,000</u>		<u>799,992</u>						

(i) 1st series - The 1st series debentures mature on June 15, 2020 and will have yield of IPCA + 7.25% per annum, with payment of interest on a biannual basis with a grace period of two years, without amortization of the principal, and have the nature of a convertible debt, since they may be used at any time after their maturity, at the criteria of the holder, to subscribe and pay up shares issued by the Company, as Units (comprising one common share and four preferred shares), at the proportion of one Unit for each Debenture, through the exercise of the Subscription Bonus which will be attributed with additional benefit to the debenture holders.

(ii) 2nd Series - The second series debentures mature on June 15, 2022, will have yield of IPCA + 2.50% per annum, paid biannually together with the amortization of the principal, with a grace period of two years, and are not convertible, therefore, they are not linked to the Subscription Bonus.

Those who acquired the 1st series are obliged to acquire debentures of the 2nd series. The amount of R\$ 28,503, arising from the Subscription Bonus on the debentures issued, was allocated to equity.

Therefore, 98.86% of the debentures were subscribed by BNDES and the remaining debentures by other stockholders in the market.

c) Composition of the balances of debentures

The balance at December 31, 2014 is as follows:

	Parent company and Consolidated		
	12/31/2014		
	6th issue	7th issue	Total
Current liabilities			
. Interest	208,080	20,758	228,838
. Monetary adjustment/Share of results	46,363	-	46,363
	254,443	20,758	275,201
Non-current liabilities			
. Principal	-	799,992	799,992
. Interest	338,640	-	338,640
. Adjustment to present value of interest	(85,006)	-	(85,006)
. Monetary adjustment/Share of results	39,365	5,775	45,140
. Subscription bonus	-	(28,503)	(28,503)
	292,999	777,264	1,070,263
Equity - capital reserve			
. Debenture issued	1,700,000	-	1,700,000
. Interest up to maturity at present value	(410,119)	-	(410,119)
. Subscription bonus	-	28,503	28,503
. Cost of issue of debenture	(29,841)	-	(29,841)
	1,260,040	28,503	1,288,543
Total	1,553,039	805,767	2,358,806

16 TRADE PAYABLES

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Local currency	343,394	330,778	343,709	331,386
Foreign currency	85,609	11,348	95,155	13,998
	429,003	342,126	438,864	345,384

In general, the Company's average payment term with operating suppliers is approximately 34 days. In the case of suppliers of property and equipment, the terms follow the commercial negotiations of each operation, without a specific average term.

17 PROVISION FOR TAX, SOCIAL SECURITY, LABOR AND CIVIL CONTINGENCIES

a) Provisioned risks

Based on the individual analysis of lawsuits filed against the Company and its subsidiaries and the opinion of its legal counsel, a provision is recorded in non-current liabilities for losses considered as probable, as follows:

	12/31/2014			
	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
In the parent company:				
<u>Tax:</u>				
. PIS/COFINS	-	-	-	25,506
. IRPJ/CSLL	(7,739)	7,739	-	1,116
. OTHER	(895)	895	-	27,667
	(8,634)	8,634	-	54,289
Labor	(64,296)	19,528	(44,768)	-
Civil	(7,712)	806	(6,906)	-
	(80,642)	28,968	(51,674)	54,289
<u>Subsidiaries:</u>				
Other	-	-	-	1,432
Consolidated	(80,642)	28,968	(51,674)	55,721
	12/31/2013			
	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
In the parent company:				
<u>Tax:</u>				
. PIS/COFINS	-	-	-	24,112
. IRPJ/CSLL	(12,003)	10,671	(1,332)	-
. OTHER	(652)	652	-	34,587
	(12,655)	11,323	(1,332)	58,699
Labor	(74,879)	18,748	(56,131)	-
Civil	(8,370)	767	(7,603)	-
	(95,904)	30,838	(65,066)	58,699
<u>Subsidiaries:</u>				
Other	(1)	-	(1)	1,432
Consolidated	(95,905)	30,838	(65,067)	60,131

The risks provisioned by the Company at December 31, 2014 relate to tax lawsuits - mainly challenges regarding income tax and social contribution on monetary restatements under Law 8,200/91, labor lawsuits filed by former employees of the Company's plants claiming labor rights (severance pay, overtime, hazardous duty and health hazard premiums), indemnities and joint liability, and civil lawsuits relating mainly to compensation claims for property damage and/or pain and suffering resulting from accidents.

b) Summary of changes in the provisioned amount

	Parent company and Consolidated			
	Tax	Labor	Civil	Net exposure
At December 31, 2012	(1,135)	(44,599)	(6,210)	(51,944)
New lawsuits/increases and monetary restatements/derecognitions	(2,274)	1,868	-	(406)
(Provision)/reversals	2,077	(13,400)	(1,394)	(12,717)
At December 31, 2013	(1,332)	(56,131)	(7,604)	(65,067)
New lawsuits/increases and monetary restatements/derecognitions	(965)	685	966	686
(Provision)/reversals	2,297	10,678	(268)	12,707
At December 31, 2014	-	(44,768)	(6,906)	(51,674)

c) Provisions for tax, social security, labor and civil contingencies not recognized

At December 31, 2014, the Company and its subsidiaries are parties to other tax, labor and civil lawsuits for which the risks of loss were assessed as "possible", involving the following approximate amounts: R\$ 685,698, R\$ 147,216 and R\$ 95,517 (R\$ 534,238, R\$ 101,391 and R\$ 78,935 at December 31, 2013). Based on the individual analyses of lawsuits and the opinion of the Company's legal counsel, management understands that these lawsuits do not need to be provided for since the likelihood of loss is assessed as possible.

d) Lawsuits filed by the Company

At December 31, 2014, the Company was a plaintiff in lawsuits which were not recognized in its financial statements, as assets are recognized only after a final and unappealable decision is rendered and the gain is virtually certain.

The Company's legal counsel assessed the likelihood of a favorable outcome in some of the lawsuits as "probable". These lawsuits relate to the requirement for presumed notional Excise Tax (IPI) credits on purchases of electric power, fuel oil and natural gas used in the production process.

e) Enrollment in REFIS

The Tax Recovery Program (REFIS) (Law 11,941/09 and Law 12,865/13) balance payable recorded in the parent company and consolidated totaled R\$ 435,007 at December 31, 2014 (R\$ 443,892 at Tuesday, December 31, 2013), which was restated at the effective interest rate, which considers the future values and the Special System for Settlement and Custody (SELIC) variations. The balance is being paid in monthly installments, with expected settlement in 2029.

f) Commitments

The Company and its subsidiaries did not have any material future commitments at the end of the reporting period that have not been disclosed in the financial statements.

18 EQUITY

a) Share capital

The Company's subscribed and paid-up capital was R\$ 2,271,500 at December 31, 2014 and 2013, comprising 4,729,789,565 shares (917,683,296 at December 31, 2013 - see information in Note 1), without par value, held as follows:

Stockholders	12/31/2014		12/31/2013	
	Common shares	Preferred shares	Common shares	Preferred shares
BNDSPAR	65,960,320	263,841,280	-	79,647,040
The Bank of New York Department	55,552,238	222,208,952	-	56,502,205
Monteiro Aranha S.A.	65,965,831	263,863,324	63,458,605	15,619,078
Klabin Irmãos & Cia	941,837,080	-	163,797,753	-
Niblak Participações S.A.	142,023,010	-	24,699,654	-
Other	547,153,721	2,010,883,809	64,871,551	418,473,910
Treasury shares	30,100,000	120,400,000	-	30,613,500
	<u>1,848,592,200</u>	<u>2,881,197,365</u>	<u>316,827,563</u>	<u>600,855,733</u>

Besides common and preferred nominative shares, the Company negotiates certificates of deposit of shares, named "Units", corresponding to the batch of one common share (ON) and four preferred shares (PN).

The Company's authorized capital comprises 5,600,000,000 common shares (ON) and/or preferred shares (PN).

b) Treasury shares

The Extraordinary Meeting of the Board of Directors held on December 9, 2013 approved the buyback of shares, over a 365-day period, corresponding to up to 43,168,811 Units, corresponding to 43,168,811 registered common shares and 172,675,244 registered preferred shares, equivalent to 8% of the shares outstanding in the market at the date of issue, to be held in treasury, to meet the obligations of the stock grant plan offered to officers, for subsequent cancellation or sale without a capital reduction.

The Company bought back 15,250 of its own preferred shares in January 2014, at the average price of R\$ 1.25, totaling R\$ 19. In April 2014, the Company bought back 1,000,000 shares, which corresponded to 200,000 Units at the average price of R\$ 11.67, totaling R\$ 2,335. In August, 1,564,500 shares were bought back, which corresponded to 312,900 Units, at the average price of R\$ 11.09, totaling R\$ 3,468.

In accordance with the stock option plan described in Note 22, granted as long term remuneration to the Company's officers, 2,845,000 preferred treasury shares were sold in March and April 2014, and the right to use the same amount was written off from treasury shares.

The Company maintained 150,500,000 of its own issued shares in treasury, corresponding to 30,100,000 Units, at December 31, 2014. The price on the São Paulo Stock Exchange was R\$ 14.59 per Unit at December 31, 2014 (BM&FBovespa ticker - KLBN11).

c) Reserves

Capital reserves

The reserve was constituted through the results of the sale of shares held in treasury, which did not transit through the statement of income. The balance can be utilized to offset losses, repurchase shares or for the payment of dividends on preferred shares, or can be incorporated into capital.

Additionally, the value of the sixth issue of debentures (Note 15) was allocated to the capital reserve, net of interest at present value and costs on the issue of securities, amounting to R\$ 1,260,040, and also the value of the subscription bonus on the seventh issue of debentures of R\$ 28,503 at December 31, 2014. The issued debentures from the sixth issue are mandatorily convertible into shares and will be transferred to capital when their conversion is realized.

Revaluation reserve

Based on CVM Resolution 27/86, this balance relates to the revaluation of property and equipment in 1988, which is realized through the depreciation or sale of revalued assets. The balance is stated net of the applicable income tax and social contribution.

Revenue reserves

(i) Legal reserve

Under the Brazilian corporate legislation, the Company should allocate 5% of the annual profit, not exceeding 20% of capital, to the legal reserve. The Company need not constitute the legal reserve in a year in which the balance of this reserve, plus the amount of capital reserve, exceeds 30% of the capital. The purpose of the legal reserve is to ensure the integrity of the Company's capital and can be used only to offset losses or increase capital, if determined by the Stockholders' Meeting.

(ii) Investment and working capital reserve

This statutory reserve, comprising the variable portion of annual profit, adjusted as required by law and representing between 5% and 75% of the profit according to the Company's bylaws, is intended to ensure funds for investment in property and equipment and to reinforce working capital.

(iii) Biological assets reserve

As required by the Company's bylaws, the biological assets reserve is appropriated from the profit for the year, net of taxes. It is constituted every year, with the appreciation in value arising from the fair value measurement of biological assets and reversed to retained earnings on the decrease in the fair value measurement of biological assets. The balance is realized through the depletion of the fair value of biological assets, limited to the existing balance in retained earnings.

The biological assets reserve relates to the biological assets of the Company and its subsidiaries and jointly-controlled subsidiaries as reflected in equity in the results of investees.

(iv) Reserve for proposed dividends

The reserve for proposed dividends was constituted based on management's proposal for dividend distribution from the portion exceeding the mandatory minimum dividend, which is contingent upon the approval of the General Meeting of Stockholders.

d) Carrying value adjustments

Created by Law 11,638/07, the group "Carrying value adjustments" in the Company's equity comprises adjustments in respect of increases and decreases in assets and liabilities, when applicable, that are not computed in the result for the year, up to their effective realization.

The balance maintained by the Company corresponds to the adoption of the deemed cost of property and equipment for the forest land, an option exercised on the initial adoption of the new accounting pronouncements in convergence with IFRS, at January 1, 2009; the foreign exchange variations of the subsidiary abroad with a functional currency different from the parent company (Note 1); balances relating to the stock option plan granted to executives (Note 22); and actuarial liability restatements (Note 26).

	Parent company and Consolidated	
	12/31/2014	12/31/2013
Deemed cost of property and equipment (land)	1,096,113	1,098,205
Foreign exchange variations - subsidiary abroad	(26,734)	(22,099)
Actuarial liability	(4,844)	(9,792)
Stock option plan	911	(877)
	1,065,446	1,065,437

e) Dividends

Dividends represent a portion of the profits earned by the Company which are distributed to the stockholders as remuneration of invested capital in the fiscal year. All stockholders are entitled to receive dividends proportionately to their ownership interest, as assured by the Brazilian corporate legislation and the Company's bylaws. The bylaws also determine that management has the option to prepay interim dividends during the year, "ad referendum" of the Ordinary General Meeting held to examine the accounts for the year.

The calculation basis of the mandatory dividends defined in the Company's bylaws, determining that it will be adjusted in accordance with the constitution, realization and reversal, in the related year, of the Biological Assets Reserve, entitling the Company's stockholders to receive, every year, a mandatory minimum dividend of 25% of the annual adjusted profit.

The profit distribution in 2014 can be presented as follows:

	Parent company
(=) Profit for the year	730,330
(-) Legal reserve (5% of profit)	(36,517)
(+) Realization of biological assets reserve - own	389,783
(-) Biological assets reserve - own	(520,289)
(-) Biological assets reserve - subsidiaries (*)	(102,950)
(-) Constitution of tax incentive reserve	(2,027)
(+) Realization of deemed cost of property and equipment (land)	2,092
(+) Realization of revaluation reserve	502
	<hr/>
(-) Basic profit for distribution of mandatory dividends	460,924
(=) Minimum mandatory dividends, according to the bylaws (25%)	115,231
<u>Interim dividends distributed from the result for 2014</u>	
July (paid on August 20, 2014)	
. R\$ 33,18 per thousand common and preferred shares	
. R\$ 165,90 per thousand Units	151,957
October (paid on November 19, 2014)	
. R\$ 19,65 per thousand common and preferred shares	
. R\$ 98,27 per thousand Units	90,000
	<hr/>
	241,957
<u>Proposal of complementary dividends for 2014 to be approved at the OGM</u>	
. R\$ 22.27 per thousand common and preferred shares	
. R\$ 111.36 per thousand Units	102,000
(-) Total dividends distributed on the 2014 result	343,957
(-) Share of results of debentures mandatorily convertible into shares	26,517
(-) Reserve for investments and working capital	90,450
	<hr/>
	460,924

(*) Included in equity in results of subsidiaries.

The Company's management will present, at the Ordinary General Meeting to be held on March 19, 2015, together with the request for the approval of the accounts for the year, a proposal for the distribution of complementary dividends in 2014 equivalent to R\$ 102,000, corresponding to R\$ 22.27 per thousand registered common shares and R\$ 111.36 per thousand Units, distributed with a portion of the result for the year. The total dividends proposed in 2014 amount to R\$ 343,957.

The balance of supplementary dividends is maintained in a specific account in equity named "Reserve for dividends proposed" until its approval and payment.

According to the stockholders' approval issued at the Annual General Meeting held on March 20, 2014, the Company distributed supplementary dividends for 2013 amounting to R\$ 90,096, corresponding to R\$ 19.04 per thousand shares and R\$ 95.20 per thousand units, paid on April 9, 2014.

During 2014, R\$ 332,053 was effectively paid, R\$ 241,957 related to interim dividends for 2014 and R\$ 90,096 to complementary dividends for 2013.

f) Share of results of mandatory debentures

As mentioned in Note 15, the holders of debentures mandatorily convertible into shares from the 6th issue are entitled to a share of the results at the distribution of dividends to the Company's stockholders. The amount is calculated considering the number of shares to be converted in the future, corresponding to 136,000,000 common shares and 544,000,000 preferred shares, at the amount per share effectively distributed regarding dividends.

g) Proposal for capital increase

At the Ordinary General Meeting to be held on March 19, 2015, the Company's management will submit for the approval of stockholders the capital increase of R\$ 7,610 from the Tax Incentive Reserves and R\$ 96,890 from the Legal Reserve, thus totaling R\$ 104,500, without the issue of new shares.

The purpose of this capital increase is compliance with Law 6,404/76, Article 199, concerning the requirement for a capital increase if the sum of the profit reserves exceeds the share capital, which was the case of the closing balance sheet for the year ended December 31, 2014.

19 NET SALES REVENUE

The Company's net sales revenue is comprised as follows:

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
Gross sales revenue	5,812,635	5,418,244	5,900,091	5,554,345
Discounts and rebates	(20,451)	(13,007)	(25,093)	(18,549)
Taxes on sales	<u>(954,349)</u>	<u>(915,520)</u>	<u>(981,116)</u>	<u>(936,459)</u>
	4,837,835	4,489,717	4,893,882	4,599,337
. Domestic market	3,715,038	3,429,433	3,679,397	3,424,195
. Foreign market	<u>1,122,797</u>	<u>1,060,284</u>	<u>1,214,485</u>	<u>1,175,142</u>
Net sales revenue	<u>4,837,835</u>	<u>4,489,717</u>	<u>4,893,882</u>	<u>4,599,337</u>

20 COSTS AND INCOME AND EXPENSES BY NATURE

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
Variable costs (raw materials and consumables)	(1,806,619)	(1,679,579)	(1,785,440)	(1,646,025)
Personnel	(774,843)	(707,852)	(782,670)	(715,002)
Depreciation, amortization and depletion	(941,956)	(742,540)	(951,965)	(766,553)
Freight	(231,606)	(221,584)	(235,523)	(225,920)
Commission	(13,227)	(9,257)	(27,686)	(33,323)
Services contracted	(249,432)	(246,177)	(251,952)	(248,664)
Revenue from the sale of property and equipment	85,902	16,203	85,902	16,203
Cost of sale and write-off of property and equipment	(49,446)	(18,461)	(49,446)	(18,461)
Deemed cost of property and equipment (land)	(3,168)	-	(3,168)	-
Other	<u>(159,361)</u>	<u>(160,096)</u>	<u>(164,952)</u>	<u>(200,864)</u>
	(4,143,756)	(3,769,343)	(4,166,900)	(3,838,609)

21 FINANCE INCOME AND COSTS

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Finance income				
. Income from financial investments	473,310	185,765	489,221	196,196
. Other	46,108	16,682	46,117	16,761
	519,418	202,447	535,338	212,957
Finance costs				
. Interest on borrowing and debentures	(521,378)	(310,382)	(549,305)	(310,314)
. Interest on REFIS (Note 17)	(46,263)	(39,973)	(46,263)	(39,973)
. Capitalized interest on property, plant and equipment (i)	74,085	-	74,085	-
. Amortization - adjustment to present value - Debentures	(51,596)	-	(51,596)	-
. Guarantee of borrowing - related parties	(13,580)	(14,420)	(13,580)	(14,420)
. Compensation of investors - SPCs	-	-	(7,347)	(7,330)
. Other	(59,029)	(49,694)	(60,924)	(51,313)
	(617,761)	(414,469)	(654,930)	(423,350)
Foreign exchange variation				
. Foreign exchange variations on assets	108,446	63,014	92,534	63,058
. Foreign exchange variations on liabilities	(640,601)	(602,629)	(619,054)	(591,699)
	(532,155)	(539,615)	(526,520)	(528,641)
Finance result	(630,498)	(751,637)	(646,112)	(739,034)

(i) See Note 12.

22 STOCK OPTION PLAN

The Extraordinary General Meeting of Stockholders held on July 10, 2012 approved the stock option plan as a benefit for the members of the Executive Board and the Company's key personnel.

CVM authorized the Company, through the Circular Letter/CVM/SEP/GEA-2/221/2012, to realize the private transactions included in the incentive plan for its directors and employees, except for the controlling stockholders, through the private transfer of treasury shares.

Pursuant to this Plan, the Company established that its statutory and non-statutory directors could utilize 25% to 70% of their variable remuneration for the acquisition of treasury shares, and the Company will grant the right to use the same amount of shares to the acquirers for three years, transferring to them the ownership of the shares after three years, provided that the clauses established in the Plan are complied with.

The plan does not establish the acquisition of shares by the Company's key personnel, but only the granting of the right to use a certain number of shares for three years, the ownership of which will be transferred to the beneficiary, provided the established clauses are complied with.

The right of use grants to the beneficiary the right to the dividends distributed in the period during which the benefit is valid.

The value of the acquisition of treasury shares by the beneficiaries of the plan will be obtained based on the lower of the average of the market value quotations in the last 60 trading sessions of the Company's shares and their quotation on the acquisition date. The value of shares on which the

right to use is granted corresponds to the quotation of shares traded on the BM&FBOVESPA on the transaction date.

The clauses that grant the transfer of the shares establish the participation of the beneficiary in the Company and stipulate that the shares acquired on the adhesion to the plan may not be sold. The shares granted can be immediately assigned in the case of the termination of employment by the Company, or the retirement or death of the beneficiary, in which case the right to the shares becomes part of the estate of the deceased.

The shares granted and the expense proportional to the grant term, recorded in the result, is accumulated in Equity in the "Carrying value adjustments" group, up to the end of the grant, which could occur due to the three-year maturity or any other clause of the plan that could terminate the grant.

The table below presents information on the agreed-upon plans:

a) Statutory and non-statutory Board members

	<u>Plan 2011</u>	<u>Plan 2012</u>	<u>Plan 2013</u>	<u>Total</u>
Start of the plan	7/10/2012	3/1/2013	3/1/2014	-
Final grant date	7/10/2015	3/1/2016	3/1/2017	-
Treasury shares acquired by the beneficiaries (i)	2,375,000	1,904,500	2,302,500	6,582,000
Purchase value per share (R\$) (i)	1.56	2.57	2.34	
Treasury shares granted with right of use (i)	2,375,000	1,904,500	2,302,500	6,582,000
Value of the right of use per share (R\$) (i)	1.75	2.67	2.29	
Plan accumulated depreciation - from the beginning	3,471	3,110	1,462	8,043
Expenses of the plan - 1/1 to 12/31/2014	1,388	1,696	1,462	4,546
Expenses of the plan - 1/1 to 12/31/2013	1,388	1,414	-	2,802

b) Key personnel

	<u>Plan 2012</u>	<u>Plan 2013</u>	<u>Total</u>
Start of the plan (ii)	3/1/2013	4/30/2014	-
Final grant date	3/1/2016	4/30/2017	-
Treasury shares granted with right of use (i)	682,500	542,500	1,225,000
Value of the right of use per share (R\$) (i)	2.67	2.30	
Plan accumulated depreciation - from the beginning	1,114	317	1,431
Expenses of the plan - 1/1 to 12/31/2014	608	317	925
Expenses of the plan - 1/1 to 12/31/2013	506	-	506

(i) Considers the stock split mentioned in Note 1.

(ii) The 2012 plan was granted in June 2013 on a retrospective basis.

23 EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the profit for the period attributable to holders of the Company's common and preferred shares by the weighted average number of common and preferred shares available during the period. The Company has debentures mandatorily convertible into shares (Note 15) recorded in equity, therefore, in the number of shares, the future conversion of the debentures into the total amount of shares is already considered.

The calculation did not consider the shares that would be obtained with the future conversion of the 7th issue of debentures into shares (Note 15), because their issue amount was below the Unit value in the market at December 31, 2014 (it should be considered in the calculation only when exceeding it).

Accordingly, diluted earnings per share are equal to the basic earnings per share since it does not have other potentially dilutive common or preferred shares.

As mentioned in Note 1, on March 20, 2014 the Company realized a stock split, at 1 for 5 shares of the same class and type. The calculation shown in these financial statements considers all the information on shares considering the stock split mentioned, and also representing the year ended December 31, 2013, for comparison purposes.

As mentioned in Note 18, the changes of treasury shares affected the weighted average number of preferred shares held in treasury in the calculation for the year ended December 31, 2014. The weighted average utilized in the calculation of earnings per share was determined as follows:

Weighted average number of treasury shares - December 31, 2014 (*)

Jan to Feb	Mar	Apr to Jul	Aug to Dec	12 months - 2014
153,067,500 x 2/12	+ 148,477,750 x 1/12	+ 149,477,750 x 4/12	+ 150,500,000 x 5/12	= 150,418,646

(*) Common and preferred shares are divided according to the composition of Units, since the Company only has Units in treasury.

The table below, presented in R\$, reconciles the profit for the years ended December 31, 2014 and 2013 with the amounts utilized in the calculation of basic and diluted earnings per share:

	Parent company and Consolidated		
	From 1/1 to 12/31/2014		
	Common (ON)	Preferred (PN)	Total
Denominator			
Weighted average number of shares	1,848,592,200	2,881,197,365	4,729,789,565
Number of shares to be converted into debentures	136,000,000	544,000,000	680,000,000
Weighted average number of treasury shares	(30,083,729)	(120,334,917)	(150,418,646)
Weighted average number of outstanding shares	1,954,508,471	3,304,862,448	5,259,370,919
% of shares in relation to the total	37.16%	62.84%	100%
Numerator			
Profit attributable to each class of shares (R\$)	271,408,158	458,921,842	730,330,000
Weighted average number of outstanding shares	1,954,508,471	3,304,862,448	5,259,370,919
Basic and diluted earnings per share (R\$)	0.1389	0.1389	

	Parent company and Consolidated		
	From 1/1 to 12/31/2013		
	Common (ON)	Preferred (PN)	Total
Denominator			
Weighted average number of shares	1,584,137,815	3,004,278,665	4,588,416,480
Weighted average number of treasury shares	-	(151,323,710)	(151,323,710)
Weighted average number of outstanding shares	1,584,137,815	2,852,954,955	4,437,092,770
% of shares in relation to the total (*)	33.55%	66.45%	100%
Numerator			
Profit attributable to each class of shares (R\$)	97,313,817	192,783,183	290,097,000
Weighted average number of outstanding shares	1,584,137,815	2,852,954,955	4,437,092,770
Basic and diluted earnings per share (R\$)	0.0614	0.0676	

24 OPERATING SEGMENTS

a) Criteria for identification of operating segments

The Company's operating structure is divided into segments according to the manner in which management manages the business. The operating segments defined by management are as follow:

- (i) Forestry segment: involves operations for planting and growing pine and eucalyptus trees to supply the Company's paper plants. Also involves selling timber (logs) to third parties on the domestic market
- (ii) Paper segment: mainly involves the production and sale of cardboard, Kraftliner and recycled paper rolls on the domestic and foreign markets
- (iii) Conversion segment: involves the production and sale of corrugated cardboard boxes, corrugated cardboard and industrial sacks on the domestic and foreign markets.
- (iv) Pulp segment: involves the operations of the Puma Project, which will comprise the manufacture and selling of pulp in the domestic and foreign markets in the future.

b) Consolidated information on operating segments

	From 1/1 to 12/31/2014					Total Consolidated
	Forestry	Paper	Conversion	Pulp	Corporate/e liminations	
Net revenue:						
.Domestic market	330,899	1,305,745	2,041,238		1,515	3,679,397
.Foreign market	-	1,061,285	153,200		-	1,214,485
Revenue from sales to third parties	330,899	2,367,030	2,194,438	-	1,515	4,893,882
Revenue between segments	575,031	1,081,453	14,119		(1,670,603)	-
Total net sales	905,930	3,448,483	2,208,557	-	(1,669,088)	4,893,882
Changes in the fair value of biological assets	924,104	-	-	-	-	924,104
Cost of products sold	(1,196,637)	(2,239,036)	(1,808,623)		1,670,687	(3,573,609)
Gross profit	633,397	1,209,447	399,934	-	1,599	2,244,377
Operating income (expenses)	(16,080)	(317,117)	(232,038)		20,593	(544,642)
Operating result before finance result	617,317	892,330	167,896	-	22,192	1,699,735
Sale of products (metric tons)						
.Domestic market	-	548,007	678,652		-	1,226,659
.Foreign market	-	513,681	30,907		-	544,588
.Inter-segmental	-	740,917	2,250		(743,167)	-
	-	1,802,605	711,809	-	(743,167)	1,771,247
Sale of timber (metric tons)						
.Domestic market	2,870,274	-	-	-	-	2,870,274
.Inter-segmental	7,432,275	-	-	-	(7,432,275)	-
	10,302,549	-	-	-	(7,432,275)	2,870,274
Investments in the year	172,568	441,805	86,773	2,242,401	1,888	2,945,435
Depreciation, depletion and amortization	(697,048)	(213,689)	(37,756)	-	(3,472)	(951,965)
Total assets - 12/31/2014	6,701,752	4,816,679	1,252,769	2,724,272	5,678,383	21,173,855
Total liabilities - 12/31/2014	1,662,233	450,458	186,841	189,646	11,626,353	14,115,531
Equity - 12/31/2014	5,039,519	4,366,221	1,065,928	2,534,626	(5,947,970)	7,058,324
	From 1/1 to 12/31/2013					
	Forestry	Paper	Conversion	Pulp	Corporate/e liminations	Total Consolidated
Net revenue:						
.Domestic market	311,526	1,236,363	1,877,475		(1,169)	3,424,195
.Foreign market	-	1,026,747	148,395		-	1,175,142
Revenue from sales to third parties	311,526	2,263,110	2,025,870	-	(1,169)	4,599,337
Revenue between segments	554,882	953,448	12,516		(1,520,846)	-
Total net sales	866,408	3,216,558	2,038,386	-	(1,522,015)	4,599,337
Changes in the fair value of biological assets	336,289	-	-	-	-	336,289
Cost of products sold	(1,015,765)	(2,063,597)	(1,639,949)		1,512,394	(3,206,917)
Gross profit	186,932	1,152,961	398,437	-	(9,621)	1,728,709
Operating income (expenses)	(24,585)	(328,261)	(211,810)		(44,801)	(609,457)
Operating result before finance result	162,347	824,700	186,627	-	(54,422)	1,119,252
Sale of products (metric tons)						
.Domestic market	-	574,909	660,066		-	1,234,975
.Foreign market	-	520,344	32,912		-	553,256
.Inter-segmental	-	709,742	1,900		(711,642)	-
	-	1,804,995	694,878	-	(711,642)	1,788,231
Sale of timber (metric tons)						
.Domestic market	2,868,568	-	-	-	-	2,868,568
.Inter-segmental	7,299,983	-	-	-	(7,299,983)	-
	10,168,551	-	-	-	(7,299,983)	2,868,568
Investments in the year	138,711	577,644	80,786	98,528	3,742	899,411
Depreciation, depletion and amortization	(549,209)	(178,240)	(36,199)	-	(2,905)	(766,553)
Total assets - 12/31/2013	6,274,960	4,699,130	1,087,233	86,430	2,771,743	14,919,496
Total liabilities - 12/31/2013	1,564,995	502,737	175,732	86,430	7,196,935	9,526,829
Equity - 12/31/2013	4,709,965	4,196,393	911,501	-	(4,425,192)	5,392,667

The balance in the column “Corporate/eliminations” refers to the corporate unit's expenses not apportioned among the other segments, and eliminations refer to adjustments of operations among the other segments.

The information on the finance result and income tax was not disclosed in the segment reporting because management does not utilize such data on a segmental basis, and the data is instead managed and analyzed on a consolidated basis.

c) Information on net sales revenue

The Company's net revenue from sales to foreign customers, in the consolidated result for the years ended December 31, 2014 and 2013, amounted to R\$ 1,214,485 and R\$ 1,175,142, respectively. The table below shows the distribution of net revenue by country:

Country	Consolidated From 1/1 to 12/31/2014		Country	Consolidated From 1/1 to 12/31/2013	
	Total revenue (R\$/million)	% of total net revenue		Total revenue (R\$/million)	% of total net revenue
Argentina	514	10.4%	Argentina	475	10.3%
China	246	5.0%	China	167	3.6%
Singapore	134	2.7%	Singapore	153	3.3%
France	30	0.6%	Spain	61	1.3%
Mexico	28	0.6%	Germany	55	1.2%
Saudi Arabia	27	0.5%	Italy	41	0.9%
Colombia	27	0.5%	France	32	0.7%
Ecuador	25	0.5%	South Africa	23	0.5%
South Africa	24	0.5%	Venezuela	17	0.4%
Italy	21	0.4%	Nigeria	17	0.4%
Other	138	2.8%	Other	134	2.9%
	1214	25%		1175	26%

The Company's net revenue from sales to domestic customers in the consolidated result for the years ended December 31, 2014 and 2013, amounted to R\$ 3,679,397 and R\$ 3,424,195, respectively.

In the year ended December 31, 2014, a single customer for cardboard represented approximately 21% of the Company's net revenue, corresponding to approximately R\$ 1,027,000 (R\$ 1,013,000 for the year ended December 31, 2013). The remaining customer base is diluted, as none of the other customers individually account for a material share (above 10%) of the Company's net sales revenue.

c) Net pro forma sales revenue

As mentioned in Note 3, the Company has a joint venture (Florestal Vale do Corisco) which operates in the forestry segment and is not consolidated, being recognized under the equity method of accounting, by taking into account the Company's investment in this joint venture.

If this jointly-controlled subsidiary consolidated in the Company's financial statements, the Company's net pro sales revenue for the year ended December 31, 2014 would total R\$ 4,951,000 (December 31, 2013 - R\$ 4,658,000).

25 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Risk management

The Company and its subsidiaries enter into transactions involving financial instruments, all recorded in balance sheet accounts, in order to meet their operational needs and reduce exposure to financial risks, mainly related to credit and investment of funds, market risks (foreign exchange and interest rates) and liquidity risks, to which the Company understands that it is exposed based on the nature of its business and operating structure.

These risks are managed through the definition of strategies prepared and approved by the Company's management, linked to the establishment of control systems and the determination of limits. The Company does not enter into transactions involving financial instruments for speculative purposes.

Management also carries out prompt assessments of the Company's consolidated position, monitoring the financial results obtained, analyzing future projections to ensure compliance with the business plan defined, and monitoring the risks to which it is exposed.

The main risks to which the Company is exposed are described below:

Market risk

Market risk is the risk that the fair value of the future cash flow of a financial instrument will fluctuate due to changes in market prices. Market prices are affected by two types of risk: interest rate and foreign exchange risk. The financial instruments affected by market risk are financial investments, trade receivables, trade payables, loans payable, available-for-sale instruments and derivative financial instruments.

(i) Foreign exchange rate variation risk

The Company has transactions denominated in foreign currencies (mainly in US Dollars), which are exposed to market risks arising from fluctuations in foreign exchange rates. Any fluctuation in a foreign exchange rate could increase or reduce balances. The composition of this exposure was as follows:

	Consolidated	
	12/31/2014	12/31/2013
Current accounts and financial investments	1,277,725	174,612
Trade receivables, net of provision for impairment of trade receivables	356,666	345,347
Other assets and liabilities	68,503	(9,940)
Borrowing	(6,853,776)	(4,751,396)
Net exposure	(5,150,882)	(4,241,377)

The balance of this net exposure at December 31, 2014 was as follows:

Year	2015	2016	2017	2018	2019	2020	2021	2022 onwards	Total
Value	930,977	(584,516)	(970,582)	(894,338)	(897,325)	(672,948)	(397,991)	(1,664,159)	(5,150,882)

The Company did not have derivative contracts to hedge against long term foreign exchange exposure at December 31, 2014. However, in order to hedge against this net liability exposure, the Company has a sales plan under which the projected flow of export revenue is approximately USD 500 million annually and its receipts, if realized, would exceed, or approximate, the flow of payments of the related liabilities, offsetting the cash effect of this foreign exchange exposure in the future.

(ii) Interest rate risk

The Company has loans indexed to the variations of the TJLP, LIBOR and the CDI and financial investments indexed to the variations of the CDI and SELIC, which expose these assets and liabilities to fluctuations in interest rates as shown in the interest sensitivity analysis below. The Company does not have derivative contracts to swap/hedge against the exposure to these market risks.

The adopted practice is to continuously monitor market interest rates in order to assess the possible need to contract derivatives to hedge against the risk of volatility of these rates. The Company considers that the high costs associated with entering into transactions at fixed interest rates in the Brazilian macroeconomic scenario justifies the choice of floating rates.

The composition of the interest rate risk is as follows:

	Consolidated	
	12/31/2014	12/31/2013
Financial investments - CDI	3,880,452	2,521,195
Financial investments - SELIC	497,604	249,511
Asset exposure	4,378,056	2,770,706
Financing - CDI	(817,799)	(483,914)
Financing - TJLP	(1,361,774)	(1,592,911)
Financing - LIBOR	(3,792,639)	(3,380,185)
Debentures - Amplified Consumer Price Index (IPCA)	(798,022)	-
Liability exposure	(6,770,234)	(5,457,010)

Risk relating to use of funds

The Company is exposed to the risk relating to the use of funds, including deposits in banks and financial institutions, foreign exchange transactions, financial investments and other financial instruments contracted. The exposure amount relates mainly to financial investments and transactions involving securities, which are described in Notes 4 and 5.

In relation to the financial assets of the Company invested in financial institutions, an internal policy is used for the approval of the type of operation being agreed upon and for the analysis of the credit ratings, according to the rating agencies, to assess the feasibility of the investment of the funds in a certain institution, provided that it meets the criteria of acceptance of the policy.

The table below presents the cash, cash equivalents and marketable securities invested by the Company, classifying the amounts according to the national classification of the financial institutions by the ratings agency Fitch:

	Consolidated	
	12/31/2014	12/31/2013
National rating AAA (bra) (*)	5,514,472	2,859,196
National rating AA+ (bra)	228,965	120,187
	5,743,437	2,979,383

(*) This group considers the LFTs because of the low risk related to the transaction.

Credit risk

Credit risk is the risk that a counterparty of a business does not fulfill an obligation established in a financial instrument or contract with a customer, leading to a financial loss. The Company is exposed to credit risk in its operating activities (mainly in connection with trade receivables).

At December 31, 2014, the maximum amount exposed to credit risk is the carrying amount of trade receivables shown in Note 6.

Credit risk in the Company's operating activities is managed based on specific rules for the acceptance of customers, credit analysis and establishment of exposure limits by the customer, which limits are periodically reviewed. Overdue receivables are followed up swiftly to ensure their realization.

Liquidity risk

The Company monitors the risk of shortages of funds, managing its capital through a recurring liquidity-planning tool, so that it has funds available for the fulfillment of its obligations, mainly concentrated on financing from financial institutions.

The table below shows the maturity of the financial liabilities contracted by the Company and reported in the consolidated balance sheet, where amounts include principal and future interest to be levied on transactions, calculated using the rates and indices prevailing at December 31, 2014:

	2015	2016	2017	2018	2019	2020	2021	2022 onwards	Total
Trade payables	(438,864)	-	-	-	-	-	-	-	(438,864)
Borrowing/Debentures	(2,001,517)	(1,306,687)	(1,647,808)	(1,560,940)	(1,556,734)	(1,819,853)	(761,052)	(2,627,465)	(13,282,056)
Total	(2,440,381)	(1,306,687)	(1,647,808)	(1,560,940)	(1,556,734)	(1,819,853)	(761,052)	(2,627,465)	(13,720,920)

The budget projection approved by the Board of Directors shows the ability to meet these obligations, as they materialize.

Capital management

The Company's capital structure comprises net debt, consisting of borrowing (Note 14) and debentures (Note 15) less cash and cash equivalents and securities (Notes 4 and 5), and equity, including the balance of issued capital and all the constituted reserves.

The Company's net indebtedness ratio is comprised as follows:

	Consolidated	
	12/31/2014	12/31/2013
Cash and cash equivalents and securities	5,743,437	2,979,383
Borrowing and debentures	(10,985,572)	(6,963,597)
Net indebtedness	(5,242,135)	(3,984,214)
Equity	7,058,324	5,392,667
Net indebtedness ratio	(0.74)	(0.74)

b) Financial instruments by category

The Company has the following financial instruments by category:

	Consolidated	
	12/31/2014	12/31/2013
Assets - Loans and receivables		
. Cash and cash equivalents	5,245,833	2,729,872
. Total trade receivables, net of provision for impairment of trade receivables	1,148,676	1,145,154
. Other assets	432,625	348,000
	6,827,134	4,223,026
Assets - Available-for sale		
. Marketable securities	497,604	249,511
	497,604	249,511
Liabilities - amortized cost		
. Borrowing and debentures	10,985,572	6,963,597
. Trade payables	438,864	345,384
. Other payables	715,614	712,893
	12,140,050	8,021,874

Loans and receivables and other financial liabilities at amortized cost

The financial instruments included in this group refer to balances arising from usual transactions, such as trade receivables, trade payables, borrowing, financial investments and cash and cash equivalents. All of them are recorded at their notional amounts plus, when applicable, contractual charges and interest rates, for which the related income and expenses are recognized in profit (loss) for the period.

Available-for-sale financial assets

The Company classifies the securities that comprise LFTs (Note 5) as financial assets held for trading, since they can be traded in the future and were recorded at the invested amount plus interest on the transaction. Due to the liquidity and nature of these assets, their fair value approximates the amortized cost, not generating an effect on the Company's equity. The balance of these securities at December 31, 2014 in the consolidated balance sheet was R\$ 497,604 (R\$ 249,511 at December 31, 2013).

c) Sensitivity analysis

The Company presents below the sensitivity analyses of foreign exchange and interest rate risks to which it is exposed, considering that any effects would impact future results, based on the exposure at December 31, 2014. The effects in equity and in profit (loss) are basically the same.

(i) Foreign exchange exposure

The Company has assets and liabilities indexed to a foreign currency in the balance sheet at December 31, 2014 and, for sensitivity analysis purposes, it adopted as Scenario I the future market rate in effect at the end of the reporting period. For Scenarios II and III this rate was adjusted by 25% and 50%, respectively.

It is important to point out that most of the financing maturities will not occur in 2015 according to the maturity schedule shown in Note 14 and, therefore, exchange variations will not have an effect on the cash resulting from this analysis. On the other hand, the Company's exports should substantially experience the impact of the exchange variations on the cash during the year.

The sensitivity analysis of the exchange variation is calculated on the net foreign exchange exposure (basically borrowing, trade receivables and trade payables in foreign currency), not considering the effect on the scenarios of projected export sales that, as previously mentioned, will offset any future exchange loss.

Accordingly, the table below shows a simulation of the effect of the exchange variation on the future results for the next 12 months, if all other variables remain constant:

At 12/31/2014	Scenario I		Scenario II		Scenario III		
	US\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Assets							
Cash and cash equivalents	481,035	2.80	69,173	3.50	405,897	4.20	742,622
Trade receivables, net of provision for impairment of trade receivables	134,277	2.80	19,309	3.50	113,303	4.20	207,297
Other assets and liabilities	25,790	2.80	3,709	3.50	21,762	4.20	39,815
Borrowing	(2,580,294)	2.80	(371,046)	3.50	(2,177,252)	4.20	(3,983,458)
Net effect on finance result			(278,855)		(1,636,290)		(2,993,724)

(ii) Interest rate exposure

Financial investments and financing, except those subject to TJLP and LIBOR, are subject to the CDI floating interest rate. For sensitivity analysis purposes, the Company adopted rates prevailing at dates close to the reporting dates, utilizing the same rate for SELIC, LIBOR, IPCA and CDI in the projection of Scenario I because of their proximity. For Scenarios II and III these rates were adjusted by 25% and 50%, respectively.

Accordingly, the table below shows a simulation of the effect of the interest rate variation on the future results for the next 12 months:

		At 12/31/2014		Scenario I		Scenario II		Scenario III	
		R\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	
Financial investments									
CDB	CDI	3,880,453	12.50%	29,103	15.63%	150,368	18.75%	271,632	
LFT	SELIC	497,604	12.50%	3,732	15.63%	19,282	18.75%	34,832	
Borrowing									
Export Credit Note (R\$)	CDI	(817,799)	12.50%	(6,133)	15.63%	(31,690)	18.75%	(57,246)	
BNDES	TJLP	(1,361,774)	5.50%	(6,809)	6.88%	(25,533)	8.25%	(44,258)	
Debentures	IPCA	(798,022)	6.67%	(2,075)	8.34%	(15,382)	10.01%	(28,689)	
Export prepayments	LIBOR	(3,792,639)	0.36%	-	0.46%	(3,459)	0.55%	(6,918)	
Net effect on finance result				17,818		93,586		169,353	

26 EMPLOYEE BENEFITS AND PENSION PLAN

The Company and its subsidiaries grant their employees life insurance, healthcare and pension plan benefits. These benefits are recognized on an accruals basis and their granting is discontinued at the end of the employment relationship.

a) Private pension plan

Klabin S.A.'s pension plan - the Prever Plan, administered by Itaú Vida e Previdência S.A. - was established in 1986 as a defined benefit plan. In 1998, the plan was restructured to become a defined contribution plan.

In November 2001, a new pension plan was established, Plano de Aposentadoria Complementar Klabin (PACK) (a complementary pension plan), administered by Bradesco Vida e Previdência S.A. and structured as a Free Benefit Generating Plan (PGBL).

The participants in the Prever Plan were offered the option to migrate to the new plan. In neither plan does the Company assume any responsibility for guaranteeing minimum benefit levels for retiring participants.

b) Healthcare

Under the agreement entered into with the Union of the São Paulo State Pulp and Paper Workers, the Company pays for a lifetime healthcare plan (Hospital SEPACO, main plan) for its former employees who had retired by 2001, as well as for their dependents until they reach the age of majority and spouses.

New beneficiaries are not allowed. The Company understands that this healthcare benefit is considered a defined benefit plan in accordance with accounting practices adopted in Brazil and, for this reason, maintained a provision for the estimated actuarial liability amounting to R\$ 56,621 at December 31, 2014 (R\$ 57,328 at December 31, 2013), in non-current liabilities, under "Other payables and provisions".

In the actuarial valuation, the following economic and biometric assumptions were utilized: nominal discount rate of 11.25% p.a., nominal growth rate of variable medical costs starting at 12.7% p.a. in 2014 and decreasing to 7.2% p.a. in 2026, long term inflation of 5.2% p.a., and biometric mortality table RP-2000. Actuarial restatements are maintained in equity by the group "Carrying value adjustments (comprehensive income)", as required by CPC 33 (R1), "Employee Benefits".

An increase or decrease of one percentage point in the rates utilized in the actuarial calculations would not have material an effect on the Company's financial statements.

This plan does not have assets for disclosure.

c) Other employee benefits

The Company grants to its employees the following benefits: healthcare, day nursery reimbursement, assistance to parents with children with special needs, agreement for discounts at drugstores, school equipment supplies, dental care plan, private pension plan and life insurance, in addition to the benefits established by law (meal vouchers, transportation vouchers, profit sharing and food purchase vouchers). Moreover, the Company has an organizational development program for its employees. For the year ended December 31, 2014, expenditure on training programs totaled R\$ 7,100 (R\$ 5,993 at December 31, 2013).

All these benefits are recognized on an accruals basis and are discontinued at the end of the employment relationship with the Company.

27 INSURANCE COVERAGE

At December 31, 2014, the Company had insurance against fire, lightning, explosions, electrical damage and windstorms for its industrial and administrative facilities and inventory. The Company also has insurance coverage for general civil liability, responsibility of directors and officers, auto, and multi-peril risks for its chattels, amounting to R\$ 4,155,709.

In view of the nature of its activities, the distribution of forests in different areas, and the preventive measures adopted against fire and other forest risks, the Company has decided to not contract insurance against damage caused to forests, opting for the adoption of protection policies that, historically, have proven to be highly effective and have not impaired the Company's activities or financial position. Accordingly, management understands that its financial risk management structure in relation to forest activities is appropriate to ensure its continuance as a going concern.

28 EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period that would require disclosure in the financial statements.

(A free translation of the original in Portuguese)

OTHER INFORMATION

1 DISCLOSURE OF EBITDA

Pursuant to CVM Instruction 527/12, the Company adhered to the voluntary disclosure of non-financial information as additional information included in its financial statements, presenting Earnings before Interest, Tax, Depreciation and Amortization (EBITDA), for the years ended December 31, 2014 and 2013.

In general terms, EBITDA represents the Company's operational generation of cash, corresponding to the funds generated by the Company through its operating activities only, without taking into consideration financial effects or taxes. It is important to note that this does not represent the cash flow for the periods presented, and it must not be considered as a basis for the distribution of dividends, an alternative to profit, nor an indication of liquidity.

	Consolidated	
	12/31/2014	12/31/2013
(=) Profit for the year	730,330	290,097
(+) Income tax and social contribution	323,293	90,121
(+/-) Finance result, net	646,112	739,034
(+) Amortization, depreciation and depletion in the result	<u>951,965</u>	<u>766,553</u>
EBITDA	2,651,700	1,885,805
Adjustments pursuant to CVM Instruction 527/12		
(+/-) Changes in fair value of biological assets (i)	(924,104)	(336,289)
(+/-) Equity in the results of subsidiaries (ii)	(48,649)	(22,235)
(+/-) EBITDA of a jointly-controlled subsidiary (ii)	35,972	34,400
(+) Realization of deemed cost of property and equipment - land (iii)	<u>3,169</u>	<u>-</u>
Adjusted EBITDA	1,718,088	1,561,681

Adjustments for definition of EBITDA - adjusted:

(i) Change in the fair value of biological assets

The variation in the fair value of biological assets corresponds to the gains or losses obtained on the biological transformation of the forestry products up to their allocation in conditions of use/sale during the formation cycle.

Since expectations relating to the value of assets are reflected in the Company's results and fair value is calculated based on the assumptions included in the discounted cash flow, without cash effects on its recognition, the variations of fair value are excluded from the calculation of EBITDA.

(ii) Equity in the results and EBITDA of a jointly-controlled subsidiary

Equity in the results of investees in the Company's statement of income reflects the profit (loss) of a subsidiary in the parent company's financial statements, calculated in accordance with its percentage of participation in the subsidiary. In the consolidated statement of income, the equity in the results of investees recorded relates to the jointly-controlled subsidiary.

The profit (loss) of the jointly-controlled subsidiary is influenced by items that are excluded from the EBITDA calculation, such as the net finance result, income tax and social contribution; and the amortization, depreciation and depletion of, and variations in, the fair value of biological assets. For this reason, the results of the equity in the profit (loss) of the subsidiary is excluded from the calculation, the EBITDA generated by the jointly-controlled subsidiary being calculated in the same manner, equivalent to the Company's participation in the entity.

(iii) Realization of deemed cost of property and equipment (land)

The effects of the deemed cost of land allocated to property and equipment with the initial adoption of the IFRS are adjusted in the EBITDA when made pursuant to the disposal of assets, because it is not a cash-related effect comprising the cost of the disposed asset.

2 PROPOSAL FOR CAPITAL BUDGET

In compliance with Law 6,404/76, Article 196, the management of Klabin S.A. presents this capital budget proposal.

The investment budget for 2015, as approved by the Board of Directors at the meeting held on December 11, 2014, totals R\$ 4,172 million, and is distributed as follows:

	<u>R\$ million</u>
INVESTMENTS	
PUMA project - Construction of the pulp plant	3,437
Special projects – Expansion	350
Maintenance of operations	<u>385</u>
	4,172
SOURCES OF RESOURCES	
Third party resources	
BNDES	2,200
ECA - Finnvera (Finnish Agency of Export Credit)	1,000
IDB - Inter-American Development Bank	<u>700</u>
Total borrowing	3,900
Own funds	
Cash and/or cash provided by operating activities in the year (including convertible debentures - 6 th issue)	<u>272</u>
	4,172

If the Stockholders consider any further clarifications necessary, the Company's management is at their disposal.

KLABIN S.A.
National Corporate Taxpayers' Registry (CNPJ) No. 89.637.490/0001-45
Listed company

BOARD OF DIRECTORS

President

Pedro Franco Piva

Board Members

Armando Klabin

Celso Lafer

Daniel Miguel Klabin

Israel Klabin

Lilia Klabin Levine

Matheus Morgan Villares

Miguel Lafer

Olavo Egydio Monteiro de Carvalho

Paulo Sérgio Coutinho Galvão Filho

Roberto Luiz Leme Klabin

Rui Manuel de Medeiros D'Espiney Patrício

Vera Lafer

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João Alfredo Dias Lins

Luís Eduardo Pereira de Carvalho

Mauricio Tiomno Tolmasquim

Wolfgang Eberhard Rohrbach

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Antonio Sergio Alfano

Paulo Roberto Petterle

Francisco Cezar Razzolini

Arthur Canhisares

Cristiano Cardoso Teixeira

CEO

Financial and Investor Relations Officer

Officer

Officer

Officer

Officer

Pedro Guilherme Zan

Controllership

CT-CRC-1SP168918/O-9

Angel Alvarez Núñez

Accounting Department

TC-CRC-1SP157878/O-3
