

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

Klabin S.A.



Klabin

**Financial statements at December 31, 2020 and 2019 and
independent auditor's report**

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

Officers' statement on the financial statements

We, as Officers of KLABIN S.A., a corporation headquartered in the city of São Paulo, State of São Paulo, at Avenida Brigadeiro Faria Lima, 3600, 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, dated February 10, 2021, related to the financial statements for the year ended December 31, 2020.

São Paulo, February 9, 2021.

Cristiano Cardoso Teixeira
Marcos Paulo Conde Ivo
Arthur Canhisares
Francisco Cezar Razzolini

Chief Executive Officer
Chief Financial Officer and Investor Relations Officer
Officer
Officer

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

Officers' statement on the independent auditor's report

We, as Officers of KLABIN S.A., a corporation headquartered in the city of São Paulo, State of São Paulo, at Avenida Brigadeiro Faria Lima, 3600, 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 opinions expressed in the independent auditor's report dated February 10, 2021, related to the financial statements for the year ended December 31, 2020.

São Paulo, February 9, 2021.

Cristiano Cardoso Teixeira
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Chief Executive Officer
Chief Financial Officer and Investor Relations Officer
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KLABIN S.A.

All amounts in thousands of Reais

Opinion of the Fiscal Board

We have audited the accompanying parent company and consolidated financial statements of Klabin S/A, which comprise the balance sheet as at December 31, 2020, and the respective statements: (i) profit and loss, (ii) comprehensive income (loss), (iii) changes in equity, (iv) cash flows and (v) added value statements, accompanied by the corresponding explanatory information and by Ernst Young Auditores Independentes report, as well as a summary of the main accounting practices, explanatory notes and management report.

Based on the documents examined, the unqualified opinion in Ernst Young Auditores Independentes S.S. report on these financial statements and by the clarifications given by the representatives of the Company's management, the members of the audit board unanimously agree that the aforementioned financial statements fairly reflect the financial position and the activities of the Company during the year ended December 31, 2020, and that together with the Management Report and the proposal for the allocation of results, can be submitted to the appreciation of the General Stockholders' Meeting.

São Paulo, February 8, 2021.

João Adamo Junior

João Alfredo Dias Lins

Louise Barsi

Maurício Aquino Halewicz

Raul Ricardo Paciello

A free translation from Portuguese into English of Independent Auditor's Report on Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB

INDEPENDENT AUDITOR'S REPORT ON INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders, Board of Directors and Officers
Klabin S.A.
São Paulo – SP

Opinion

We have audited the individual and consolidated financial statements of Klabin S.A. (the "Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2020 and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Klabin S.A. as at December 31, 2020, and its individual and consolidated financial performance and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

Key audit matters (Continued)

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the individual and consolidated financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Taxes recoverable

At December 31, 2020, the taxes recoverable disclosed in Note 9 to the financial statements, amounting to R\$1,559,255 thousand and R\$1,593,863 thousand, Individual and Consolidated, respectively, mainly arise from Contribution tax on gross revenue for social integration program (PIS), for social security financing (COFINS) and State value-added tax (ICMS) credits. The recoverability of these tax credits is directly related to the expected tax debts, considering the Company’s operations, for future compensation.

Due to the magnitude of the amounts involved and the complexity of the future tax recoverability projection measurement process, which are based on estimates and assumptions whose realization may be affected by uncertain market conditions and economic scenarios, as well as Brazilian tax legislation complexity, this matter was considered a key audit matter.

How our audit has addressed this matter

Our audit procedures included, among others, the engagement of tax specialists to help us assess the tax impacts involved. Review of the assumptions used by the Company and its subsidiaries in developing the model used to measure the recoverable amount of tax credits, which considers estimates of future profits, estimates of future sales, inflation projection, estimated exchange rates, estimated profitability of the Company’s and its subsidiaries’ business, and profit margin.

We have also reviewed the information disclosed by the Company in Note 9, the source of the amounts, the assumptions used in relation to estimated future profitability and realization of such credits in the short and long term.

Based on the result of the audit procedures performed on taxes recoverable, which is consistent with management’s assessment, we consider that the criteria and assumptions adopted for realization of such taxes recoverable adopted by management, as well as the respective disclosures in Note 9 are acceptable in the context of the overall financial statements.

Key audit matters (Continued)

Deferred income tax and social contribution

At December 31, 2020, the recoverable deferred taxes disclosed in Note 10, amounting to R\$2,698,828 thousand and R\$2,720,751 thousand, Individual and Consolidated, respectively, results from income and social contribution taxes on temporary differences, and income and social contribution tax losses, which recoverability are directly associated with the projection of future tax profits.

Due to the magnitude of the amounts involved, the complexity of the process of measuring future tax recoverability projections, which are based on estimates and assumptions whose realization may be affected by uncertain market conditions and economic scenarios, as well as by the complexity of tax legislation, this matter was considered a key audit matter.

How our audit has addressed this matter

Our audit procedures included, among others, the engagement of tax specialists to support us to assess the tax impacts involved. Review of the assumptions used by the Company and its subsidiaries in designing the model used to measure the recoverable amount of deferred taxes, which considers estimates of future taxable profits projected based on estimates of future sales, inflation projection, estimated exchange rates, estimated profitability of the Company's and its subsidiaries' business, and profit margin.

We have also reviewed the information disclosed by the Company in Note 10, the source of the amounts, the assumptions used in relation to estimated future profitability and realization of such deferred taxes in the short and long term.

Based on the result of the audit procedures performed on deferred taxes, which is consistent with management's assessment, we consider that the criteria and assumptions adopted for realization of such deferred taxes adopted by management, as well as the respective disclosures in Note 10 are acceptable in the context of the overall financial statements.

Measurement of biological assets

The Company and its subsidiaries record their eucalyptus and pine forests (biological assets) at fair value. At December 31, 2020, the fair value of biological assets, as disclosed in Note 14, was R\$3,357,941 thousand and R\$4,657,821 thousand, Individual and Consolidated, respectively.

Given the materiality of the amounts involved and complexity of the biological asset fair value calculation process, which takes into account several assumptions that involve a high degree of judgment by Company management, such as forest growth ratio, interest rates for cash flow discounts, productivity estimates, projected harvest volume and price of standing timber, this matter was considered a key audit matter.

Key audit matters (Continued)

Measurement of biological assets (Continued)

How our audit has addressed this matter

Our audit procedures included, among others, an understanding of the internal controls related to the measurement of the Company's and its subsidiaries' biological assets, the involvement of our specialists in assessing the assumptions and methodologies used by the Company, particularly as regards estimated forest growth ratio estimates, interest rates for cash flow discounts, productivity estimates, harvest volume projections and the price of standing timber, as well as an assessment of the adequate disclosure by the Company regarding the assumptions used in measuring the respective fair value, both in noncurrent assets and related effects on profit or loss in the financial statements for the year.

Based on the result of the audit procedures performed on biological asset fair value measurement, which is consistent with management's assessment, we consider that the criteria and assumptions adopted by management to measure the fair value of biological, as well as the respective disclosures in Notes 2.2 l) and 14, are acceptable in the context of the overall financial statements.

Post-employment benefit plans related to health care and private pension plans

The Company has actuarial liabilities related to post-employment benefit plans which, as mentioned in Notes 2.2 t) and 28, comprise retirement benefits related to the private pension and health care plans. We consider that this is a key audit matter given the magnitude of the amounts involved and the complexity of the models for measuring actuarial liabilities, which include the use of long-term assumptions, such as: general mortality; retirement from work due to disability; medical costs; wage growth; household composition; discount rate and projected future inflation. Additionally, the Company informed us that, as part of the improvement of its controls, it reviewed the treatment of actuarial liabilities at December 31, 2020, and detected a deficiency in control that failed to timely capture the Company's actuarial liabilities in the amount of R\$191,431 thousand, which include benefits from previous years, related to exposure arising from the health care plan of certain active employees, which were only recognized in the financial statements for the year ended December 31, 2020.

How our audit has addressed this matter

Our audit procedures included, among others, analysis and discussion, with the support of our actuarial specialists, on significant changes in plans, in the Company's legal environment of benefits, in the workforce and in other aspects related to these actuarial liabilities. We also read the benefit rules for all plans informed in a representation letter provided by management. In addition, we analyzed the methodology and the significant assumptions used by management in assessing actuarial obligations, such as wage trends, pension progression, resulting from informed post-employment benefit plans, and verified the mathematical accuracy and discount rate used in the calculations. The integrity of the registration databases used in the actuarial projections and the adequacy of disclosures related to post-employment benefit plans were also part of the audit procedures.

Key audit matters (Continued)

Post-employment benefit plans related to health care and private pension plans (Continued)

The internal control-related deficiency concerning the review of prior-year financial statements changed our assessment as to the nature and extent of our planned substantive procedures to obtain sufficient and adequate audit evidence regarding the Company's actuarial liabilities. Taking this into account, based on the result of the audit procedures carried out, including the additional procedures applied considering the aforementioned control deficiency, which is consistent with management's assessment, we consider that the estimates of actuarial liabilities prepared by management, as well as the respective disclosures in Notes 2.2 t) and 28, are acceptable in the context of the financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2020, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

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

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditor's responsibilities for audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's responsibilities for audit of the individual and consolidated financial statements (Continued)

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercised professional judgment and maintained professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's responsibilities for audit of the individual and consolidated financial statements (Continued)

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 9, 2021.

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

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

MANAGEMENT REPORT

Message from the Management

In March, when the World Health Organization recognized that the world was facing the prospect of the Covid-19 pandemic, we at Klabin had already decided that 2020 would be no usual year. Rather it would be one requiring several extra doses of discipline and resilience to accomplish our business plan without sacrificing the safety, health, and wellbeing of all. And that is precisely what we did.

Back in March, we were still oblivious that this determination, embraced by all without distinction at Company – and in spite of the enormous impacts caused by the pandemic on the economy and society throughout the world – would be instrumental in achieving the best results in our entire history in all fields of the so-called ESG profile.

Besides significant economic results, the fruit of swift, but always prudent actions for remaining fully operational during the pandemic, we achieved an exceptional performance along the three axes of sustainability: the environment, social and governance.

In 2020, as producers of packaging for industries manufacturing articles deemed essential in people's daily lives – such as foodstuffs, beverages, hygiene and cleansing materials and pharmaceutical products – we enjoyed growth along all business lines. The Company reported net revenue of R\$ 11.949 billion – an all-time record – and a 16% increase in relation to 2019. Once more we maintained consistent annual growth in our EBITDA to reach R\$ 4.700 billion, 27% greater than in 2019, excluding non-recurring effects.

Another landmark event was the conclusion of the acquisition worth R\$ 330 million of International Paper's packaging papers and corrugated cardboard box businesses in Brazil. This acquisition represented an important move in our growth strategy and in the consolidation of market leadership. Thanks to

the acquired units, we were able put down roots in the Central-West region and now have plants located in all regions of the country.

Again in relation to our growth plan, work on the first machine in the Puma II Project is 78% complete and in July next we expect to begin production. The project envisages the building of two packaging paper machines including the production of the already patented and unique Eukaliner, kraftliner made exclusively from eucalyptus fiber with significantly competitive advantages .

For long, among many of our ambitions, we became a component of the Dow Jones Sustainability Index 2020/2021, Emerging Markets category. In addition, we are now the only Brazilian industry to be part of the Dow Jones Sustainability World Index, an achievement of which we are very proud.

Also in the international sphere, recognition for our important actions in the environmental area, more particularly for the seriousness with which we take climate change, has brought with it an invitation to be part of the select “COP26 Business Leaders”. The group is to discuss with the Chairman of COP26, the agenda to be presented to the Climate Conference arranged for November 2021.

In 2020, there was also progress in our commitment to the United Nations Sustainable Development Goals. In this context we have launched Klabin’s Sustainable Development Goals, KODS, the acronym in Portuguese, with short-, medium- and long-term targets. These are instrumental in organizing Klabin’s environmental, social and governance markers, priorities, and adherents to the strategic growth plan and to the long-term vision of the Company.

In the social field, as could not be otherwise in the midst of a pandemic, more than ever we adopted a citizen corporation approach, reinforcing the importance of caring for people and the commitment with our communities. Internally, we mobilized to ensure the implementation of health protocols on all work fronts and through special committees for taking water tight decisions and with due technical support. Between March and December 2020, we

donated more than R\$ 13 million to attenuate the impacts of Covid-19. The resources were allocated to the more than 30 municipalities across 10 states where Klabin has its businesses, showing, as the catch phrase of our campaign goes, Every Attitude Counts. These initiatives impacted along three fronts: health, social assistance, and income creation for professionals in vulnerable sectors.

In this context, one of the highlights was an innovation developed by our Technology Center where we produced alcohol-based sanitizer gel with micro fibrillated cellulose (MFC), a substance extracted from wood and which replaces carbopol, of fossil origin, and not manufactured in Brazil. Four tons of sanitizer gel were produced and packed in exclusive packaging made from Klabin kraft paper and delivered to health centers.

The year was also one of recognition for Klabin as the most sustainable company in the Pulp and Paper sector by *Época Negócios 360*; as the best in Agribusiness and Paper and Pulp in the *Exame Melhores e Maiores 2020* magazine; as the Company of the Year in Communication by the Brazilian Corporate Communication Association (Aberje); as Innovation in Packaging by Fastmarkets RISI, among various others.

This was also the launch year of Klabin Invest, a platform which has enabled us to revamp communications and the relationship with those that deposit both their resources and their trust in Klabin, as a result adopting more attractive and suitable tools for attending the expansion of our investor base.

Progress was also made on the corporate governance front with the extinguishment of royalty payments following a vote to this effect at an Extraordinary General Meeting. Other landmark events during the period were the approval of three advisory committees to the Board of Directors as well as Debt and Dividend policies, the Company giving further transparency to its stakeholders.

With so many advances and results which exceeded all our expectations, it would be a year to celebrate if it were not for the pandemic which took away so much from us.

We would like to thank the controlling shareholders, employees, investors, clients, suppliers, communities, and other partners, who in spite of such an atypical year, continued to support us, working to find solutions, helping us to build a renewable future. A future which at present is focused on the desire that mass vaccination against Covid-19 can come very soon so that society and the economy can return to an even keel and assume a path of growth and trust in better days ahead.

FIRST CONSIDERATIONS

Highlights 2020



Klabin reaches Adjusted EBITDA of R\$ 4,700 billion, excluding non-recurring effects, an increase of 27% in comparison to 2019, demonstrating once more its flexibility and capacity to operate in adverse scenarios.

With startup expected for July 2021 and in line with schedule, work on the first machine of the Puma II reaches 78% completion.

Acquisition of the packaging papers and corrugated box business of International Paper in Brazil consolidates Klabin's position and reinforces its commitment to the packaging sector.

Year marked by initiatives for strengthening the Company's Corporate Governance: extinguishment of royalty payments, approval of financial policies for Debt and Dividends and creation of three advisory committees to the Board of Directors.

Approval of Klabin's Sustainable Development Goals (KODS) in alignment to the United Nations agenda 2030, as well as selection for the 8th consecutive year as a component of the ISE portfolio and as the only Brazilian industrial company in the global portfolio of the Dow Jones Sustainability Index (DJSI), consolidate Klabin as a world benchmark in sustainability.

Summary 2020

The year was marked by the spread of the new coronavirus around the world and with it the ensuing effects which up to then could not have been predicted. Even in this scenario of great uncertainty and volatility, Klabin once more demonstrated the excellence of its integrated and highly flexible business model able to adapt to the most diverse of economic environments.

With an increase in sales volume and net revenue in all lines of the pulp, paper, and packaging businesses and with strict cost discipline, Klabin posted in 2020 an EBITDA of R\$ 4.700 billion, 27% more than reported in 2019 on a recurring basis and the tenth consecutive year of growth. The Company's Adjusted Free Cash Flow reached R\$ 4.416 billion, equivalent to a FCF yield of 18.7% in the year. ROIC (return on invested capital) in turn was 15.7% in 2020, demonstrating the Company's ability to create value for its shareholders. Consistency in the delivery of results has been a constant feature of Klabin over recent years and 2020 was no exception. Once more, operational excellence and agility at all its units, commercial positioning in resilient domestic markets and around the world, and the agility in meeting its clients' requirements were all key to obtaining these results.

Again in 2020, Klabin was the recipient of important recognition for its practices as a world benchmark in promoting a more sustainable economy. As well as the Company's inclusion for the 8th consecutive year in B3's Corporate Sustainability Index (ISE) portfolio, it is worth mentioning selection to comprise the portfolio of the Dow Jones Sustainability Index (DJSI), 2020/2021 version. Klabin also is now included in the index of two categories, World Index and Emerging Markets Index, being the only Brazilian industrial company in the global category. This recognition is a landmark event in the history of the Company and a reflection of more than 120 years of commitment to the environment, care with people and management grounded in science on climate issues with audacious goals for reducing greenhouse gas emissions and efficiency in the use of human resources.

But the year will not be remembered "only" for these results and recognitions in a highly uncertain market. In 2020, Klabin went beyond. Even in this scenario of pandemic and with all the associated adversities, it implemented several initiatives in its persistent quest for growth and generation of value, installing the

necessary foundations for achieving extraordinary results in the decade now beginning.

Adhering to rigid safety and hygiene protocols at the construction site, as of January 31, 2021, Klabin had concluded the execution of 78% of the work on the first packaging paper machine in the Puma II Project, with startup scheduled for July 2021. This machine will have an annual capacity of 450 thousand tons and will be the first machine in the world to produce kraftliner made entirely from eucalyptus. In this context it is worth mentioning that the acquisition of the packaging paper and corrugated board units from International Paper in Brazil, added a further 305 thousand tons of capacity in these products, consolidating the Company's leadership in this market at a time of robust demand.

As a strategic pillar of growth for the next decade, Klabin also announced the Klabin Sustainable Development Goals (KODS) in alignment with the 2030 agenda for the United Nations Organization. KODS are the targets which organize and orientate priorities in the environmental, social and governance fields for the Company and which are critical pillars supporting its strategic growth plan and endorsing Klabin's long term vision.

Another critical event in 2020 was the approval by the Extraordinary General Meeting of shareholders on November 26 of the incorporation of Sogemar, with the consequent extinction of royalty payments for the Klabin brands. In addition to the creation of shareholder value, this was an important step in the improvement of corporate governance practices, terminating as it does transactions between related parties. The process for extinguishing royalties was conducted according to the recommendations of the Working Party made up of independent directors only, the latter holding neither direct nor indirect participation in Sogemar, together with independent evaluations and public information for the appreciation of minority shareholders. Subsequently in December, approval was also given to the setting up of three advisory committees to the Board of Directors: Auditing and Related Parties, Sustainability and Remuneration, with the respective election of their members.

In relation to financial administration, in 2020 Klabin continued to practice its successful work of liability management, giving still more financial security for the coming years. As fruit of this work, the Company has been able to extend the average term of its debt from 96 months at the end of 2019 out to 116 months in

2020, with a reduction in average cost. In the first half of 2020, two important financial policies were approved, those of Debt and Dividends, this translating into yet more transparency, predictability, and comfort to stakeholders in relation to the Company's practices of financial management.

All these initiatives underscore the vocation of Klabin as a company oriented towards growth, creation of value and development of a sustainable economy, offering in a competitive way recyclable, biodegradable solutions, all from renewable sources. The pandemic has hastened structural changes such as a greater participation of e-commerce in retailing and the quest for more sustainable packaging. With the impact of these tendencies, there was an increase in sales to the domestic market of more than 5% in corrugated board and paperboard packaging in 2020 according to data published by Empapel, formerly the Brazilian Association of Corrugated Boxes (ABPO), and Brazilian Tree Industry (IBÁ). Similarly, there was a strong recovery in prices from the beginning of the second half in the international markets for pulp and papers for packaging. Thanks to initiatives put into practice in 2020, Klabin is now even more prepared to meet market demand, confirming its proposition to build a sustainable economy, prioritizing the planet's prosperity and creating shared value for investors, employees, business partners and society.

PERFORMANCE OF THE BUSINESSES

Forestry Business Unit

The operations at Klabin's Forestry Unit have developed in line with the greater output of pulp, papers and packaging volumes following increases in production capacities. In 2020, Klabin handled approximately 15 million tons of pine and eucalyptus logs and wood chips as well as waste for power generation, sufficient to satisfy internal demand for the manufacture of paper and pulp as well as wood sold to sawmills and laminators during the year.

This allocation of wood production for increased internal consumption of the pulp and paper operations reduced the sales of logs to third parties by 11% to 1.5 million tons compared with 1.7 million in the preceding year, net revenue amounting to R\$ 208 million. Klabin is gradually reducing the sale of wood to third parties due to the increase in pulp and paper production capacity.

Company land in December 2020 totaled 564 thousand hectares, of which 266 thousand hectares were given over to pine and eucalyptus plantations and 298 thousand hectares, to preserved native forest as well as unplanted areas, roads and improvements. In the year, 36 thousand hectares were planted on proprietary and third party land.

Pulp Business Unit

The pandemic also had an impact on the global market for pulp, generating an imbalance between supply and demand during 2020. The consequence of social isolation especially on the demand for some paper grades held pulp prices at the levels of year-end 2019 for the first nine months of 2020. Thus, FOEX data shows average prices in 2020 for bleached pulp delivery China at USD 460/t for short fiber and USD 585/t for long fiber, equivalent to decreases of 19% and 7%, respectively, in relation to 2019.

However, at the end of 2020, recovery in demand in some regions, greater restriction on supply due to the accumulation of scheduled maintenance shutdowns in the second half and the devaluation of the US Dollar in relation to other global currencies drove prices of the product. In just the last three months

of the year, short and long fiber pulp prices per ton for delivery China reported a recovery of 11% and 12%, respectively. Thus, this scenario combined with the outlook for improved demand with the end of the pandemic and restricted supplies due to limited new capacity coming on stream over the next few years, holds out more optimistic prospects for the global pulp market in 2021.

In the operational environment, Klabin's pulp unit kept an excellent performance in 2020. Production volumes reached 1,545 thousand tons, the same level as 2019, and again above the nominal capacity for the unit of 1,500 thousand tons/year. This was a contributory factor driving the increase of 3% in pulp sales volume which reached 1,530 thousand tons of bleached pulp, comprising 1,117 thousand tons of short fiber pulp and a further 413 thousand tons of long fiber/fluff pulps. Net sales from the unit besides the increase in sales volume, also benefited from the devaluation of the Real against the US Dollar and from sales mix, with participation in the fluff and long fiber markets where conditions of prices and demand were more favorable throughout 2020. As the outcome of these factors, net revenue from the pulp segment ended the year at R\$ 3.888 billion, a year-on-year growth of 11%.

Paper Business Unit

Just as with the pulp market, the uncertainties in the wake of the pandemic depressed packaging paper prices early on in the year, to be followed by a sharp recovery in the second half. FOEX data shows average kraftliner prices in Europe at US\$ 663/t in 2020, 9% down on 2019 but with year-end closing prices at US\$ 714/t, an increase of 7% relative to year-end 2019, an indication of good prospects for 2021. The pandemic scenario has accelerated structural changes and these have had an impact on the demand for packaging papers. Such changes include the growing participation of e-commerce of total sales as well as the growing awareness of the qualities of paper as a product which is 100% recyclable and biodegradable and originating from renewable sources.

Positive market conditions, the commercial positioning of Klabin and its operational flexibility drove up sales volume of kraftliner to 432 thousand tons and a net revenue of R\$ 1.197 billion, increases of 11% and 21%, respectively. Exports were a particular highlight of business increasing by 19% in volume terms

and 34% in revenue on the same comparative basis, equally benefiting from the Real's devaluation in the period.

The paperboard market recorded an important recovery in volumes in 2020 in Brazil. Brazilian Tree Industry (IBÁ) data indicated strong growth of 8% in sales of this product from January to November 2020 compared with 2019, excluding liquid paperboard. With strong penetration in the markets for essential goods enjoying strong demand on the back of the pandemic and the excellent operating performance at its units, the Company reported increases of 5% in sales volume and 18% in revenue in 2020 when set against results for the preceding year.

Klabin remains alert to movement in the packaging papers market, in addition to making continual investment in the development of new lines to supply a market which increasingly demands sustainable, recyclable, and biodegradable solutions. The development of new technologies and the company's expanded geographic footprint in this market have the potential to drive future results.

Packaging Business Unit

Data published by Empapel, formerly the Brazilian Association of Corrugated Boxes (ABPO), shows an increase in shipment volume of Corrugated Boxes and Sheets of 6% in 2020 compared with 2019. If at the outset of the pandemic there was an increase in the consumption of consumer non-durables, as from the middle of the year, demand for durable goods recovered partially driven by the implementation of government economic incentive policies. In this context, special mention should be made of sales in the e-commerce segment, an increase of nearly 200% in Klabin's case to this market, and also the direct effect of social distancing recommendations.

Again in 2020, according to preliminary data from the National Cement Industry Union (SNIC), cement consumption in the Brazilian market – and directly impacting the sale of Klabin's industrial bags - reported an increase of 11% over the year.

In the light of this scenario, the Company's conversion units during the larger part of 2020 operated at full capacity to meet vigorous demand from these markets. It is worth again recalling that in March 2020, Klabin announced the acquisition of

the packaging and corrugated cardboard box businesses from International Paper in Brazil, representing additional capacity in corrugated board of 305 thousand tons annually. The transaction has already been approved by the regulators and the units totally integrated in the last quarter of the year.

In this context, sales volume of Klabin's Corrugated Board Packaging reached a total of 724 thousand tons, a year-on-year increase of 18%. Out of this volume, about 68 thousand tons was delivered by the corrugated board units incorporated from International Paper in 4Q20. Net revenue in turn was R\$ 2.694 billion, an improvement of 24% relative to 2019, of those, R\$ 258 million represent the incremental revenue arising from the new units.

While recording a decline in the first half with the onset of the COVID-19 pandemic, the Industrial Bags business reported strong recovery in the second half of the year 2020. Klabin's sales in this segment, and despite stability of volumes compared with 2019, posted an increase of 11% in net revenues. This reflects Klabin's sales to different markets and its diversified products portfolio, the Company also enjoying the benefit of the Real's devaluation against the US Dollar for sales destined for export markets.

The strategic positioning of Klabin in the packaging market, particularly with a focus on goods of prime necessity, supported by the increase in domestic market share with the acquisition of the International Paper assets, place the Company in a privileged position to meet demand seen in early 2021.

ECONOMIC-FINANCIAL PERFORMANCE

R\$ Million	2020	2019	Δ
			2020/2019
Sales Volume (thousand tonnes)	3.558	3.327	7%
Domestic Market	1.960	1.769	11%
Exports	1.598	1.558	3%
% Domestic Market	55%	53%	+ 2 p.p.
Net Revenue	11.949	10.272	16%
Domestic Market	6.995	6.114	14%
Exports	4.954	4.158	19%
% Domestic Market	59%	60%	- 1 p.p.
Variation in the fair value of biological assets	658	390	69%
Cost of Products Sold	(7.885)	(7.241)	-9%
Gross Profit	4.722	3.421	38%
Selling Expenses	(1.139)	(910)	-25%
General & Administrative Expenses	(718)	(601)	-19%
Other Revenues (Expenses)	317	610	-48%
Total Operating Expenses	(1.540)	(902)	-71%
Adjusted EBITDA	4.906	4.322	14%
Adjusted EBITDA Margin	41%	42%	- 1 p.p.
Adjusted EBITDA (excluding non-recurring effects)¹	4.700	3.702	27%
Adjusted EBITDA Margin (excluding non-recurring effects) ¹	39%	36%	+ 3 p.p.
Net Income	(2.389)	715	n/a
Net income(loss) attrib. to noncontrolling interests	98	39	154%
Net income attributable to Klabin's stockholders	(2.488)	676	n/a
Net Debt	19.782	14.355	38%
Net debt/EBITDA	4,0x	3,2x	+ 0,8x

¹ Disconsiders non-recurring effects of R\$ 620 million referring to extemporaneous tax credits recognized in 3Q19 and of R\$ 206 million referring to goodwill gain realized on the purchase of IP assets in 4Q20

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

Operating Result

Sales volume (excluding wood) totaled 3,558 thousand tons in 2020, 7% greater than 2019, with an increase in all Klabin's lines of business (pulp, kraftliner, paperboard and packaging). This increase underscores the excellent operating performance of the Company's units and the advantages of an integrated and flexible business model in an extremely atypical year with a high degree of volatility following the onset of the pandemic.

The Company reported **net revenue** (including wood) of R\$ 11.949 billion, a year-on-year increase of 16% and reflecting greater sales volume, the good market positioning of the Company in the different markets for papers and packaging and

the devaluation of the Real against the US Dollar with beneficial effects accruing to export sales.

Excluding the non-recurring effect of goodwill (discount) in the acquisition of the International Paper assets of R\$ 206 million, **total unit cash cost**, which sweeps up the sale of all Klabin's products and includes sales and general and administrative expenses, was R\$ 2,037/t. This amount represents an increase of 3.1% compared to 2019, also excluding non-recurring effects of that year, in line with inflation for the period. The control of the cash cost was made possible by the dilution of costs arising from the increase in sales volume as well as a good performance in the fuels and energy lines over the course of the year. Worthy of mention in this context are investments made in the tall oil plant with a corresponding reduction in fossil fuel consumption. These factors helped compensate higher disbursements in sales expenses – explained in more detail in the following paragraph as well as the increase in the average radius for receiving wood supplies, in turn a reflection of the increased share of third party wood in the overall mix and negatively impacting fiber costs. As per the strategy for forestry supplies announced during the year, this increase is in line with plan and is designed to preserve Company-owned forests, located close to the industrial units, in order to ensure long-term supply.

Sales expenses in 2020 were R\$ 1,139 million versus R\$ 910 million in 2019, partially tracking the increase in revenues. It is also worth remembering that in late 2018, Klabin anticipated the termination of the supply agreement with Fibria/Suzano for the sale of short fiber pulp outside the South American market, Klabin assuming worldwide responsibility for sales as from August 2019. This agreement was of the free on board type – Port of Paranaguá, and with its conclusion, Klabin began incorporating the maritime freight costs - previously discounted from prices – in the composition of sales expenses.

General and administrative expenses amounted to R\$ 718 million in 2020 compared with R\$ 601 million in 2019. This increase is explained largely by greater investments in IT and with consultancy services in engineering and projects in addition to COVID-19 related expenditures in the form of donations and services for reinforcing the Company's health protocols.

Thanks to the excellent operational performance, commercial flexibility and costs control, **operating cash generation (Adjusted EBITDA)**, excluding non-recurring effects, in 2020 was R\$ 4.700 billion, an increase of 27% relative to 2019 on a recurring basis. These same factors also help explain the increase in EBITDA margin from 36% to 39% using the same comparative basis.

Before amounts ascribed to dividends, special projects and expansion/Puma II, the **adjusted free cash flow** for the year was R\$ 4.416 billion, a significant increase in relation to the R\$ 1.421 billion reported for 2019. In addition to the strong operating performance at Klabin, cash generation also benefited from the positive variation in the Company's working capital of R\$ 2.111 billion. The principal effects relate to the monetization of tax credits, the increase in the suppliers line as a consequence of investments in the Puma II Project and the continued endeavor to expand the number of clients making up the receivables discount base.

Debt

Consolidated **gross debt** at year-end was R\$ 26.339 billion, an increase of R\$ 2.254 billion relative to the end of 2019, principally explained by the FX translation effect on currency denominated debt. This increase was partially compensated by the prepayment of less attractive loans in relation to term and/or cost compared with fresh funding raised during the period. The continuing and successful work of liability management was instrumental in extending the average term of debt from 96 months at the end of 2019 to 116 months in December 2020, together with an average drop in average cost.

This work also helped produce a better debt profile, increasing the share of debt via capital markets as well as improving the Company's liquidity. In this context, **cash and cash equivalents** as of December 31 amounted to R\$ 6.557 billion, sufficient for the amortization of debt for the next 59 months. In addition, Klabin contracted a Revolving Credit Facility of US\$ 500 million, with maturity in December 2023 and a financial cost of 0.4% p.a.. Should drawings be made against this facility, the cost of the financing would be Libor + 1.35% p.a..

Consolidated **net debt** amounted to R\$ 19.782 billion, an increase of R\$ 5.428 billion in the year. This reflects largely the negative impact of exchange variation on currency denominated debt although it should be pointed out that there is no cash effect for the Company. The increase in net debt was also impacted by disbursements of R\$ 4.045 billion to the investment in the Puma II Project, partially compensated by strong operating cash generation and the freeing up of working capital during the year. The Company's financial leverage, measured by the **Net Debt/Adjusted EBITDA ratio in US Dollars**, which best reflect Klabin's financial leverage, increased from 3.8 at year-end 2019 to 4.0 times in December 2020.

In 2020, the approval by the Board of Directors of the Company's Financial Debt Policy also warrants particular mention. This was one more step towards refining Klabin's corporate governance, establishing the debt and liquidity metrics and parameters to be adopted by management in the financial administration of the Company. The policy is in the public domain and can be accessed by consulting Klabin's IR website and the websites of B3 and the CVM (Brazilian Securities and Exchange Commission).

Investments

R\$ million	2020	2019	
Forestry	340	334	During 2020, Klabin invested R\$ 5.174 billion in its operations and in special projects and expansion. Of the total, R\$ 340 million were allocated
Maintenance	451	731	
Special Projects and Expansion	339	237	
Puma II Project	4.045	1.271	
Total	5.174	2.574	

to forestry operations and R\$ 451 million invested in maintaining the continuity of plant operations, which together comprise the investments for the operating maintenance of the Company. In addition, R\$ 339 million were invested in special projects with high and rapid returns. This amount includes the payment of a tranche of R\$ 280 million of a total of R\$ 330 million for acquisition of the packaging paper and corrugated box businesses of International Paper in Brazil. Finally, it should be noted that the amounts invested do not include investments related to the forestry activities of the subsidiaries conducted via Specific

Purpose Companies (SPEs), through the injection of forestry assets already existing in Klabin's balance sheet.

A total of R\$ 5.316 billion has already been disbursed to the Puma II project, of which R\$ 4.045 billion was invested in 2020. The 1st Paper Machine to be installed with a production capacity of 450 thousand tons is scheduled to begin operations in July 2021. Measurements taken on January 24, 2021 reveal that 78% of the work had already been executed. In turn, the second machine will have a production capacity of 470 thousand tons with operations programmed for mid-2023.

Approved on April 16, 2019 and with a gross investment estimated at R\$ 9.1 billion (in real terms considering values at the beginning of 2019), the new expansion cycle covers the installation of two paper machines for packaging with an annual output of 920 thousand tons, to be located at the Puma Unit, where Klabin has a unit for producing bleached pulp. Klabin has raised the finance for the project from the ECA's, BNDES, BID Invest, IFC and JICA

Capital Markets

For the year 2020, Klabin's Units (KLBN11) reported an appreciation of 44% versus an advance of 3% in the Ibovespa Stock Index. The Units were traded on all the days B3 was open for business, equivalent to approximately 6 million trades, more than 1.6 billion securities being transacted, and at an average daily trading volume of R\$ 140 million at the end of the period.

Klabin's capital stock is represented by 5.618 billion shares, of which 2.082 billion are common, and 3,535 billion, preferred. The Company's shares also trade in the United States market and are listed under a Level I ADR program on the Over-the-Counter market under the KLBAY ticker symbol.

In the fixed income market, Klabin has five active note or bond issues representing debt. These securities mature in the years 2024, 2027, 2029, 2031 and 2049 - with coupons of 5.250% p.a., 4.875% p.a., 5.750% p.a., 3.200% and 7.000% p.a., respectively, with semi-annual interest payments.

Important to note that the notes maturing 2027 and 2049 are Green Bonds, and securities maturing in 2031, denominated Sustainability Linked Bonds. Resources raised through the first two must necessarily be allocated exclusively to eligible green projects while the SLB facility is earmarked to the maintenance of the coupon of the operation to targets linked to the promotion of a more sustainable economy. Klabin has a BB+ credit risk classification and a stable outlook from Fitch Ratings and Standard & Poors.

Sustainability

In 2020, the Company launched its sustainability agenda for 2030: Klabin's Sustainable Development Goals (KODS). With this work, the Company aims to list positive and negative externalities related to environmental, social and governance, extracted from the corporate growth plan and to define the relevant and priority themes to be addressed over the next ten years. The initiative is aligned to the United Nations Sustainable Development Goals (SDGs), and adopts the SDG Compass as a tool and developed by the Global Compact.

The Agenda 2030 prioritizes and incorporates 14 of 17 SDGs and through 23 long-term targets, establishes important thresholds to be reached and values which the company must deliver to society in the direction of sustainable development.

During the year, Klabin's sustainability practices were once more recognized both nationally and internationally particularly with the inclusion of the company in Global and Emerging Markets lists of the Dow Jones Sustainability Index. Klabin is the sole Brazilian industry to feature in the world portfolio. The index evaluates and highlights corporations which are world leaders in ESG performance. For the eighth consecutive time, Klabin was selected as a component of B3's Corporate Sustainability Index (ISE), which includes the shares of companies that stand out for their high degree of commitment to the sustainability of their businesses and the country.

Klabin features on the A List of the Carbon Disclosure Project (CDP) for the programs: Management of Water, Forests, with leadership in the Climate Change

program. This achievement ranks the Company among those deemed as outstanding by the institution as leaders in the transition to a new sustainable economy. The initiative analyzes and recognizes the efforts of companies around the world to manage the environmental impacts of their activities. In 2020, the evaluation methodology involved 515 investors with more than USD 106 trillion in assets.

Again for the third time, the Company also featured in an excellent position in the Spott Timber & Pulp ranking. This evaluates the soundness and transparency of the sustainable management of 50 wood and pulp producers around the world. The Company ranks first in the pulp and paper segment in the global ranking of evaluated companies.

And still in 2019, Klabin maintained its status in the “*Best Emerging Markets Performer*” ranking of Vigeo Eiris, a global provider of research and services in the environmental, social and governance areas, evaluating the performance of emerging market companies on the basis of a range of criteria, divided into six areas: Environment, Human Rights, Human Resources, Engagement with the Community, Compliance and Corporate Governance.

In the social environment, Klabin implements and supports programs aligned to its social investment platform, focused on the lines of local development, educational and cultural activities, its aim being to generate a positive socio-environmental impact and maximize the assets of the communities in which it operates. During the course of the year, the Company invested more than R\$ 24.9 million in socio-environmental and cultural programs such as:

- Projects and actions in the communities, in management areas of education, government management, regional planning and the preparation of a sustainable development agenda;
- Skills upgrading and creation of income benefiting small producers and communities;
- Monitoring, conservation, and environmental education projects;
- Initiatives for fostering and popularizing culture.

Research, Development, and Innovation

In 2020, Klabin focused its efforts on being an international benchmark in responsible solutions which attend the constant changes in society, offering multiple, renewable, recyclable, and biodegradable forestry based products. With the objective of contributing to a sustainable economy and inspiring consumer choices, the Company prioritizes the prosperity of the planet, principles aligned to KODS (Klabin Sustainable Development Objectives), creating value for its investors, employees, business partners and communities.

Klabin fosters investments in forestry- and industrial-based projects covering the entire production chain in order to reach its objectives.

Klabin's Research, Development and Innovation area is based on the development of projects inserted in different lines of research:

- Genetical Improvement of Eucalyptus;
- Genetical Improvement of Pine;
- Cloning;
- Forestry Biotechnology;
- Phyto sanitation;
- Nutrition and Silviculture;
- Ecophysiology;

We highlight the following projects during 2020:

- Formation of pine and eucalyptus genetic improvement populations in the states of Paraná and Santa Catarina with a view to genetic gains over the medium- and long -term for recommendation of new hybrid strains with greater fiber producing potential;
- Expansion of the Eucalyptus and Corymbia genetic base through the introduction of new genetic materials with the aim of guaranteeing new alleles for adverse conditions such as climate change and expansion in new productive sites;
- Development of strategies for genetic improvement to the Corymbia genus based on the selection of hybrid clones with high productive potential and a view

to producing new clones appropriate for conditions of hydric stress as well as to increase the basic density of the wood;

- Protection of 6 cultivars of highly productive hybrid eucalyptus clones for guaranteeing Klabin's genetic assets;
- Increase in the production capacity of genetically improved seeds through the installation of *Pinus taeda*, *Pinus maximinoi* and *Pinus tecunumanii* orchards;
- Enabling production on an operational scale of an elite family of seedlings of *Pinus taeda* via a vegetative propagation technique;
- Development of 250 new *Pinus taeda* clones by somatic embryogenesis for extending the experimental clonal selection program;
- Continuity of the internal technical committee called FIP (Forest, Industry and Research), focused on the understanding of the characteristics of wood quality and the solution of deviations which can reflect in the final quality of the product;
- Installation of 32 stations for meteorological forecasting and monitoring of the climate in Klabin's area of operations in the state of Paraná;
- Major advance in the area of Forestry Biotechnology with the development and implementation of biotechnological techniques such as somatic embryogenesis and molecular markers applied in the selection of superior clones; and
- Development of a digital system of research management and data security (Labware/Lims) of the forestry research database.

Klabin's Research, Development and Innovation area undertakes research along five fronts of activity:

- Development of forestry-based raw material for pulp, paper and new materials;
- Optimization of papers and new applications with a focus on functional barriers;
- Biorefinery (multiple uses of the forestry base, principally lignin);
- Optimization of processes: environment, reuse of products generated in the process, reduction in water, energy and steam consumption;
- Nanotechnology - pulp fractions on a micro or nanoscale and application in new products.

There were some important achievements in Industrial Research during 2020, which despite major challenges, was a promising year. Progress continued in the evaluation of wood of new genetic materials planted by Klabin, more especially:

1) *Pinus maximinoi*, for the supply of long-fiber, presenting greater productive potential and advantages in quality of the final product. The results of these studies were recognized with international awards such as the best Technical Paper presented in 2019 at the Tappi Peers event in the United States in addition to one more thesis concluded for a PhD qualification in 2020.

2) Evaluation of the quality of wood from more than 1123 *Eucalyptus spp.* trees using Near Infrared Technology for rapid forecasting of the chemical, physical and pulping characteristics of wood.

Also worth citing in this context actions directed at enhancing the properties of paper for increasing their effectiveness as a sustainable material for packaging, in the form of functional barriers. These attend the growing demands of the market and society as well as the continuing advances in their intrinsic characteristics such as mechanical resistance and surface quality. Advances were made in the development of barriers to several different substances (water, steam, fat, oxygen) achieving more effective results in line with stakeholder expectations.

In parallel with the investments made in the last year to the Pilot Plants park, the Company's first lignin extraction plant has developed a product unique in the Brazilian market: pine kraft lignin. More than 40 tons of this material have been produced out of which have come more than twenty strategic partnerships for R&D projects and future clients. The micro-fibrillated pulp plant has five industrial tests focused on the development of new papers and paperboard with different properties in relation to the market. At the same time, different generations of pulp-based products for use in other markets have also been developed culminating in success: the production of alcohol based hand sanitizer with cellulose thickener. On the basis of this use, it has been possible to develop a new totally renewable ingredient as an alternative in the production of cosmetic products using MFC (micro-fibrillated cellulose).

In research into the substitution of non-renewable materials for biodegradable alternatives based on cellulose fibers, progress has been made in nanotechnology projects in the use of cellulose fractions in the micro scale (Micro Fibrillated Cellulose – MFC) as well as in the nano scale (Nano-Crystalline Cellulose – CNC) for pilot projects for papers and packaging.

Another focus in the use of lignocellulosic materials (MFC, cellulose and wood fines) was the production of composites in substitution for plastic with the potential of representing a new market using more sustainable materials. A face shield was developed in partnership with Senai using 10% cellulose replacing polyethylene and distributed to all Klabin's medical units in their drive to combat Covid-19.

Sustainability is a characteristic that is always present in the company's research and in the pursuit of ground-zero, at the Rio Negro (PR) unit the initiative employs sludge from the Effluent Treatment Plant in the local manufacture of ceramic bricks.

Advances have been made in research into use of wood extract and forest waste to produce green fuels - Crude Tall Oil and Bio-Oil – to make use of all the potential the forest offers, this research being the topic of discussion in larger groups and intellectual institutions around the world in relation to raw materials.

With the unveiling of the Puma II Project, Klabin will have a product line with a capacity to produce an annual 450 thousand tons of Eukaliner®, the first kraftliner in the world made entirely from eucalyptus. The Technology Center has conducted work involving the study of pulp and paper production processes ranging from the quality of wood to the simulations of the physical properties of paper. The aim has been to accompany the development of the new pulp plant and paper machine installations, assessing quality guarantees of the process and the product to be launched in the market.

Highlights:

- The partnership with the Israeli startup, Melodea is already generating the first packaging prototypes with greater renewable material content;
- Partnership with more than 20 startups in search of a partner for various research projects;
- Registration of patent applications for MFC and in different countries located in 4 continents;
- Registration for a patent extension for the Eukaliner® trade name made for the countries of the European Union, England, United States, Argentina, Chile, South Africa, Australia, China and Indonesia;
- Collaboration projects with universities and scholarship students involving scientific initiation, Master's and PhD degrees. New partnerships agreed with institutions and companies for development of joint projects;
- Following 3 years of research into barriers for industrial bag barriers, a new product, the Ecolayer line for industrial bags destined for the market for mortars with a barrier against steam.
- Development of fluting paper with projects involving wood and pulp chemical products which has led to investments at the Angatuba unit, this unit becoming one of the leading players in production of high quality fluted paper in the world;

Awards:

- ABTCP award in the Innovation (R&D and Technology) category with the Nanocellulose substituting Carbopol in the formulation of alcohol based gel;
- Award in the "Sustainability Project", for the development of two high impact initiatives: Ecolayer and KlaSack Dispersível

People and Management

The Klabin Attitude model, which reinforces behavior and attitudes deemed essential for the organization as well as the constant cultural evolution of the Organization, were critical in reaching the exceptional results of 2020.

One of the catalysts of the corporate culture is the Klabin Business School (ENK), the proposition of which is “to develop employees and the community, preparing them for current and future challenges in order to leverage the business objectives”. ENK is organized around “knowledge paths”, that is, in accordance with each career stage of the professional, there is specific training in technical aspects and management as well as the development of competencies and behavioral aspects. For the definition of solutions, the People & Management area considers the strategic alignment of the Company, aspects of the Organizational Culture expected, results of the Climate Survey, the specific demands/challenges of the business and the Individual Development Plans resulting from the Performance Cycle.

The online learning environment is known as the ENK Portal, offering courses, videos, articles, seminars, posts, and surveys administered by renowned specialists and institutions. Covering all units, there are more than 14,000 users, the Portal also offering the collaborative Social Learning space where employee testimonies on a range of different themes are shared. Aligned to the organization’s innovation strategy, the Portal has introduced some new features: a more modern, rapid and responsive new app and five new technologies: indications, augmented reality, live classes, sharing and downloads. During 2020, more than 7,000 employees were trained and about 80,000 courses and videos concluded.

Among the development initiatives in leadership is the Rumos Program. Rumos 1.0 trains managers for an in-depth understanding of the Company’s value chain. Klabin’s model leader understands and deals easily with the uncertainties and volatility of information in complex environments, incorporating into their work the role of decision maker and acting in the spirit of the owner of the business. To date, more than 560 managers, supervisors and specialists have participated in the program. The Rumos 2.0 program, launched in 2018, develops competencies and skills with a focus on people, innovation, based on chain vision and operational efficiency. The program endeavors to strengthen the holistic and strategic vision of Klabin’s business, promoting an understanding of how to create value for the Company and its stakeholders, and principally, how to form potential leaders and contribute so that we have leaders better prepared to manage people in an environment propitious to innovation, with a focus on the sustainability of the business. To date, more than 132 supervisors and 97 managers have taken part in the program, so upgrading the skills of 229 managerial staff. In a survey, the program was given a satisfaction rating of 92%.

Finally, the objective of Rumos Digital is to ensure the comprehensive understanding of Klabin's integrated model, its market vision, and prospects for the future, democratizing strategy. It seeks to provide an understanding of the entire value chain of the Company, broadening the business vision, the product, market, innovation, outlook for the future and scenarios in which Klabin is inserted. The project was launched in November 2020 and so far has trained 14 managers.

In 2019, we launched the Development Acceleration Program for managers. In the program, participants undergo an assessment and then there begins their participation in the Learning Sprint, conducted by an outside consultancy, where participants themselves indicate what their needs are for improving professional performance and engaging, consolidating the "self-directed lifelong learning" concept in the daily routine of each individual, and in the culture of Company, reinforcing autonomy as a core element of the process. Based on the Learning Sprint, participants are able to design a PDI (Individual Development Plan) which takes a detailed look at points to be developed, this also with the support of the consultancy. As subproducts of these PDIs, program participants will seek individualized training and challenges to improve their career prospects.

Again in support of leadership development, in 2020 we began the Leadership Journey, this stimulated by the cultural evolution taking place in the organization and which has as its objective to have leaders prepared for the actual and future challenges. In the Journey, we contemplate our Directors, Managers and Supervisors and look for solutions that associate technical competences with socio-emotional aspects, giving room for the more human side as support in the management of results. The Journey blends actions designed by the Company with self-directed actions to stimulate protagonism in the learning process. We build shorter solutions and have the opportunity to practice learning in the work environment with a catalog of options for the participant to choose from as well as maintaining and developing constructions already in place at the units. The Company offers several initiatives such as webinars, online courses, and workshops on themes such as Leadership in Difficult Contexts, Significant Conversations, Emotional Health with more than 700 participants having taken part.

Klabin also places great weight on the well-being of its employees and in 2020 revamped its quality of life program, known as Live Well. The latter aims to transmit knowledge, actions and increase the pool of benefits with an integral focus on each individual. As an example of the program's initiatives in 2020, we implemented and launched Live Psychology, an online and free psychotherapy platform available to all employees. The program has 3 pillars of activities in health: physical, social, and emotional. In 2020, the emotional health theme was the focus of our quality of life program. In the same year, we also ran our Health Week with days dedicated to working all the pillars of the program through webinars and a communication campaign in which the central theme was wellbeing with more than 1,200 participants from all units taking part.

During the year 2020, we ran The Journey of Learning in the Pandemic a set of various webinars and content available from the Company's online training platforms throughout the year. Designed to support our staff and managers during this time of major change and uncertainty that has been the pandemic, an effort was made to include content which made sense in this context: Office 365 tools (Planner, OneDrive and Teams), Emotional Intelligence and Remote Working and Self-management were some of the more than 20 themes. The format, virtual and at the most 2 hours of duration, was also considered in accordance with the moment.

For the new Corrugated Cardboard units acquired by Klabin in 2020, we ran online courses for the integration of the new employees (Knowing Klabin, Ethics and Occupational Safety).

To support Klabin's employees in their individual development, we have a process known as Performance Evaluation for the administrative and leadership groups this consisting of various stages: self-evaluation, evaluation of managers, career committees, feedback and individual development plan. This process also underscores protagonism still more, feeds the organization's pipeline and stimulates continuous employee learning..

For increasing the succession pipeline at Klabin with greater diversity, in 2020 we began the internship program Integrate Klabin, directed at low income students. As a result we brought in 34 new interns to the Company. We participated in the gender equity acceleration program in companies known as Equity is Priority, held by UNO's Global Compact in partnership with UN Women. Participation in this

program is directly linked to one of Klabin's announced targets: to have by 2030 at least 30% of women holding positions of leadership. In addition we are working the inclusion and diversity theme through campaigns on commemorative dates as well as the organization of actions such as Diversity Week, Woman's Week, Black Awareness Week and LGBTQIA+ Pride Week, always held in conjunction with groups with the similar affinities.

Relationship with Independent Auditors

In accordance with CVM Instruction 381/03, the Company informs that the auditing company Ernst & Young Auditores Independentes SS, responsible for auditing its financial statements, provided services not related to external auditing at levels above 5% of its total fees, as described in the table below:

Service description	Hiring Date	Validity	Value	% Audit fees
Support to the forestry department in the implementation of the S&OP (monthly harvest planning) and S&OE (weekly harvest planning) processes. We monitor the process of continuous improvement of the forest productivity analyzes and the actions proposed by Klabin for their evolution.	February/2020	9 months	R\$ 625,000.00	12%
Review of the mathematical calculation of the safety stock (for monitoring purposes) necessary to absorb variability in the forest chain, not being used in the costing / accounting process.	February /2020	2 months	R\$ 405,000.00	8%
Support to the forestry department in the review of roles and responsibilities for production planning and control, standardization of the process in the areas involved (commercial, logistics, harvesting, loading, stocks), support to management regarding the definition of the form of communication (frequency of meetings, reports), as to the alignment of service levels with other areas, as well as suggestions for improving the information systems and indicators currently used, not generating accounting information.	November/2020	3 months	R\$ 442,000.00	8%

In addition to contracting the services described above, no other services were contracted with the auditors at levels above 5%.

The Company's policy for contracting services not related to external audit with its independent auditors is based on principles that preserve the independence of these professionals. These principles, which follow internationally accepted guidelines, consist of: (a) the auditor must not audit his own work, (b) the auditor must not exercise managerial functions in his client and (c) the auditor must not promote the interests of your client.

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

Klabin S.A.



Klabin

**Financial statements at December 31, 2020 and 2019 and
independent auditor's report**

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

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(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

BALANCE SHEETS AT DECEMBER 31, 2020 AND 2019
(in thousands of Reais)

	No te	Parent Company		Consolidated	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
ASSETS					
Current					
Cash and cash equivalents	4	4,529,748	7,735,568	5,208,830	8,340,386
Marketable securities	5	1,335,257	1,382,259	1,347,897	1,390,529
Accounts receivable:					
. Trade receivables	6	1,296,273	1,440,416	1,883,028	1,908,974
. Allowance for doubtful debts	6	(56,106)	(49,451)	(76,110)	(49,469)
Related parties	7	675,185	739,542	-	-
Inventory	8	1,203,968	1,166,619	1,379,131	1,332,244
Taxes recoverable	9	795,780	505,277	824,771	505,411
Other assets		155,218	240,524	218,324	245,869
Total current assets		9,935,323	13,160,754	10,785,871	13,673,944
Assets held for sale	12	138,769	-	175,064	-
Non-current					
long-term receivables					
Deferred income tax and social contribution	10	770,453	-	765,099	-
Related parties	19	117,409	115,747	118,843	117,179
Taxes recoverable	9	763,475	1,944,656	769,092	1,944,656
Related parties	7	21,076	2,194	-	-
Other assets		175,228	269,256	175,502	270,817
		1,847,641	2,331,853	1,828,536	2,332,652
Investments:					
. Interests in subsidiaries and joint venture	11	2,090,500	1,542,061	256,072	160,970
. Other		12,372	9,687	12,372	9,687
Property, plant and equipment	13	16,033,030	13,034,714	16,670,773	13,241,181
Biological assets	14	3,357,941	3,375,564	4,657,821	4,712,381
Right of use asset	15	803,477	491,616	808,420	494,399
Intangible assets		67,362	77,828	75,332	77,868
		22,364,682	18,531,470	22,480,790	18,696,486
Total non-current assets		24,212,323	20,863,323	24,309,326	21,029,138
Total assets		34,286,415	34,024,077	35,270,261	34,703,082

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

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

BALANCE SHEETS AT DECEMBER 31, 2020 AND 2019
(in thousands of Reais)

	No te	Parent Company		Consolidated	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
LIABILITIES AND EQUITY					
Current					
Borrowings	16	698,634	758,385	652,983	701,783
Debentures	17	68,038	572,759	68,038	572,759
Trade payables	18	1,610,535	865,029	1,754,137	887,092
Trade payables (Forfait)	18	248,892	137,164	248,892	137,164
Tax payables		134,581	63,925	165,348	67,079
Social security and labor obligations		346,868	297,355	377,816	301,288
Related parties	7	37,150	39,845	-	5,347
Dividends and interest on shareholders' equity payable	20	-	200,000	-	200,000
Lease liability	15	141,837	100,198	143,721	100,509
Other payables and provisions		148,976	125,534	202,537	131,502
Total current liabilities		3,435,511	3,160,194	3,613,472	3,104,523
Property liabilities held for sale	12	-	-	36,295	-
Non-current					
Borrowings	16	24,015,045	21,617,742	23,853,204	21,539,392
Debentures	17	1,764,765	1,271,338	1,764,765	1,271,338
Income tax and social contribution					
Deferred income tax and social contribution	10	-	1,123,993	-	1,145,069
Provision for tax, social security, labor and civil contingencies	19	51,789	60,519	51,951	60,519
Payables - Investors in Special Partnership Companies (SPCs)		-	-	301,671	333,183
Lease liability	15	676,464	394,233	679,591	396,720
Actuarial liabilities	28	342,053	167,984	392,024	167,984
Other payables and provisions		190,483	181,192	192,527	183,081
Total non-current liabilities		27,040,599	24,817,001	27,235,733	25,097,286
Total liabilities		30,476,110	27,977,195	30,885,500	28,201,809
Equity					
Share capital		4,475,625	4,076,035	4,475,625	4,076,035
Capital reserves		(365,791)	(350,622)	(365,791)	(350,622)
Revaluation reserve		48,705	48,705	48,705	48,705
Profit reserves		-	1,517,044	-	1,517,044
Other comprehensive income		823,476	942,994	823,476	942,994
Accumulated loss for the year		(993,826)	-	(993,826)	-
Treasury shares		(177,884)	(187,274)	(177,884)	(187,274)
Shareholders' equity of Klabin	20	3,810,305	6,046,882	3,810,305	6,046,882
Non-controlling interest	26	-	-	574,456	454,391
Consolidated shareholders' equity		3,810,305	6,046,882	4,384,761	6,501,273
Total liabilities and equity		34,286,415	34,024,077	35,270,261	34,703,082

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

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(in thousands of Reais, except for basic earnings (loss)/diluted per share)

	Note	Parent Company		Consolidated	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
Net sales revenue	21	11,569,803	10,237,566	11,948,794	10,271,839
Variation in the fair value of biological assets	14	579,443	279,484	658,389	390,053
Cost of products sold	22	(7,684,945)	(7,273,518)	(7,885,299)	(7,241,234)
Gross profit		<u>4,464,301</u>	<u>3,243,532</u>	<u>4,721,884</u>	<u>3,420,658</u>
Operating expenses					
Sales	22	(1,009,464)	(871,211)	(1,139,138)	(910,388)
General and administrative	22	(678,919)	(581,995)	(717,799)	(600,959)
Other net	22	305,866	609,443	316,696	609,826
		<u>(1,382,517)</u>	<u>(843,763)</u>	<u>(1,540,241)</u>	<u>(901,521)</u>
Equity in the results of joint venture	11	172,284	131,545	33,123	7,237
Profit before finance result and taxes		<u>3,254,068</u>	<u>2,531,314</u>	<u>3,214,766</u>	<u>2,526,374</u>
Finance result	23	<u>(7,179,240)</u>	<u>(1,728,514)</u>	<u>(7,029,131)</u>	<u>(1,661,848)</u>
(Loss) Profit before taxes on income		<u>(3,925,172)</u>	<u>802,800</u>	<u>(3,814,365)</u>	<u>864,526</u>
Income tax and social contribution					
. Current	10	(402,563)	81,924	(446,626)	58,123
. Deferred	10	1,839,865	(208,899)	1,871,501	(208,031)
		<u>1,437,302</u>	<u>(126,975)</u>	<u>1,424,875</u>	<u>(149,908)</u>
(Loss) Profit for the year		<u>(2,487,870)</u>	<u>675,825</u>	<u>(2,389,490)</u>	<u>714,618</u>
From continuing operations		<u>(2,480,921)</u>	<u>675,825</u>	<u>(2,382,541)</u>	<u>714,618</u>
From discontinued operations	12	<u>(6,949)</u>	<u>-</u>	<u>(6,949)</u>	<u>-</u>
Attributed to Klabin's shareholders		<u>(2,487,870)</u>	<u>675,825</u>	<u>(2,487,870)</u>	<u>675,825</u>
Attributed to non-controlling shareholders		<u>-</u>	<u>-</u>	<u>98,380</u>	<u>38,793</u>
Earnings (loss) per share:					
Basic earnings (loss) per common share - R\$	25	<u>(0.4537)</u>	<u>0.1283</u>	<u>(0.4537)</u>	<u>0.1283</u>
Diluted earnings (loss) per common share - R\$	25	<u>(0.4537)</u>	<u>0.1283</u>	<u>(0.4537)</u>	<u>0.1283</u>
Earnings (loss) per share - discontinued operations:					
Basic earnings (loss) per common share - R\$	25	<u>(0.0013)</u>	<u>-</u>	<u>(0.0013)</u>	<u>-</u>
Diluted earnings (loss) per common share - R\$	25	<u>(0.0013)</u>	<u>-</u>	<u>(0.0013)</u>	<u>-</u>

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

(A free translation of the original in Portuguese)

KLABIN S.A.
All amounts in thousands of Reais

**STATEMENT OF COMPREHENSIVE (LOSS) INCOME FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**
(in thousands of Reais)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2019</u>
(Loss) Profit for the year	(2,487,870)	675,825	(2,389,490)	714,618
Other comprehensive income:				
. Foreign currency translation adjustments (i)	(16,963)	7,669	(16,963)	7,669
. Actuarial liability remeasurement (ii)	(161,932)	(67,977)	(161,932)	(67,977)
. Deferred IR / CS on actuarial liabilities	55,057	23,112	55,057	23,112
Total comprehensive (loss) income for the year, net of taxes (iii)	(2,611,708)	638,629	(2,513,328)	677,422
Attributed to Klabin's shareholders	(2,611,708)	638,629	(2,611,708)	638,629
Attributed to non-controlling shareholders	-	-	98,380	38,793

(i) Effects that may in the future impact the result only in case of sale of the investee.

(ii) See information in note 28.

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

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (in thousands of Reais)

	Share capital	Capital reserves	Revaluation reserve	Own assets	Legal	Tax incentives	Biological assets	Dividend reserves and capital adjustments	Treasury shares	Accumulated loss	Shareholder's interest from Klabin	Non-controlling interest	Consolidated shareholder's equity
At December 31, 2018	4,076,035	(364,433)	-	48,703	153,384	186,019	815,103	977,122	(106,613)	673,825	6,292,235	240,905	6,533,230
Profit (loss) for the year	-	-	-	-	-	-	-	(37,196)	-	-	673,825	38,793	714,618
Other comprehensive income for the period	-	7,606	-	-	-	-	-	(4,609)	4,609	-	15,305	-	18,305
Comprehensive income for the period	-	7,606	-	-	-	-	-	(3,196)	4,609	-	15,305	-	18,305
Capital contribution from non-controlling shareholders (Note 1)	-	-	-	-	-	-	-	(37,196)	-	-	638,659	185,000	821,854
Stock option plan (Note 23):	-	-	-	-	-	-	-	55	(57)	-	-	-	18,305
- Award of treasury shares	-	-	-	-	-	-	-	55	(57)	-	-	-	18,305
- Maturity of stock option plan	-	-	-	-	-	-	-	-	-	-	-	-	-
- Recognition of the stock option plan remuneration	-	-	-	-	-	-	-	-	-	-	-	-	-
- Maturity of stock option plan	-	-	-	-	-	-	-	-	-	-	-	-	-
- Grant plan outflow	-	-	-	-	-	-	-	-	-	-	-	-	-
- Allocation of net income for the year (Note 19):	-	-	-	-	-	-	-	-	-	-	-	-	-
- Constitution of tax incentive reserves	-	-	-	-	31,355	48,718	-	-	-	(48,718)	-	-	-
- Constitution of legal reserves	-	-	-	-	-	-	-	-	-	(33,355)	-	-	-
- Realization of investment reserves and working capital	-	-	-	-	-	-	(484,220)	33,257	-	(33,257)	-	-	-
- Realization of biological asset reserves (own)	-	-	-	-	-	-	(184,459)	-	-	(184,459)	-	-	-
- Constitution of biological asset reserves (subsidiaries) (*)	-	-	-	-	-	-	(44,744)	-	-	(44,744)	-	-	-
- Realization of biological asset reserves (subsidiaries) (*)	-	-	-	-	-	-	-	-	-	44,744	-	-	-
- Realization of biological asset reserves (subsidiaries) (*)	-	-	-	-	-	-	-	-	-	(607,000)	-	(10,397)	(617,397)
- Dividends anticipated for 2019	-	-	-	-	-	-	-	(3,000,000)	-	(3,000,000)	-	-	(3,000,000)
- Interest on own capital anticipated for 2019	-	-	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2019	4,076,035	(350,623)	-	48,703	184,739	238,637	470,658	653,010	(187,274)	607,000	6,046,882	454,391	6,501,273
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	-	6,046,882	97,713	6,144,595
Other comprehensive income for the period	-	-	-	-	-	-	-	(123,838)	-	(2,487,870)	(2,487,870)	-	(2,611,708)
Comprehensive income for the period	-	-	-	-	-	-	-	-	-	(2,487,870)	(2,487,870)	-	(2,611,708)
Conversion of debentures (7th issue - 1st series) (Note 1)	-	(28,592)	-	-	-	-	-	-	-	(28,592)	-	-	(28,592)
Segement Merger (Note 1)	1,44	-	-	-	-	-	-	-	-	-	-	-	1,44
Capital contribution from non-controlling shareholders (Note 1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock option plan (Note 23):	-	-	-	-	-	-	-	-	-	-	-	-	-
- Treasury shares sold	-	-	-	-	-	-	-	-	-	-	-	-	-
- Award of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
- Recognition of the stock option plan remuneration	-	-	-	-	-	-	-	-	-	-	-	-	-
- Maturity of stock option plan	-	-	-	-	-	-	-	-	-	-	-	-	-
- Grant plan outflow	-	-	-	-	-	-	-	-	-	-	-	-	-
- Allocation of loss for the year (Note 19):	-	-	-	-	-	-	-	-	-	-	-	-	-
- Absorption of losses with profit reserve	-	-	-	-	(184,739)	(238,637)	(470,658)	(600,010)	1,494,044	1,494,044	-	-	1,494,044
- Dividends for 2020	-	-	-	-	-	-	-	(23,000)	-	(23,000)	-	-	(23,000)
At December 31, 2020	4,076,035	(365,791)	-	48,703	-	-	-	823,476	(177,884)	(993,526)	3,283,305	574,456	4,384,761

(*) The effect is not between the companies, since the consolidation of the balances contained in the equity income result.

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

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (in thousands of Reais)

	Parent Company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Net cash provided by operating activities	5,337,698	2,277,869	5,791,245	2,953,124
Cash provided by operations	3,764,698	5,007,596	3,981,613	5,563,975
(Loss) profit for the year (from continuing operations)	(2,480,921)	675,825	(2,382,541)	714,618
(Loss) profit for the year (from discontinued operations)	(6,949)	-	(6,949)	-
Depreciation and amortization	1,135,553	1,105,474	1,164,807	1,128,035
Change in fair value of biological assets	(579,443)	(279,484)	(658,389)	(390,053)
Depletion of biological assets	944,236	889,656	1,218,104	1,065,379
Deferred income tax and social contribution	(1,839,865)	208,899	(1,871,501)	208,031
Interest and foreign exchange variations on borrowings	6,702,351	2,117,350	6,472,502	2,389,792
Interest and monetary variations on debentures	591,319	330,378	591,319	330,378
Interest on leases	(306,266)	55,457	(306,425)	55,990
Accrued interest - REFIS	-	14,372	-	14,372
Exchange variation on accounts receivable	(12,403)	20,330	(13,051)	19,869
Allowance for doubtful debts ("AFDD")	6,655	4,359	26,641	4,075
Estimated losses with stocks	7,819	6,837	14,738	6,942
Result on disposal of assets	(4,376)	43,849	(4,376)	43,849
Equity result of investees and JV	(172,284)	(131,545)	(33,123)	(7,237)
Advantageous purchase gain	(206,061)	-	(206,061)	-
Other	(14,667)	(54,161)	(24,082)	(20,065)
Changes in assets and liabilities	1,573,000	(2,729,727)	1,809,632	(2,610,851)
Trade receivables and related parties	220,903	(7,689)	38,997	157,482
Inventories	(45,168)	(56,277)	(61,625)	(132,833)
Taxes recoverable	890,678	(702,321)	865,749	(694,420)
Marketable securities	47,002	(76,858)	42,632	(77,179)
Other assets	130,925	24,744	93,331	10,844
Payment of interest on borrowings	(1,402,939)	(1,239,632)	(1,220,288)	(1,185,147)
Suppliers	722,153	(257,454)	843,692	(244,813)
Tax obligations	70,656	13,473	98,269	16,247
Social security and labor obligations	49,513	1,166	76,528	909
Other liabilities	818,333	(230,042)	979,295	(256,833)
Income tax and social contribution paid	-	(198,837)	(9,545)	(205,108)
Change in working capital in acquisition / incorporation	70,944	-	62,597	-
Net cash used in investing activities	(4,728,356)	(2,296,403)	(5,069,428)	(2,552,896)
Purchase of property, plant and equipment	(4,026,340)	(1,640,951)	(4,160,796)	(1,768,999)
Planting cost of biological assets	(495,211)	(681,962)	(624,870)	(805,076)
Acquisition of companies	(388,071)	-	(388,000)	-
Proceeds from disposal of assets	95,757	10,979	95,757	10,979
Dividends received from subsidiaries	85,509	15,531	8,481	10,200
Net cash provided used in financing activities	(3,815,162)	2,416,899	(3,853,373)	2,206,304
New borrowings	3,569,502	9,956,289	3,726,207	9,791,230
New Debenture (net of funding costs)	-	1,000,000	-	1,000,000
Repayment of borrowings	(6,750,182)	(7,318,825)	(6,932,229)	(7,565,565)
Payment of interest and participation in debenture results	(231,671)	(148,957)	(231,671)	(148,957)
Payment of lease liabilities	(158,159)	(102,252)	(158,590)	(102,361)
Disposal of treasury shares	13,588	12,305	13,588	12,305
Acquisition of investments and payment in subsidiaries (cash)	(35,240)	(24,661)	50,000	185,000
Dissolution of SCP	-	-	(25,000)	-
Outflow of SCPS investors	-	-	(2,000)	-
Dividends paid SPCs and SPEs	-	-	(70,678)	(8,348)
Dividends paid	(223,000)	(957,000)	(223,000)	(957,000)
(Decrease) increase in cash and cash equivalents	(3,205,820)	2,398,365	(3,131,556)	2,606,532
Cash and cash equivalent at the beginning of the year	7,735,568	5,337,203	8,340,386	5,733,854
Cash and cash equivalent at the end of the year	4,529,748	7,735,568	5,208,830	8,340,386

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

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STATEMENT OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(in thousands of Reais)

	Parent Company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Revenues				
. Sales of products	13,514,331	12,059,363	13,993,100	12,105,309
. Change in fair value of biological assets	579,443	279,484	658,389	390,053
. Other income	158,619	10,979	158,620	49,772
. Allowance for doubtful debts	6,655	4,359	26,641	4,076
	14,259,048	12,354,185	14,836,750	12,549,210
Inputs acquired from third parties				
. Cost of products sold	(4,043,687)	(3,265,262)	(4,253,417)	(3,312,534)
. Materials, electricity, outsourced services and other	(2,892,223)	(2,543,209)	(2,803,906)	(2,299,983)
	(6,935,910)	(5,808,471)	(7,057,323)	(5,612,517)
Gross value added	7,323,138	6,545,714	7,779,427	6,936,693
Retentions				
. Depreciation, amortization and depletion	(2,096,906)	(1,995,130)	(2,382,963)	(2,193,414)
Net value added generated	5,226,232	4,550,584	5,396,464	4,743,279
Value added received through transfer				
. Equity in the results of investees	172,284	131,545	33,123	7,237
. Finance income, including exchange variations	919,737	1,316,474	964,636	1,341,465
	1,092,021	1,448,019	997,759	1,348,702
Total value added to distribute	6,318,253	5,998,603	6,394,223	6,091,981
Distribution of value added:				
Personnel				
. Direct compensation	1,121,766	1,021,256	1,142,915	1,040,659
. Benefits	359,457	319,912	364,308	324,179
. Government Severance Indemnity Fund for Employees (FGTS)	82,163	86,379	82,359	86,586
	1,563,386	1,427,547	1,589,582	1,451,424
Taxes and contributions				
. Federal	(1,070,503)	604,379	(1,013,899)	637,969
. State	198,189	229,822	198,189	229,822
. Municipal	16,074	16,042	16,074	16,042
	(856,240)	850,243	(799,636)	883,833
Remuneration of third-party capital				
. Interest	8,098,977	3,044,988	7,993,767	3,003,313
	8,098,977	3,044,988	7,993,767	3,003,313
Remuneration of own capital				
. Dividends	23,000	907,000	23,000	907,000
. (Accumulated loss) profits retained for the year	(2,510,870)	(231,175)	(2,510,870)	(192,382)
. Net income attributable to non-controlling shareholders	-	-	98,380	38,793
	(2,487,870)	675,825	(2,389,490)	753,411
	6,318,253	5,998,603	6,394,223	6,091,981

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

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Notes to the financial statements are presented in thousands of Reais unless otherwise stated

1 GENERAL INFORMATION

Klabin S.A. (the "Company") and its subsidiaries operate in segments of paper and pulp industry supplying domestic and foreign markets, with wood, packaging paper, paper sacks, corrugated cardboard boxes and pulp. Their operations are fully integrated, from forestry activities to the production of the final products. Klabin S.A. is a publicly held corporation whose shares and certificates of deposit of shares (Units) are traded under the code KLBN11, on the São Paulo Commodities, Futures and Stock Exchange – B3. The Company is domiciled in Brazil and headquartered in São Paulo.

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

1.1 Declaration of conformity

The issuance of these financial statements by Klabin S.A. (the "Company") and its subsidiaries was approved by the Board of Directors on February 9, 2021.

Management evaluated the Company's and its subsidiaries' ability to continue its operation being convinced that it has the necessary resources and capacity to develop its business in the future on a continuous basis, with no knowledge of uncertainties or material probabilities that could generate significant doubts regarding its continuity.

The management states that all relevant information inherent to the financial statements, and only them, are being evidenced and correspond to those used by it in its management.

1.2 Constitution of Cerejeira Reflorestadora S.A.

On March 28, 2019, the Company constituted Cerejeira Reflorestadora S.A, a Special Purpose Company ("SPC"), with the main purpose of exploring forestry activity in the state of Paraná - PR. The new company is in the structuring phase, with no active operations.

1.3 Constitution of Sapopema Reflorestadora S.A.

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

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

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

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Klabin has 62% of the voting capital and 26% of the Entity's total share capital, while the TIMO holds the remainder of the capital, may elect one member of the Board of Directors and participate in certain decisions and voting right, including in situations that require qualified forum.

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

1.4 Expansion project - Puma II

As disclosed in the Material Fact to the market on April 16, 2019, the beginning of the capacity expansion project in the packaging paper segment called "Projeto Puma II", was approved, covering the construction of two paper machines, with pulp production, located at Klabin's industrial unit in the city of Ortigueira (PR) ("Puma Unit").

The installation of the Puma II Project will be divided into two stages:

(i) First stage consists of the construction of a fiber line for the production of unbleached pulp integrated with a kraftliner and white kraftliner paper machine, which will be marketed under the Eukaliner brand, with a capacity of 450 thousand tons per year. This step also includes the construction and/or adjustment of support facilities to the new fiber lines, recovery areas and utilities.

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

The schedule foresees that the works of each stage will last 24 months, with the start of construction of the second stage being soon after the end of the first stage. Thus, the commissioning of the first machine is scheduled for the July of 2021, and that of the second machine is scheduled for the second quarter of 2023.

The gross investment budgeted for the construction of the Puma II Project is R\$ 9.1 billion, subject to exchange rate fluctuations and adjustments resulting from inflation, being R\$ 5.3 billion disbursed up to December 31, 2020 and the remainder by 2023. Approximately R\$ 900 million of gross investment refers to recoverable taxes. Considering that most equipment will be installed in the first stage of the project, approximately two thirds of disbursements that are expected to occur until 2021.

1.5 Constitution of Klabin Paranaguá SPE S.A.

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

The Entity has as its sole and exclusive object the operation of the leases areas, port facilities and public infrastructure, located within the Organized Port of Paranaguá, for carrying out the following unloading activities: of (unloading, internal handling, storage and shipment) and loading (reception, storage, internal handling and shipment) of general cargo, especially pulp and paper, all under the terms of the Draft Lease Agreement resulting from Auction No. 03/2019-ANTAQ, signed with the Federal Government, through the Ministry of Infrastructure.

As announced to the market on August 13, 2019, Klabin S.A. won a warehouse tender in the Port of Paranaguá for handling and storage of general cargo, especially pulp and paper, in an auction held at

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B3's headquarters in São Paulo. The lease guarantees access to an area of 27,530 m² for a period of 25 years, which can be extended for another 45 years, with total planned investments in the order of R\$ 130 million and the start of operations scheduled for second half of 2022.

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

1.6 Constitution of Pinus Taeda Florestal S.A.

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

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

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

The Company has the right of first refusal in the purchase of process wood produced by SPC, among other typical rights granted to shareholders of a company of this nature.

1.7 Acquisition of International Paper do Brasil's assets

On October 14, 2020, the conditions for the acquisition of the packaging paper and corrugated fiberboard business conducted by International Paper do Brasil ("IP"), located in Brazil, were concluded and all legal agreements and approvals were signed. The first installment, of R\$ 280 million, was disbursed on this date, and the remaining R\$ 50 million will be paid after one year, subject to certain contractual conditions, totaling R\$ 330 million for the acquisition. In addition, IP has to be reimbursed for the working capital received in excess on that date, in an amount not yet appraised, but close to R\$ 58 million in the first quarter of 2021. The Company used its own funds for the payment.

IP's operations, the focus of the acquisition, have a production capacity of 305 thousand tons of corrugated fiberboard per year. The acquisition also includes packaging paper units (virgin and recycled fiber), with total capacity of 310 thousand tons per year.

The transaction is in line with the Company's strategy of growth in the paper and paper packaging business, expanding its operational flexibility and bringing greater stability to its results. Shareholders are not required to ratify the operation, as it does not fit in the requirements provided for in article 256 of Law No. 6.404/76.

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Acquisition balance sheet

The assets involved in the transaction with IP were effectively acquired on October 14, 2020 through the acquisition of all the shares of Embacorp Soluções em Embalagens de Papel Ltda. (“Embacorp”) and Embacorp da Amazônia - Soluções em Embalagens de Papel Ltda. (“Embacorp Amazônia”), which became part of the Company’s economic group as a wholly-owned subsidiary as of this date.

At the acquisition date, the acquirees’ balance sheet present no balances that could not be reliably measured, and is represented the following group of assets and liabilities:

<u>ASSETS</u>		<u>LIABILITIES AND EQUITY</u>	
Cash and cash equivalents	62,597	Trade payables	96,715
Accounts receivable	228,222	Social security and labor obligations	47,264
Inventory	116,035	Tax payables	12,624
Other assets	13,219	Lease liability	13,374
Total current assets	<u>420,073</u>	Other payables and provisions	23,769
		Total current liabilities	<u>193,746</u>
Non-current			
long-term receivables		Actuarial liabilities	42,888
Deferred income tax and social contribution	17,810	Lease liability	8,401
Other assets	794	Other payables and provisions	29,414
Property, plant and equipment	193,668	Total non-current liabilities	<u>80,703</u>
Right of use asset	9,555		
Intangible assets	31,649	Equity	<u>399,100</u>
Total non-current assets	<u>253,476</u>		
		Total liabilities and equity	<u>673,549</u>
Total assets	<u>673,549</u>		

The inclusion of the new assets acquired in the Company’s operations generated R\$ 258 million in Net Revenue and R\$ 12 million of Net Income, included in the Company’s profit or loss in 2020.

CPC 15 - Business Combinations (IFRS3 Business Combinations) requires disclosure of the combined entity’s revenue and profit or loss for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. The Company understands that such disclosure is impracticable, as determining this effect should consider the operation under its management, including the synergies and business strategies that would have been applied, which could not be reliably measured at this time given the short period of its asset management, as the acquisition was completed at the end of 2020.

Business combination effects – gain from a bargain purchase

According to criteria of CPC 15 - Business Combinations (IFRS3 Business Combinations), the operation with IP, related to the acquisition of all shares of Embacorp and Embacorp Amazônia, is characterized as a business combination. Therefore, the fair value of assets and liabilities acquired is to be measured using the purchase price allocation process (“PPA” - Purchase Price Allocation).

At the end of 2020, the Company engaged specialists to appraise the assets and liabilities of Embacorp and Embacorp Amazônia. The net effect of the gain from the bargain purchase of the assets acquired from IP amounted to R\$ 206,061, which was allocated to the Company’s profit or loss, in the “Other net” line.

The gain resulted from the R\$ 11,101 of net assets acquired above the purchase price; property, plant and equipment items marked to market above the acquisition statement of financial position book values, and (R\$ 20,999) of intangible assets below book values.

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The fair value of the adjusted assets above was determined through an analysis obtained in comparison with similar property, plant and equipment items in the market, considering their best use. The appraisal of intangible assets presented a loss, due to the decrease in customer portfolio recorded in the initial acquisition balance.

Embacorp's corporate reorganization

On December 28, 2020, Embacorp's corporate reorganization was approved, with partial spin-off of the net assets acquired from IP, excluding the net assets related to the assets and liabilities of the Nova Campina (SP) branch. The spun-off portion of R\$ 467,396 was transferred to Riohold Holdings S.A., a wholly-owned subsidiary of the Company. As of this date, Embacorp's equity included assets and liabilities related to the Nova Campina (SP) unit, only.

The transaction is aligned with management's strategy for the future merger of assets transferred to Riohold Holdings S.A in the Company, and sale of Nova Campina (SP) unit.

1.8 Sale of the Nova Campina unit (SP)

As announced to the market on June 24, 2020, the Company signed the necessary documents for the sale, to the Klingele Paper & Packaging Group, of the unit located in Nova Campina (SP) for R\$ 196 million, of which R\$ 132 million was paid after the closing of the transaction, which took place on January 29, 2021 (see Note 30). The remainder will be paid in two annual installments of the same amount. The Nova Campina (SP) unit has a production capacity of 162 thousand tons of kraftliner, resulting from assets acquired from International Paper.

1.9 Conversion of 7th issue debentures (1st series)

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

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

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

1.10 Constitution of Aroeira Reflorestadora S.A.

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

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

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1.11 Acquisition of brands involved in royalties and merger of Sogemar

On November 26, 2020, the Special General Meeting approved the merger of SOGEMAR - Sociedade Geral de Marcas (“Sogemar”), owner of the brands involved in the royalties contract.

As a result of the merger, Klabin becomes the owner of the brands owned by Sogemar, with the consequent extinction on this date of the respective license agreement and payment of royalties related to such brands.

Given the merger, Sogemar’s units of interest were replaced by the issue of 69,394,696 (sixty-nine million, three hundred and ninety-four thousand, six hundred and ninety-six) new common shares of the Company, all registered and without par value, to Sogemar partners, with a R\$ 144 increase in the Company’s capital stock.

After the transaction was approved, the Company’s capital increased from R\$ 4,475,481 to R\$ 4,475,625, comprising 5,617,892,756 shares, of which 2,081,728,595 are common shares and 3,536,164,161 are preferred shares.

1.12 Incorporation of Kla Holding S.A.

On November 12, 2020, Kla Holdings S.A. (“Kla Holdings”) was created for the purpose of holding interests in other entities, in line with the Company’s corporate strategy.

1.13 Closure of silent partnership CG Forest

The merger of Silent Partnership CG Forest (“SCP CG Forest”) took place on December 9, 2020, as determined by its partners after the closing of the partnership’s operations. In the settlement of assets, R\$ 25,000 was paid to the investing partners related to their interest in the partnership, whereas the Company merged the remaining net assets comprising R\$ 70,944 in cash and cash equivalents and R\$ 39,660 in working capital.

1.14 Closure of subsidiaries

At the end of 2020, the Company closed the activities of its foreign subsidiaries Klabin Limited, Klabin Trade and Klabin Overseas, and of its national subsidiary Celucat. Their operations were terminated as they were not in operation and no operational use is expected.

1.15 Effects of COVID-19

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

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

Regarding the volatility of the financial market, including the effects of the devaluation of the national currency against the US dollar, the Company has a robust cash position and an extended debt profile.

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Additionally, in spite of the foreign exchange effects determined in the “Financial Result” in the referred financial statements, according to the analysis of the foreign exchange risk exposure mentioned in Note 27, this effect does not materially affect the Company's cash since it is substantially linked to loan operations and long-term foreign currency financing to be realized in future periods, as well as the projected cash flow of export earnings, of which they exceed, or approximate the payment flow of the respective liabilities.

In view of the current scenario, in line with the requirements of the Brazilian Securities and Exchange Commission (“CVM”), the Company's Management analyzed any impacts in view of its estimates, judgments and assumptions that could impact the recoverability of its assets and affect the measurement of provisions presented in said financial statements due to an increase in expected losses or a significant change to the risks to which the Company is exposed (see information in Note 27). This review considered the subsequent events that occurred up to the date of issue of these financial statements and no significant effects were identified that should be reflected in the financial statements for the year ended December 31, 2020.

2 BASIS OF PRESENTATION OF THE INCOME STATEMENT AND MAIN ACCOUNTING POLICIES

2.1 Basis for presentation of the financial statements

The Company presents the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil, which include the rules of the Brazilian Securities and Exchange Commission (CVM) and the pronouncements issued by the Accounting Pronouncements Committee (CPC), the international financial reporting standards (IFRS), issued by the International Accounting Standards Board (IASB) and present all relevant information specific to the financial statements, and only those, which are consistent with those used by Management in its administration.

The preparation of the financial statements requires the use of certain critical accounting estimates and also the exercise of judgment by the Company's management in the process of applying the accounting policies of the Company and its subsidiaries. Those areas that require a higher level of judgment and have greater complexity, as well as those areas in which assumptions and estimates are significant for the financial statements are disclosed in note 2.2 - item x).

The financial statements were prepared considering the historical cost as the basis of value, except when measured at fair value.

2.2 Summary of the significant accounting practices adopted

The main accounting practices adopted by the Company and its subsidiaries are shown below and have been applied consistently in the presented years.

a) Functional currency and translation of foreign currencies

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

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(i) Transactions and balances

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

(ii) Foreign subsidiaries

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

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

b) Financial instruments

Financial instruments are initially recorded at their fair value, plus, in the case of a financial asset or a financial liability other than at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability. Its subsequent measurement occurs at each balance sheet date in accordance with the classification of financial instruments in the following categories: (i) amortized cost, (ii) fair value through the profit or loss and (iii) fair value through comprehensive income.

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

c) Cash and cash equivalents

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

d) Marketable securities

Marketable securities are characterized by financial assets measured at fair value through profit or loss, long-term maturity, with immediate liquidity and are recorded plus financial result, corresponding to their fair value.

e) Accounts receivable

They are recorded and maintained at the nominal value of securities arising from sales of products, plus exchange rate variations, when applicable. The estimated allowance for doubtful debts ("AFDD") are recorded based on individual analysis of amounts receivable, considering (i) the concept of

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incurred loss and expected loss, taking into consideration events of default that are likely to occur within twelve months after the date of disclosure of said financial statements (ii) Financial instruments that had a significant increase in credit risk, which no objective evidence of impairment, and; (iii) financial assets which already present objective evidence of impairment as of December 31, 2020.

The AFDD was set up in an amount considered by management to be sufficient to cover probable losses on the realization of these credits, which may be modified due to the recovery of credits from debtors or changes in the financial situation of clients.

The adjustment to present value of the balance of trade accounts receivable is not relevant due to the short-term of its realization.

f) Inventory

Inventories are stated at the average cost of purchases, net of recoverable taxes, where applicable, and the fair value of biological assets at the cut-off date, which is lower than the net realizable values less costs to sell. Inventories of finished products are valued at the cost of processed raw materials, direct labor and other production costs.

When necessary, estimated losses are deducted from inventories. Such losses are determined in cases of inventory impairment, product obsolescence and physical inventory losses. In addition, given the nature of the Company's products, in cases of obsolescence or physical damage that prevent the sale of finished products, they can be recycled to produce new inventory items.

g) Income tax and social contribution

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

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

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

h) Investments

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

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

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

The foreign exchange variation on investments in foreign subsidiaries recognized under "Comprehensive income" is classified as a carrying value adjustment and realized through the realization of the investment to which it refers.

In the consolidated financial statements of the Company, the investors' interest in SPCs (Notes 3 and 11) is presented in the balance sheet in liabilities, under "Other payables - investors in SPCs", as these meet the criteria for classification as financial liabilities, and not as equity instruments, in accordance with IAS 32 / CPC 39 – "Financial instruments: Presentation".

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

i) Assets held for sale

The Company classifies assets held for sale when the likelihood of sale is highly probable, and the asset or disposal group held for sale is available for immediate sale in its present condition, subject only to terms that are usual and customary for the sale of such assets or disposal groups within twelve months.

The value of assets held for sale does not exceed their recoverable amount, and are measured at the lower of carrying amount and fair value less incremental costs to sell directly attributable to the sale, including the entire set of assets and liabilities available, presented separately in the statement of financial position. Discontinued operations are presented separately from the results of continuing operations as a single amount in profit or loss for the year.

Additional disclosures are presented in Note 12. All other notes to the financial statements include amounts for continuing operations, unless otherwise stated.

j) Property, plant and equipment

Property, plant and equipment are stated at their cost of acquisition or construction, less taxes to be compensated, when applicable, and accumulated depreciation. In addition, based on the option exercised by the Company upon the first-time adoption of IFRS, the deemed cost of property, plant and equipment (land) was determined based on the attributed value of the cost of these class of assets.

Depreciation is calculated on a straight-line basis, taking into consideration the estimated useful life of the assets, based on the expected future economic benefits, except for land, which is not depreciated. The estimated useful life of the assets are reviewed annually and adjusted, if necessary, and may vary based on the technological stage and/or frequency of use of each unit. The useful life of the Company's assets are stated in Note 13.

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

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

k) Impairment of assets

The balances of property, plant and equipment, goodwill, and other assets are tested for impairment on an annual basis, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When this is the case, the recoverable amount is calculated to determine whether assets are impaired.

In analyzing the estimated recoverable amount of the assets, future cash flows of the cash generating units are estimated based on the budget projections for the period of 5 years and perpetuity, discounted to present value, using a discount rate that reflects the specific risks inherent in the Company's business, through its average cost of capital.

At December 31, 2020, the Company used the weighted average cost of capital of 4.48% in constant currency (4.11% at December 31, 2019) to prepare the estimated future cash flows of the cash generating units.

When there is an identified loss, it is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the asset's value in use and its net selling price.

l) Biological assets

The Company's biological assets include the cultivation and planting of pine and eucalyptus forests to supply raw material for the production of short fiber, long fiber and fluff fiber, and use in the paper production process and sales of wood logs to third parties. The harvest and replanting process has a cycle of approximately 6 to 7 years for eucalyptus, and 14 to 15 years for pine. Biological assets are measured at fair value, less estimated costs to sell at the time of harvest.

Significant assumptions in determining the fair value of biological assets are presented in Note 14.

Biological assets are valued quarterly by the Company. Any gains or losses resulting from changes in fair value of biological assets are recognized in profit or loss for the year in which they occur, in a specific line in the statement of profit or loss, called "Changes in the fair value of biological assets". The depletion value of biological assets is measured by the amount of wood cut, at its fair value.

m) Right to use lease assets and liabilities

Right-of-use assets and lease liabilities correspond to lease contracts for land, machinery, equipment and buildings, for periods exceeding 12 months, of substantial value and exclusive use. These are recognized at the future value of the considerations assumed in the contract, brought to net present value. Right-of-use assets are amortized on a straight-line basis over the contract term in the statement of profit or loss for the year in the line related to its nature ("Cost of products sold"/"Administrative expenses"/"Selling expenses"). Interest corresponding to the amortization of the net present value adjustment of the contracts is allocated to the "Finance income (costs)".

Significant assumptions for recognizing the right-of-use assets and lease liabilities are presented in Note 15.

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KLABIN S.A.

All amounts in thousands of Reais

n) 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.

o) Borrowings

The balance of borrowing refers to the amount of funds raised, plus interest and charges proportional to the period incurred, less installments paid. When applicable, borrowings include foreign exchange variation on payables.

p) Debentures

The balance of debentures mandatorily convertible into shares, considered hybrid (compound) financial instruments due to their nature, and are segregated, upon issuance, into debt components and equity. The amount of interest to be paid to the debenture holders up to the date of conversion, measured at present value, plus foreign exchange on liabilities, when applicable, are recorded as a liability account.

The debentures that are not mandatorily convertible are recorded in liabilities at the amount corresponding to the total raised funds, plus interest and charges, proportionately to the time elapsed, less amortized installments and interest paid.

q) Trade payables

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

r) Provisions

A provision is recognized when the Company has a present legal or constructive obligation because of past events, and a probability that a future outflow of resources will be required to settle the obligation, measured based on a reliable provisioned value.

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

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

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

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KLABIN S.A.

All amounts in thousands of Reais

s) Sales revenues

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

t) Employee benefits and private pension plan

The Company grants employees benefits that involve life insurance, health care plan, profit sharing and other benefits, recognized on an accrual basis, which cease to exist on termination of their employment relationship with the Company.

Additionally, the Company granted post-employment benefits, such as a private pension plan and health care plan, to former retired employees and some employees hired until 2019. It has recently taken over post-employment benefit plans for Embacorp employees. For these benefits, the liability and profit or loss measured based on the actuarial appraisal, prepared by an independent appraiser, are recognized. Gains and losses determined on the actuarial appraisal of benefits generated by changes in assumptions are recorded in equity, in an account called "equity adjustments" (comprehensive income), as required by CPC 33 (R1) - Employee Benefits (IAS19 Employee Benefits).

u) Stock options plan

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

v) Government grants

Government grants received by the Company are recognized to the extent that the requirements relating to the grant are complied with. Grants received for the purpose of offsetting expenses are recognized as a reduction of the expenses expected to be offset.

In the case of government grants for the purpose of investment in assets, the benefits are recorded in the balance sheet in the form being granted by the governmental agency, and can be either recorded as a liability as deferred revenue, recorded as revenue on a systematic basis throughout the useful life of the acquired asset, or deducted from the grant-related asset, thereby being recognized as revenue through credit to the depreciation recorded as an expense in the result.

In case the benefits received in the form of government grants must not be distributed to the stockholders, the related amounts are reclassified through the allocation of the result for the year to a specific "Tax incentive reserve" account, in equity.

w) Business combinations

The Company determines that it acquired a business when the acquired set of activities and assets includes, at a minimum, an input - input and a substantive process that together significantly contribute to the ability to create output.

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All amounts in thousands of Reais

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured by the sum of the consideration transferred, assessed based on the fair value at the acquisition date, considering the purchase price allocation ("PPA") on the assets and liabilities acquired.

The business combination results in goodwill when the acquisition value exceeds the value of the net assets acquired (identifiable assets acquired, net, and liabilities assumed). If the acquisition value is lower than the fair value of the net assets acquired, the difference shall be recognized as gain from a bargain purchase in profit or loss for the year.

For consolidation purposes, PPA effects on the consolidated statement of financial position are kept in intangible assets when they arise from goodwill, or distributed to assets and liabilities when their appraisal results in surplus.

x) Significant accounting judgments, estimates and assumptions

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

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

The actual results of the balances established using judgments, estimates and accounting assumptions may be divergent, and the Company may be exposed to losses that may be material.

y) Statement of value added

The Brazilian corporate legislation requires listed companies to present the statement of value added as part of the set of financial statements of a company. The purpose of this statement is to show the wealth created by the Company and its distribution during the reporting period.

IFRS does not require the presentation of this statement. Therefore, the presentation of such statements is considered supplementary information, and not part of the set of financial statements.

2.3 New accounting pronouncements, revisions and interpretations

In 2020, the Brazilian Financial Accounting Standards Board (CPC) issued the revision of the following standards, already in force in the year of 2020:

<u>Pronouncement</u>	<u>Alteration</u>
CPC 00 (R2) - Conceptual Framework/Framework	Review of concepts and clarifications
CP 06 (R2) - Rentals/IFRS 16 Leases	Effects of COVID-19 on impacted contracts
CP 15 (R1) - Business Combination/IFRS 3 Business Combinations	Definition of "Business"
CPC 23 - Accounting Policies, Change Estimates and Errors/IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Definition of the concept of "Material"
CPC 26 (R1) - Presentation of Financial Statements/IAS 1 Presentation of Financial Statements	Definition of the concept of "Material"
CPC 40 - Financial Instruments: Disclosure/IFRS 7 Financial Instruments: Disclosures	Reference hedge interest rate
CPC 48 - Financial instruments/IFRS 9 Financial Instruments	Reference hedge interest rate

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KLABIN S.A.

All amounts in thousands of Reais

Changes were reviewed and adopted by Company management, with no effects on its financial statements regarding their application.

Additionally, the International Accounting Standards (IASB) issues new pronouncements and revises existing ones, which will only come into force as of January 1, 2023 with the convergence of the pronouncements by the CPC, as follows:

<u>Pronouncement</u>	<u>Alteration</u>
IAS 1 - Presentation of Financial Statements	Definitions in the classification of current and non-current liabilities
IFRS 17 - Insurance Contracts	Applicable standards for insurers

Company management is evaluating the practical impacts that such items may have on its financial statements, when those standards are regulated by the Brazilian Securities and Exchange Commission (CVM).

3 CONSOLIDATION OF FINANCIAL STATEMENTS

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

The subsidiaries' financial statements are prepared for the same reporting period as that of the parent company, using accounting policies that are consistent with the policies adopted by the parent company. The following criteria are adopted for consolidation purposes: (i) investments in subsidiaries and equity in the results of investees are eliminated, and (ii) profits from intercompany transactions and the related assets and liabilities are eliminated.

The consolidated financial statements comprise Klabin S.A. and its subsidiaries as at December 31, 2020 and 2019, as follows:

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

	Country	Activity	Participation	Ownership - %	
				12/31/2020	12/31/2019
Subsidiaries:					
Aroeira Reflorestadora S.A. (i)	Brazil	Reforestation	Direct	100	-
Celucat (i)	Brazil	Investment in companies	Direct	-	100
Cerejeira Reflorestadora S.A. (i)	Brazil	Reforestation	Direct	100	-
Em bacorp Soluções em Embalagens de Papel Ltda (i)	Brazil	Manufacture and marketing of products	Direct	100	-
Em bacorp da Amazônia - Soluções em Embalagens de Papel Ltda (i)	Brazil	Manufacture and marketing of products	Indirect	100	-
Guaricana Reflorestadora S.A.	Brazil	Reforestation	Direct	35	35
Klabin Argentina S.A.	Argentina	Industrial sacks	Direct	100	100
Klabin Áustria GmbH	Austria	Sale of products in the foreign market	Direct	100	100
Klabin do Paraná Produtos Florestais Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100
Klabin Finance S.A.	Luxembourg	Finance	Direct	100	100
Klabin Fitoprodutos Ltda.	Brazil	Manufacture of phytotherapeutic products	Direct	100	100
Klabin Florestal Ltda.	Brazil	Forestry	Direct	100	100
Klabin Forest Products Company	USA	Sale of products in the foreign market	Direct	100	100
Klabin Limited (i)	Cayman Islands	Investment in companies	Direct	-	100
Klabin Overseas (i)	United Kingdom	Investment in companies	Direct	-	100
Klabin Paranaguá SPE S.A. (i)	Brazil	Port services	Direct	100	100
Klabin Trade (i)	United Kingdom	Sale of products in the foreign market	Indirect	-	100
Kla Holding S.A. (i)	Brazil	Investment in companies	Direct	100	-
IKAPÉ Empreendimentos Ltda.	Brazil	Hotels	Direct	100	100
Monterla Holdings S.A.	Brazil	Investment in companies	Direct	100	100
Riohold Holdings (i)	Brazil	Investment in companies	Direct	100	100
Santa Catarina Florestal	Brazil	Packaging customization services	Direct	100	100
Sapopema Reflorestadora S.A. (i)	Brazil	Reforestation	Direct	26	23
Special Partnership Companies ('SPC'):					
CG Forest (i)	Brazil	Reforestation	Direct	-	71
Monte Alegre	Brazil	Reforestation	Direct	75	75
Harmonia	Brazil	Reforestation	Direct	72	71
Serrana	Brazil	Reforestation	Direct	64	63
Araucária	Brazil	Reforestation	Direct	56	69
Joint ventures (not consolidated):					
Florestal Vale do Corisco S.A.	Brazil	Reforestation	Direct	51	51
Pinus Taeda Florestal S.A. (i)	Brazil	Reforestation	Direct	26	-
(i) See information in note 1					

Investment in joint ventures

Considering its characteristics, the investment in Florestal Vale do Corisco S.A. and Pinus Taeda Florestal S.A. is classified as a joint venture, and is recorded based on the equity accounting method in the parent company and consolidated financial statements.

4 CASH AND CASH EQUIVALENTS

The Company, following its investment policy, has maintained its marketable securities in low-risk investments, in financial institutions that the Management believes are top notch both in Brazil and abroad, according to the rating released by investment agencies risk classification presented in Note 27. Management has considered these financial assets as cash equivalents due to their immediate liquidity with the issuing financial institutions, with an insignificant risk of change in value.

(A free translation of the original in Portuguese)

KLABIN S.A.

All amounts in thousands of Reais

	Parent Company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Cash and bank deposits - local currency	32,538	36,192	42,265	57,731
Cash and bank deposits - foreign currency (i)	-	-	7,723	6,459
Marketable securities- local currency	3,924,670	6,625,917	4,133,393	6,910,426
Marketable securities - foreign currency (i)	572,540	1,073,459	1,025,449	1,365,770
	4,529,748	7,735,568	5,208,830	8,340,386

(i) Substantially in US dollars

Marketable securities in national currency, corresponding to Bank Deposit Certificates - CDBs and other repurchase transactions, are indexed by the variation of the Interbank Deposit Certificate - CDI, with an average annual remuneration rate of 1.94% (4.84% on 31 December 2019), and foreign currency investments corresponding to overnight operations, have an average annual remuneration rate of 0.28% (1.95% on December 31, 2019), with immediate liquidity guaranteed by the financial institutions.

The variation in the comparative balance between December 31, 2019 and December 31, 2020 stands out for the early settlement of export prepayment transactions and export credit notes in the amount of R\$ 6.2 billion and R\$ 22 million contracts with Finnvera as part of the Company's debt profile management strategy.

5 MARKETABLE SECURITIES

The balance of marketable securities is represented by:

(i) Financial Treasury Bills ("LFT") and Direct Treasury Bills ("NTN-B"). LFT has remuneration indexed to the SELIC variation and matures in 2023 and NTN-B is remunerated by the variation of the IPCA + 4.63% (average) per year with maturities from 2022 to 2040, with an amount corresponding to R\$ 1,335,257 on December 31, 2020 (R\$ 1,382,259 on December 31, 2019).

(ii) Bonds, through its wholly-owned subsidiary Klabin Finance, signed in dollars with fixed interest rates from 3.52% to 4.02%, with maturity in 2028 and 2038 and an amount corresponding to R\$ 12,640 in 31 December 2020 (R\$ 8,270 on December 31, 2019).

As of December 31, 2020, the balance of these securities amounted to R\$ 1,335,257 in the parent company and R\$ 1,347,897 in the consolidated (R\$ 1,382,259 and R\$ 1,390,529 respectively, as of December 31, 2019). These securities have an active trading market. Considering its characteristics, the fair value is basically the principal amount plus the interest originally established in these securities. Management classified financial assets measured at fair value through profit or loss, in accordance with CPC 48/ IFRS9 - Financial Instruments, given the possibility of selling these securities to realize gains/losses.

The bonds and securities fall under Level 1 of the hierarchy of measurement at fair value, according to the hierarchy of CPC 46 IFRS 13 – Fair Value Measurement, as they are assets with prices quoted on the market .

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KLABIN S.A.

All amounts in thousands of Reais

6 ACCOUNTS RECEIVABLES

	Parent Company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Trade receivables				
. Local	1,051,911	1,182,088	1,299,784	1,182,201
. Foreign	244,362	258,328	583,244	726,773
Total trade receivables	1,296,273	1,440,416	1,883,028	1,908,974
Allowance for doubtful debts ("AFDD")	(56,106)	(49,451)	(76,110)	(49,469)
	1,240,167	1,390,965	1,806,918	1,859,505
Overdue	69,677	83,334	106,297	108,218
% on total portfolio (without AFDD)	1.05%	2.35%	1.60%	3.08%
1 to 10 days	1,910	4,518	1,910	4,518
11 to 30 days	7,521	12,131	10,872	28,269
31 to 60 days	1,333	4,609	1,600	11,916
61 to 90 days	810	4,450	1,308	4,566
Over 90 days	58,103	57,626	90,607	58,949
Falling due	1,226,596	1,357,082	1,776,731	1,800,756
Total portfolio	1,296,273	1,440,416	1,883,028	1,908,974

On December 31, 2020, the average term for receiving accounts receivable from customers corresponds to approximately 82 days (86 days on December 31, 2019) for domestic sales and approximately 112 days (117 days on December 31, 2019) December 2019) for sales in the foreign market, with interest charged after the expiration of the term defined in the negotiation. As mentioned in Note 27, the Company has rules for monitoring overdue credits and receivables and the risk of not receiving amounts arising from credit sales.

The Company analyzed the effects of adjustment to present value on the balance, considering its immaterial.

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All amounts in thousands of Reais

a) Allowance for doubtful debts ("AFDD")

In Management's assumptions, the estimated allowance for doubtful debts ("AFDD") is considered sufficient to cover possible losses on the amounts receivable outstanding. The movement of estimated losses is shown below:

	Parent Company	Consolidated
At December 31, 2018	(45,092)	(45,394)
Allowance for doubtful debts	(16,188)	(16,213)
Reversals	11,091	11,130
Write-off	738	1,008
At December 31, 2019	(49,451)	(49,469)
Allowance for doubtful debts	(12,873)	(32,877)
Reversals	3,240	3,258
Write-off	2,978	2,978
At December 31, 2020	(56,106)	(76,110)

The balance of the estimated loss on doubtful accounts substantially corresponds to trade bills with a high risk of non-receipt. The Company constantly monitors the balance of receivables and its default estimates, considering the concept of loss incurred and expected loss and when in the least expectation that there is no possibility of receiving it, the estimated loss with doubtful accounts is constituted. The expense with the constitution of the estimated loss is recorded in the income statement, under the caption "Operating expenses/revenues - with sales".

The Company maintains an insurance policy for receivables in the domestic and foreign markets for all business units, except for wood customers of the Forestry unit, in addition to certain customers who do not meet specific risk requirements, such as continuity and liquidity, analyzed by the insurer to be incorporated into the insurance policy. The current insurance policy expires in October 2021.

b) Receivables discount operations

In the year ended December 31, 2020, receivables discount operations with no right of return were carried out with specific customers in the amount of R\$ 1,234,195 in the parent company and R\$ 2,773,151 in the consolidated (R\$ 1,775,881 in the parent company and R\$ 2,368,875 in the consolidated at December 31, 2019), for which all risks and benefits associated with the assets were transferred to the counterparty, so that the receivables anticipated with third parties were derecognised from the financial statements.

The financial cost charged by the bank in the transaction is recorded in the income statement in the "Discounts and rebates" line (Note 21).

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KLABIN S.A.

All amounts in thousands of Reais

7 RELATED PARTIES

a) Balances and transactions with related parties

	Parent company							
	12/31/2020		12/31/2019				Total	
	(i)	(ii) e (v)	(iii) e (vi)	(iv)	(v)	(vi) e (vii)	(viii)	
	Argentina	Finance	Special Partnershi- Companies	Austria	Klabin Forest Products Com pany	BNDES	Other	Total
	Controlada	Controlada	Controlada	Controlada	Controlada	Acionista	(ix) (x) (xi) e (xii)	
<u>Type of relationship</u>								
<u>Balances</u>								
Current assets	123,835	-	26,089	467,132	53,615	-	4,514	675,185
Non-current assets	36	-	-	-	-	-	21,040	21,076
Current liabilities	-	74,786	29,477	161,991	9	5,929	1,172	273,364
Non-current liabilities	-	3,988,467	-	7,652,141	-	1,153,206	1	12,793,815
								11,159,420
<u>Transactions</u>								
Sales revenue	71,927	-	76,631	3,261,687	71,686	-	2,814	3,484,745
Purchases	-	-	(207,854)	-	-	-	-	(207,854)
Interest expenses on financing	-	(2,622,229)	-	(762,992)	-	(96,838)	-	(1,086,059)
Guarantee commission - expenses	-	-	-	-	-	-	(2,554)	(2,554)
Royalty expenses	-	-	-	-	-	-	(63,165)	(63,165)
								(58,111)

(i) Balance receivable from product sales operations carried out at prices and terms (average of 180 days) under the conditions established between the parties;
(ii) Purchase of wood made at prices and terms (45 days) under the conditions established between the parties. It considers all companies in a participation account described in note 3;
(iii) License to use trademarks owned by KIC and Sogemar by Klabin, upon payment of royalties corresponding to 1.3657% of the Net Revenue of the products involved in the license. See information on the acquisition of royalties in note 1.
(iv) Guarantee commission, calculated on the BNDES financing balance of 0.8% per year - operation settled at the end of 2019, with the last installment settled in January 2020;
(v) Supply of seedlings, seeds and services at prices and terms in the commercial conditions established between the parties;
(vi) Fundraising under usual market conditions for operations of the same nature and for companies of a similar size to that of the Company (see rates in note 10);
(vii) Advances on future capital subscriptions.

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KLABIN S.A.

All amounts in thousands of Reais

			Parent company	
			12/31/2020	12/31/2019
<u>Type of relationship</u>	BNDES (iii)	Outros (i) (ii)	Total	Total
	Acionista	Acionista		
Balances				
Current liabilities	5,929	-	5,929	63,699
Non-current liabilities	1,153,206	-	1,153,206	574,800
Transactions				
Interest expenses on financing	(96,838)	-	(96,838)	(186,352)
Guarantee commission - expenses	-	(2,554)	(2,554)	(22,797)
Royalty expenses	-	(63,165)	(63,165)	(58,111)

(i) License to use trademarks owned by KIC and Sogemar by Klabin, upon payment of royalties corresponding to 1.3657% of the Net Revenue of the products involved in the license. See information on the acquisition of royalties in note 1.

(ii) Guarantee commission, calculated on the BNDES financing balance of 0.8% per year - operation settled at the end of 2019, with the last installment settled in January 2020.

(iii) Fundraising under usual market conditions for operations of the same nature and for companies of a similar size to that of the Company (see rates in note 16).

b) Management and Fiscal Board remuneration and benefits

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

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

	Parent company and Consolidated							
	Short term		Long term					
	Board of directors remuneration		Pension plan		Remuneration based on shares		Total benefits	
	From 1/1 to 12/31/2020	From 1/1 to 12/21/2019	From 1/1 to 12/31/2020	From 1/1 to 12/21/2019	From 1/1 to 12/31/2020	From 1/1 to 12/21/2019	From 1/1 to 12/31/2020	From 1/1 to 12/21/2019
Fiscal Board and statutory director's	34,599	27,766	953	794	3,488	3,727	39,040	32,287

Management remuneration includes the fees paid to the Board, along with the fees paid to, and variable remuneration of statutory directors. Long-term benefits refer to contributions made by the Company to the pension plan and calculation of the stock option plan. These amounts are recorded substantially in the item "Operating expenses - general and administrative".

In addition, the Company grants to the statutory directors and other executives a Stock Option Plan, described in Note 24.

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All amounts in thousands of Reais

8 INVENTORY

	Parent Company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Finished products	263,804	295,540	327,996	438,963
Product in process	29,869	22,450	33,831	25,122
Timber and logs	250,645	234,567	250,645	234,567
Maintenance supplies	283,913	240,675	287,992	244,648
Raw materials	370,974	366,232	478,493	381,759
Estimated losses	(21,185)	(13,366)	(28,209)	(13,471)
Other	25,948	20,521	28,383	20,656
	1,203,968	1,166,619	1,379,131	1,332,244

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

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

The Company does not have inventories pledged as collateral.

9 TAXES RECOVERABLE

	12/31/2020		12/31/2019	
	Current assets	Non-current assets	Current assets	Non-current assets
Value-added Tax on Sales and Services (ICMS)	214,008	665,565	174,195	727,234
Social Integration Program (PIS)/Social Contribution on Revenue (COFINS)	418,657	92,650	4,907	1,057,520
Income tax/social contribution (IR/CSLL)	111,216	-	234,319	-
Tax on Industrialized Products (IPI)	9,322	-	82,462	113,255
Special regime for the reintegration of tax amounts for exporting companies (Reintegra)	7,982	-	3,778	-
Other	34,595	5,260	5,616	46,647
Parent company	795,780	763,475	505,277	1,944,656
Subsidiaries	28,991	5,617	134	-
Consolidated	824,771	769,092	505,411	1,944,656

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

PIS/COFINS

According to a material fact notice disclosed to the market on August 22, 2019, a favorable final and unappealable decision was awarded to the Company, accepting its intention to exclude ICMS from the PIS and COFINS tax base, effective from April 2002. Previously unused tax credits calculated by the Company amount to R\$ 631 million in principal and R\$ 383 million in interest and monetary restatement, totaling R\$ 1.014 billion reais. The method chosen for calculating these credits was by applying the percentage rate of Pis and Cofins on the ICMS separately identified in invoices. After the final and unappealable decision, the Company did not change how Pis and Cofins are calculated on the sale, for it is still awaiting a decision from the Brazilian Supreme Court regarding the motions for

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clarification and potential limitation of the decision effects in time. As of March 2020, previously unused tax credits were approved and started to be compensated against federal tax debts.

The segregation between current and noncurrent assets was made based on management's expectation of their compensation.

ICMS

Tax credits and contributions levied on acquisitions of property, plant and equipment in accordance with current legislation, in addition to a government ICMS subsidy granted by the Government of Paraná on behalf of the Puma Project, which has been used to compensate taxes payable of the same nature. The ICMS credits of the Puma I Project are indexed by the FCA - Conversion and Monetary Update Factor of the State of Paraná, with a compensation period up to 2036 provided for in the protocol granting the subsidy.

10 INCOME TAX AND SOCIAL CONTRIBUTION

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

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

According to ICPC 22 - Uncertainty about the Treatment of Taxes on Profit, the Company evaluated the concept brought by the standard in relation to possible differences of understanding with the tax authorities and not identifying items to be highlighted within its practices.

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a) Nature and expected realization of deferred taxes

The balances of deferred tax assets and liabilities were as follows:

	Parent Company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Provision for tax, social security, labor and civil contingencies	6,413	6,261	6,413	6,261
Non-deductible provisions	114,385	91,738	127,443	91,738
Tax losses and negative bases	580,976	561,303	585,696	561,321
Actuarial liability	116,298	57,115	118,548	57,115
Provision for labor	32,926	42,103	32,926	42,103
Deferred foreign exchange variations (i)	887,628	-	887,628	-
Gain or loss on financial instruments	843,974	206,587	843,974	206,587
Right of use (IFRS 16)	69,435	27,106	73,580	27,106
Other temporary differences	46,793	44,857	44,543	44,857
Non-current assets	2,698,828	1,037,070	2,720,751	1,037,088
Fair value of biological assets	539,685	590,580	557,363	613,166
Depreciation tax rate x useful life rate (Law 12,973/14)	419,727	422,443	419,727	422,443
Deemed cost of property, plant and equipment (land)	544,903	545,429	544,903	545,429
Interest capitalized (Law 12,973/14)	189,614	130,348	189,614	130,348
Revaluation reserve	25,091	25,091	25,091	25,091
ICMS on PIS/COFINS calculation basis (ii)	-	336,676	-	336,676
Accelerated Depreciation - Law 12,272/12	68,817	75,535	68,817	75,535
Lease liability (IFRS 16)	55,852	21,269	59,839	21,269
Other temporary differences	84,686	13,692	90,298	12,200
Non-current liabilities	1,928,375	2,161,063	1,955,652	2,182,157
Net balance (liability)	770,453	(1,123,993)	765,099	(1,145,069)

(i) Effect of the change in the tax regime for exchange variation from competence to cash in 2020.

(ii) As disclosed in Note 9, amount referring to the registration of previously unused tax credits, of which they were enabled for use in March 2020.

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

	12/31/2020	
	Parent Company	Consolidated
2021	274,923	274,923
2022	246,373	246,373
2023	126,668	126,668
2024	129,253	129,253
2025	200,996	200,996
2026 onwards	1,720,615	1,742,538
	2,698,828	2,720,751

The projection for realizing the balance considers the use of tax losses and negative bases to limit the compensation of 30% of the taxable income for the year. The projection may not materialize if the estimates used differ from those actually made, which were analyzed considering the projections of future results prepared and based on internal assumptions and future economic scenarios, evaluated within the projections approved by the Company's Management.

The Company's information on taxes under litigation is disclosed in note 19.

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b) Analysis of income tax and social contribution expenses

	Parent Company		Consolidated	
	From 1/1 to 12/31/2020	From 1/1 to 12/31/2019	From 1/1 to 12/31/2020	From 1/1 to 12/31/2019
Current tax expense	(1,334,558)	272,952	(1,296,884)	293,939
Adoption of the exchange variation accrual basis (i)	-	(306,655)	-	(306,655)
Adoption of the exchange variation cash regime (i)	887,628	-	887,628	-
Effect of the review of the exchange rate regime on tax loss (i)	-	91,898	-	91,898
Adjustments on the basis of tax incentives (i)	-	23,692	-	23,692
PIS / COFINS extemporaneous credit (ii)	336,676	-	336,676	-
Constitution (consumption) of tax loss and negative basis	16,147	-	16,147	-
Advantageous purchase gain	(70,061)	-	(70,061)	-
Other additions / exclusions	(238,395)	37	(320,132)	(44,751)
Current	(402,563)	81,924	(446,626)	58,123
Recognition and reversal of temporary differences	(23,194)	2,432	(55,814)	(12,743)
Constitution (consumption) of tax loss and negative basis	16,147	39,262	16,147	39,262
Gain or loss on financial instruments	637,388	167,784	637,388	167,784
Right of use (IFRS 16)	7,746	5,837	12,932	5,837
Interest capitalized	(59,267)	5,657	(59,267)	5,657
ICMS on PIS/COFINS calculation basis	336,676	(336,676)	336,676	(336,676)
Actuarial liability	4,127	(6,652)	4,127	(6,652)
Refis	-	36,650	-	36,650
Adoption of the exchange variation cash regime (i)	887,628	(306,655)	887,628	(306,655)
Depreciation tax rate x useful life rate (Law 12,973/14)	(18,657)	29,040	(18,657)	29,040
Variation in fair value and depletion of biological assets	51,271	154,422	110,341	170,465
Deferred	1,839,865	(208,899)	1,871,501	(208,031)

(i) Includes the effects of changes in the exchange variation regime (competence and cash) for purposes of calculating income tax and social contribution.

(ii) See information in note 9 regarding the previously unused tax credit of the ICMS process on the basis of Pis/Cofins.

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

	Parent Company		Consolidated	
	From 1/1 to 12/31/2020	From 1/1 to 12/31/2019	From 1/1 to 12/31/2020	From 1/1 to 12/31/2019
Income before income tax and social contribution	(3,925,172)	802,800	(3,814,365)	864,526
Income tax and social contribution at the rate of 34%	1,334,558	(272,952)	1,296,884	(293,939)
Tax effect on permanent differences:				
Difference in tax regime - controlled companies	-	-	88,934	-
Equity results of investees	58,577	44,725	11,262	2,461
Adoption of the exchange variation accrual basis (i)	-	(23,692)	-	(23,692)
Interest on own capital	-	102,000	-	102,000
Other effects	44,167	22,944	27,795	63,262
	1,437,302	(126,975)	1,424,875	(149,908)
Income tax and social contribution				
. Current	(402,563)	81,924	(446,626)	58,123
. Deferred	1,839,865	(208,899)	1,871,501	(208,031)
Income tax and social contribution expense	1,437,302	(126,975)	1,424,875	(149,908)

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

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11 INVESTMENTS IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

	Klabin Finance S.A.	Klabin Austria GmbH	Enbacorp Sol. Embal. Papel Ltda (iv)	Riohold Holdings S.A. (iv)	Sapopema Reflorest. S.A. (iv)	Sociedades em Conta de Participação	Florestal Vale do Corisco S.A. (i)	Pinus Taeda Florestal S.A. (i)	Other	Total
At December 31, 2018	107,275	34,130	-	-	-	810,594	165,652	-	214,526	1,341,177
Acquisitions and capital contributions	-	-	-	-	54,873	-	-	-	24,047	78,920
Dividends distributed	-	-	-	-	-	(417)	(11,919)	-	(4,914)	(17,250)
Equity in the results of investees (ii)	(20,804)	153,699	-	-	15,470	(5,082)	7,237	-	(18,975)	131,545
Foreign exchange variations on investments abroad (iii)	-	-	-	-	-	-	-	-	7,669	7,669
At December 31, 2019	86,471	187,829	-	-	70,343	814,095	160,970	-	222,353	1,542,061
Acquisitions and capital contributions (iv)	-	-	388,071	-	28,168	(110,604)	-	72,165	35,240	413,040
Added Value	-	-	206,061	-	-	-	-	-	-	206,061
Corporate reorganization (iv)	-	-	(467,396)	467,396	-	-	-	-	-	-
Transfer to held for sale (v)	-	-	(138,769)	-	-	-	-	-	-	(138,769)
Dividends distributed	-	-	-	-	-	(2,151)	(10,186)	-	(74,877)	(87,214)
Equity in the results of investees (ii)	40,356	163,942	12,033	-	27,823	(69,697)	7,179	25,944	13,573	221,153
Foreign exchange variations on investments abroad (iii)	-	-	-	-	-	-	-	-	(16,963)	(16,963)
Unrealized profit from intercompany sales	-	(40,026)	-	-	-	-	-	-	(8,843)	(48,869)
At December 31, 2020	126,827	311,745	-	467,396	126,334	631,643	157,963	98,109	170,483	2,090,500
Summary of the financial information of subsidiaries at December 31, 2020										
Total assets	4,124,394	8,554,005	175,064	517,177	503,689	971,382	414,978	388,416	-	14,164,945
Total liabilities	3,997,567	8,202,229	36,295	49,781	20,577	38,068	101,904	3,675	-	12,319,066
Equity	126,827	351,776	138,769	467,396	483,112	933,314	313,074	384,741	-	11,845,879
Profit/(loss) for the year	15,876	111,213	12,033	-	97,341	(25,761)	14,077	67,806	-	312,512

(i) As it is a joint venture (see note 3), Vale do Corisco and Pinus Taeda Florestal are not consolidated, being the only investments presented in the consolidated balance sheets as investments with equity recognition.

(ii) Includes effects of variation and realization of the fair value of backlog assets (note B), when the result of the subsidiary suffers this impact, in addition to the exchange variation on investments abroad not characterized as a subsidiary.

(iii) Subsidiary and associated companies with affiliate characteristics with exchange variation allocated to other comprehensive income.

(iv) See note 1.

(v) See note 1 and 12.

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12 ASSETS HELD FOR SALE

As disclosed in Note 1, on October 14, 2020, the Company completed the acquisition of the packaging paper and corrugated fiberboard business from International Paper do Brasil. Within the context of acquiring these business, on June 24, 2020, the Company announced to the market its commitment to sell the unit located in Nova Campina (SP) to the Klingele Paper & Packaging Group for R\$ 196 million.

At the end of 2020, the operation had not yet been completed. Therefore, it is subject to the assumptions of CPC 31 - Noncurrent Assets Held for Sale and Discontinued Operation (IFRS5 Non-current Assets Held for Sale and Discontinued Operations), with classification of noncurrent assets and related liabilities in separate lines of the statement of financial position. The assets of Nova Campina (SP) are allocated to wholly-owned subsidiary Embacorp Soluções em Embalagens de Papel Ltda. ("Embacorp"), with the balances of assets and liabilities of goods for sale presented in the consolidated statement of financial position.

Breakdown of assets and liabilities of goods held for sale is as follows:

	<u>12/31/2020</u>
Cash and cash equivalents	9,099
Accounts receivable	3,343
Inventory	35,824
Deferred income tax and social contribution	8,733
Other assets	3,184
Property, plant and equipment	109,276
Right of use asset	4,097
Intangible assets	1,508
Assets held for sale	<u>175,064</u>
Trade payables	20,774
Tax payables	6,770
Social security and labor obligations	302
Lease liability	4,097
Other payables and provisions	4,352
Property liabilities held for sale	<u>36,295</u>
Net assets	<u>138,769</u>

The amount of R\$ 138,769 in the parent company's statement of financial position corresponds to the equity value of Embacorp's investment calculated using the equity method.

The balances presented above are aligned with their realizable fair value, according to the criteria provided for in CPC 31 - Noncurrent Assets Held for Sale and Discontinued Operation (IFRS5 Non-current Assets Held for Sale and Discontinued Operations).

The Statement of Profit or Loss for 2020 presents a R\$ 6,949 loss from discontinued operations related to the generation of income from these assets. The detailed analysis of profit or loss is not necessary because the amounts involved are immaterial, and do not represent an important separate

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line from the Company's business units. It only produced effects after its acquisition on October 14, 2020, and the unit was acquired solely to be subsequently sold.

13 PROPERTY, PLANT AND EQUIPMENT

a) Composition of property, plant and equipment

	12/31/2020			12/31/2019		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Parent company						
Land	2,051,026	-	2,051,026	2,037,213	-	2,037,213
Buildings and construction	2,680,628	(729,393)	1,951,235	2,609,789	(633,400)	1,976,389
Machinery, equipment and facilities	12,808,926	(6,459,098)	6,349,828	12,510,947	(5,507,413)	7,003,534
Construction in progress	5,538,261	-	5,538,261	1,850,410	-	1,850,410
Other (i)	561,685	(419,005)	142,680	529,410	(362,242)	167,168
	23,640,526	(7,607,496)	16,033,030	19,537,769	(6,503,055)	13,034,714
Consolidated						
Land	2,374,134	-	2,374,134	2,210,453	-	2,210,453
Buildings and construction	2,821,878	(747,070)	2,074,808	2,611,749	(638,951)	1,972,798
Machinery, equipment and facilities	12,936,401	(6,504,244)	6,432,157	12,521,335	(5,508,702)	7,012,633
Construction in progress	5,648,428	-	5,648,428	1,873,387	-	1,873,387
Other (i)	568,824	(427,578)	141,246	534,922	(363,012)	171,910
	24,349,665	(7,678,892)	16,670,773	19,751,846	(6,510,665)	13,241,181

(i) Balance corresponding to classes of fixed assets such as improvements, vehicles, furniture and computer equipment and utensils.

Property, plant and equipment pledged as collateral in transactions carried out by the Company is disclosed in Note 16.

b) Summary of changes in property, plant and equipment

	Parent company					
	Land	Building and construction	Machinery, equipment and facilities	Construction in progress	Other	Total
At December 31, 2018	2,028,621	2,010,406	7,425,944	514,985	198,702	12,178,658
Purchases (i) e (ii)	5,333	-	-	1,973,066	-	1,978,399
Disposals	-	(108)	(25,966)	(79)	(9,980)	(36,133)
Depreciation	-	(93,304)	(955,019)	-	(71,056)	(1,119,379)
Internal transfers	3,259	53,523	562,927	(664,891)	45,182	-
Capitalized interest (iii)	-	-	-	27,869	-	27,869
Other	-	5,872	(4,352)	(540)	4,320	5,300
At December 31, 2019	2,037,213	1,976,389	7,003,534	1,850,410	167,168	13,034,714
Purchases (i) e (ii)	593	-	-	3,942,008	-	3,942,601
Disposals	(166)	-	(10,111)	(15)	(736)	(11,028)
Depreciation	-	(96,105)	(1,000,771)	-	(68,706)	(1,165,582)
Internal transfers	13,386	67,844	356,666	(481,076)	43,180	-
Capitalized interest (iii)	-	-	-	218,820	-	218,820
Other	-	3,107	510	8,114	1,774	13,505
At December 31, 2020	2,051,026	1,951,235	6,349,828	5,538,261	142,680	16,033,030

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

(ii) See information in note 1.

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

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	Consolidated					
	Land	Building and construction	Machinery, equipment and facilities	Construction in progress	Other	Total
At December 31, 2018	2,102,042	2,011,529	7,431,228	514,268	203,405	12,262,472
Purchases (i) e (ii)	96,653	-	-	2,009,794	-	2,106,447
Disposals	(29)	(108)	(25,965)	(79)	(10,012)	(36,193)
Depreciation	-	(93,603)	(955,827)	-	(71,198)	(1,120,628)
Internal transfers	12,444	53,523	562,927	(674,077)	45,183	-
Capitalized interest (iii)	-	-	-	27,869	-	27,869
Other	(657)	1,457	270	(4,388)	4,532	1,214
At December 31, 2019	2,210,453	1,972,798	7,012,633	1,873,387	171,910	13,241,181
Purchases (i) e (ii)	908	-	-	4,076,149	-	4,077,057
Disposals	(166)	-	(10,111)	(15)	2,698	(7,594)
Depreciation	-	(96,164)	(1,002,191)	-	(68,856)	(1,167,211)
Internal transfers	56,611	67,869	357,801	(526,486)	44,205	-
Capitalized interest (iii)	-	-	-	218,820	-	218,820
Acquisition of IP Assets (i)	11,998	45,757	139,697	1,104	(4,888)	193,668
Added value (i)	102,041	91,028	21,520	273	1,097	215,959
Transfer to assets held for sale (iv)	(7,701)	(13,730)	(86,845)	(167)	(832)	(109,275)
Other	(10)	7,250	(347)	5,363	(4,088)	8,168
At December 31, 2020	2,374,134	2,074,808	6,432,157	5,648,428	141,246	16,670,773

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

(ii) See information in note 1.

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

(iv) See information in note 12.

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

c) Useful live and depreciation method

The table below shows the annual depreciation rates calculated based on the straight-line method, which were applicable in the years ended December 31, 2020 and 2019, defined based on the economic useful live of assets:

	Rate - %
Buildings and construction	2.86 to 3.33
Machinery, equipment and facilities (i)	2.86 to 10
Other	4 to 20

(i) Average rate 8%.

d) Construction in progress

As of December 31, 2020, the balance of works and facilities in progress refers substantially to projects for the development of its industrial activity, such as the construction of two paper machines, with integrated pulp production, located at Klabin's industrial unit in the municipality of Ortigueira (PR) (Puma II), according to Note 1.4, the construction of a water treatment plant for boilers IV in Monte Alegre (PR) and the construction of an incinerator at the Monte Alegre (PR) unit, in addition to other Company's operational continuous projects.

e) Impairment of property, plant and equipment

The Company, applying the requirements of CPC 01(R1) – Reduction of recoverable value of assets (IAS36 - Impairment of Assets), performed the applicable analyses and did not identify indicators that book value exceeds the recoverable value of its assets at December 31, 2020 and 2019.

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14 BIOLOGICAL ASSETS

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

As of December 31, 2020, the Company has 267 thousand hectares (258 thousand hectares on December 31, 2019) of planted forests, disregarding the areas of permanent preservation and legal reserve that must be maintained in order to comply with Brazilian environmental legislation.

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

	Parent company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Cost of development of biological assets	1,788,191	1,663,787	2,514,101	2,315,727
Fair value adjustment of biological assets	1,569,750	1,711,777	2,143,720	2,396,654
	3,357,941	3,375,564	4,657,821	4,712,381

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

In the years ended December 31, 2020 and 2019, no impairment provision need was identified.

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

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

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

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

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

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

(v) The projected productivity volumes of forests are defined based on stratification according to each species, genetic material, forest management regime, productive potential, rotation and age of the forests. The set of these characteristics compose an index called AAI (Average Annual Increment), expressed in cubic meters per hectare / year used as a basis in the productivity projection. The harvest

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plan maintained by the Company varies mainly between 6 and 7 years for eucalyptus and between 14 and 15 years for pine;

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

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

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

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

b) Reconciliation and movement in fair value

	<u>Parent company</u>	<u>Consolidated</u>
At December 31, 2018	<u>3,303,774</u>	<u>4,582,631</u>
Planting and standing wood shopping (i)	681,962	748,130
Acquisition of forest assets (ii)	-	56,946
<u>Depletion:</u>	<u>(889,656)</u>	<u>(1,065,379)</u>
. Historical cost	(160,647)	(205,262)
. Fair value adjustment	(729,009)	(860,117)
<u>Change in fair value due to:</u>	<u>279,484</u>	<u>390,053</u>
. Price	(47,963)	(68,436)
. Growth	327,447	458,489
At December 31, 2019	<u>3,375,564</u>	<u>4,712,381</u>
Planting and standing wood shopping (i)	495,211	624,870
Disposal of forest assets	(47,550)	(47,550)
<u>Depletion:</u>	<u>(944,236)</u>	<u>(1,218,104)</u>
. Historical cost	(222,769)	(306,291)
. Fair value adjustment	(721,467)	(911,813)
<u>Change in fair value due to:</u>	<u>579,443</u>	<u>658,389</u>
. Price	(13,271)	(23,360)
. Growth	592,714	681,749
Constitution of subsidiary (i)	(100,491)	(72,165)
At December 31, 2020	<u>3,357,941</u>	<u>4,657,821</u>

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

(ii) See information in note 1.

The depletion of biological assets for the year ended December 31, 2020 and 2019 was substantially allocated to production cost, after allocation to inventories through harvesting and using them in the production process or sale to third parties. Note in the fair value variation is the increase in the discount rate used from 4.11% in constant currency for the parent company and 5.39% in the

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subsidiaries on December 31, 2019, to 4.38% in the parent company and 5.34% in subsidiaries as of December 31, 2020.

c) Sensitivity analysis

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

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

Significant increases (decreases) in the prices used in the valuation would result in an increase (decrease) in the measurement of the fair value of biological assets. The weighted average price used in the valuation of the asset on December 31, 2020 was equivalent to R\$ 66/m³ (R\$ 66/m³ on December 31, 2019).

Regarding the discount rate, the significant effects of an increase (decrease) in the rate used to measure the fair value of biological assets would result in a decrease (increase) in the measured values. On December 31, 2020, the Company used the weighted average cost of capital of 4.48% in constant currency for the parent company and 5.34% for the subsidiaries (4.11% and 5.39% for the parent and subsidiaries in 31 December 2019).

15 RIGHT OF USE ASSET AND LEASE LIABILITY

a) Accounting policy and assumptions for recognition

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

Depreciation of the right-of-use asset is calculated using the straight-line method in accordance with the remaining term of each contract.

The Company recognizes its right of use and lease liabilities considering the following assumptions:

(i) Operations with contracts signed for more than 12 months fall within the scope of the standard. The Company evaluated the aspects of renewal in its methodology and because it did not identify aspects of renewal, it chose not to consider contract renewals, given that the assets involved in its operation are not indispensable for the conduct of its business, and may be replaced at the end the contract for new assets acquired or for operations other than those agreed upon.

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

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

(iv) Inclusion of recoverable taxes in the definition of the assumed installments of the contracts in

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which it is applicable.

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

(vi) The discount rate for the year ended December 31, 2020 was based on the risk-free interest rates observed in the Brazilian market and adjusted to the reality of the Company, for forest and real estate lease operations administrative and commercial warehouses were 4.02% per year for contracts with a maturity of up to 5 years, 4.47% with a maturity of 6 to 10 years, 4.70% with maturities of 11 to 15 years, 4.92% with maturities from 16 to 20 years and 5.27% with maturities over 20 years, in addition to 4.12% for operations involving machinery and equipment. The rates, net of inflation, were obtained by financing operations for assets of these classes through surveys with the banks that serve the Company, net of inflation.

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

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

The Company's leasing operations in effect on December 31, 2020 do not have any restriction clauses that impose the maintenance of financial ratios, as well as no variable payment clauses, or residual value guarantee clauses payment and purchase options at the end of the contracts.

The company evaluated on December 31, 2020 and there were no impacts related to the separation of components in the lease agreements, as well as there are no impacts on the initial direct costs linked to the contracts in the measurement of the asset.

b) Summary composition and movement of right-of-use assets and lease liabilities

As of December 31, 2020, the Company has 369 lease agreements with the parent company and 381 with the consolidated (316 in the parent company and 317 in the consolidated as of December 31, 2019) recognized in its balance sheet.

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							Parent company
Right of use	12/31/2019	Amortization	Additions / Disposals				12/31/2020
Lands	361,474	(42,127)	182,563				501,910
Buildings	18,084	(9,427)	(332)				8,325
Machines and equipment	112,058	(80,960)	262,144				293,242
Total assets	491,616	(132,514)	444,375				803,477
							Consolidated
Right of use	12/31/2019	Amortization	Additions / Disposals				12/31/2020
Lands	364,258	(42,494)	183,209				504,973
Buildings	18,084	(9,427)	55				8,712
Machines and equipment	112,057	(80,960)	263,638				294,735
Total assets	494,399	(132,881)	446,902				808,420
							Consolidated
Lease liabilities	12/31/2019	Interest	Payments	Additions / Disposals	CP / LP Transfer	12/31/2020	
Current	100,198	(125,799)	(158,159)	215,021	110,576	141,837	
Non-current	394,233	(180,467)	-	573,274	(110,576)	676,464	
Total in liabilities	494,431	(306,266)	(158,159)	788,295	-	818,301	
							Consolidated
Right of use	12/31/2019	Amortization	Additions / Disposals				12/31/2020
Lands	364,258	(42,494)	183,209				504,973
Buildings	18,084	(9,427)	55				8,712
Machines and equipment	112,057	(80,960)	263,638				294,735
Total assets	494,399	(132,881)	446,902				808,420
							Consolidated
Lease liabilities	12/31/2019	Interest	Payments	Additions / Disposals	CP / LP Transfer	12/31/2020	
Current	100,509	(125,711)	(158,590)	216,609	110,904	143,721	
Non-current	396,720	(180,714)	-	574,489	(110,904)	679,591	
Total in liabilities	497,229	(306,425)	(158,590)	791,098	-	823,312	

(i) Includes changes in the IP acquisition balance mentioned in note 1.

As of December 31, 2020, the Company recorded an expense of R\$ 13.1 million related to short-term leases (less than 12 months of the contract) or operations with low value assets involved in the contracts.

c) Lease maturity schedule

	Parent company				Consolidated			
	12/31/2020				12/31/2020			
	Lands	Buildings	Machines and Equipment	Total	Lands	Buildings	Machines and Equipment	Total
2021	58,945	7,491	110,360	176,796	59,437	8,468	109,003	176,908
2022	50,691	423	84,537	135,651	51,183	716	86,687	138,586
2023	44,267	114	50,938	95,319	44,759	114	51,183	96,056
2024	43,471	114	44,148	87,733	43,963	114	44,148	88,225
2025 - 2029	205,991	571	31,830	238,392	207,439	571	31,830	239,840
2030 - 2034	176,645	57	-	176,702	176,935	57	-	176,992
2035 - 2039	95,492	-	-	95,492	95,603	-	-	95,603
2040 - 2058	120,226	-	-	120,226	120,227	-	-	120,227
	795,728	8,770	321,813	1,126,311	799,546	10,040	322,851	1,132,437
Interest	(283,748)	(328)	(23,934)	(308,010)	(284,664)	(343)	(24,118)	(309,125)
Lease liabilities	511,980	8,442	297,879	818,301	514,882	9,697	298,733	823,312

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d) Potential right to Pis / Cofins tax recoverable

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

Cash flow	Parent Company and Consolidated	
	Nominal	Adjusted present value
Lease consideration	332,891	308,430
Pis/Cofins (9.25%)	30,792	28,530

e) Misleading in the full application of CPCo6 (R2)

In accordance with the Memorandum Circular CVM/SNC/SEP No. 02/2019, the Company adopted as an accounting policy the requirements of CPCo6 (R2) (IFRS16 Leases) in the measurement and remeasurement of its right of use, proceeding with the use of the discounted cash flow without considering inflation. Management evaluated the use of nominal flows and concluded that they do not present significant distortions in the information presented.

In order to safeguard the reliable presentation of the information premised of the requirements of CPCo6 (R2) (IFRS16 Leases) and to comply with the guidelines of the technical areas of the CVM, the balances of assets and liabilities without inflation, effectively accounted (real flow x real rate), and the estimate are provided inflated balances in the comparison periods (nominal flow x nominal rate).

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

	Parent company		Consolidated	
	12/31/2019	12/31/2020	12/31/2019	12/31/2020
<u>Actual flow</u>				
Right to use assets	491,616	803,477	494,399	808,420
Lease Liabilities	613,995	1,126,311	617,326	1,132,437
Interest	(119,564)	(308,010)	(120,097)	(309,125)
	494,431	818,301	497,229	823,312
<u>Flow with inflation effects</u>				
Right to use assets	596,520	1,035,701	599,896	1,045,575
Lease Liabilities	777,197	1,509,699	781,083	1,520,695
Interest	(151,345)	(411,268)	(151,955)	(412,269)
	625,852	1,098,431	629,128	1,108,426

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16 BORROWINGS

a) Composition of borrowings

	Annual interest rate - %	12/31/2020		
		Current	Non-Current	Total
<u>In local currency</u>				
. BNDES - Project Puma (ii)	TLP + 3.58	4,767	1,032,055	1,036,822
. BNDES - Other (ii)	TJLP	1,162	121,151	122,313
. Export credit notes (in R\$)	102 to 105.50 of CDI	119,922	575,000	694,922
. CRA	95 to 102 of CDI or IPCA + 3.50% to IPCA + 4.51%	165,941	3,762,228	3,928,169
. Other	0.76 to 8.5 or TJLP	5,554	4,857	10,411
. Cost with funding		(17,241)	(85,254)	(102,495)
		<u>280,105</u>	<u>5,410,037</u>	<u>5,690,142</u>
<u>In foreign currency (i)</u>				
. Export prepayments	USD + 5.40	2,339	649,588	651,927
. Export credit notes	4.70 to 5.67	5,088	3,004,373	3,009,461
. Export prepayments in subsidiaries	USD + 5.20 to 8.29 or USD + Libor + 1.48	230,285	11,640,608	11,870,893
. Term Loan (BID Invest and IFC)	Libor + 1.59	2,432	519,670	522,102
. Finnvera	USD + Libor + 0.60 a 0.95 or USD + 3.38	200,781	1,204,537	1,405,318
. ECA	EUR + 0.45%	7,417	33,073	40,490
. Gain / loss on derivative instruments (swap)	4.70 to 5.67	-	1,748,282	1,748,282
. Cost with funding		(29,813)	(195,123)	(224,936)
		<u>418,529</u>	<u>18,605,008</u>	<u>19,023,537</u>
Total parent company		<u>698,634</u>	<u>24,015,045</u>	<u>24,713,679</u>
Subsidiaries:				
<u>In foreign currency (i)</u>				
. Bonds (Notes)	4.88% to 7.00%	191,551	11,545,645	11,737,196
. Cost with funding		(6,917)	(66,878)	(73,795)
		<u>184,634</u>	<u>11,478,767</u>	<u>11,663,401</u>
. Elimination of prepayments in subsidiaries		<u>(230,285)</u>	<u>(11,640,608)</u>	<u>(11,870,893)</u>
Total Consolidated		<u>652,983</u>	<u>23,853,204</u>	<u>24,506,187</u>

(i) In US dollars

(ii) BNDES - Considered a related party due to its shareholding in the Company (see note 7 and 20).

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

(i) In US dollars

(ii) BNDES - Considered a related party due to its shareholding in the Company (see note 7 and 20).

National Bank for Economic and Social Development (BNDES)

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

Export prepayments and export credit notes

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

Bonds (Notes)

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

(i) In July 2014, the fundraising of USD 500 million was completed, with a 10-year term and maturity in 2024, with a coupon of 5.25% paid semi-annually, with the purpose of financing the activities of the Company and its subsidiaries within the normal course of business and serving the respective corporate purposes. In April 2019, a USD 228.5 million repurchase was carried out, in line with the Company's debt management strategy.

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(ii) In September 2017, the Company issued Green Bonds in the amount of USD 500 million, with a 10 year term due in 2027, with a semiannual coupon of 4.88%. The resource is destined to reforestation activities, restoration of native forests, investments in renewable energy, efficient logistics using rail transport, recycling of solid waste and development of eco-efficient products, among other sustainability practices. During 2020, a USD 9.5 million repurchase was carried out, in line with the Company's debt management strategy.

(iii) In March 2019, the fundraising of USD 500 million was completed with a 10 year term and maturity in 2029 and a coupon of 5.75% per year and USD 500 million in Green Bonds with a 30-year term and maturity in 2049, with coupon of 7% per year, with the purpose of prepaying or refinancing the debts of the Company and its subsidiaries, as well as to reinforce cash. During 2020, a USD 18.5 million repurchase was carried out in line with the Company's debt management strategy.

(iv) In July 2019, the Bonds maturing in 2029 were reopened and an additional funding of USD 250 million of nominal value was concluded, with a coupon of 5.75% and yield of 4.90% per year, with the aim of purpose of the prepayment or refinancing of debts of the Company and its subsidiaries, as well as cash reinforcement.

(v) In January 2020, Green Bonds maturing in 2049 were reopened and the additional funding of USD 200 million of nominal value was concluded, with a coupon of 7.00% and yield of 6.10% per year, aim to th purpose the financing or refinancing, in whole or in part, of costs and / or investments in eligible "Green Projects".

Finnvera (Finland Export Credit Agency)

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

Term Loan (BID Invest and IFC)

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

CRA – Agribusiness Receivables Certificates

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

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

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

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

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

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

Derivative instruments (swap) - gain/loss

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

In March 2019, the Company contracted a swap with Bank Itaú with an asset position at 114.65% of the CDI and a liability at USD 5.40% per year. This operation is linked to the 12th issue of debentures in the amount of R\$ 1 billion, which occurred in April 2019, as disclosed in note 17 b).

In May 2019, the Company contracted a swap with Bradesco with an active position at 114.03% of the CDI and liability at USD 4.70% per year. This operation is linked to an export credit note of R\$ 1,125 million, contracted in May 2019 with the same bank and maturing in May 2026.

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

b) Schedule of non-current maturities

The maturity of the Company's financing on December 31, 2020 classified as non-current liabilities in the consolidated balance sheet is shown as follows:

Year	2022	2023	2024	2025	2026	2027	2028 onwards	Total
Amount	1,271,000	1,085,000	1,846,000	2,036,000	4,441,000	3,349,000	9,825,204	23,853,204

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c) Summary of changes in borrowing

	Parent company	Consolidated
At December 31, 2018	18,833,076	18,782,996
Borrowing	9,956,289	9,791,230
Gain or loss on financial instruments	285,947	285,947
Accrued interest	1,395,289	1,363,506
Foreign exchange and monetary variations	463,983	768,208
Repayments	(7,318,825)	(7,565,565)
Payment of interest	(1,239,632)	(1,185,147)
At December 31, 2019	22,376,127	22,241,175
Borrowing	3,569,502	3,726,207
Gain or loss on financial instruments	1,348,208	1,348,208
Accrued interest	1,479,355	1,222,271
Foreign exchange and monetary variations	4,093,608	4,120,843
Repayments	(6,750,182)	(6,932,229)
Payment of interest	(1,402,939)	(1,220,288)
At December 31, 2020	24,713,679	24,506,187

The Company voluntarily prepaid export prepayments and export credit notes in the amount of R\$ 6.2 billion and R\$ 22 million in contracts with Finnvera for the year ended December 31, 2020, within of its debt profile management strategy.

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

d) Guarantees

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

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

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

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

e) Restrictive covenants

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

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17 DEBENTURES

a) 7th issue of debentures

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

	<u>Quantity</u>	<u>Unit Value</u>	<u>Total Value (RS thousand)</u>	<u>Interest rates</u>	<u>Maturity</u>	<u>Amortization</u>	<u>Interest</u>	<u>Nature</u>	<u>Subscription bonus</u>
First series	27,777,500	14.40	399,996	IPCA + 7.25%	06/15/2020	Without amortization	Semi-annual	Convertible debt	Yes
Second series	27,777,500	14.40	399,996	IPCA + 2.50%	06/15/2022	Semi-annual	Semi-annual	debt	No
	<u>55,555,000</u>		<u>799,992</u>						

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

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

The 1st Series acquirer must acquire 2nd Series debentures. The amount of R\$ 28,502 was allocated to shareholders' equity due to the subscription bonus for the debentures issued. Debenture holders are responsible for the possibility of converting debentures into "Units" in advance at any time.

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

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

For 1st series debenture holders who opted for conversion into shares, amounts were also paid as debt compensation, amounts equivalent to dividends and interest on equity paid by the company from June 2014 to June 2020, totaling R\$ 101,075.

b) 12th issue of debentures

The Company concluded on April 1, 2019, the 12th issue of debentures, with 100 thousand debentures being issued for the nominal unit value of R\$ 10,000, totaling R\$ 1 billion, with maturity on March 19, 2029. The interest paid will be of 114.65% of the CDI semiannually and amortization will occur at the end of the 8th, 9th and 10th year. This transaction has a linked swap contracted with Banco Itaú with an asset position in CDI at 114.65% of CDI and passive in USD 5.40% per year., as disclosed in Note 16.

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Quantity	Unit Value	Total Value (RS thousand)	Interest rates	Maturity	Amortization	Interest	Nature	Subscription bonus
100,000	10,000.00	1,000,000	114.65% do CDI	03/19/2029	Annual (8th, 9th and 10th grade)	Semi-annual	Debt	No
100,000		1,000,000						

c) Composition of the balance of debentures

	Parent company and consolidated					
	12/31/2020			12/31/2019		
	7th issue	12th issue	Total	7th issue	12th issue	Total
Current liabilities						
. Principal	61,538	-	61,538	461,497	-	461,497
. Interest	488	6,012	6,500	3,324	16,254	19,578
. Monetary restatement / profit sharing	-	-	-	91,684	-	91,684
	62,026	6,012	68,038	556,505	16,254	572,759
Non-current liabilities						
. Principal	30,769	1,000,000	1,030,769	92,306	1,000,000	1,092,306
. Gain / loss on derivative instruments (swap)	-	733,996	733,996	-	207,535	207,535
. Subscription bonus	-	-	-	(28,502)	-	(28,502)
	30,769	1,733,996	1,764,765	63,803	1,207,535	1,271,338
Total debenture liability	92,795	1,740,008	1,832,803	620,308	1,223,789	1,844,097
Equity - capital reserve						
. Subscription bonus	-	-	-	28,502	-	28,502
	-	-	-	28,502	-	28,502
Total	92,795	1,740,008	1,832,803	648,810	1,223,789	1,872,599

d) Debenture movement

	Parent company and consolidated
At December 31, 2018	662,676
12th issue	1,000,000
Gain or loss on financial instruments (SWAP)	207,535
Interest and monetary variations on debentures	122,843
Repayments (7th issue)	(61,538)
Payment of interest (7th issue)	(53,747)
Payment of interest (12th issue)	(33,672)
At December 31, 2019	1,844,097
Gain or loss on financial instruments (SWAP)	526,460
Interest and monetary variations on debentures	64,859
Repayments (7th issue)	(62,053)
Debenture capitalization (7th issue)	(370,942)
Payment of interest and results (7th issue)	(128,014)
Payment of interest (12th issue)	(41,604)
At December 31, 2020	1,832,803

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18 TRADE PAYABLES

	Parent company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Local currency	1,401,267	839,763	1,471,110	842,875
Foreign currency	209,268	25,266	283,027	44,217
Total trade payables (without Forfait)	1,610,535	865,029	1,754,137	887,092
Local currency (Forfait)	248,892	137,164	248,892	137,164
Total trade payables	1,859,427	1,002,193	2,003,029	1,024,256

The Company, in general, operates with an average payment term with its operating suppliers of approximately 67 days (51 days on December 31, 2019). In the case of suppliers of fixed assets, the terms follow the commercial negotiation of each operation.

Of the balance of suppliers on December 31, 2020, R\$ 248,892 (R\$ 137,164 on December 31, 2019) in the parent company and in the consolidated, corresponds to the forfait operations in which there were no relevant changes in the purchase conditions (payments and negotiated prices) with suppliers, remaining as usual in the market. The forfait operations enable suppliers to better manage their cash flow needs, to the detriment of greater intensification of commercial relations with the Company.

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

a) Provisioned risks

Based on the individual analysis of the lawsuits filed against the Company and its subsidiaries and supported by the opinion of its legal advisors, provisions were set up in non-current liabilities, for risks with losses considered probable, shown below:

	12/31/2020			
	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
In the parent company:				
Tax:				
. PIS/COFINS	-	-	-	31,805
. ICMS/IPI	-	-	-	46,390
. Income tax/social contribution	(10,824)	10,824	-	863
. OTHER	(22)	22	-	11,043
	(10,846)	10,846	-	90,101
Labor	(32,926)	13,884	(19,042)	-
Civil	(8,017)	2,578	(5,439)	-
	(51,789)	27,308	(24,481)	90,101
Subsidiaries:				
Other	(162)	1,434	1,272	-
Consolidated	(51,951)	28,742	(23,209)	90,101

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	12/31/2019			
	Provisioned amount	Restricted judicial deposits	Net liability	Unrestricted judicial deposits
In the parent company:				
Tax:				
. PIS/COFINS	-	-	-	44,105
. ICMS/IPI	-	-	-	21,744
. Income tax/social contribution	(10,715)	3,616	(7,100)	98
. OTHER	(21)	21	-	23,217
	(10,736)	3,637	(7,100)	89,164
Labor	(42,103)	19,218	(22,885)	-
Civil	(7,680)	3,728	(3,952)	-
	(60,519)	26,583	(33,937)	89,164
Subsidiaries:				
Other	-	1,432	1,432	-
Consolidated	(60,519)	28,015	(32,505)	89,164

b) Summary of changes to the provisioned amounts

	Consolidated			
	Taxes	Labor	Civil	Net Exposure
At December 31, 2018	(6,797)	(22,251)	(4,455)	(33,503)
New lawsuits/increases	(303)	(2,315)	(31)	(2,649)
(Provision)/reversals	-	3,148	2,685	5,833
Deposit transactions	-	(1,467)	(719)	(2,186)
At December 31, 2019	(7,100)	(22,885)	(2,520)	(32,505)
New lawsuits/increases	(3,245)	(715)	(1,125)	(5,085)
(Provision)/reversals	-	9,892	628	10,520
Deposit transactions	10,345	(5,334)	(1,150)	3,861
At December 31, 2020	-	(19,042)	(4,167)	(23,209)

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

As of December 31, 2020, the Company and its subsidiaries were parties to other tax, labor and civil proceedings involving risks of loss for the Company assessed as “possible”, which total approximately: R\$ 4,552,754, R\$ 232,237 and R\$ 68,618 respectively (R\$ 4,111,680, R\$ 252,121 and R\$ 80,697 on December 31, 2019). Based on the individual analysis of the corresponding legal and administrative and supported by the opinion of its legal advisors, Management understands that these proceedings have the likelihood of loss assessed as “possible” and, therefore, are not provisioned.

At December 31, 2019, the Company appeared in the passive pole in several processes, such as:

Tax Lawsuits

(i) Tax foreclosure filed by the Federal Government aiming at the collection of IRPJ due to alleged undue deductions for royalties for the use of brands and goodwill formed in the acquisitions of the companies Klamasa and Igaras. The total amount of this lawsuit on December 31, 2020 is

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approximately R\$ 1,296,197 (R\$ 1,279,543 on December 31, 2019), of which R\$ 889,808 as goodwill, R\$ 75,349 as royalties and R\$ 331,040 as losses and negative bases.

(ii) Tax foreclosures filed by the Municipality of Lages/SC, whose object is the collection of ISS on the manufacture of packaging with personalized graphic prints, from January 2001 to December 2004 and January to April 2011. The total amount of these executions on December 31, 2020 is approximately R\$ 1,699,131 (R\$ 1,236,057 on December 31, 2019).

(iii) Tax execution filed by the Municipality of Rio de Janeiro/RJ, whose object is the collection of ISS on the manufacture of packaging with personalized graphic prints, from September 1996 to October 2001. The total amount of this execution in December 31, 2020 is approximately R\$ 233,464 (R\$ 219,681 on December 31, 2019).

(iv) Tax Foreclosure filed by the Federal Government to collect the difference in IRPJ and CSLL, for carrying out an indirect legal transaction involving the companies Norske Skog Pisa Ltda. and Lille Holdings S/A., with a fine increased from 75% to 150%. The total amount of this execution on December 31, 2020 is approximately R\$ 91,487 (R\$ 90,202 on December 31, 2019).

(v) Termination action by the Federal Government against Klabin S/A and Aracruz Celulose S/A, to rescind the judgment handed down in the ordinary action file, to rule out the application of the SELIC rate, as well as the rates provided for in CIEX resolution No. 2/79 in relation to the IPI premium credit. The total amount of this action on December 31, 2020 is approximately R\$ 103,924 (R\$ 102,518 on December 31, 2019).

(vi) Administrative proceedings whose object is the collection of a contribution of 2.6% on gross revenue from the sale of the production of the agro-industrial activity. The total value of these shares on December 31, 2020 is approximately R\$ 369,573 (R\$ 365,631 on December 31, 2019).

(vii) Administrative proceeding whose purpose is to adjust the calculation bases of IRPJ and CSLL, calendar year 2013, under the allegation that the company would have made undue exclusions due to the change in the exchange variation regime. The total amount of this proceeding on December 31, 2020 is approximately R\$ 238,555 (R\$ 234,221 on December 31, 2019).

(viii) Exemption in view of the disagreement on the FINSOCIAL credit correction criterion occurred in 2017. The total amount of the lawsuit on December 31, 2020 is approximately R\$ 118,620 (R\$ 116,131 on December 31, 2019).

(ix) Exemption of COFINS credit compensation, arising from overpayments related to the expansion of the calculation base referred to in Law No. 9,718 / 98. The total amount of the lawsuit on December 31, 2020 is approximately R\$ 54,270 (R\$ 45,432 on December 31, 2019).

Civil and environmental lawsuits

(i) Public Civil Action proposed in 2009 by the Association of Environmental Fishermen of Paraná - APAP, due to alleged damages to the Tibagi River (PR), for the disposal of burnt coal waste, used by the Company until 1998. Despite there is no evidence of environmental damage, in December 2015 an unfavorable sentence was handed down to the Company, condemning it to the obligation to remove the burned mineral coal deposited in the riverbed. Currently, the process is in the process of settlement of the sentence, where the Company presented its defense alleging the technical unfeasibility of complying with the obligation to the manner determined by the court and, at the moment, is awaiting the appointment of an expert. Only with the end of the investigation and the settlement phase will it be possible to stipulate any contingency amount to be considered.

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Labor Lawsuits

The main claims are related to overtime, pain and suffering, unhealthy work and hazardous work premiums, as well as indemnities and subsidiary liability of third parties. No individual action is relevant enough to have an adverse and material impact on the Company's results.

d) Lawsuits filed by the Company

As of December 31, 2020, the Company was involved in lawsuits involving active claims, for which there are no amounts recognized in its financial statement, the assets being recognized only after the lawsuits are final and the gain is definitely certain.

According to a relevant fact disclosed to the market on August 22, 2019, the decision was final and unappealable, accepting the Company's intention to exclude ICMS from the PIS and COFINS calculation base, effective from April 2002, in an amount total of R\$ 1.014 billion reais based on said lawsuit in outdated credits to be compensated against future tax debts by the Company, as disclosed in note 9.

e) Tax Recovery Program (REFIS)

As announced to the market on June 28, 2019, the Company opted to settle the debt with REFIS maturing in 2029 in advance in the amount of R\$ 316,379. The early settlement of REFIS is part of the Company's active debt management process. The REFIS balance was represented by its fair value in the Company's balance sheet, corresponding to the debt balance for early settlement.

With its settlement, in addition to the cash effect of R\$ 316,379 with the REFIS prepayment, its adjustment to fair value was reversed in the financial result, as well as a fine and interest reversal, both in the corresponding amount, but with the opposite effect, without changing the Company's net result.

20 EQUITY

a) Share Capital

Klabin S.A.'s share capital subscribed and paid up, on December 31, 2020 is divided into 5,617,892,756 shares (5,409,801,840 on December 31, 2019), with no par value, corresponding to R\$ 4,475,625 (R\$ 4,076,035 as of December 31, 2019), distributed as follows:

Stockholders	12/31/2020		12/31/2019	
	Common shares	Preferred shares	Common shares	Preferred shares
Klabin Irmãos & Cia	948,881,205	-	941,837,080	-
Niblak Participações S/A	142,023,010	-	142,023,010	-
The Bank of New York Department	61,047,714	272,590,606	61,773,628	247,094,512
Monteiro Aranha S/A	88,957,621	244,190,856	67,146,935	268,619,190
BNDESPAR	83,721,188	334,884,752	56,259,848	225,039,392
BlackRock, Inc	45,775,687	183,102,748	46,148,485	184,593,940
Treasury shares	26,528,918	106,115,672	27,924,945	111,699,780
Other	684,793,252	2,395,279,527	641,480,724	2,388,160,371
	2,081,728,595	3,536,164,161	1,984,594,655	3,425,207,185

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In addition to nominative common and preferred shares, the Company negotiates certificates of deposit of shares, called "Units", corresponding to the lot of 1 (one) common share - ON and 4 (four) preferred shares - PN.

The Company's authorized capital is 5,600,000,000 common registered shares - ON and / or preferred registered shares - PN approved at the Extraordinary General Meeting held on March 20, 2014.

On June 15, 2020, after the maturity of the 1st series of debentures of the 7th issue (see note 1), 27,739,244 "Units" were issued, comprising 27,739,244 common shares and 110,956,976 preferred shares, totaling an increase capital in the Company of R\$ 399,446.

On November 26, 2020, after the approval of the merger of Sogemar (see note 1), 69,394,696 common and nominative shares with no par value were issued with an increase of R\$ 144 in the share capital.

b) Treasury shares

As of December 31, 2020, the Company holds 132,644,590 shares of its own issue in treasury, corresponding to 26,528,918 "Units". The price on December 31, 2020 under negotiation on the São Paulo Stock Exchange was R\$ 26.47 per "Unit" (code KLBN11 in B3).

According to the Stock Option Plan, described in Note 24, granted as long-term compensation to the Company's executives, in February 2020 3,515,775 shares held in treasury for R\$ 8,872 were sold, corresponding to 703,155 "Units", And granted under the regime of usufruct of 3,515,775 shares, corresponding to 703,155 "Units", written off from treasury at the historical cost of R\$ 4,716.

c) Carrying value adjustments

Created by Law 11,638 / 07, the group "Adjustments to equity valuation" maintained in the Company's equity includes adjustments to valuations with increases and decreases in assets and liabilities, when applicable.

The balance maintained by the Company corresponds to the adoption of the attributed cost of property, plant and equipment ("deemed cost") for forest land, an option exercised in the initial adoption of the new accounting pronouncements converging to IFRS on January 1, 2009; exchange variation of subsidiaries held abroad with a functional currency different from that of the parent company; balances referring to the stock option plan granted to executives (Note 24); and updates to actuarial liabilities.

	Parent company and Consolidated	
	12/31/2020	12/31/2019
Deemed cost of property, plant and equipment	1,057,752	1,057,752
Foreign exchange variations - subsidiaries abroad	(81,656)	(64,693)
Stock option plan	10,340	6,020
Actuarial liability (i)	(162,960)	(56,085)
	823,476	942,994

(i) Net of the corresponding deferred taxes, when applicable, at the rate of 34%.

The foreign exchange variation of a foreign subsidiary will be realized against the result only in the case of sale or closing of the investee. The other items that make up the equity valuation adjustment

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balance, due to their nature and the strength of the accounting standard, will not be realized against the result, even in their financial realization.

The changes in the balances contained in Equity valuation adjustments are presented in the "Statement of Comprehensive Income" and in the "Statement of Changes in Equity".

d) Dividends / Interest on equity

Dividends/interest on equity represent the portion of profits earned by the Company, which is distributed to shareholders as remuneration for the capital invested in the fiscal years. All shareholders are entitled to receive dividends and interest on equity, proportional to their shareholding, as ensured by Brazilian corporate law and the Company's Bylaws. The Bylaws also provide for the Administration's ability to approve interim distributions during the year in advance, "ad referendum" of the Annual General Meeting to assess the accounts for the year.

Interest on own capital, for purposes of complying with tax rules, is recorded against the caption "Financial expenses". For the purposes of preparing said financial statement, the income is reversed against the retained earnings account, making up the balance of the minimum mandatory dividend, as instructed by the CVM.

The basis for calculating the mandatory dividend defined in the Company's Bylaws is adjusted by the constitution, realization and reversal, in the respective year, of the "Reserve of Biological Assets", granting to the Company's shareholders the right to receive a minimum dividend in each fiscal year, mandatory 25% of adjusted annual net income. In addition, the Company is entitled to distribute dividends and interest on equity with "Profit Reserves" balances, held in Shareholders' Equity.

In 2020, dividends and interest on equity equivalent to R\$ 223 million were distributed and effectively paid, according to the following table:

Event	Date approved	Description	Initial date of payment	Type of share	Amount per thousand	Origin	Total distributed
Extraordinary General Meeting of Stockholders	12/17/2019	Interest on own capital	02/20/2020	Common and Preferred "Units"	R\$37.94 R\$189.75	Complementary 2019	R\$ 200,000
Extraordinary General Meeting of Stockholders	02/05/2020	Dividend	02/20/2020	Common and Preferred "Units"	R\$4.36 R\$21.82	Profit reserve	R\$ 23,000

e) Allocation of net income for the year

The distribution of the results for the fiscal year 2020 is shown below and will be presented at the Annual General Meeting, to be held on March 24, 2021, together with the approval of the accounts for the fiscal year.

	Parent company
(=) Net loss for the year attributable to Klabin's shareholders	(2,487,870)
.Loss absorption with investment reserve and capital reserve	600,010
.Absorption of losses with biological assets reserve	470,658
.Absorption of losses with legal reserve	184,739
.Loss absorption with tax incentives reserve	238,637
	(993,826)

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21 NET SALES REVENUE

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

	Parent company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Gross sales revenue	13,206,654	11,815,425	13,697,654	11,885,656
Discounts and rebates	(69,976)	(107,208)	(105,469)	(131,602)
Taxes on sales	(1,566,875)	(1,470,651)	(1,643,391)	(1,482,215)
	11,569,803	10,237,566	11,948,794	10,271,839
. Domestic market	4,863,284	6,061,660	6,995,071	6,113,933
. Foreign market	6,706,519	4,175,906	4,953,723	4,157,906
Net sales revenue	11,569,803	10,237,566	11,948,794	10,271,839

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22 COSTS, EXPENSES AND OTHER INCOME BY NATURE

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2019</u>
<u>Cost of products sold</u>				
Variable costs (raw materials and consumables)	(3,240,079)	(2,991,569)	(3,111,278)	(2,857,151)
Personnel	(1,708,619)	(1,617,145)	(1,753,164)	(1,609,967)
Depreciation and amortization	(1,082,576)	(1,024,619)	(1,110,749)	(1,075,198)
Depletion	(944,236)	(889,656)	(1,218,104)	(1,065,379)
Maintenance	(454,246)	(417,143)	(458,834)	(421,357)
Other	(255,189)	(333,386)	(233,170)	(212,182)
	(7,684,945)	(7,273,518)	(7,885,299)	(7,241,234)
<u>Sales expenses</u>				
Freight	(739,890)	(609,806)	(793,580)	(623,225)
Royalties	(63,165)	(58,111)	(63,165)	(58,111)
Commissions	(18,356)	(11,421)	(51,387)	(28,703)
Personnel	(110,867)	(99,787)	(111,987)	(100,795)
Depreciation and amortization	(4,257)	(4,018)	(4,344)	(4,100)
Storage and port expenses	(72,432)	(76,530)	(72,432)	(104,862)
Other	(497)	(11,538)	(42,243)	9,408
	(1,009,464)	(871,211)	(1,139,138)	(910,388)
<u>General and administrative expenses</u>				
Personnel	(368,013)	(329,934)	(371,730)	(333,267)
Services contracted	(199,651)	(171,876)	(201,667)	(173,612)
Depreciation, amortization and depletion	(48,720)	(47,762)	(49,714)	(48,737)
Maintenance	(21,293)	(19,826)	(21,508)	(20,026)
Other	(41,242)	(12,597)	(73,180)	(25,317)
	(678,919)	(581,995)	(717,799)	(600,959)
<u>Other net</u>				
Revenue from sales of prop, plant and equipment	64,398	33,876	64,398	33,876
Cost of sales and write-offs of prop, plant and equip.	(60,022)	(77,725)	(60,022)	(77,725)
Exclusion of ICMS from the PIS / COFINS base (i)	-	630,621	-	620,833
Gain from bargain purchase	206,061	-	206,061	-
Compensations received	75,784	30,031	75,784	30,031
Other	19,645	(7,360)	30,475	2,811
	305,866	609,443	316,696	609,826
Total	(9,067,462)	(8,117,281)	(9,425,540)	(8,142,755)

(i) See information in note 9.

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23 FINANCE RESULT

	Parent company		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Finance income				
. Income from financial investments	257,777	522,124	270,235	541,487
. Social Integration Program (PIS)/Social Contribution on Revenue (COFINS) on interest income	(18,173)	(48,736)	(18,173)	(48,736)
. Update of tax credits	99,154	495,858	99,154	495,858
. Other (i)	5,888	39,426	31,387	34,052
	344,646	1,008,672	382,603	1,022,661
Finance costs				
. Interest on borrowing and debentures	(1,856,636)	(1,524,138)	(1,622,307)	(1,411,985)
. Interest on REFIS (i)	-	(74,437)	-	(74,437)
. Interest capitalized on property, plant and equipment (ii)	218,820	27,869	218,820	27,869
. Derivative financial instruments (SWAP)	(2,009,832)	(470,263)	(2,009,832)	(470,263)
. Loan guarantees from related parties	(2,554)	(22,797)	(2,554)	(22,797)
. Investor Compensation - SCs	-	-	(38,518)	(39,948)
. Commissions	(182,644)	(188,541)	(247,973)	(230,565)
. Other	(85,924)	(59,121)	(88,636)	(52,112)
	(3,918,770)	(2,311,428)	(3,791,000)	(2,274,238)
Exchange variations				
. Foreign exchange variations on assets	575,093	307,796	582,031	318,800
. Foreign exchange variations on liabilities	(4,180,209)	(733,554)	(4,202,765)	(729,071)
	(3,605,116)	(425,758)	(3,620,734)	(410,271)
	(7,179,240)	(1,728,514)	(7,029,131)	(1,661,848)

(i) See information in note 19.

(ii) See information in note 13.

24 STOCK OPTION PLAN

At the Extraordinary Shareholders' Meeting, held on July 10, 2012, the Stock option Plan ("Plan") was approved as a benefit to members of the executive board and strategic employees of the Company.

CVM authorized the Company, through OFICIO / CVM / SEP / GEA-2 / No 221/2012 to carry out the private operations covered by the incentive plan for its officers and employees, excluding controlling shareholders, to carry out a private transfer of shares held in treasury.

According to the aforementioned Plan, the Company established that statutory and non-statutory directors may use a percentage of 15% to 25% (until 2018 the percentage was 15% to 50%), managers from 15% to 40% and the other employees in the position of coordinators and consultants from 5% to 10% of their variable remuneration for the acquisition of shares held in treasury, where the Company will grant the usufruct of the same number of shares to the acquirer for three years on a grant basis, with the ownership of the shares being transferred to the beneficiaries after 3 years, provided they are fulfilled the clauses established in the Plan.

The usufruct grants the beneficiary the right to dividends and interest on equity distributed in the period in which the benefit is valid.

The acquisition value of the treasury shares by the Plan's beneficiaries will be obtained by the average of the market value quotations of the last 60 trading sessions of the Company's shares, or of their quotation on the acquisition date, whichever is the lower. The value of the shares granted in usufruct corresponds to the price of the shares being traded on the São Paulo Stock Exchange on the day of the transaction.

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The clauses for the transfer of the granted shares to be consummated, establish the beneficiary's permanence in the Company and not alienation of the shares acquired in the adherence to the Plan. The shares granted can also be immediately assigned in the event of dismissal at the initiative of the Company, retirement or death of the beneficiary, in the latter case passing the right of the shares to the estate.

The shares granted and the expense proportional to the granting period, recognized in the income statement is accumulated in shareholders' equity in the group "Equity Valuation Adjustments", until the end of the grant, either by the expiration of the three-year term, or any other clause of the Plan that terminates the grant.

The table below shows the information on the agreed plans:

a) Statutory and non-statutory Board Members

	Plan 2015 (i)	Plan 2016 (i)	Plan 2017	Plan 2018	Plan 2019	Total
Start of the plan	03/01/2016	02/24/2017	02/28/2018	02/28/2019	02/28/2020	
Final grant date	03/01/2019	02/24/2020	02/28/2021	02/28/2022	02/28/2023	
Treasury shares acquired by the beneficiaries	1,475,000	2,774,345	2,039,185	1,146,395	1,140,020	8,574,945
Purchase value per share (R\$)	4.23	3.04	3.58	3.61	3.87	
Treasury shares granted with right to use	1,475,000	2,774,345	2,039,185	1,146,395	1,140,020	8,574,945
Value of the right to use per share (R\$)	4.30	3.04	3.58	3.61	3.87	
Accumulated plan expenses - from the beginning	6,309	8,101	6,912	2,519	1,246	25,087
Expenses of the plan - 1/1 to 12/31/2020	-	176	2,422	1,363	1,246	5,207
Expenses of the plan - 1/1 to 12/31/2019	163	1,218	2,449	1,155	-	4,985

(i) Plan closed

b) Managers

	Plan 2015 (i)	Plan 2016 (i)	Plan 2017	Plan 2018	Plan 2019	Total
Start of the plan	03/30/2016	02/24/2017	02/28/2018	02/28/2019	02/28/2020	
Final grant date	03/30/2019	02/24/2020	02/28/2021	02/28/2022	02/28/2023	
Treasury shares acquired by the beneficiaries	-	1,531,400	1,616,585	1,809,185	1,848,470	6,805,640
Purchase value per share (R\$)	-	3.04	3.58	3.61	3.87	
Treasury shares granted with right to use	351,000	1,531,400	1,616,585	1,809,185	1,848,470	7,156,640
Value of the right to use per share (R\$)	4.34	3.04	3.58	3.61	3.87	
Accumulated plan expenses - from the beginning	1,521	4,468	5,305	3,985	2,801	18,080
Expenses of the plan - 1/1 to 12/31/2020	-	225	1,852	2,149	2,801	7,027
Expenses of the plan - 1/1 to 12/31/2019	69	1,438	1,855	1,836	-	5,198

(i) Plan closed

c) Other employees

	Plan 2018	Plan 2019	Total
Start of the plan	02/28/2019	02/28/2020	
Final grant date	02/28/2022	02/28/2023	
Treasury shares acquired by the beneficiaries	548,300	527,285	1,075,585
Purchase value per share (R\$)	3.61	3.87	
Treasury shares granted with right to use	548,300	527,285	1,075,585
Value of the right to use per share (R\$)	3.61	3.87	
Accumulated plan expenses - from the beginning	1,115	635	1,750
Expenses of the plan - 1/1 to 12/31/2020	586	635	1,221
Expenses of the plan - 1/1 to 12/31/2019	529	-	529

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25 EARNINGS (LOSS) PER SHARE

The basic earnings (loss) per share are calculated by dividing the profit for the period attributable to holders of common shares - ON and preferred shares - PN of the Company, by the weighted average number of shares available during the period. The Company does not have any instruments that may have a dilutive effect.

As mentioned in Note 20, changes in the balance of treasury shares affect the weighted average number of preferred shares in treasury in the calculation as of December 31, 2020, the weighted average being used in the calculation of the earnings (loss) per share calculated as follows:

Weighted average number of treasury shares

December 31, 2020 (i)

Jan to Feb	+	139,658,160	x 2/12
Mar	+	132,626,610	x 1/12
Apr	+	132,636,195	x 1/12
May	+	132,637,895	x 1/12
Jun	+	132,633,385	x 1/12
Jul to Sep	+	132,635,160	x 3/12
Oct to Nov	+	132,641,915	x 2/12
Dec	+	132,644,590	x 1/12

12 Months 2020 = 133,807,025

(i) Because the Company only has Units held in treasury, the distribution between common and preferred shares is made according to the composition of the Units.

The table below, presented in R\$, shows the reconciliation of the results for the years ended December 31, 2020 and 2019 in the calculation of basic and diluted earnings (loss) per share:

	Parent company and Consolidated		
	From 1/1 to 12/31/2020		
	Common (ON)	Preferred (PN)	Total
Denominator			
Total weighted average number of shares	2,081,728,595	3,536,164,161	5,617,892,756
Weighted average number of treasury shares	(26,761,405)	(107,045,620)	(133,807,025)
Weighted average number of outstanding shares	2,054,967,190	3,429,118,541	5,484,085,731
% of shares in relation to the total	37.47%	62.53%	100%
Numerator			
Loss attributable to each class of shares (R\$)	(932,241,302)	(1,555,628,698)	(2,487,870,000)
Weighted average number of outstanding shares	2,054,967,190	3,429,118,541	5,484,085,731
Basic and diluted loss per share (R\$)	(0.4537)	(0.4537)	

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	Parent company and Consolidated		
	1/1 to 12/31/2019		
	Common (ON)	Preferred (PN)	Total
<u>Denominator</u>			
Total weighted average number of shares	1,984,594,655	3,425,207,185	5,409,801,840
Weighted average number of treasury shares	(28,153,968)	(112,615,873)	(140,769,841)
Weighted average number of outstanding shares	1,956,440,687	3,312,591,312	5,269,031,999
% of shares in relation to the total	37.13%	62.87%	100%
<u>Numerator</u>			
Earnings attributable to each class of shares (R\$)	250,940,121	424,884,879	675,825,000
Weighted average number of outstanding shares	1,956,440,687	3,312,591,312	5,269,031,999
Basic and diluted earnings per share (R\$)	0.1283	0.1283	

Loss per share from discontinued operations

As mentioned in note 12, the Company classified the operations of the subsidiary Embacorp, which comprises the assets of Nova Campina (SP) acquired from IP (see note 1) for Assets Held for Sale, since they were acquired for this purpose, having its effects discontinued.

As highlighted in the Income Statement for the Year 2020, the discontinued operations correspond to a loss of R\$ 6,949, comprising the effect on the calculation of the diluted basic loss per share attributable to holders of common shares - ON and preferred - PN of the Company as presented below:

	Parent company and Consolidated		
	From 1/1 to 12/31/2020		
	Common (ON)	Preferred (PN)	Total
<u>Denominator</u>			
Total weighted average number of shares	2,081,728,595	3,536,164,161	5,617,892,756
Weighted average number of treasury shares	(26,761,405)	(107,045,620)	(133,807,025)
Weighted average number of outstanding shares	2,054,967,190	3,429,118,541	5,484,085,731
% of shares in relation to the total	37.47%	62.53%	100%
<u>Numerator</u>			
Loss attributable to each class of shares (R\$)	(2,603,892)	(4,345,108)	(6,949,000)
Weighted average number of outstanding shares	2,054,967,190	3,429,118,541	5,484,085,731
Basic and diluted loss per share (R\$)	(0.0013)	(0.0013)	

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26 OPERATING SEGMENTS

a) Criteria for identification of operating segments

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

(i) Forest Segment: involves the planting and forestry operations of pine and eucalyptus to supply the Company's pulp and paper mills and sale of wood (logs) to third parties in the domestic market.

(ii) Paper Segment: substantially involves the production and sale of reels of cardboard, kraftliner and recycled paper in the domestic and foreign markets.

(iii) Conversion Segment: involves the production and sale of corrugated boxes, corrugated sheets and industrial bags, in the domestic and foreign markets.

(iv) Pulp Segment: involves the production and sale of short, long and fluffed pulp in the domestic and foreign markets.

b) Consolidated information about operating segments

	1/1 to 12/31/2020					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	246,362	2,156,474	3,259,563	1,377,360	(44,688)	6,995,071
.Foreign market	-	2,047,399	376,670	2,536,208	(6,554)	4,953,723
Revenue from sales to third parties	246,362	4,203,873	3,636,233	3,913,568	(51,242)	11,948,794
Revenue between segments	1,535,747	1,680,344	175,922	107,408	(3,499,421)	-
Total net sales	1,782,109	5,884,217	3,812,155	4,020,976	(3,550,663)	11,948,794
Changes in the fair value of biological assets	658,389	-	-	-	-	658,389
Cost of products sold	(2,659,864)	(3,636,268)	(3,256,062)	(1,977,725)	3,644,620	(7,885,299)
Gross profit	(219,366)	2,247,949	556,093	2,043,251	93,957	4,721,884
Operating income (expenses)	(87,738)	(589,155)	(422,873)	(576,405)	169,053	(1,507,118)
Operating result before finance result	(307,104)	1,658,794	133,220	1,466,846	263,010	3,214,766
Sales of products (in metric tons)						
.Domestic market	-	619,867	823,420	516,958	-	1,960,245
.Foreign market	-	533,350	51,595	1,012,784	-	1,597,729
.Inter-segmental	-	832,382	74,252	34,848	(941,482)	-
	-	1,985,599	949,267	1,564,590	(941,482)	3,557,974
Sales of timber (in metric tons)						
.Domestic market	1,520,911	-	-	-	-	1,520,911
.Inter-segmental	13,243,519	-	-	-	(13,243,519)	-
	14,764,430	-	-	-	(13,243,519)	1,520,911
Investments during the period	397,531	294,078	340,381	4,122,295	19,381	5,173,666
Depreciation, depletion and amortization	(1,312,571)	(393,788)	(96,475)	(557,728)	(22,349)	(2,382,911)
Total assets - 12/31/2020	9,029,294	4,360,436	2,056,010	12,086,594	7,737,927	35,270,261
Total liabilities - 12/31/2020	2,688,515	769,421	651,394	1,130,812	25,645,358	30,885,500
Equity - 12/31/2020	5,766,323	3,591,015	1,404,616	10,955,782	(17,907,431)	3,810,305
Non-controlling shareholders	574,456	-	-	-	-	574,456

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	1/1 to 12/31/2019					
	Forestry	Paper	Conversion	Pulp	Corporate/ eliminations	Total Consolidated
Net revenue:						
.Domestic market	249,507	1,936,554	2,684,291	1,253,405	(9,824)	6,113,933
.Foreign market	-	1,573,763	324,290	2,259,853	-	4,157,906
Revenue from sales to third parties	249,507	3,510,317	3,008,581	3,513,258	(9,824)	10,271,839
Revenue between segments	1,522,878	1,593,262	24,653	88,049	(3,228,842)	-
Total net sales	1,772,385	5,103,579	3,033,234	3,601,307	(3,238,666)	10,271,839
Changes in the fair value of biological assets	390,053	-	-	-	-	390,053
Cost of products sold	(2,557,315)	(3,532,268)	(2,567,015)	(1,879,935)	3,295,299	(7,241,234)
Gross profit	(394,877)	1,571,311	466,219	1,721,372	56,633	3,420,658
Operating income (expenses)	(133,465)	(521,736)	(387,110)	(432,818)	580,845	(894,284)
Operating result before finance result	(528,342)	1,049,575	79,109	1,288,554	637,478	2,526,374
Sales of products (in metric tons)						
.Domestic market	-	581,167	707,848	479,531	-	1,768,546
.Foreign market	-	494,864	58,256	1,004,841	-	1,557,961
.Inter-segmental	-	831,099	3,463	32,583	(867,145)	-
	-	1,907,130	769,567	1,516,955	(867,145)	3,326,507
Sales of timber (in metric tons)						
.Domestic market	1,706,017	-	-	-	-	1,706,017
.Inter-segmental	13,392,525	-	-	-	(13,392,525)	-
	15,098,542	-	-	-	(13,392,525)	1,706,017
Investments during the year	436,831	392,462	78,820	1,592,536	73,426	2,574,075
Depreciation, depletion and amortization	(1,181,805)	(349,254)	(90,322)	(544,833)	(27,200)	(2,193,414)
Total assets - 12/31/2019	8,855,270	4,769,640	1,921,329	9,052,743	10,104,100	34,703,082
Total liabilities - 12/31/2019	2,333,911	627,865	394,148	750,869	24,095,016	28,201,809
Equity - 12/31/2019	6,066,968	4,141,775	1,527,181	8,301,874	(13,990,916)	6,046,882
Non-controlling shareholders	454,391	-	-	-	-	454,391

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

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

c) Information on net of external market sales revenue

The table below shows the distribution of net revenue from the foreign market, at December 31, 2020 and 2019:

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Country	Consolidated		Country	Consolidated	
	1/1 to 31/12/2020			1/1 to 31/12/2019	
	Total revenue (R\$/million)	% of total net revenue		Total revenue (R\$/million)	% of total net revenue
China	1,374	11.5%	China	1,262	12.3%
Argentina	634	5.3%	Argentina	530	5.2%
Italy	352	2.9%	Italy	352	3.4%
Singapore	238	2.0%	USA	191	1.9%
United Arab Em	181	1.5%	Singapore	167	1.6%
South Africa	122	1.0%	Mexico	110	1.1%
Germany	107	0.9%	Saudi Arabia	99	1.0%
Turkey	103	0.9%	South Africa	85	0.8%
France	101	0.8%	Turkey	83	0.8%
Others	1,742	14.6%	Others	1,279	12.5%
	4,954	41%		4,158	40%

In the year ended December 31, 2020, a customer in the paper segment was responsible for approximately 12% (R\$ 1,426,577) of the Company's net revenue (13% or R\$ 1,311,066 on December 31, 2019). The rest of the Company's customer base is dispersed, so that none of the other customers, individually, concentrates a relevant share (above 10%) of net sales revenue.

27 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Risk management

The Company and its subsidiaries participate in transactions involving financial instruments, all recorded in equity accounts, which are intended to meet their operational needs, as well as to reduce exposure to financial risks, mainly credit and investment of funds, market risks (exchange and interest) and liquidity risk, to which it believes it is exposed, according to its nature of business and operating structure.

These risks are managed through the definition of strategies developed and approved by the Company's management, linked to the establishment of control systems and determination of position limits. There are no transactions involving financial instruments for speculative purposes.

Additionally, Management proceeds with the timely assessment of the Company's consolidated position, monitoring the financial results obtained, evaluating future projections, as a way of ensuring compliance with the defined business plan and monitoring the risks to which it is exposed.

The Company's main risks are described below:

Market risk

Market risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate due to changes in market prices. In the case of the Company, market prices are affected by two types of risk: interest rate risk and exchange rate risk. Financial instruments affected by market risk include financial investments, accounts receivable from customers, accounts payable, loans payable, bonds and securities.

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(i) Foreign Exchange rate risk

The Company maintains operations denominated in foreign currencies (substantially US dollars) that are exposed to market risks arising from changes in the quotations of the respective foreign currencies. Any exchange rate fluctuation may increase or decrease these balances. The composition of this exhibition is as follows:

	Consolidated	
	12/31/2020	12/31/2019
Bank deposits and financial investments	1,033,172	1,372,229
Trade receivables (net of provision for doubtful debts)	563,240	726,754
Other assets and liabilities	(573,000)	247,000
Borrowing	(19,023,537)	(17,225,971)
Net exposure	(18,000,125)	(14,879,988)

The balance per year due on December 31, 2020 of this net exposure is divided as follows:

Year	2021	2022	2023	2024	2025	2026	2027 onwards	Total
Amount	704,875	(278,000)	(324,000)	(1,735,000)	(1,263,000)	(4,168,000)	(10,937,000)	(18,000,125)

As of December 31, 2020, the Company has no derivatives contracted to hedge foreign exchange exposure in the cash flow. In order to protect against this net liability exposure, the Company has a sales plan whose projected cash flow of export earnings of approximately USD 1 billion annually and its receipts, if they materialize, exceed, or approach, the payment flow of the respective liabilities, offsetting the cash effect of this foreign exchange exposure in the future.

The Company only has derivatives contracted (notes 16 and 17) referring to foreign exchange and interest rate swaps linked to the issue of a specific export credit note and local currency debentures to US dollars.

(ii) Interest rate risk

The Company has loans indexed to the variation of TJLP, LIBOR, IPCA and CDI, and marketable securities indexed to the variation of CDI, Selic and IPCA, exposing these assets and liabilities to fluctuations in interest rates as shown in the interest sensitivity table below. The Company has not entered into derivative contracts to hedge / swap against the exposure of these market risks.

The practice adopted is to continuously monitor market interest rates in order to assess the possible need for contracting derivatives to protect against the risk of volatility in these rates. Additionally, the Company considers that the high cost associated with contracting fixed rates signaled by the Brazilian macroeconomic scenario justifies its option for floating rates.

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The composition of interest rate risk by type of asset and liability is shown as follows:

	Consolidated	
	12/31/2020	12/31/2019
Financial investments - CDI	4,133,393	6,910,426
Financial investments - Selic	626,566	903,786
Financial investments - IPCA	708,691	478,473
Asset exposure	5,468,650	8,292,685
Financing - CDI	(4,623,091)	(4,779,348)
Financing - TJLP	(1,169,546)	(641,402)
Financing - LIBOR	(5,588,808)	(6,103,755)
Debentures - IPCA	(1,832,803)	(1,844,097)
Liability exposure	(13,214,248)	(13,368,602)

Risk relating to investment

The Company is exposed to risk regarding the investment of funds, including deposits with banks and financial institutions, foreign exchange transactions, marketable securities and other financial instruments contracted. The amount exposed by the Company corresponds substantially to marketable securities and operation of bonds and securities, with amounts described in notes 4 and 5, respectively.

Regarding the quality of the Company's financial assets invested in financial institutions, an internal policy is used to approve the type of operation being agreed upon and the rating analysis, according to risk rating agencies, to assess the feasibility of investing resources in a given institution. , as long as it falls within the policy acceptance criteria.

The table below shows the cash resources, cash equivalents and marketable securities invested by the Company, classifying the amounts according to the national classification of the Fitch and Moody's rating agencies of the financial institutions:

	Consolidated	
	12/31/2020	12/31/2019
National rating AAA(bra)	4,741,806	6,074,451
National rating AA+(bra)	1,814,921	3,656,464
	6,556,727	9,730,915

Credit risk

Credit risk is the risk that the counterparty of a business will fail to comply with an obligation under a financial instrument, supplier advance or contract with a customer, which would lead to financial loss. In addition to the investments mentioned above, the Company is exposed to credit risk in its operating activities (mainly in relation to accounts receivable).

As of December 31, 2020, the maximum amount exposed by the Company to the credit risk of accounts receivable from customers is equivalent to the balances presented in Note 6. The information on customer concentration is described in Note 26.

The quality of credit risk in the Company's operating activities is managed by specific rules for

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customer acceptance, credit analysis and establishment of exposure limits per customer, which are periodically reviewed. The monitoring of overdue bills is carried out promptly to seek their receipt, with estimated losses being recorded with doubtful accounts for items with risk of non-receipt.

The Company maintains an insurance policy for receivables in the domestic and foreign markets for all business units as described in Note 6.

Liquidity risk

The Company monitors the risk of scarcity of resources in the global market, managing its capital through a recurring liquidity planning tool, in order to ensure financial resources available for the proper fulfillment of its obligations, substantially concentrated in the financing signed with financial institutions.

The table below shows the maturity of the financial liabilities contracted by the Company, in the consolidated balance sheet, where the amounts presented include the value of principal and future interest on operations, calculated using the rates and indices in effect on December 31, 2020:

	2021	2022	2023	2024	2025	2026	2027 onwards	Total
Trade payables	(2,003,029)	-	-	-	-	-	-	(2,003,029)
Financing/debenture	(1,435,979)	(2,335,344)	(2,095,154)	(2,832,020)	(2,930,750)	(3,530,121)	(23,751,961)	(38,911,329)
Total	(3,439,008)	(2,335,344)	(2,095,154)	(2,832,020)	(2,930,750)	(3,530,121)	(23,751,961)	(40,914,358)

The budgetary projection for the coming years approved by Management demonstrates the capacity to fulfill obligations.

Capital management

The Company's capital structure is formed by net indebtedness, composed of the balance of loans and financing (Note 16) and debentures (Note 17), deducted by the balance of cash, cash equivalents and marketable securities (notes 4 and 5), and the balance of shareholders' equity (Note 20), including the balance of issued capital and all reserves set up.

The net debt to equity ratio of the Company is composed as follows:

	Consolidated	
	12/31/2020	12/31/2019
Cash and cash equivalents and marketable securities	6,556,727	9,730,915
Borrowing and debentures	(26,338,990)	(24,085,272)
Net indebtedness	(19,782,263)	(14,354,357)
Equity	3,810,305	6,046,882
Net indebtedness ratio	(5.19)	(2.37)

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b) Financial instruments, by category

The Company has the following categories of financial instruments:

	Consolidated	
	12/31/2020	12/31/2019
Assets - at amortized cost		
. Cash and cash equivalents	5,208,830	8,340,386
. Trade receivables (net of provision for impairment of trade receivables)	1,806,918	1,859,505
. Other assets	512,669	633,865
	7,528,417	10,833,756
Assets - fair value by results		
. Marketable securities	1,347,897	1,390,529
	1,347,897	1,390,529
Liabilities - at amortized cost		
. Borrowing and debentures	26,338,990	24,085,272
. Trade payables	2,003,029	1,024,256
. Other payables	1,107,622	839,512
	29,449,641	25,949,040

(i) Amortized cost

The financial instruments included in this group refer to balances arising from usual transactions, such as accounts receivables, trade payables, borrowings and debentures, marketable securities and cash and cash equivalents maintained by the Company. All these instruments are recorded at their notional amounts plus, when applicable, contractual charges and interest, in respect of which the related income and expenses are recognized in the results for the year.

(ii) Fair value through profit or loss

The Company classified the securities that are represented by Treasury Financial Bills and Direct Treasury Bills (LFT and NTN –B) (Note 5) as financial assets measured at fair value through profit or loss, as they may be traded on future, being recorded at fair value, which, in practice, corresponds to the applied value plus interest recognized in the income from the operation in the income for the year.

c) Sensitivity analysis

The Company presents below the sensitivity tables for the risks of foreign exchange and interest rates to which it is exposed considering that the eventual temporal effects would impact future results based on the exposures presented on December 31, 2020, being, the effects on equity are basically the same as income. The sensitivity analysis does not assess the impacts of exchange rate variations on the Company's cash flow.

(i) Foreign exchange exposure

The Company has assets and liabilities linked to foreign currency in the balance sheet as of December 31, 2020 and for the purposes of sensitivity analysis, it adopted as scenario I the future market rate in force in the exercise of preparing these financial statements. For scenario II this rate was corrected by 25% and for scenario III by 50%.

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All amounts in thousands of Reais

The sensitivity analysis of the foreign exchange variation was calculated on the net foreign exchange exposure (basically for loans and financing, accounts receivable from customers and suppliers payable in foreign currency), not considering the projection of future exports that will face this exchange exposure. liquid.

Thus, keeping the other variables constant, the table below shows a simulation of the effect of the exchange variation on shareholders' equity and on the future result of 12 months (consolidated) considering the balances at December 31, 2020:

	At 12/31/2020	Scenario I		Scenario II		Scenario III	
	US\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Assets							
Cash and cash equivalents	198,813	5.26	12,923	6.58	275,018	7.89	535,463
Trade receivables, net of allowance for doubtful debts	108,384	5.26	7,045	6.58	149,928	7.89	291,911
Other assets and liabilities	(110,262)	5.26	(7,167)	6.58	(152,526)	7.89	(296,969)
Financing	(3,660,696)	5.26	(237,945)	6.58	(5,063,840)	7.89	(9,859,352)
Net effect on finance results			(225,144)		(4,791,420)		(9,328,947)

(ii) Interest Exposure

The Company has financial investments, loans, financing and debentures linked to the post-fixed interest rate of the CDI, TJLP, IPCA, Selic and Libor. For the purposes of sensitivity analysis, the Company adopted rates in force on dates close to the presentation of the referred financial statements, extracted from the website of the Central Bank of Brazil, using the same rate for Selic, Libor, IPCA and CDI due to their proximity, in the scenario I projection, for scenario II these rates were corrected by 25% and for scenario III by 50%.

Thus, keeping the other variables constant, the following table shows a simulation of the effect of changes in interest rates on shareholders' equity and on the future result of 12 months (consolidated) considering the balances at December 31, 2020:

		At 12/31/2020	Scenario I		Scenario II		Scenario III	
		R\$	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)	Rate	R\$ gain (loss)
Financial investments								
CDBs	CDI	4,133,393	2.77%	114,495	3.46%	28,624	4.16%	57,247
LFTs	Selic	626,566	2.77%	17,356	3.46%	4,339	4.16%	8,678
NTN - B	IPCA	708,691	4.38%	31,041	5.48%	7,760	6.57%	15,520
Financing								
Export Credit Notes - NCE (R\$) and Agribusiness Receivables Certificate - CRA	CDI	(4,623,091)	2.77%	(128,060)	3.46%	(32,015)	4.16%	(64,030)
BNDES	TJLP	(1,169,546)	4.55%	(53,214)	5.69%	(13,304)	6.83%	(26,607)
Debentures	IPCA	(1,832,803)	4.38%	(80,277)	5.48%	(20,069)	6.57%	(40,138)
Export prepayment, Term Loan and Finnvera	Libor	(5,588,808)	0.34%	(19,037)	0.43%	(4,759)	0.51%	(9,519)
Net effect on finance results				(117,696)		(29,424)		(58,849)

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28 EMPLOYEE BENEFITS AND PRIVATE PENSION PLAN

The Company provides its employees with life insurance, health care and retirement plan benefits. These benefits are accounted for on an accrual basis and their granting ceases on employment relationship termination.

The Company has certain health care plans which are characterized as a benefit plan defined by the criteria of CPC 33 - Employee Benefits (IAS19 Employee Benefits). Therefore, the provision for the actuarial liability, estimated in the amount of R\$ 392,842 and R\$ 342,053 at December 31, 2020, Consolidated, respectively (R\$ 167,984 at December 31, 2019, Individual and Consolidated, respectively), is recorded in noncurrent liabilities as “provision for actuarial liabilities”.

	<u>Parent company</u>	<u>Consolidated</u>
At December 31, 2018	119,571	119,571
Benefit payment	(4,216)	(4,216)
Interest on actuarial liabilities	15,050	15,050
Actuarial gains and losses (i)	67,977	67,977
Benefit Closing	<u>(30,398)</u>	<u>(30,398)</u>
At December 31, 2019	167,984	167,984
Benefit payment	(4,099)	(4,099)
Interest on actuarial liabilities	16,236	24,137
Actuarial gains and losses (i)	161,932	161,932
Business combination effects (ii)	-	42,888
Transfer to assets held for sale (iii)	<u>-</u>	<u>(818)</u>
At December 31, 2020	342,053	392,024

(i) Effect allocated to Equity and presented in the Statement of Comprehensive Income.

(ii) See information in Note 1.

(iii) See information in Note 12.

The balance difference between the actuarial liabilities measured at December 31, 2020 and at December 31, 2019 refers to actuarial liability remeasurement effects on the health care plan benefits of Law No. 9656/98, with effects substantially allocated to equity, under “Other comprehensive income”, included in the Statement of Comprehensive Income for 2020.

In the actuarial appraisal, the following economic and biometric hypotheses were used: nominal average discount rate of 7.3% p.a.; nominal growth rate of variable medical costs, starting in 2020 with 10.99% p.a. reaching 5.32% p.a. in 2032; long-term inflation of 3.25% p.a.; and RP 2000 biometric mortality table, considering the same calculation methodology in the periods of the referred financial statements. Actuarial restatements are maintained in equity, as “equity adjustments” (comprehensive income), as required by CPC 33 (R1) - Employee Benefits (IAS19 Employee Benefits).

Significant increases (decreases) in inflation indicators and medical costs used to measure actuarial liabilities would result in an increase (decrease). Regarding the discount rate, the significant effects of an increase (decrease) in the rate used in measuring actuarial liabilities would result in a decrease (increase) in the measured amounts.

The plans maintained by the Company have no assets to be disclosed.

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a) Health care plan and life insurance

Employees retired until 2001

The Company, through an agreement signed with unions, guarantees for the health care plan costs (Hospital SEPACO - main plan, in addition to Unimed and Sulamérica) and life insurance for its former employees who retired until 2001, and for their dependents, until they reach adulthood, and spouse, for life. New adhesions are prohibited.

As of December 31, 2020, 340 people remained entitled to the benefit.

Benefit of Law No. 9656/98

In accordance with Law No. 9656/98, employees who make a fixed contribution payment to the monthly health care plan, deducted from payroll, have the right to continue in the health care plan offered by the Company, in the event of dismissal without cause or retirement, provided they bear the costs after their termination.

The length of stay on Klabin's policy is proportional to the contribution period, and can be for life in cases where the contribution period is more than 10 years.

In April 2019, the Company allowed employees who had not reached 10 years of permanence in the policy on that date not to exercise the fixed monthly contribution, losing the benefits of permanence in the policy. At December 31, 2020, 662 active employees remained entitled to the benefit of Law No. 9656/98.

For employees hired after April 2019, the new rule is in effect, with the health plan funded 100% by the company, with no fixed contribution. Thus, they do not qualify for the benefit of Law No. 9656/98.

As of December 31, 2020, 2,566 people remained entitled to the benefit.

b) Private pension plan

Klabin's private pension plan - Plano Prever, managed by Itaú Vida e Previdência S.A., was established in 1986 under the defined benefit modality. As of 1998, the plan was restructured and the defined contribution modality was adopted.

In November 2001, a new private pension plan was created, Klabin Supplementary Retirement Plan - PACK, managed by Bradesco Vida e Previdência S.A., and structured under the concept of PGBL.

Participants in Prever plan were given the option of migrating to the new plan. In both plans, the Company is not responsible for ensuring minimum benefit levels for participants who will retire.

The Company has no responsibility for managing resources, which is made exclusively by the Fund. The monitoring with Bradesco Vida e Previdência S.A. is carried out by a group of employees who represent the other participants in the program.

c) Other employee benefits

The Company grants its employees the following benefits: healthcare, day nursery reimbursement, assistance to parents with children with special needs, agreement for discounts at drugstores, school supplies, dental care plan, private pension plan and life insurance, in addition to the benefits

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established by law (meal vouchers, transportation vouchers, profit sharing and food purchase vouchers). Furthermore, the Company has an organizational development program for its employees. For the year ended December 31, 2020, expenditure on training programs totaled R\$ 8,522 (R\$ 13,614 for the year ended December 31, 2019).

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

29 INSURANCE COVERAGE

In order to protect its operational risks, assets and liabilities, the Company maintains insurance coverage for several types of events that could impact equity and operations.

Within the best market practices, the Company has contracted operational risk insurance policies, including loss of profits and several other coverage for material damages involving all industrial, administrative and inventory facilities.

The Company also has other insurance policies, such as general liability insurance, D&O liability, national and international transport and forest insurance.

30 EVENTS AFTER THE REPORTING PERIOD

Merger of Riohold Papel e Celulose S.A

As announced to the market on January 4, 2021, the merger of Riohold Papel e Celulose S.A. ("Riohold") was approved at the Special General Meeting. The merger did not result in capital increase or in issuance of new shares, since the entire capital of Riohold is held by the Company. The merger is part of the management's strategy to integrate the assets acquired from Internacional Paper do Brasil Ltda.

Bonds (Notes) 2031

As announced to the Market on January 6, 2021, USD 500 million in Sustainability Linked Bonds (SLB) was raised, with a 10-year term, maturity in 2031, and a coupon of 3.20% per year. The purposes are early repurchase of the Bond due in 2024, and the achievement of the Company's general purposes.

On January 13, 2021, through an acquisition offer made by its wholly-owned subsidiary Klabin Finance, the proposal to repurchase the Bonds maturing in 2024 in the amount of USD 98 million was completed.

Aroeira Reflorestadora S.A.

As announced to the Market on January 26, 2021, the necessary agreements were signed for association with a Timber Investment Management Organization ("TIMO") at Aroeira Reflorestadora SPC S.A. ("Aroeira"). The Company's contribution to forming the company's equity will be through the contribution of approximately 9.7 thousand hectares of planted forests, whereas TIMO will contribute with up to R\$ 500 million in cash, part of which on the closing of the operation and the remaining portion within 3 years.

The funds contributed to the SPC will be used for acquisitions and leases of approximately 19,500 hectares of effective planting, and for financing the planting, substantially of Pinus, in these areas.

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KLABIN S.A.

All amounts in thousands of Reais

Klabin will have the preemptive right to purchase the wood produced by the SPC, among other typical rights granted to controlling shareholders of a company of this nature. The completion of this transaction is subject to usual conditions precedent, including approval by the competent regulators. This association will allow the Company to expand its forest massif in the state of Santa Catarina with capital efficiency. This expansion aims at supplying the current factories in the region and making future expansion projects viable.

Nova Campina sale

The Nova Campina (SP) sale transaction, described in Note 1, was completed on January 29, 2021, after its closing with the Klingele Paper & Packaging Group. Of the R\$ 196 million of the total transaction amount, R\$ 132 million was received on that date and the remainder will be received in two annual installments of the same amount.

With this transaction, 100% of the shares of wholly-owned subsidiary Embacorp Soluções em Embalagens de Papel Ltda. (“Embacorp”), owner of the Nova Campina unit (SP), with production capacity of 162 thousand tons of kraftliner, resulting from assets acquired from International Paper, are transferred to the Klingele Paper & Packaging Group on this date.

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KLABIN S.A.

All amounts in thousands of Reais

KLABIN S.A.

CNPJ N° 89.637.490/0001-45

Listed Company

BOARD OF DIRECTORS

President

Roberto Klabin Martins Xavier

Board Members

Armando Klabin

Camilo Marcantonio Junior

Daniel Miguel Klabin

Horacio Lafer Piva

Israel Klabin

José Luis de Salles Freire

Mauro Gentile Rodrigues da Cunha

Paulo Sergio Coutinho Galvão Filho

Pedro Oliva Marcilio de Sousa

Roberto Luiz Leme Klabin

Sergio Francisco Monteiro de Carvalho Guimarães

Vera Lafer

STATUTORY AUDIT BOARD

João Adamo Junior

João Alfredo Dias Lins

Louise Barsi

Maurício Aquino Halewicz

Raul Ricardo Paciello

EXECUTIVE BOARD

Cristiano Cardoso Teixeira

Marcos Paulo Conde Ivo

Arthur Canhisares

Francisco Cezar Razzolini

Chief Executive Officer

Chief Financial Officer and Investor Relations Officer

Officer

Officer

Herbert Wang Ho

Controllership

Leonardo Garcia Guerra Fialho

Accountant

CRC – 1SP315250/O-1

DISCLOSURE OF EBITDA

Pursuant to CVM Instruction 527/12, the Company has opted for the voluntary disclosure of information of a non-accounting nature as additional aggregated information in its financial statement, presenting EBITDA - Earnings Before Interest, Income Taxes including Social Contribution on Profit (Loss) Net, Depreciation and Amortization, for the years ended December 31, 2020 and 2019.

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 financial effects or taxes. It is important to note that this does not represent the cash flows for the periods presented, and it must not be considered as a basis for the distribution of dividends, as an alternative to profit or loss, nor as an indication of liquidity.

	Consolidated	
	From 1/1 to 12/31/2020	From 1/1 to 12/31/2019
(=) Profit (loss) for the period	(2,389,490)	714,618
(+) Income tax and social contribution	(1,424,875)	149,908
(+/-) Finance results, net	7,029,131	1,661,848
(+) Amortization, depreciation and depletion in the results	2,382,911	2,193,414
EBITDA	5,597,677	4,719,788
Adjustments pursuant to CVM Instruction 527/12		
(+/-) Changes in the fair value of biological assets (i)	(658,389)	(390,053)
(+/-) Equity in the results of investees (ii)	(33,123)	(7,237)
Adjusted EBITDA	4,906,165	4,322,498
(+) ICMS gain on PIS/COFINS basis (iii)	-	(620,833)
(+) Advantageous purchase gain (iv)	(206,061)	-
Adjusted EBITDA (excluding non-recurring effects)	4,700,104	3,701,665

Adjustments for definition of EBITDA - adjusted:

(i) Variation 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 placing them in the conditions required for 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 flows, without cash effects from its recognition, the variation in fair value is excluded from the calculation of EBITDA.

(ii) Equity in the results and EBITDA of investees.

Equity in the results of investees in the statement of operations reflects the profit (loss) of subsidiaries in the parent company's quarterly information, calculated in accordance with its percentage of participation in the subsidiary.

The profit (loss) of the joint venture is influenced by items that are excluded from the EBITDA calculation, such as net finance results, income tax and social contribution, amortization, depreciation and depletion, and the variations in the fair value of biological assets. For this reason,

the result of the equity in the results of investees is excluded from the calculation, but the EBITDA generated by the joint venture is included, being calculated in the same manner.

(iii) Exclusion of ICMS from the PIS/COFINS base

According to a relevant fact disclosed to the market on August 22, 2019, the decision was final and unappealable, accepting the Company's intention to exclude ICMS from the PIS and COFINS calculation basis, with a corresponding entry in the Company's results in the amount of R\$ 621 million. Said gain is characterized as non-recurring due to its one-off nature, being excluded from the calculation of EBITDA for comparative purposes and analysis of the Company's nominal operations.

(iv) Gain on advantageous purchase

As announced to the market on March 29, 2020, the Company signed the acquisition of the International Paper do Brasil ("IP") packaging and corrugated paper business in Brazil. In this transaction, a gain of an advantageous purchase in the amount of R\$ 206 million was recorded in the income statement during the process of measuring the fair value of the assets and liabilities acquired. Said gain is characterized as non-recurring due to its one-off nature, being excluded from the calculation of EBITDA for comparative purposes and analysis of the Company's nominal operations.
