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# ***Celulose Irani S.A.***

*Financial statements at  
December 31, 2018 and 2017*

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

### **Independent auditor's report on individual and consolidated financial statements**

To the Shareholders, directors and officers of Celulose Irani S.A.  
Porto Alegre - RS

#### **Qualified opinion**

We have examined the individual and consolidated financial statements of Celulose Irani S.A. (Company), identified as the parent company and consolidated, respectively, which comprise the balance sheet as of December 31, 2018 and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, as well as the accompanying notes, which include significant accounting policies and other clarifying information.

In our opinion, except for the effects of the subject described in the following section entitled "Basis for qualified opinion", the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Celulose Irani SA on December 31, 2018, the individual and consolidated performance of its operations and their respective individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB).

#### **Basis for qualified opinion**

As described in Note 15 to the financial statements, the Company and its subsidiary, Iraflor Comércio de Madeiras Ltda. entered into an agreement for purchase and sale, in 2016, of 4,644 hectares of forests, for the amount of R\$ 55,500 thousand with the company Global Fund Reflorestamento e Exploração de Madeira Ltda. ("buyer"). The purchase and sale agreement contained annual purchase options in favor of the Company's parent company (Irani Participações S.A.) and its subsidiaries, in relation to the volume of forest wood, which could be exercised during a period of 11 years (as of 2016), for the fixed value established in the agreement, adjusted by the IPCA. For the year ended December 31, 2016, the Company recognized this contract in its consolidated financial statements in the amount of R\$ 55,500 thousand as income from sales of forests (other income) and the amount of R\$ 51,845 thousand as cost of forests sold (other expenses), in connection with the write off of the respective forests (previously classified as biological assets). Under the accounting practices adopted in Brazil and under the international financial reporting standards (IFRS), as the seller retained the risks and benefits of ownership of the asset subject to the call option, the transaction was characterized as a financing agreement and should not have been recognized in the income statement of that period and, therefore, the biological asset would have been remeasured at fair value and the contract's obligation updated by the IPCA. The effects of this matter were not determined at that time. This matter was object of modification in the auditors' report on the financial statements for the year ended December 31, 2017. On June

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21, 2018, the options were canceled. The Company and its subsidiary had already exercised the options related to 2016 to 2018.

As a result of the effects of this matter on the balances of the financial statements for the year ended December 31, 2017, our opinion on the financial statements for the year ended December 31, 2018 includes a modification concerning the comparability of the amounts of the current year and corresponding amounts.

Our audit was conducted in accordance with Brazilian and international auditing standards. Our responsibilities, in accordance with such standards, are described in the following section entitled "Responsibilities of auditors for auditing individual and consolidated financial statements." We are independent in relation to the Company and its subsidiaries, in accordance with the relevant ethical principles set forth in the Professional Code of Ethics of the Accountant and the professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to substantiate our qualified opinion.

## **Other matters**

### **Statements of added value**

The individual and consolidated statements of added value (DVA) for the year ended December 31, 2018, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes, were subject to audit procedures carried out jointly with the audit of the Company's financial statements. For the purposes of forming our opinion, we assess whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria set forth in Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, except for the effects of the subject matter described in the section entitled "Basis for qualified opinion", these statements of added value have been adequately prepared in all material respects in accordance with the criteria set forth in this Technical Pronouncement and are consistent with individual and consolidated financial statements taken as a whole.

### **Corresponding values**

The individual and consolidated financial statements for the year ended December 31, 2017, presented as corresponding amounts in the financial statements for the current year, were previously audited by other independent auditors who issued a report dated April 26, 2018, containing a modification by the same matter mentioned in the section above titled "Basis for qualified opinion". The corresponding amounts relating to the individual and consolidated statements of added value for the year ended December 31, 2017 were submitted to the same auditing procedures by those independent auditors and, based on their examination, the auditors issued a report with modification for the same reason mentioned in the section above titled "Basis for qualified opinion".

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## **Other information accompanying the individual and consolidated financial statements and the auditors' report**

The Company's management is responsible for such other information that comprises 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 audit conclusion on this report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in so doing, to consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or otherwise appear to be materially distorted. If, based on the work done, we conclude that there is a material misstatement in the Management Report, we are required to report this fact. As described in the "Basis for qualified opinion" section, we conclude that the other information is also distorted for the same reason as the subject and other aspects described in that section.

### **Key audit matters**

Key audit matters are those that, in our professional judgment, were the most significant in our current year's audit. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole and in the formation of our opinion on these individual and consolidated financial statements and therefore, we do not express a separate opinion on these matters. In addition to the subject matter described in the "Basis for qualified opinion" section, we have determined that the matters described below are the key audit matters to be reported in our report.

<b><u>Biological assets measurement</u></b>	
See notes 3 and 15 to the individual and consolidated financial statements	
<b>Key audit matter</b>	<b>How the audit addressed this matter</b>
As described in notes 3 and 15 to the financial statements, the Company and its subsidiaries measure biological assets related to forests at fair value, whose amounts as of December 31, 2018 were R\$ 44,030 thousand and R\$ 186,600 thousand in the individual and consolidated financial statements, respectively.  The determination of the fair value of these assets involves the exercise of significant judgment by Company's management and its subsidiaries, since it is based on future cash	We obtained the understanding of the design and implementation of the key controls of the Company and its subsidiaries related to the measurement of fair value; we involve our specialists in measuring fair values of biological assets to evaluate the methodology used and the consistency of the financial and economic information and assumptions used by the Company's and its subsidiaries' management, mainly in relation to: discount rate adopted, consistency of operating assumptions price and forest market, planting

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<p>flows that take into account the projected productivity cycle, forest growth index, discount rate, among other premises.</p> <p>Due to the relevance of the balances and the judgments and assumptions involved in the measurement of fair value, we consider this matter to be significant for our audit.</p>	<p>costs, among others. In addition, we performed a sensitivity analysis of the significant assumptions, considering different scenarios.</p> <p>We have analyzed the disclosures on this subject in the individual and consolidated financial statements.</p> <p>Based on the evidence obtained through our procedures described above, we believe that the balances of biological assets and the respective disclosures are acceptable in the context of the financial statements taken as a whole.</p>
<p><b><u>Evaluation of goodwill impairment</u></b></p>	
<p>See note 14 to the individual and consolidated financial statements</p>	
<p><b>Key audit matter</b></p>	<p><b>How the audit addressed this matter</b></p>
<p>As of December 31, 2018, the Company's assets included goodwill of R\$ 104,380 thousand arising from the acquisition of control of São Roberto S.A. during the fiscal year of 2013, whose recoverable amount must be analyzed annually. The evaluation and the consequent necessity or not of recording a provision for impairment is supported by estimates of future profitability based on the business plan and budget prepared by the Company. Due to the degree of subjectivity inherent to the process of determining the estimates of future cash flows discounted to present value, including the impact that eventual changes in the assumptions of discount rates and sales growth in the projection period and perpetuity could generate in the values recorded in the individual and consolidated financial statements, we consider this matter as significant for our audit.</p>	<p>Our audit procedures included, among others, an understanding of the process of preparation of the business plan, budgets and analysis of the recoverable value made available by the Company. With the assistance of our corporate finance specialists, we have analyzed the significant assumptions and methodologies used by the Company, including discount and sales growth rates in the projection period and in perpetuity, and we evaluate the consistency of the calculations, comparing them with information available. We also performed an independent sensitivity analysis in order to identify in which situations the discounted cash flows of each cash generating unit (CGU) would result in recoverable amounts equal to or less than their book value. We also evaluate the disclosures in the individual and consolidated financial statements.</p> <p>Based on the evidence obtained through the above summarized procedures, we consider that the goodwill value and respective disclosures are acceptable in the context of the individual and consolidated financial statements taken as a whole.</p>

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### **Management and governance responsibilities by the individual and consolidated financial statements**

Management is responsible for the preparation and adequate presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and internal controls which it has determined as necessary to enable the preparation of financial statements free of material misstatement, whether caused by fraud or error.

In the preparation of the individual and consolidated financial statements, management is responsible for evaluating the Company's ability to continue operating, disclosing, when applicable, matters related to its operational continuity and the use of this accounting basis in the preparation of the financial statements, not management intends to liquidate the Company and its subsidiaries or cease its operations, or has no realistic alternative to avoid closing the operations.

Those responsible for the governance of the Company and its subsidiaries are those responsible for supervising the process of preparing the financial statements.

### **Responsibilities of the auditors for the audit of the individual and consolidated financial statements**

Our objectives are to obtain reasonable assurance that the individual and consolidated financial statements taken together are free from material misstatement, whether caused by fraud or error, and issue an audit report containing our opinion. Reasonable safety is a high level of security, but not a guarantee that the audit conducted in accordance with Brazilian and international auditing standards will always detect any relevant material misstatements. Distortions may be due to fraud or error and are considered relevant when, individually or jointly, they can influence, from a reasonable perspective, the economic decisions of users taken on the basis of the referred financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. Besides that:

- We identify and assess the risks of material misstatement in the individual and consolidated financial statements, whether caused by fraud or error, plan and perform audit procedures in response to such risks, and obtain audit evidence appropriate and sufficient to substantiate our opinion. The risk of not detecting material misstatement resulting from fraud is greater than that of error, since fraud may involve circumvention of internal controls, collusion, forgery, omission, or willful misrepresentation.
- We obtain an understanding of the internal controls relevant to the audit to plan audit procedures appropriate to the circumstances, but not, in order to express an opinion on the effectiveness of the Company's and its subsidiaries' internal controls.
- We evaluate the adequacy of the accounting policies used and the reasonableness of accounting estimates and respective disclosures made by management.

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- We conclude on the adequacy of the management's use of the accounting basis for operational continuity (going concern) and, based on the audit evidence obtained, whether there is a material uncertainty regarding events or conditions that may raise significant doubt regarding the Company's and its subsidiaries operational continuity. If we conclude that there is material uncertainty, we should draw attention in our audit report to the respective disclosures in the individual and consolidated financial statements or include modification in our opinion if the disclosures are inadequate. Our findings are based on audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company and its subsidiaries to no longer continue as a going concern.
- We evaluate the overall presentation, structure and content of financial statements, including disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events in a manner consistent with the appropriate presentation objective.
- We obtain appropriate and adequate audit evidence of the financial information of the entities or business activities of the group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group's audit and, consequently, for the audit opinion.

We communicate with those responsible for governance regarding, among other things, the planned scope, timing of the audit and significant audit findings, including any significant deficiencies in the internal controls we have identified during our work.

We also provide those responsible for governance with a statement that we have complied with the relevant ethical requirements, including the applicable independence requirements, and communicate any relationships or matters that could materially affect our independence, including, where applicable, respective safeguards.

Of the matters that were the subject of communication with those responsible for governance, we determined those that were considered most significant in auditing the financial statements for the current year and, in this way, are the key audit matters. We describe these matters in our audit report, unless law or regulation has prohibited public disclosure of the matter, or when in extremely rare circumstances we determine that the matter should not be reported in our report because the adverse consequences of such disclosure may, within a reasonable perspective, to overcome the benefits of communication to the public interest.

Porto Alegre, February 28, 2019

KPMG Auditores Independentes

CRC SP-014428/F-7

Cristiano Jardim Seguecio

Accountant CRC SP-244525/O-9 T-RS

CELULOSE IRANI S.A.

BALANCE SHEETS AT DECEMBER 31

(In thousands of reals)

ASSETS	Note	Parent company		Consolidated		LIABILITIES AND EQUITY	Note	Parent company		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017			12/31/2018	12/31/2017	12/31/2018	12/31/2017
<b>CURRENT ASSETS</b>						<b>CURRENT LIABILITIES</b>					
Cash and cash equivalents	5	130,778	75,896	132,219	76,949	Loans and financing	16	287,342	154,905	287,378	154,905
Trade receivables	6	167,058	167,140	168,705	168,124	Suppliers	17	118,983	96,187	95,085	82,951
Inventories	7	71,799	71,588	71,859	72,152	Social charges and social security obligations		30,107	28,371	30,583	28,895
Recoverable taxes	8	5,017	5,757	5,018	5,758	Taxes payable		15,560	17,589	16,000	18,065
Banks - restricted account	9	-	8,732	-	8,732	Income tax and social contribution payable		-	-	399	296
Other assets	10	8,808	13,635	8,845	13,746	Installments taxes	19	6,493	331	6,493	331
<b>Total current assets</b>		<b>383,460</b>	<b>342,748</b>	<b>386,646</b>	<b>345,461</b>	Advance from customers		1,395	1,462	1,399	1,466
						Dividends payable		3,769	91	3,769	91
<b>NON-CURRENT ASSETS</b>						Other accounts payable		10,862	14,515	11,061	14,759
Trade receivables	6	2,168	-	2,168	-	<b>Total current liabilities</b>		<b>474,511</b>	<b>313,451</b>	<b>452,167</b>	<b>301,759</b>
Recoverable taxes	8	3,793	2,067	3,793	2,067						
Judicial deposits		958	2,135	1,253	2,453	<b>NON-CURRENT LIABILITIES</b>					
Other assets	10	2,700	4,725	2,727	4,751	Loans and financing	16	537,533	617,191	537,588	617,191
<b>Total long-term assets</b>		<b>9,619</b>	<b>8,927</b>	<b>9,941</b>	<b>9,271</b>	Other accounts payable		438	548	438	548
						Provisions for civil, labor and tax risks	20	22,982	55,693	23,306	56,097
Investments in subsidiaries	12	210,149	212,909	-	-	Installments taxes	19	22,725	-	22,725	-
Investment property	13	19,531	33,605	3,398	17,470	Taxes payable		10,731	11,315	10,731	11,315
Biological assets	15	44,030	33,711	186,600	190,796	Deferred income tax and social contribution	11	157,642	160,975	170,541	174,208
Property, plant and equipment	14.a	738,742	755,898	809,353	826,218	<b>Total non-current liabilities</b>		<b>752,051</b>	<b>845,722</b>	<b>765,329</b>	<b>859,359</b>
Intangible assets	14.b	130,191	112,088	130,726	112,623						
<b>Total non-current assets</b>		<b>1,152,262</b>	<b>1,157,138</b>	<b>1,140,018</b>	<b>1,156,378</b>	<b>TOTAL LIABILITIES</b>		<b>1,226,562</b>	<b>1,159,173</b>	<b>1,217,496</b>	<b>1,161,118</b>
						<b>EQUITY</b>					
						Share capital	21.a	161,895	161,895	161,895	161,895
						Capital reserve		960	960	960	960
						Revenue reserves	21.e	67,399	59,186	67,399	59,186
						Carrying value adjustments	21.f	78,906	118,672	78,906	118,672
						Equity attributable to the controlling stockholders		309,160	340,713	309,160	340,713
						Non-controlling interest		-	-	8	8
						<b>Total equity</b>		<b>309,160</b>	<b>340,713</b>	<b>309,168</b>	<b>340,721</b>
<b>TOTAL ASSETS</b>		<b>1,535,722</b>	<b>1,499,886</b>	<b>1,526,664</b>	<b>1,501,839</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,535,722</b>	<b>1,499,886</b>	<b>1,526,664</b>	<b>1,501,839</b>

See the accompanying notes to the financial statements

CELULOSE IRANI S.A.

STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31

(In thousands of Reais, unless otherwise indicated)

	Note	Parent company		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
NET SALES	23	921,707	851,069	932,817	859,169
Change in fair value of biological assets	15.a, 24	6,138	(1,030)	(1,368)	(10,847)
Cost of products sold	24	(670,709)	(621,676)	(668,334)	(622,425)
GROSS INCOME		257,136	228,363	263,115	225,897
OPERATING INCOME (EXPENSES)					
From sales	24	(85,812)	(87,365)	(85,812)	(87,365)
Impairment loss on trade receivables	6	(1,613)	-	(1,613)	-
General and administrative expenses	24	(56,763)	(56,954)	(58,313)	(58,744)
Other operating income	25	16,094	36,857	16,318	36,937
Other operating expenses	25	(15,727)	(110,920)	(15,860)	(110,990)
Equity in the results of subsidiaries	12	4,476	(3,539)	-	-
PROFIT OR LOSS BEFORE FINANCE RESULT AND TAXES		117,791	6,442	117,835	5,735
Net finance income (costs)	26	(102,238)	(107,129)	(102,212)	(106,306)
Financial income		26,207	21,085	26,245	21,942
Financial expenses		(128,445)	(128,214)	(128,457)	(128,248)
OPERATING INCOME/(LOSS) BEFORE EFFECTS TAX		15,553	(100,687)	15,623	(100,571)
Current income tax and social contribution	27	-	-	(405)	(525)
Deferred income tax and social contribution	27	(12,542)	(7,486)	(12,207)	(7,077)
NET PROFIT / (LOSS) FOR THE YEAR		3,011	(108,173)	3,011	(108,173)
Profit/loss attributable to:					
Controlling stockholders		3,011	(108,173)	3,011	(108,173)
Non-controlling stockholders		-	-	-	-
		3,011	(108,173)	3,011	(108,173)
BASIC AND DILUTED EARNINGS/(LOSSES) PER COMMON SH <sup>A</sup>	22	0.01832	(0.65821)	0.01832	(0.65821)
BASIC AND DILUTED EARNINGS/(LOSSES) PER PREFERRED SF	22	0.01832	(0.65821)	0.01832	(0.65821)

See the accompanying notes to the financial statements

CELULOSE IRANI S.A.

STATEMENT OF COMPREHENSIVE INCOME AT DECEMBER 31

(In thousands of reais)

	Parent company		Consolidated	
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Net income/loss for the year	3,011	(108,173)	3,011	(108,173)
Items to be subsequently reclassified in the profit or loss	<u>(30,818)</u>	<u>3,695</u>	<u>(30,818)</u>	<u>3,695</u>
Cash flow hedge accounting	(46,694)	5,598	(46,694)	5,598
Income tax and social contribution - Cash flow hedge acc	15,876	(1,903)	15,876	(1,903)
Other comprehensive income	<u>(30,818)</u>	<u>3,695</u>	<u>(30,818)</u>	<u>3,695</u>
Attributable to controlling stockholders	<u>(27,807)</u>	<u>(104,478)</u>	<u>(27,807)</u>	<u>(104,478)</u>
Comprehensive income for the year	<u><u>(27,807)</u></u>	<u><u>(104,478)</u></u>	<u><u>(27,807)</u></u>	<u><u>(104,478)</u></u>

See the accompanying notes to the financial statements

CELULOSE IRANI S.A.

STATEMENT OF CHANGES IN EQUITY  
(In thousands of reais)

	Note	Revenue reserves											
		Share capital	Treasury shares	Share-based payment	Legal	Statutory of biological assets	Profit retention	Tax incentive reserve	Carrying value adjustments	Retained earnings	Interest attributable to controlling stockholders	Non-controlling interest	Total
BALANCE AT DECEMBER 31, 2016		161,895	(6,834)	960	25	38,126	118,522	4,990	127,507	-	445,191	10	445,201
Total comprehensive income for the year													
Loss for the year	21 e.									(108,173)	(108,173)	-	(108,173)
Cash flow hedge accounting	21 f.							3,695	(12,530)	3,695	-	-	3,695
Realization - deemed cost									12,530	-	-	-	-
Realized revenue reserve - biological assets						(10,120)			10,120	-	-	-	-
Realized revenue reserve - biological assets (subsidiaries)						(518)			518	-	-	-	-
Total comprehensive income for the year		-	-	-	-	(10,638)	-	-	(8,835)	(85,005)	(104,478)	-	(104,478)
Total contributions from shareholders and distributions to stockholders													
Capital decrease	21 a.										-	(2)	(2)
Dilution of non-controlling stockholders											-	-	-
Proposed allocations											-	-	-
Profit retention reserve	21 e.						(85,005)			85,005	-	-	-
Total contributions from shareholders and distributions to stockholders		-	-	-	-	-	(85,005)	-	-	85,005	-	(2)	(2)
BALANCE AT DECEMBER 31, 2017		161,895	(6,834)	960	25	27,488	33,517	4,990	118,672	-	340,713	8	340,721
Total comprehensive income for the year													
Income for the year	21 e.									3,011	3,011	-	3,011
Cash flow hedge accounting	21 f.								(30,818)		(30,818)	-	(30,818)
Realization - deemed cost									(8,948)	8,948	-	-	-
Realized revenue reserve - biological assets						(2,587)			2,587	-	-	-	-
Realized revenue reserve - biological assets (subsidiaries)						(590)			590	-	-	-	-
Total comprehensive income for the year		-	-	-	-	(3,177)	-	-	(39,766)	15,136	(27,807)	-	(27,807)
Total contributions from shareholders and distributions to stockholders													
Capital decrease	21 a.										-	-	-
Dilution of non-controlling stockholders											-	-	-
Share-based payment											-	-	-
Proposed allocations											-	-	-
Legal reserve	21 e.				151					(151)	-	-	-
Dividends	21 d.									(3,746)	(3,746)	-	(3,746)
Profit retention reserve	21 e.						11,239			(11,239)	-	-	-
Total contributions from shareholders and distributions to stockholders		-	-	-	151	-	11,239	-	-	(15,136)	(3,746)	-	(3,746)
BALANCE AT DECEMBER 31, 2018		161,895	(6,834)	960	176	24,311	44,756	4,990	78,906	-	309,160	8	309,168
		-	-	-	-	-	-	-	-	-	-	-	-

See the accompanying notes to the financial statements

CELULOSE IRANI S.A.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

(In thousands of reais)

	Note	Parent company		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Income/(loss) before income tax and social contribution (LAIR)		15,553	(100,687)	15,623	(100,571)
Reconciliation of net income with the net cash obtained from the operating activities:					
Change in fair value of biological assets	15.a	(6,138)	1,030	1,368	10,847
Depreciation, amortization and depletion	13,14,15	51,949	85,485	68,833	95,576
Income/loss in the sale of permanent assets		2,676	9,567	3,029	9,585
Equity in the results of subsidiaries	12	(4,476)	3,539	-	-
Provision/reversal for civil, labor and tax risks	20	13,655	50,077	13,620	50,481
Provision for impairment of trade receivables	6	1,613	12,626	1,613	12,676
Provision for losses on other assets	10	-	10,964	-	10,964
Inflation adjustments and charges		98,237	106,175	98,237	106,175
		<u>173,069</u>	<u>178,776</u>	<u>202,323</u>	<u>195,733</u>
Increase (decrease) in assets:					
Trade receivables		(17,773)	(26,122)	(18,436)	(26,573)
Inventories		(211)	(4,713)	293	(5,101)
Recoverable taxes		(986)	(199)	(986)	(136)
Other assets		21,082	3,872	21,179	4,910
Dividends received		14,466	16,777	-	-
Increase in liabilities:					
Suppliers		29,495	15,995	18,148	2,008
Social charges and social security obligations		1,736	4,136	1,688	4,176
Advances from customers		(67)	107	(67)	93
Taxes payable		(18,061)	10,703	(18,398)	10,315
Other accounts payable		(4,772)	(1,903)	(4,862)	(1,882)
Cash generated in operations		<u>197,978</u>	<u>197,429</u>	<u>200,882</u>	<u>183,543</u>
Payment of interest on loans and financing		(68,675)	(101,789)	(68,675)	(101,789)
Payment of interest on debentures		-	(3,835)	-	(3,835)
Net cash generated in operating activities		<u>129,303</u>	<u>91,805</u>	<u>132,207</u>	<u>77,919</u>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>					
Acquisition of property, plant and equipment		(65,968)	(33,986)	(66,278)	(34,095)
Acquisition of biological assets		(5,943)	(4,999)	(10,440)	(8,059)
Acquisition of intangible assets		(16,359)	(1,696)	(16,359)	(1,696)
Capital decrease in subsidiaries	12	-	4,281	-	-
Capital increase from non-controlling stockholders		-	-	-	(2)
Capital transfer		(2,200)	(70)	-	-
Receipt upon disposal of assets		13,119	(2,094)	13,119	(2,094)
Advance for future capital increase		-	(1,280)	-	-
Reimbursement of related parties		17,743	-	17,743	-
Banks - restricted account		8,732	85,580	8,732	85,580
Net cash invested/(obtained) in investment activities		<u>(50,876)</u>	<u>45,736</u>	<u>(53,483)</u>	<u>39,634</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Payment of dividends and interest on shareholders' equity		(68)	(4,143)	(68)	(4,143)
Debentures paid		-	(40,499)	-	(40,499)
Loans obtained		108,282	140,626	108,395	140,626
Loans paid		(131,759)	(240,473)	(131,781)	(240,473)
Net cash (invested) from financing activities		<u>(23,545)</u>	<u>(144,489)</u>	<u>(23,454)</u>	<u>(144,489)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS IN THE YEAR		54,882	(6,948)	55,270	(26,936)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	5	<u>75,896</u>	<u>82,844</u>	<u>76,949</u>	<u>103,885</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	<u>130,778</u>	<u>75,896</u>	<u>132,219</u>	<u>76,949</u>

See the accompanying notes to the financial statements

CELULOSE IRANI S.A.

STATEMENTS OF ADDED VALUE FOR THE YEARS ENDED DECEMBER 31

(In thousands of reais)

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
1. INCOME	1,188,596	1,125,091	1,200,815	1,134,067
1,1) Sale of merchandise, products and services	1,174,115	1,100,859	1,186,109	1,109,805
1,2) Other income	16,094	36,858	16,319	36,938
1,3) Provision for impairment of trade receivables - formation	(1,613)	(12,626)	(1,613)	(12,676)
2. INPUTS ACQUIRED FROM THIRD PARTIES	679,933	707,060	664,898	687,770
2,1) Cost of goods and services sold	595,488	490,530	579,688	467,635
2,2) Materials, energy, outsourced services and other	84,445	205,566	85,210	209,171
2,3) Loss/recovery of asset values	-	10,964	-	10,964
3. GROSS ADDED VALUE (1-2)	508,663	418,031	535,917	446,297
4. DEPRECIATION, AMORTIZATION AND DEPLETION	51,950	85,485	68,833	95,576
5. CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS	6,138	1,030	(1,368)	10,847
6. NET ADDED VALUE PRODUCED BY THE ENTITY (3-4-5)	450,575	331,516	468,452	339,874
7. ADDED VALUE RECEIVED AS TRANSFER	30,683	17,546	26,245	21,942
7,1) Equity in the results of subsidiaries	4,476	(3,539)	-	-
7,2) Financial income	26,207	21,085	26,245	21,942
8. TOTAL ADDED VALUE PAYABLE (6+7)	481,258	349,062	494,697	361,816
9. DISTRIBUTION OF ADDED VALUE	481,258	349,062	494,697	361,816
9,1) Personnel	168,249	160,592	177,233	169,480
9,1,1 - Direct remuneration	130,152	124,885	136,007	130,887
9,1,2 - Benefits	30,253	28,013	32,989	30,445
9,1,3 - SEVERANCE PAY FUND (FGTS)	7,844	7,694	8,237	8,148
9,2) Taxes, duties and contributions	154,043	157,872	158,475	161,640
9,2,1 - Federal	100,516	104,733	104,547	108,182
9,2,2 - State	51,727	51,693	51,962	51,848
9,2,3 - Municipal	1,800	1,446	1,966	1,610
9,3) Third parties' capital remuneration	140,085	138,771	140,108	138,869
9,3,1 - Interest	128,445	128,214	128,457	128,248
9,3,2 - Rents	11,640	10,557	11,651	10,621
9,4) Remuneration of own capital	18,881	(108,173)	18,881	(108,173)
9,4,1 - Dividends	3,746	-	3,746	-
9,4,2 Retained earnings/(losses) for the year	15,135	(108,173)	15,135	(108,173)

See the accompanying notes to the financial statements

## CELULOSE IRANI S.A.

### NOTES TO THE FINANCIAL STATEMENTS

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## **Celulose Irani S.A. – EIN 92.791.243/0001-03**

NOTES TO FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018

(All amounts in thousands of reais unless otherwise stated)

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### **1. OPERATIONS**

Celulose Irani S.A. ("Company") is a corporation listed on the Novo Mercado segment of B3 S.A. - Brazil, Stock Exchange, OTC ("B3"), and headquartered at Rua General João Manoel, 157, 9th floor, in the city of Porto Alegre, state of Rio Grande do Sul, Brazil. The Company and its subsidiaries are mainly engaged in the manufacture of corrugated cardboard packaging, packaging paper, resin products and their byproducts. The Company is also engaged in forestation and reforestation activities and utilizes the production chain of planted forests and paper recycling as the basis for all its production.

On December 31, 2018, the Company has negative consolidated net working capital in the amount of R\$ 65,521 thousand (consolidated current assets of R\$ 386,646 and current liabilities of R\$ 452,167), mainly due to the short-term loans and financing, which were impacted in the period by the effect of the local currency's (real) devaluation against the US dollar, which increased the amounts of this obligation. Management assessed the Company's settlement capacity of its short-term obligations, and concluded that there was no risk of going concern due to the expected cash generation for the period, and also for having a natural hedge for its foreign currency obligations for this period with the current exports.

Its direct subsidiaries are related in Note 4.

The Company is a direct subsidiary of Irani Participações S.A., a Brazilian privately-held corporation. Its ultimate parent company is D.P. Representações e Participações Ltda., which is also a company of the Habitasul Group.

The issue of these financial statements was authorized by the Board of Directors on February 18, 2019.

### **2. PRESENTATION OF FINANCIAL STATEMENTS**

The Company presents the individual and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

The financial statements have been prepared under the historical cost convention, except for the biological assets measured at fair value, and property, plant and equipment measured at deemed cost on the transition date to IFRS/CPCs.

2.1. New standards, amendments and interpretations of standards that came into effect and to be implemented after 01/01/2019:

The Company adopted IFRS 15 (CPC 47) - Revenues from Contracts with Customers and IFRS 9 (CPC 48) - Financial Instruments, as of 01/01/2018.

a) IFRS 15 - Revenue from contract with customer. IFRS 15 establishes a comprehensive framework for determining whether, when, and by how much revenue is recognized. Replaces IAS 18 (CPC 30) - Revenues and related interpretations. The Company adopted IFRS 15 using the cumulative effect method, however, this adoption did not generate any change in amounts previously recognized as revenue, given the non-relevance of the change in the standard for the Company. As a result, the information presented for the year 2017 has not been restated and, therefore, the information for the 2017 financial year continues to be presented as disclosed in accordance with IAS 18 and related interpretations. Revenues are currently recognized when products are delivered to the customer and the performance obligation is met.

b) IFRS 9 - Financial instruments. IFRS 9 establishes requirements for recognizing and measuring financial assets, financial liabilities and certain contracts for the purchase or sale of non-financial items. This standard replaces IAS 39 (CPC 38) - Financial Instruments: Recognition and Measurement.

In relation to the classification and measurement of financial assets and liabilities, IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities, however it eliminates the following categories of IAS 39 for financial assets: held until maturity, loans and receivables and available for sale.

The adoption of IFRS 9 did not have a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments. The impact of CPC 48 / IFRS 9 on the Classification and Measurement of Financial Assets is described below. Under IFRS 9, at the initial recognition, a financial asset is classified in the following measurement categories: at amortized cost or at fair value through other comprehensive income or at fair value through profit or loss. The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its characteristics of contractual cash flows.

The following accounting policies apply to the subsequent measurement of financial assets:

- Financial assets measured at fair value through profit or loss: these assets are subsequently measured at fair value. Net income, including interest, is recognized directly in income.
- Financial assets at amortized cost: these assets are measured subsequently to the amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized directly in income. Any gain or loss on derecognition is recognized in profit or loss.
- Financial assets measured at fair value through other comprehensive income: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, exchange gains and losses and impairment are recognized in the income statement. Other net income is recognized in other comprehensive income. In derecognition, the accumulated result in other comprehensive income is reclassified to the income statement.

The following table sets forth the original measurement categories in IAS 39 / CPC 38 and the new measurement categories of IFRS 9 / CPC 48 for each class of financial assets and liabilities of the Company:

In thousands of reais	Original classification in accordance with CPC 38 / IAS 39	New classification according to CPC 48 / IFRS 9	Parent company		Consolidated	
			Original book value in accordance with CPC 38 / IAS 39	New book value in accordance with CPC 48 / IFRS 9	Original book value in accordance with CPC 38 / IAS 39	New book value in accordance with CPC 48 / IFRS 9
Cash and cash equivalents	Loans and receivables	Fair value	75,896	75,896	76,949	76,949
Trade receivables	Loans and receivables	Amortised cost	167,140	167,140	168,124	168,124
Banks - restricted account	Loans and receivables	Amortised cost	8,732	8,732	8,732	8,732
<b>Total financial assets</b>			<b>251,768</b>	<b>251,768</b>	<b>253,805</b>	<b>253,805</b>
Loans and financing	Other financial liabilities	Other financial liabil	772,096	772,096	772,096	772,096
Suppliers	Other financial liabilities	Other financial liabil	96,187	96,187	82,951	82,951
Advance from customers	Other financial liabilities	Other financial liabil	1,462	1,462	1,466	1,466
<b>Total financial liabilities</b>			<b>869,745</b>	<b>869,745</b>	<b>856,513</b>	<b>856,513</b>

The change in the classification of cash and cash equivalents of loans and receivables in accordance with IAS 39 / CPC 38 for assets at fair value through profit or loss in accordance with IFRS 9 / CPC48 was based on the Company's business model.

#### Risks of resource applications

The Company is exposed to the risk of the application of funds in relation to the cash investments that make up the group Caixa and Equivalentes de Caixa. These are planned to meet the cash flow demands of the Company, and Management ensures that the investments are made in financial institutions of stable relationship, through the application of the financial policy that determines the allocation of cash, without limitation, in:

- i) Public securities issued and / or co-obligation by the National Treasury;
- ii) CDBs in the stable relationship banks of the Company;
- iii) Conservative profile fixed income investment funds.

The Company's investment policy does not allow the application of variable income funds.

The table below shows the cash resources, cash equivalents applied by the Company to financial institutions, classifying the amounts according to the national classification of S & P and Fitch Rating rating agencies of financial institutions:

	<u>Consolidated</u>	
	<u>12/31/2018</u>	<u>Agency</u>
National Rating AAA (br)	36,783	Fich/S&P
National <i>rating</i> A (br)	41,240	S&P
National <i>rating</i> AA + (br)	27,053	Fich/S&P
	<u>105,076</u>	

In relation to the Impairment of Financial Assets, IFRS 9 replaces the "loss incurred" model of IAS 39 with an expected credit loss model. The new impairment model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are generally recognized earlier than under IAS 39.

The Company measures the provision for loss in an amount equal to the expected credit loss. In determining whether the credit risk of a financial asset has increased significantly since the initial recognition and in estimating the expected credit losses, the Company considers reasonable and bearable information that is relevant and available at no charge or over-effort. This includes quantitative and qualitative information and analysis, based on the Company's historical experience, credit assessment and considering forward-looking information. The provision for credit risks was calculated based on the credit risk analysis, which includes the history of losses, the individual situation of the clients, the situation of the economic group to which they belong, the real guarantees for the debts and the evaluation of the consultants and is considered sufficient to cover possible losses on amounts receivable, in addition to a prospective assessment that takes into account the change or expectation of change in economic factors that affect expected credit losses, which will be determined based on probabilities weighted. The provision for credit risk considers the maturity date of the accounts receivable securities, where the Company uses different percentages according to the maturity period, in order to measure the probability of loss, increasing the percentage of the provision of credit risk as the bonds mature longer.

As a result of the adoption of the new standard, the comparative information of these financial statements was not restated to reflect the requirements of the new standards.

With the entry into force of IFRS 9 / CPC 48, when the entity applies this pronouncement for the first time, it may choose whether its accounting policy

continues to apply the hedge accounting requirements of IAS 39 / CPC 38 instead of IFRS 9 / CPC 48. In this sense, the Company chose to continue applying the requirements of IAS 39 / CPC 38.

In addition, the IASB issued / revised some IFRS standards, which have been adopted for the year 2019 or after, and the Company presents below the evaluation of the impacts of adopting these standards in its Financial Statements:

- Issuance of IFRS 16 - Lease. - Issuance of IFRS 16 - Lease. This standard is effective for years beginning on or after 01/01/2019 and introduces a single model for the accounting of leases in the balance sheet for lessees. A lessee recognizes a right of use asset that represents his right to use the leased asset and a lease liability that represents his obligation to make lease payments. Exemptions are available for short term leases and low value items. This standard replaces existing lease standards, including CPC 06 / IAS 17 - Leasing Operations and ICPC 03 / IFRIC 4, SIC 15 and SIC 27 - Complementary Aspects of Leasing Operations. The Company will recognize as of 2019 new assets and liabilities for its operating leases. The nature of the expenses related to these leases will change because the Company will recognize a depreciation of right of use assets and financial expense on lease obligations. The Company recognized until 2018 an operating lease expense during the lease term. No significant impact is expected on the Company's financial leases.

The new standard provides practical expedients whose election is optional. The Company adopted the following practical records:

- 1) Will not reassess whether the contract is or contains lease at the initial application date, instead will apply CPC 06 (R2) to contracts that were previously identified as a lease using CPC 06 (IAS 17) and ICPC 03 ( IFRIC 4);
- 2) Will not separate non-lease components from leasing components by considering them as a single lease component;
- 3) Will not register contracts with a term exceeding 12 months, which on the date of transition, will end within 12 months of the date of initial application;
- 4) Will not register contracts of low value, according to policy defined by the Company;
- 5) Exclude initial direct costs of measuring the right to use asset on the date of initial application;
- 6) Make use of the late perception, as in determining the term of the lease, if the contract contains options to extend or terminate the lease, among others; and
- 7) Apply a single discount rate to the lease portfolio with fairly similar characteristics (such as similar remaining lease term, similar classes of underlying assets in a similar economic environment).

Variable elements of payments related to leases (such as a lease of machinery and / or equipment with parts of payments based on asset productivity) are not included in the liability calculation and are recorded as operating expense. The discount rates used by the Company were obtained according to market conditions.

The Company does not expect significant changes in the leasing activities in the period comprising the issuance of these financial statements and the date of initial application. Based on the information currently available, the Company estimates that it will recognize a lease liability and a right of use asset in the amount of R \$ 31,489 in the parent company and R \$ 31,489 in the consolidated on 01/01/2019; this estimate takes into account reasonable assumptions available to the Company and may vary from the initial adoption. The main effect is related to the lease of real estate for production unit in Indaiatuba - SP, with future commitments of R \$ 22,874 of gross balance. The other operations involve the leasing of administrative properties, rental of third-party lands and industrial machinery.

The Company intends to apply a retrospective approach modified on 01/01/2019, without updating the comparative information, as well as applying the standard for all contracts entered into before 01/01/2019 that were identified as leases in accordance with CPC 06 ( R1) / IAS 17 and ICPC 03 / IFRIC 4. Until the disclosure of these financial statements, the Company is developing processes and controls to meet the new requirements.

- Issuance of IFRIC interpretation 23 - Uncertainties in the treatment of income taxes. It establishes aspects of recognition and measurement of IAS 12 when there are uncertainties regarding the treatment of income tax related to current or deferred tax assets, based on taxable income, tax losses, tax bases, unused tax losses, non-tax credits used and tax rates. This interpretation is effective for fiscal years beginning on or after 01/01/2019. The Company does not expect significant impacts on its Financial Statements.

There are no other standards, changes in standards and interpretations that are not in force that could have a material impact arising from their application in the Company's financial statements.

### 3. SIGNIFICANT ACCOUNTING PRACTICES

#### a) Functional currency and translation of foreign currencies

The parent company and consolidated financial statements are presented in Brazilian reais (R\$), which is the functional and reporting currency of the Company and its subsidiaries.

Foreign-currency transactions are originally recorded at the exchange rate effective on the transaction date. Gains and losses arising from the difference between the balances in foreign currency and the translation into the functional currency are recognized in the statement of operations, except when designated for cash flow hedge accounting and, therefore, deferred in equity as cash flow hedge transactions.

#### b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with banks, and highly liquid investments with a low risk of change in value, and maturing in 90 days or less, which are held for the purpose of meeting short-term cash commitments.

c) Financial assets

The Company, at the initial recognition of a financial asset, classified its assets as: at amortized cost, at fair value through profit or loss. Financial assets are not reclassified subsequent to initial recognition, unless the Company changes the business model for the management of financial assets. The Company performs an evaluation of the business model objective in which a financial asset is held in the portfolio because this better reflects the way in which the business is managed.

c.1) Financial assets at amortized cost

These assets are measured subsequently to the amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized directly in income. Any gain or loss on derecognition is recognized in profit or loss.

c.2) Financial assets measured at fair value through profit or loss

These assets are subsequently measured at fair value. Net income, including interest, is recognized directly in income.

c.3) Impairment of financial assets

The Company measures the provision for loss in an amount equal to the expected credit loss for the life of the asset. According to explanatory note 2.1.

d) Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows of the asset expire, or when the Company transfers the contractual rights of receipt to the contractual cash flows on a financial asset in a transaction in which substantially all the risks and benefits of ownership of the financial asset are transferred or in which the Company neither transfers nor maintains substantially all the risks and benefits of ownership of the financial asset and also does not retain control over the financial asset.

e) Compensation

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

f) Financial Instruments – Policy applicable from 01/01/2018

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at fair value through profit or loss: it is maintained within a business model whose objective is to maintain financial assets to receive contractual cash flows; and its contractual terms generate, at specific dates, cash flows that are related only to payment of principal and interest on the outstanding principal amount.

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as measured at fair value through profit or loss: it is maintained within a business model whose objective is achieved both by receipt of contractual cash flows and sale of financial assets; and its contractual terms generate, on specific dates, cash flows that are only payments of principal and interest on the outstanding principal amount. In the initial recognition of an investment in an equity instrument that is not held for trading, the Company may irrevocably choose to present subsequent changes in the fair value of the investment in other comprehensive income. This choice is made investment by investment.

The Company performs an evaluation of the business model objective in which a financial asset is held in the portfolio because this better reflects the way in which the business is managed and the information is provided to Management. The information considered includes: the policies and objectives stipulated for the portfolio and the practical operation of those policies. They include the question of whether Management's strategy focuses on obtaining contractual interest income, maintaining a certain interest rate profile, matching the duration of financial assets with the duration of related liabilities or expected outflows of cash, or the realization of cash flows through the sale of assets; how the performance of the portfolio is evaluated and reported to the Company's Management; the risks that affect the performance of the business model (and the financial asset held in that business model) and the manner in which those risks are managed; the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and their expectations about future sales.

g) Evaluation on whether contractual cash flows are only principal and interest payments

For the purposes of this valuation, the 'principal' is defined as the fair value of the financial asset at the initial recognition. 'Interest' is defined as a consideration for the time value of money and for the credit risk associated with the principal amount outstanding over a given period of time and for the other underlying risks and costs of borrowing (eg liquidity risk and costs administrative costs), as well as a profit margin.

The Company considers the contractual terms of the instrument to assess whether contractual cash flows are only principal and interest payments. This includes

assessing whether the financial asset contains a contractual term that could change the timing or value of the contractual cash flows so that it would not meet that condition. In making this assessment, the Company considers: contingent events that modify the value or the time of cash flows; terms that may adjust the contractual rate, including variable rates; the prepayment and the extension of the term; and terms that limit the Company's access to cash flows of specific assets (for example, based on the performance of an asset).

The prepayment is consistent with the principal and interest payments criterion if the prepayment amount represents, for the most part, unpaid principal and interest amounts on the outstanding principal amount - which may include additional compensation the early termination of the contract.

h) Financial assets – Policy applicable before 01/01/2018

The Company classified financial assets in the category of loans and receivables. Financial assets classified as loans and receivables used the amortized cost using the effective interest method as a measurement method.

i) Inventories

Inventories are stated at the lower of average production or acquisition cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the costs necessary to make the sale.

j) Investments

Investments in subsidiaries are accounted for in the parent company financial statements by the equity method, under which, investments in subsidiaries are adjusted to recognize the Company's share of the profit or loss and other comprehensive results of the subsidiary.

Intercompany transactions, balances and unrealized gains on transactions between related parties are eliminated. Unrealized losses are also eliminated, unless the transaction shall provide impairment evidence of the asset transferred. The accounting policies of the subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Company.

k) Investment properties

Investment properties are measured at cost.

Depreciation is recognized based on the estimated useful life of each asset on the straight-line basis, to fully write off the cost less the residual value of each asset over its expected useful life. The estimated useful life, residual values and depreciation methods are reviewed annually, and the effects of any changes in estimates are accounted for prospectively.

Income from rented investment properties is recognized in the statement of profit and loss on the accrual basis of accounting.

Any gain or loss from the sale or write-off of an item recorded within investment properties is determined as the difference between the proceeds received and the carrying amount of the asset sold, and recognized in the statement of profit and loss.

1) Property, plant and equipment and intangible assets

Property, plant and equipment are stated at deemed cost less accumulated depreciation and impairment losses, where applicable. In the case of qualifying assets, borrowing costs are capitalized as part of the costs of construction in progress. These assets are classified in the appropriate categories of property, plant and equipment when completed and ready for their intended use. Depreciation begins when these assets become ready for the intended use and is calculated on the same basis as that for other property, plant and equipment items.

The Company calculates depreciation on the straight-line method, taking into consideration the estimated useful lives of the assets, based on expected future economic benefits, except for land, which is not depreciated. The estimated useful lives of the assets are reviewed annually and adjusted if necessary, and may vary based on the stage of technological development of each unit.

The Company's intangible assets comprise goodwill, computer software licenses, trademarks and the customer portfolio.

Goodwill represents the positive difference between the amount paid and/or payable for the acquisition of a business and the net fair value of assets and liabilities of the acquiree. Goodwill on acquisitions of subsidiaries is recorded as "Intangible assets" in the consolidated financial statements. If a gain on advantageous purchase is determined, the amount is recorded as a gain in the statement of income for the period, at the acquisition date. Goodwill is tested for impairment annually and carried at cost less accumulated impairment losses. Impairment losses recognized on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to the CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose.

Computer software licenses acquired are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the software (five years). Costs associated with maintaining computer software programs are expensed as incurred.

Separately acquired trademarks and licenses are initially stated at historical cost. Trademarks and licenses acquired within a business combination are recognized at

fair value on the acquisition date. The Company's trademarks do not have a defined useful life and, therefore, are not amortized.

The customer portfolio acquired in a business combination is recognized at fair value at the acquisition date, and is accounted for at fair value less accumulated amortization. Amortization is calculated on the straight-line basis, over the expected life of the relationship with the customer.

m) Biological assets

The Company's biological assets are represented mainly by pine forests, which are used in the production of packaging paper, corrugated cardboard boxes and sheets, and also for sale to third parties and extraction of gum resin. The pine forests are located near the pulp and paper plant in the state of Santa Catarina and also in the state of Rio Grande do Sul, where they are used for the production of gum resin and sale of timber logs.

Biological assets are measured at fair value, less costs to sell. The variation during each period is recognized in the statement of profit and loss as a change in the fair value of biological assets. The measurement of the fair value of biological assets is based on certain assumptions, as disclosed in Note 15.

n) Assessment of impairment of non-financial assets

The Company reviews the balance of non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable, based on future cash flows. In this quarter, the Company did not identify indications of impairment in its non-financial assets.

o) Income tax and social contribution (current and deferred)

A provision is recorded for current income tax and social contribution based on the taxable profit determined according to the prevailing tax legislation, which differs from the profit reported in the statement of profit and loss, since it excludes income or expenses taxable or deductible in other periods, as well as permanently non-taxable or non-deductible items. The provision for income tax and social contribution is calculated individually for each company, based on the statutory rates prevailing at year-end. The Company calculates its taxes by applying the statutory rate of 34% on its taxable profit, while the subsidiaries Habitasul Florestal S.A. and Iraflor - Comércio de Madeiras Ltda. adopt a presumed rate of 3.08%.

The Company recognizes deferred income tax and social contribution on temporary differences for tax purposes, tax losses, deemed cost adjustments and changes in the fair value of biological assets. Deferred tax liabilities are generally recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences only when it is probable that the Company will have sufficient future taxable profit against which such deductible temporary

differences can be utilized. Deferred income tax and social contribution are recorded for the subsidiaries taxed under the presumed profit method, in respect of the fair value of biological assets and the deemed cost of property, plant and equipment.

Deferred income tax assets and liabilities are presented at net value in balance sheet when there is the legal right and the intention of offsetting them upon calculation of current taxes, in general related to the same legal entity and the same tax authority.

p) Borrowings

Borrowings are stated at their original amounts, less the related transaction costs, where applicable, and adjusted based on indices established in the contracts entered into with the creditors. Interest is also calculated using the effective interest rate method, as well as the effects of foreign exchange rate changes, where applicable, through the balance sheet dates, as described in the explanatory notes.

q) Cash flow Hedge (Hedge accounting)

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of hedged items.

The changes in the hedging amounts, classified under "Carrying value adjustments" in equity, are shown in Note 21.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognized in equity within "Carrying value adjustments". The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit and loss for the period.

The amounts accumulated in equity are reclassified to the statement of income in the periods when the hedged item affects the results of operations (for example, when the forecast sale that is being hedged takes place). The gain or loss relating to the effective portion of instruments hedging highly probable transactions is recognized in the statement of income within "Finance results". The gain or loss relating to the ineffective portion is recognized in the statement of profit and loss for the period.

When a transaction is no longer expected to occur, the cumulative gain or loss that had been reported in equity is immediately transferred to the statement of profit and loss for the period.

r) Leases

#### The Company as the lessee

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as financial lease. All other leases are classified as operating leases, and the related expenses are recorded in the statement of profit and loss for the period. Finance leases are recorded in the same manner as a financed purchase, recognizing a property, plant and equipment item and a financing liability (lease) at the inception of the lease. Property, plant and equipment items acquired under finance leases are depreciated at the rates disclosed in Note 14.

Operating lease payments (net of any incentives received from the lessor) are recognized in the statement of profit and loss on the straight-line method, over the lease term.

#### The Company as the lessor

Lease income from operating leases is recognized on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognized on a straight-line basis over the lease term.

#### s) Provisions

A provision is recognized in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle this obligation, and the amount can be reliably estimated. Provisions are recorded at amounts considered sufficient by management to cover probable losses, and are adjusted through the balance sheet date, based on the nature of each risk, and the opinion of the Company's legal counsel.

#### t) Employee benefits

##### Profit sharing

The Company recognizes liabilities and expenses for profit sharing based on a methodology that takes into consideration the profit attributable to each of the operating segments. The provisions are recognized according to the terms of the agreement entered into between the Company and the employees' representatives, which are reviewed on an annual basis.

#### u) Significant accounting judgments, estimates and assumptions

In preparing the financial statements, judgments, estimates and assumptions were utilized to account for certain assets, liabilities, income and expenses.

The accounting judgments, estimates and assumptions adopted by management were based on the best information available at the reporting date, experience with past events, projections about future events, and the assistance of experts, when applicable.

Therefore, the financial statements contain a number of estimates, including, but not limited to, the determination of the useful lives of property, plant and equipment (Note 14), the realization of deferred tax assets (Note 11), the allowance for doubtful accounts (Notes 6 and 10), the evaluation of fair value for biological assets (Note 15), the tax, social security, civil and labor provisions (Note 20), and the impairment of assets (Note 14).

Actual results involving accounting judgments, estimates and assumptions, when realized, could differ from those recognized in the financial statements.

The Company has ICMS incentives from the governments of the states of Santa Catarina and Minas Gerais. Supplementary Law 160 published in August 2017, and Confaz Agreement 190 published by the National Council of Fiscal Policy (Confaz) in December 2017 provided for (i) the acquittal of tax credits, whether constituted or not, arising from tax exemptions, incentives, and financial or tax benefits established in disagreement with the provisions of the Federal Constitution, Article 155, paragraph 2, item XII, subitem “g”, and (ii) the reinstatement of the respective tax exemptions, incentives, and financial or tax benefits.

In relation to the Confaz Agreement 190, the states of Santa Catarina and Minas Gerais published Decrees 1,555/18 and 47,394/18, respectively, revalidating the tax incentives granted to the Company in accordance with Supplementary Law 160/2017.

Although the Company has no tax incentive being judged by the Federal Supreme Court (STF), management has been monitoring, together with its legal advisors, the progress of this issue in the courts to assess possible impacts on its operations and consequent effects on the financial statements (Note 32).

v) Determination of the results of operations

Revenue and expenses are recognized on the accrual basis and include interest, charges and the effects of exchange-rate change at official rates, applicable to current and non-current assets and liabilities, and, where applicable, adjustments to realizable value.

w) Revenue recognition

The model implemented by the Company refers to a model that aims to demonstrate whether or not the criteria for accounting were satisfied.

The stages of this new model include: i) the identification of the contract with the customer; ii) the identification of performance obligations; iii) determining the price of the transaction; iv) the transaction price allocation; and v) recognition of revenue by meeting the performance obligation. Considering the above aspects, revenues should be recorded at the amount that reflects the expectation that the Company has to receive in consideration of the financial products and services offered to customers. Revenue is presented net of taxes, discounts, rebates and rebates, as well as revenue eliminations between related parties.

x) Government grants

The financing of taxes, granted directly or indirectly by the Government, at interest rates below market rates, is recognized as a government grant and measured as the difference between the amounts obtained and the fair value calculated based on market interest rates. This difference is recorded with a corresponding entry to sales revenue in the statement of profit and loss, and will be allocated based on the amortized cost and the effective rate over the period.

y) Statement of value added

The Brazilian corporate law requires the presentation of the statement of value added, parent company and consolidated, as an integral part of the set of financial statements presented by a publicly-traded entity. Under IFRS, the presentation of this statement is considered supplementary information, and not a required part of the set of financial statements. The purpose of this statement is to show the wealth created by the Company and its distribution during the reporting periods.

The statement of value added has been prepared pursuant to the provisions of CPC 09 - "Statement of Value Added", with information obtained from the same accounting records used to prepare the financial statements.

#### 4. CONSOLIDATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of Celulose Irani S.A and the following subsidiaries:

Ownership interest - %			
Subsidiaries - direct ownership	Business activity	12/31/2018	12/31/2017
Habitasul Florestal S.A.	Forest production	100.00	100.00
HGE - Geração de Energia Sustentável S.A.*	Electric power generation	100.00	100.00
Iraflor - Comércio de Madeiras LTDA	Timber trading	99.99	99.99
Irani Geração de Energia Sustentável LTDA*	Electric power generation	99.56	99.56

\* currently assessing wind power projects for implementation

The accounting practices of the subsidiaries are consistent with those adopted by the Company. Intercompany balances and investments and equity in the results of subsidiaries, as well as intercompany transactions and unrealized profits and/or losses, have been eliminated on consolidation. The accounting information of the subsidiaries used for consolidation considers the same date as that of the parent company's accounting information.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Fixed-income fund	29	29	32	31
Banks	26,634	8,860	27,111	9,060
Financial investments with immediate liquidity	104,115	67,007	105,076	67,858
	<u>130,778</u>	<u>75,896</u>	<u>132,219</u>	<u>76,949</u>

The financial investments with immediate liquidity earn a fixed income at the average of 91% of the Interbank Deposit Certificate (CDI) interest rate and mature in 90 days or less. These investments are held for the purpose of meeting short-term commitments.

## 6. TRADE RECEIVABLES

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Trade receivables from:				
Trade receivables - domestic Market	152,680	156,145	154,327	157,179
Trade receivables - Foreign market	25,303	27,508	25,303	27,508
Trade receivables - renegotiation	15,259	-	15,259	-
	<u>193,242</u>	<u>183,653</u>	<u>194,889</u>	<u>184,687</u>
Provision for impairment of trade receivables	<u>(24,016)</u>	<u>(16,513)</u>	<u>(24,016)</u>	<u>(16,563)</u>
	<u>169,226</u>	<u>167,140</u>	<u>170,873</u>	<u>168,124</u>
Current portion	167,058	167,140	168,705	168,124
Installments - non-current	2,168	-	2,168	-

At December 31, 2018, the customer renegotiation balances as well as the provision for recognized losses were reclassified to the Customers account - renegotiation, according to note 10.

At December 31, 2018, consolidated trade receivables included an overdue amount of R\$ 18,088, related to customers with no history of default, for which no provision was recorded.

The ageing analysis of trade receivables is as follows:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Falling due	151,741	153,891	152,785	154,811
Overdue (days):				
For up to 30 days	8,567	14,187	8,803	14,230
31-60	3,612	4,872	3,769	4,892
61-90	2,132	2,616	2,274	2,616
91-180	1,437	2,227	1,505	2,227
>180	25,753	5,860	25,753	5,911
	<u>193,242</u>	<u>183,653</u>	<u>194,889</u>	<u>184,687</u>

The average credit term on the sale of products is 51 days. The Company recognizes a provision for impairment of trade receivables for balances overdue for more than 180 days, based on an analysis of the financial position of each debtor. A provision for impairment of trade receivables is also recorded for balances overdue for less than 180 days when these balances are considered uncollectible, in view of the financial position of each debtor. Individual analyses, which take into consideration the credit risks, are performed for trade receivables that are not past due.

Changes in the provisions were as follows:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Balance at the beginning of the period	(16,513)	(17,612)	(16,563)	(18,269)
Reclassification of Renegotiation Clients	(14,074)	-	(14,074)	-
Provision for recognized losses	(1,613)	(23,590)	(1,613)	(23,640)
Trade receivables written off during the period as uncollectible	8,184	16,022	8,234	16,679
Balance at end of the period	<u>(24,016)</u>	<u>(25,180)</u>	<u>(24,016)</u>	<u>(25,230)</u>

A portion of receivables, amounting to R\$ 104,187, has been assigned as collateral for certain financing transactions, as disclosed in Note 16.

The credit quality of financial assets that were neither past due nor impaired at December 31, 2018 was assessed with reference to historical information on default rates, as follows:

Quality of trade receivables

Customer category	History -%	Consolidated
		Amount receivable
a) Customers with no history of late payment	95.25	145,527
b) Customers with history of late payment of up to 7 days	4.12	6,295
c) Customers with history of late payment of more than 7 days	0.63	963
		<u>152,785</u>

- a) Performing customers with no history of late payment.
- b) Defaulting customers with a history of late payment of up to 7 days, with no history of delinquency.
- c) Defaulting customers with a history of late payment of more than 7 days, with no history of delinquency.

## 7. INVENTORIES

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Finished goods	8,080	8,321	8,080	8,828
Production materials	40,458	39,056	40,458	39,056
Consumption materials	22,745	23,674	22,805	23,731
Other inventories	516	537	516	537
	<u>71,799</u>	<u>71,588</u>	<u>71,859</u>	<u>72,152</u>

In 2018, the cost of inventories recognized in income (loss) for the year was R\$ 670,709 (R\$ 621,676 in 2017) in parent company and R\$ 668,334 (R\$ 622,425 in 2017) in consolidated.

The cost of inventories recognized in the statement of profit does not include a write-down to net realizable value.

A portion of inventories, amounting to R\$ 17,033, has been assigned as collateral for certain financing transactions, as disclosed in Note 16.

## 8. TAXES RECOVERABLE

Taxes recoverable consist of the following:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
ICMS	4,664	4,313	4,664	4,313
PIS/COFINS	2,541	832	2,541	832
IPI	105	400	105	400
Income tax	397	38	397	38
Social contribution	258	107	258	107
IRRF on interest earning bank deposits	821	2,119	821	2,120
Other	24	15	25	15
	<u>8,810</u>	<u>7,824</u>	<u>8,811</u>	<u>7,825</u>
Current portion	5,017	5,757	5,018	5,758
Installments - non-current	3,793	2,067	3,793	2,067

ICMS credits basically comprise credits generated on purchases of property, plant and equipment, which are recoverable in 48 consecutive monthly installments, as determined by the applicable tax legislation.

The credits arising from Income Tax Withheld at Source (IRRF) levied on financial investments are either used over the year at the computation of income tax payable, or offset against other federal taxes if any recoverable balance remains.

## 9. BANKS - RESTRICTED ACCOUNT

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Banco do Brasil - New York - a)	-	6,188	-	6,188
Banco Rabobank - b)	-	2,149	-	2,149
Banco Original	-	395	-	395
Total current	-	8,732	-	8,732
Current portion	-	8,732	-	8,732
Installments - non-current	-	-	-	-

- a) The balance with Bank do Brasil - New York/ USA is represented by amounts in U.S. dollars retained to guarantee the repayment of quarterly installments of interest on the export prepayment loan obtained from Bank Credit Suisse, and assumed by Bank of America on March 28, 2018, as disclosed in Note 16.
- b) The balance with Bank Rabobank is represented by financial investments redeemed at the maturity dates, in the first quarter of 2018, and transactions to finance working capital contracted with the respective banks.

## 10. OTHER ASSETS

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Advances to suppliers	1,427	3,563	1,427	3,638
Employee credits	783	1,354	819	1,390
Renegotiation with customers	-	21,713	-	21,713
Prepaid expenses	1,696	795	1,696	795
Other receivables	7,602	5,009	7,630	5,035
	11,508	32,434	11,572	32,571
Provision for impairment of trade receivables - renegotiation	-	(14,074)	-	(14,074)
	11,508	18,360	11,572	18,497
Current portion	8,808	13,635	8,845	13,746
Installments - non-current	2,700	4,725	2,727	4,751

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Balance at the beginning of the period	(14,074)	(5,407)	(14,074)	(5,407)
Provision for recognized losses	-	(10,964)	-	(10,964)
Renegotiations written-off during the period as uncollectible	-	2,297	-	2,297
Reclassification for customers	14,074	-	14,074	-
Balance at end of the period	-	(14,074)	-	(14,074)

Renegotiations with customers - these relate to overdue trade receivables for which debt acknowledgment agreements have been signed. The final maturity of the monthly installments will be in 2021, and the average interest rate ranges from 1% to 2% per month, recognized in the statement of profit and loss upon receipt. Some agreements contain clauses that require the provision of machinery, equipment and properties as collateral for the renegotiated debt amount. Individual analyses, which take into consideration the credit risks, are performed for trade receivables that are not past due. As of December 31, 2018, balances of renegotiation of clients, as well as the provision for impairment of trade receivables were reclassified to Domestic clients' account, according to note 2.1.

Prepaid expenses - relate primarily to insurance premiums paid when contracting insurance for all of the Company's units, recognized in the statement of profit and loss on a monthly basis, over the term of each policy.

## 11. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

Deferred income tax and social contribution on net income are calculated on temporary differences for tax purposes, tax losses, adjustments of deemed cost and changes in the fair value of biological assets.

In this quarter and in 2018, the Company computed income tax and social contribution on exchange-rate changes on a cash basis, and recorded a deferred tax liability related to unrealized exchange-rate change.

Deferred tax liabilities were recognized based on the fair value of biological assets and the deemed cost of property, plant and equipment.

The initial tax impacts on the deemed cost of property, plant and equipment were recognized with a corresponding entry to equity.

ASSETS	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Deferred income tax assets				
On temporary provisions	537	4,137	537	4,137
On tax loss	17,093	17,093	17,093	17,093
Cash flow hedge	41,171	29,497	41,171	29,497
Deferred social contribution assets				
On temporary provisions	192	1,489	192	1,489
On tax loss	6,155	6,155	6,155	6,155
Cash flow hedge	14,821	10,619	14,821	10,619
	<u>79,969</u>	<u>68,990</u>	<u>79,969</u>	<u>68,990</u>
LIABILITIES	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Deferred income tax liabilities				
Unrealized exchange-rate change on the cash basis	3,905	4,128	3,905	4,128
Fair value of the biological assets	24,964	24,415	26,629	26,297
Deemed cost of fixed assets	126,472	124,502	134,072	132,101
Government grant	520	590	520	590
Customer portfolio	583	781	583	781
Amortization of tax goodwill	18,269	14,675	18,269	14,675
Deferred social contribution liabilities				
Unrealized exchange-rate change on the cash basis	1,406	1,486	1,406	1,486
Fair value of the biological assets	8,987	8,789	9,886	9,806
Deemed cost of fixed assets	45,531	44,823	48,266	47,558
Government grant	187	212	187	212
Customer portfolio	210	281	210	281
Amortization of tax goodwill	6,577	5,283	6,577	5,283
	<u>237,611</u>	<u>229,965</u>	<u>250,510</u>	<u>243,198</u>
Deferred tax liabilities (net)	<u>157,642</u>	<u>160,975</u>	<u>170,541</u>	<u>174,208</u>

In the period, management did not record deferred income tax and social contribution on temporary differences and tax losses. Based on budget forecasts approved by the Board of Directors, management expects these consolidated balances to be realized as follows:

Deferred tax asset:	Parent company and 12/31/2018
Period	
2019	18,135
2020	17,552
2021	16,909
2022	12,516
>2023	14,857
	<u>79,969</u>

Changes in deferred income tax and social contribution were as follows:

Parent company and Consolidated assets	Opening balance 01/01/2017	Recognized in income (loss)	Recognized in equity	Offset with liabilities	Closing balance 12/31/2017
Deferred tax assets regarding:					
Provision for profit sharing	(3,673)	-	-	-	(3,673)
Provision for sundry risks	(2,223)	270	-	-	(1,953)
<i>Cash flow hedge</i>	(42,020)	-	1,904	-	(40,116)
Total temporary differences	(47,916)	270	1,904	-	(45,742)
Tax losses	(43,642)	8,356	-	12,038	(23,248)
	<u>(91,558)</u>	<u>8,626</u>	<u>1,904</u>	<u>12,038</u>	<u>(68,990)</u>
Parent company and Consolidated assets	Opening balance 01/01/2018	Recognized in income (loss)	Recognized in equity	Offset with liabilities	Closing balance 12/31/2018
Deferred tax assets regarding:					
Provision for profit sharing	(3,673)	3,673	-	-	-
Provision for sundry risks	(1,953)	1,224	-	-	(729)
<i>Cash flow hedge</i>	(40,116)	-	(15,876)	-	(55,992)
Total temporary differences	(45,742)	4,897	(15,876)	-	(56,721)
Tax losses	(23,248)	-	-	-	(23,248)
	<u>(68,990)</u>	<u>4,897</u>	<u>(15,876)</u>	<u>-</u>	<u>(79,969)</u>
Parent company liabilities	Opening balance 01/01/2017	Recognized in income (loss)	Closing balance 12/31/2017	Recognized in income (loss)	Closing balance 12/31/2018
Deferred tax liabilities regarding:					
Exchange-rate change recognized on a cash basis	5,425	189	5,614	(303)	5,311
Fair value of the biological assets	41,745	(8,541)	33,204	747	33,951
Deemed cost and review of useful life	166,200	3,125	169,325	2,678	172,003
Government grant	1,334	(532)	802	(95)	707
Customer portfolio	1,332	(270)	1,062	(269)	793
Amortization of tax goodwill	15,070	4,888	19,958	4,888	24,846
	<u>231,106</u>	<u>(1,141)</u>	<u>229,965</u>	<u>7,646</u>	<u>237,611</u>
Consolidated liabilities	Opening balance 01/01/2017	Recognized in income (loss)	Closing balance 12/31/2017	Recognized in income (loss)	Closing balance 12/31/2018
Deferred tax liabilities regarding:					
Exchange-rate change recognized on a cash basis	5,425	189	5,614	(303)	5,311
Fair value of the biological assets	45,055	(8,952)	36,103	412	36,515
Deemed cost and review of useful life	176,534	3,125	179,659	2,679	182,338
Government grant	1,334	(532)	802	(95)	707
Customer portfolio	1,332	(270)	1,062	(269)	793
Amortization of tax goodwill	15,070	4,888	19,958	4,888	24,846
	<u>244,750</u>	<u>(1,552)</u>	<u>243,198</u>	<u>7,312</u>	<u>250,510</u>

## 12. INVESTMENTS IN SUBSIDIARIES

	Iraflor		HGE		Total
	Habitasul Florestal	Comércio de Madeiras	Geração de Energia	Irani Geração de Energia	
December 31, 2016	<u>144,655</u>	<u>109,912</u>	<u>558</u>	<u>232</u>	<u>255,357</u>
Equity in the results of subsidiaries	(17,949)	14,465	(2)	(53)	(3,539)
Dividends payable	(13,198)	(16,777)	-	-	(29,975)
Capital contribution	-	7,896	-	70	7,966
Capital decrease	-	(36,998)	-	-	(36,998)
Advance for future capital increase	20,098	-	-	-	20,098
December 31, 2017	<u>133,606</u>	<u>78,498</u>	<u>556</u>	<u>249</u>	<u>212,909</u>
Equity in the results of subsidiaries	(12,005)	16,494	(13)	-	4,476
Dividends payable	-	(14,466)	-	-	(14,466)
Capital contribution	2,200	5,030	-	-	7,230
December 31, 2018	<u>123,801</u>	<u>85,556</u>	<u>543</u>	<u>249</u>	<u>210,149</u>

	Iraflor		HGE	
	Habitasul Florestal	Comércio de Madeiras	Geração de Energia	Irani Geração de Energia
Current				
Assets	2,502	25,470	9	13
Liabilities	(1,814)	(652)	-	-
Current assets/liabilities, net	688	24,818	9	13
Non-current				
Assets	135,850	61,283	535	237
Liabilities	(12,737)	(540)	-	-
Non-current assets/liabilities, net	123,113	60,743	535	237
Equity	<u>123,801</u>	<u>85,561</u>	<u>544</u>	<u>250</u>
Net income	16,480	28,367	-	-
Income/loss before income tax and social contribution	(11,836)	17,508	(12)	-
Income tax and social contribution expense	(169)	(1,013)	-	-
Income (loss) for the period	<u>(12,005)</u>	<u>16,495</u>	<u>(12)</u>	<u>-</u>
Capital holdings in %	100,00	99,99	100,00	99,56

At the Annual General Meeting held on April 26, 2017, the stockholders of the subsidiary Habitasul Florestal S.A. approved the distribution of additional dividends amounting to R\$ 13,199.

During the year 2018, the parent company Celulose Irani S.A. made an advance for future capital increase in the subsidiary Habitasul Florestal S.A., in the amount of R\$ 20,098.

During 2017, the parent company Celulose Irani S.A. transferred the total amount of R\$ 20,098 to the subsidiary Habitasul Florestal S.A. as advance for capital increase, as follows: R\$ 1,280 in hard cash, R\$ 17,598 offset against dividends payable, and the remaining balance of R\$1,220 through advance payments from customers.

During the year 2018, the parent company Celulose Irani S.A. made a capital increase in subsidiary Habitasul Florestal S.A. in the amount of R\$ 2,200, paid in national currency.

During the year 2018, the parent company Celulose Irani S.A. made a capital contribution in the subsidiary Iraflor Comércio de Madeiras Ltda. in the amount of R\$ 5,030, paid through the merger of forest assets.

During 2017, Iraflor Comércio de Madeiras Ltda. received a capital contribution from its parent company Celulose Irani S.A., amounting to R\$ 7,896, which was paid up through the transfer of forest assets.

On September 30, 2017, the partners decided to reduce the capital of the subsidiary Iraflor Comércio de Madeiras Ltda., which was excessive in relation to the entity's business purpose. The amount of R\$ 36,998 was refunded to the parent company Celulose Irani S.A., through the payment of R\$ 4,281 in hard cash, and the remaining balance, of R\$ 32,717 through the assignment of existing credits in the subsidiary. The partners' ownership interests remained unchanged.

On July 11, 2018, the Company approved the payment of dividends related to the year 2017 for the subsidiary Iraflor Comércio de Madeiras Ltda, in the amount of R\$ 14,466. Such payment was made in national currency (R\$ 16,777 deliberated in the year 2017 regarding the year 2016, paid in national currency).

### 13. INVESTMENT PROPERTIES

#### Parent company

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
December 31, 2017			
Opening balance	23,281	11,558	34,839
Write-off	(727)	-	(727)
Depreciation	-	(507)	(507)
Net book value	<u>22,554</u>	<u>11,051</u>	<u>33,605</u>
Cost	22,554	12,702	35,256
Accumulated depreciation	-	(1,651)	(1,651)
Net book value	<u>22,554</u>	<u>11,051</u>	<u>33,605</u>
December 31, 2018			
Opening balance	22,554	11,051	33,605
Addition	-	-	-
Write-off	(6,259)	(7,294)	(13,553)
Depreciation	-	(521)	(521)
Net book value	<u>16,295</u>	<u>3,236</u>	<u>19,531</u>
Cost	16,295	5,408	21,703
Accumulated depreciation	-	(2,172)	(2,172)
Net book value	<u>16,295</u>	<u>3,236</u>	<u>19,531</u>

#### Consolidated

December 31, 2017			
Opening balance	7,086	11,558	18,644
Write-off	(667)	-	(667)
Depreciation	-	(507)	(507)
Net book value	<u>6,419</u>	<u>11,051</u>	<u>17,470</u>
Cost	6,419	12,702	19,121
Accumulated depreciation	-	(1,651)	(1,651)
Net book value	<u>6,419</u>	<u>11,051</u>	<u>17,470</u>
December 31, 2018			
Opening balance	6,419	11,051	17,470
Addition	-	-	-
Write-off	(6,259)	(7,292)	(13,551)
Depreciation	-	(521)	(521)
Net book value	<u>160</u>	<u>3,238</u>	<u>3,398</u>
Cost	160	5,410	5,570
Accumulated depreciation	-	(2,172)	(2,172)
Net book value	<u>160</u>	<u>3,238</u>	<u>3,398</u>

## Land

Relates mainly to plots of land with a total area of 4,454,406 m<sup>2</sup>, held by the parent company for the future construction of wind farms in the state of Rio Grande do Sul, and recognized at the cost of acquisition of R\$ 16,135. The project for the implementation of wind farms is currently in the evaluation phase, through the subsidiary Irani Geração de Energia Sustentável Ltda.

## Buildings

These refer to buildings located in the municipality of Rio Negrinho, state of Santa Catarina, with a constructed area of 25,271 m<sup>2</sup>, and valued at R\$ 3,238. These buildings are rented to companies within the region.

Income and expenses related to investment properties that are rented are recognized in the statement of profit and loss, as shown below:

	<u>2018</u>	<u>2017</u>
Rental income	798	1,233
Direct operating expenditures that generated rental income	(818)	(870)

Investment properties are valued at the historical cost as of December 31, 2018. For disclosure purposes, the Company assessed the fair value less cost to sell of these properties at R\$ 35,082 (parent company) and R\$ 17,207 (consolidated). The appraisals were conducted by independent experts, who used market inputs related to prices for transactions carried out with similar properties.

Part of the Company's investment properties has been pledged as collateral for financial transactions in the amount of R\$ 12,425.

On November 13, 2018, the Company entered into an agreement with Panificio Partenon Ltda. for the sale of a portion of the property (land and buildings) of Cachoeirinha - RS through a private instrument of assignment of rights, in the total amount of R\$ 7,300, of which R\$ 5,300 upon signing and R\$ 2,000 in 180 days. The result of this sale was negative by R\$ 1,986.

On December 24, 2018, the Company entered into an agreement with Koch Metalúrgica S.A. to sell the remaining portion of the property (land and buildings) of Cachoeirinha - RS through a private instrument for partial assignment of contractual rights and obligations, in the total amount of R\$ 4,500, to be paid in 30 equal and successive installments of R\$ 150, monetarily restated at 1% per month, with the first maturing within 180 days of the signing of the agreement. The installments falling due will be monetarily restated monthly using the General Market Price Index (IGPM) from FGV. On the same date, the company Koch Metalúrgica S.A. transferred its debt through a private instrument for assumption of debts to Irapar Participações S.A. The result of this sale was negative by R\$ 53.

#### 14. Property, plant and equipment and intangible assets

##### a) Breakdown of property, plant and equipment

Parent company	Land	Buildings and	Equipment and facilities	Vehicles and	Other property, plant and	Construction in process	Property, plant and equipment in	Total
December 31, 2017								
Opening balance	183,027	157,518	371,980	3,648	5,876	45,660	10,834	778,543
Acquisitions	-	33	7,959	1,810	613	24,695	-	35,110
Write-offs	(5,909)	(89)	(611)	(100)	(35)	(2)	-	(6,746)
Transfers	-	3,431	21,147	1,637	2,573	(28,788)	-	-
Depreciation	-	(4,945)	(41,763)	(1,513)	(2,144)	-	(644)	(51,009)
Net book value	<u>177,118</u>	<u>155,948</u>	<u>358,712</u>	<u>5,482</u>	<u>6,883</u>	<u>41,565</u>	<u>10,190</u>	<u>755,898</u>
Cost	177,118	213,909	851,696	12,664	22,598	41,565	16,061	1,335,611
Accumulated depreciation	-	(57,961)	(492,984)	(7,182)	(15,715)	-	(5,871)	(579,713)
Net book value	<u>177,118</u>	<u>155,948</u>	<u>358,712</u>	<u>5,482</u>	<u>6,883</u>	<u>41,565</u>	<u>10,190</u>	<u>755,898</u>
December 31, 2018								
Opening balance	177,118	155,948	358,712	5,482	6,883	41,565	10,190	755,898
Acquisitions	21	79	14,360	1,659	345	25,329	-	41,793
Write-offs	(14)	(57)	(1,035)	(672)	(31)	(301)	(20)	(2,130)
Transfers	-	2,196	20,507	538	83	(23,382)	58	-
Depreciation	-	(5,353)	(39,422)	(1,782)	(1,869)	-	(642)	(49,068)
Third parties' construction in progress	-	-	-	-	-	(5,324)	-	(5,324)
PIS and COFINS credit	-	(94)	(1,375)	(18)	(47)	(891)	(2)	(2,427)
Net book value	<u>177,125</u>	<u>152,719</u>	<u>351,747</u>	<u>5,207</u>	<u>5,364</u>	<u>36,996</u>	<u>9,584</u>	<u>738,742</u>
Cost	177,125	216,033	884,153	14,171	22,948	36,996	16,097	1,367,523
Accumulated depreciation	-	(63,314)	(532,406)	(8,964)	(17,584)	-	(6,513)	(628,781)
Net book value	<u>177,125</u>	<u>152,719</u>	<u>351,747</u>	<u>5,207</u>	<u>5,364</u>	<u>36,996</u>	<u>9,584</u>	<u>738,742</u>

Consolidated								
	Land	Buildings and constructions	Equipment and facilities	Vehicles and tractors	Other property, plant and	Construction in process	Property, plant and equipment in third-party	Total
December 31, 2017								
Opening balance	251,329	158,999	372,046	3,976	6,280	45,660	10,834	849,124
Acquisitions	-	33	8,030	1,854	1,169	24,713	-	35,799
Write-offs	(5,912)	(89)	(610)	(100)	(112)	(2)	-	(6,825)
Transfers	-	3,431	21,147	1,637	2,573	(28,788)	-	-
Depreciation	-	(5,126)	(41,782)	(1,612)	(2,716)	-	(644)	(51,880)
Net book value	<u>245,417</u>	<u>157,248</u>	<u>358,831</u>	<u>5,755</u>	<u>7,194</u>	<u>41,583</u>	<u>10,190</u>	<u>826,218</u>
Cost	245,417	218,432	851,862	13,267	23,199	41,583	16,061	1,409,821
Accumulated depreciation	-	(61,184)	(493,031)	(7,512)	(16,005)	-	(5,871)	(583,603)
Net book value	<u>245,417</u>	<u>157,248</u>	<u>358,831</u>	<u>5,755</u>	<u>7,194</u>	<u>41,583</u>	<u>10,190</u>	<u>826,218</u>
December 31, 2018								
Opening balance	245,417	157,248	358,831	5,755	7,194	41,583	10,190	826,218
Acquisitions	21	79	14,504	1,977	399	25,807	-	42,787
Write-offs	(14)	(57)	(1,035)	(672)	(46)	(641)	(20)	(2,485)
Transfers	-	2,196	20,507	550	71	(23,382)	58	-
Depreciation	-	(5,443)	(39,454)	(1,889)	(1,988)	-	(642)	(49,416)
Third parties' construction in progress	-	-	-	-	-	(5,324)	-	(5,324)
PIS and COFINS credit	-	(94)	(1,375)	(18)	(47)	(891)	(2)	(2,427)
Net book value	<u>245,424</u>	<u>153,929</u>	<u>351,978</u>	<u>5,703</u>	<u>5,583</u>	<u>37,152</u>	<u>9,584</u>	<u>809,353</u>
Cost	245,424	220,556	884,463	15,104	23,576	37,152	16,097	1,442,372
Accumulated depreciation	-	(66,627)	(532,485)	(9,401)	(17,993)	-	(6,513)	(633,019)
Net book value	<u>245,424</u>	<u>153,929</u>	<u>351,978</u>	<u>5,703</u>	<u>5,583</u>	<u>37,152</u>	<u>9,584</u>	<u>809,353</u>

(\* ) Balance related to assets such as furniture and fixtures, and IT equipment.

b) Breakdown of intangible assets

<b>Parent company</b>	<u>Goodwill</u>	<u>Customer portfolio</u>	<u>Software</u>	<u>Software under development</u>	<u>Total</u>
December 31, 2017					
Opening balance	104,380	3,918	4,069	-	112,367
Acquisitions	-	-	1,696	-	1,696
Write-offs	-	-	-	-	-
Amortization	-	(792)	(1,183)	-	(1,975)
Net book value	<u>104,380</u>	<u>3,126</u>	<u>4,582</u>	<u>-</u>	<u>112,088</u>
Cost	104,380	7,081	12,321	-	123,782
Accumulated amortization	-	(3,955)	(7,739)	-	(11,694)
Net book value	<u>104,380</u>	<u>3,126</u>	<u>4,582</u>	<u>-</u>	<u>112,088</u>
December 31, 2018					
Opening balance	104,380	3,126	4,582	-	112,088
Acquisitions	-	-	317	20,227	20,544
Write-offs	-	-	(112)	-	(112)
Amortization	-	(792)	(1,517)	-	(2,309)
PIS and COFINS credit	-	-	(20)	-	(20)
Net book value	<u>104,380</u>	<u>2,334</u>	<u>3,250</u>	<u>20,227</u>	<u>130,191</u>
Cost	104,380	7,081	12,506	20,227	144,194
Accumulated amortization	-	(4,747)	(9,256)	-	(14,003)
Net book value	<u>104,380</u>	<u>2,334</u>	<u>3,250</u>	<u>20,227</u>	<u>130,191</u>
<b>Consolidated</b>					
	<u>Goodwill</u>	<u>Customer portfolio</u>	<u>Software</u>	<u>Software under development</u>	<u>Total</u>
December 31, 2017					
Opening balance	104,380	3,918	4,604	-	112,902
Acquisitions	-	-	1,696	-	1,696
Write-offs	-	-	-	-	-
Amortization	-	(792)	(1,183)	-	(1,975)
Net book value	<u>104,380</u>	<u>3,126</u>	<u>5,117</u>	<u>-</u>	<u>112,623</u>
Cost	104,380	7,081	12,860	-	124,321
Accumulated amortization	-	(3,955)	(7,743)	-	(11,698)
Net book value	<u>104,380</u>	<u>3,126</u>	<u>5,117</u>	<u>-</u>	<u>112,623</u>
December 31, 2018					
Opening balance	104,380	3,126	5,117	-	112,623
Acquisitions	-	-	317	20,227	20,544
Write-offs	-	-	(112)	-	(112)
Amortization	-	(792)	(1,517)	-	(2,309)
PIS and COFINS credit	-	-	(20)	-	(20)
Net book value	<u>104,380</u>	<u>2,334</u>	<u>3,785</u>	<u>20,227</u>	<u>130,726</u>
Cost	104,380	7,081	13,045	20,227	144,733
Accumulated amortization	-	(4,747)	(9,260)	-	(14,007)
Net book value	<u>104,380</u>	<u>2,334</u>	<u>3,785</u>	<u>20,227</u>	<u>130,726</u>

c) Depreciation/amortization method

The table below shows the annual depreciation/amortization rates based on the economic useful lives of the assets. The rates are presented at the annual weighted average.

	Rate %	
	12/31/2018	12/31/2017
Buildings and constructions *	2,50	2,50
Equipment and facilities **	6,78	6,78
Furniture, fixtures and IT equipment	5,71	5,71
Vehicles and tractors	20,00	20,00
Software	20,00	20,00
Customer portfolio	11,11	11,11

\* include weighted rates of leasehold improvements

\*\* include weighted financial lease rates

d) Other information

Construction in progress refers to works for improvement and maintenance of the Company's production process.

The Company has finance lease agreements for machinery, IT equipment and vehicles, with purchase option clauses that were negotiated at a fixed rate and with 1% of the guaranteed residual value, payable at the end of the lease agreement, or diluted over the lease period. The agreements are collateralized by the leased assets themselves. The commitments assumed are recorded as borrowings in current and non-current liabilities.

Leasehold improvements relate to the renovation of the Packaging plant in Indaiatuba, state of São Paulo, and are depreciated on the straight-line method, at the rate of 4% (four percent) per year. The property is owned by the companies MCFD - Administração de Imóveis Ltda. and PFC - Administração de Imóveis Ltda., and the renovation costs were fully absorbed by Celulose Irani S.A.

Breakdown of depreciation of fixed assets in 2018 and 2017 are presented as follows:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Administrative	2,129	435	2,477	594
Productive	46,939	24,201	46,939	24,200
	<u>49,068</u>	<u>24,636</u>	<u>49,416</u>	<u>24,794</u>

The amortization of intangible assets for the years 2018 and 2017 is as follows:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Administrative	1,963	794	1,963	794
Productive	346	140	346	140
	<u>2,309</u>	<u>934</u>	<u>2,309</u>	<u>934</u>

e) Impairment of property, plant and equipment

No indicators of impairment were identified in 2018 that could affect the realizable values of the assets of the Company and its subsidiaries.

f) Assets pledged as collateral

The Company pledged certain property, plant and equipment assets as collateral for financing transactions. The amounts presented are based on valuation reports prepared specifically on the date the transactions were contracted, or on subsequent valuations, as contractually determined, as described below:

	12/31/2018
Equipment and facilities	346,335
Buildings and constructions	115,522
Land	397,786
Total assets pledged as collateral	<u>859,643</u>

g) Customer portfolio

The customer portfolio acquired in the business combination was recognized in the initial moment, at the fair value of R\$ 7,081, and the amortization in 2018 amounted to R\$ 792 (R\$ 792 in 2017), resulting in a net carrying amount of R\$ 2,334. Amortization is calculated on the straight-line basis, over the expected life of the relationship with the customer.

h) Goodwill

The goodwill arising from the business combination carried out in 2013 with São Roberto S.A., totaling R\$ 104,380, is attributable to the expectation of future profitability.

## Impairment tests for intangible assets:

At December 31, 2018, the Company assessed the impairment of the goodwill based on its value in use, using the discounted cash flow method. The recoverable value is based on the expected future profitability. These calculations use cash flow projections based on financial budgets approved by management, covering a five-year period and extrapolating to perpetuity in other periods, based on the estimated growth rates.

The cash flows were discounted to present value through the application of a rate determined by the Weighted Average Cost of Capital (WACC), which was calculated based on the Capital Asset Pricing Model (CAPM) method, considering a number of components of borrowings, debt and own capital utilized by the Company to finance its activities.

The main data utilized in the calculation of the discounted cash flow is presented below:

	<u>Assumptions</u>
Average selling prices of Packaging Paper and Corrugated Cardboard Packaging (annual percentage growth rate)	4.0%
Gross margin (percentage on gross revenue)	32.1%
Estimated growth rate	5.0%
Discount rate (WACC)	11.08%

The impairment test applied to the cash generating units did not identify the need for recognizing loss in the period.

The Company performed a sensitivity analysis on discount and growth rates. Even considering an increase or decrease, respectively, of 3.50% in the discount rate and 1.00% in the growth rate, together, the recoverable value remains higher than the value in use.

## 15. BIOLOGICAL ASSETS

The Company's biological assets mainly comprise the planting and cultivation of pine trees to supply pulp used in the production of packaging paper and resins, and sales of timber logs to third parties. All of the Company's biological assets form a single group named "forests", which is measured together at fair value on a quarterly basis. Because the harvesting of the forests planted is carried out based on the consumption of raw materials and sales of timber, and also considering that all areas are replanted, the fair values of these biological assets are not significantly affected at the time of harvesting.

The balance of the Company's biological assets consists of the cost of forest development and the fair value difference in relation to this cost. Consequently, the balance of biological assets as a whole is recorded at fair value as follows:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Cost of formation of biological assets	29,782	25,391	89,122	45,099
Fair value differential - biological assets	14,248	8,320	97,478	145,697
	<u>44,030</u>	<u>33,711</u>	<u>186,600</u>	<u>190,796</u>

Of the total consolidated biological assets, R\$ 105,312 (R\$ 99,700 at December 31, 2017) relates to forests used as raw material for pulp and paper production. These forests are located close to the pulp and paper mill in Vargem Bonita, state of Santa Catarina, where they are consumed. Of this amount, R\$ 77,493 (R\$ 65,960 at December 31, 2017) relates to mature forests, which are more than six years old. The remaining amount refers to growing forests, which still require forestry treatments.

The forests are harvested mainly based on the consumption of raw materials for pulp and paper production, and are replanted as soon as harvested, creating a renovation cycle that meets the unit's production demand.

The consolidated biological assets used for the production of resins and log sales represent R\$ 81,288 (R\$ 91,096 as of December 31, 2017), and are located on the coast of Rio Grande do Sul. The resin extraction is performed according to the capacity of the generation of this product by the existing forest, and the extraction of wood for sale of logs is due to the supply demand in the region.

a) Assumptions for recognition of the biological assets' fair value less costs to sell.

The Company recognizes its biological assets at fair value based on the following assumptions:

- (i) The methodology used to measure the fair value of biological assets - the Income Approach with depletion of the forest in one cycle - corresponds to the projection of expected future cash flows, discounted at the current rate for the regional market, in accordance with the projected productivity of the forests in the cutting cycles, which are determined based on the optimization of production, considering the price changes and the growth of the biological assets;
- (ii) The discount rate used for cash flows was the Cost of Own Capital (Capital Asset Pricing Model - CAPM). The cost of capital is estimated through an analysis of the return targeted by investors for forest assets;

- (iii) The forests' projected production volumes are defined based on stratification, according to the type of each species, inputs for production planning, as well as the age, productive potential and production cycle of the forests. This projected volume corresponds to the Average Annual Increase (IMA). Forest stewardship alternatives are created to establish the optimum long-term production flow which is ideal to maximize the yield of the forests;
- (iv) The prices adopted for biological assets are those practiced in the last three years, based on market research in the regions where the assets are located. Prices are calculated in R\$/cubic meter, taking into consideration the costs incurred to bring the assets to a condition that enables their sale or consumption;
- (v) Planting expenses relate to the costs incurred by the Company in the development of biological assets;
- (vi) The depletion of biological assets is calculated based on their average fair value, multiplied by the volume harvested in the period;
- (vii) The Company reviews the fair value of its biological assets every three months, considering that this time-frame is enough to have no shortfall in the balance of fair value of the biological assets recorded in its financial statements.

	Consolidated		
	12/31/2018	12/31/2017	Impact in the fair value of biological assets
Planted area (hectares)	18,274	17,475	Assumption increases, fair value increases
Remuneration of own assets that contribute - %	3,00%	3,00%	Assumption increases, fair value decreases
Discount rate - Own Forests RS - %	8,50%	8,50%	Assumption increases, fair value decreases
Discount rate - Own Forests RS - %	9,00%	9,50%	Assumption increases, fair value decreases
Discount rate - Partnerships - %	9,00%	9,00%	Assumption increases, fair value decreases
Net Average Sales Price (m³)	51,00	49,00	Assumption increases, fair value increases
Average Annual Increase (IMA) - SC Forests (*)	37,9	39,2	Assumption increases, fair value increases
Average Annual Increase (IMA) - RS Forests (*)	21,2	21,8	Assumption increases, fair value increases

\* The Average Annual Increase (IMA) of Pine Forests in the states of Rio Grande do Sul and Santa Catarina is different because of the specific forest stewardship, species and soil and climatic conditions of each state. The forests in Santa Catarina are handled aiming at their use for pulp production, while the forests of Rio Grande do Sul are handled for extraction of gum resin and subsequent sale of timber logs. The IMA is measured in cubic meters per hectare/year.

During 2018, the Company validated the assumptions and criteria used to determine the fair value of its biological assets, and performed the valuation of all its biological assets.

In accordance with the fair value measurement hierarchy, the calculation of biological assets is classified as Level 3 due to its complexity and structure.

The main changes in the period were as follows:

	<u>Parent company</u>	<u>Consolidated</u>
Balance at 12/31/2016	<u>69,696</u>	<u>235,407</u>
Planting	4,935	7,997
Depletion		
Historical cost	(275)	(1,316)
Fair value	(393)	(9,119)
Cost of sales of forest	(31,326)	(31,326)
Transfer for capitalization in subsidiary Iraflor	(7,896)	-
Change in the fair value	(1,030)	(10,847)
Balance at 12/31/2017	<u>33,711</u>	<u>190,796</u>
Planting	5,875	10,373
Acquisition of forest	3,387	3,387
Depletion		
Historical cost	(20)	(1,478)
Fair value	(31)	(15,110)
Transfer for capitalization in subsidiary Iraflor	(5,030)	-
Change in the fair value	6,138	(1,368)
Balance at 12/31/2018	<u>44,030</u>	<u>186,600</u>

The depletion of biological assets of 2018 and 2017 was substantially recognized in the statement of profit and loss for the year, after an initial allocation to inventories, when the forests are harvested to be used in the production process or sold to third parties.

On December 19, 2017, the Company entered into a Purchase and Sale Agreement with Timber XI SPE S.A., through which the latter bought approximately 1,855 hectares of standing timber for R\$ 19,100. As a result of this transaction, the Buyer and the Company signed a Service Agreement, through which the Company, in view of its extensive experience in this field, undertakes to provide forest stewardship services related to the forests, for a period of eight years.

In addition, as part of this transaction, the Company sold to the Buyer the property called Fazenda São Pedro, with approximately 1,520 hectares of total area, for R\$ 12,166. Also in connection with the sale of Fazenda São Pedro, the Buyer and the Company signed a Rural Property Lease Agreement, through which the Company acquired the right to exploit its own forests planted on the property for a period of eight years. The sale agreement includes a repurchase option, exercisable at the end of the lease period, for the same amount, adjusted by changes in the Amplified Consumer Price Index (IPCA). The agreement was classified as operating lease.

On April 11, 2016, the Company and its subsidiary Iraflor Comércio de Madeiras Ltda. entered into a Contract for Purchase and Sale of Standing Timber with Global Fund Reflorestamento e Exploração de Madeira Ltda. (“Global”), through which the

Company sold approximately 4,644 hectares of standing timber to Global, for R\$ 55,500 million. Pursuant to the Contract, Global acquired the right to explore the Forests for 11 years. The forests sold do not compromise the Company's forest supply, since they exceed the strategic volume necessary to supply the plant of pulp.

As a result of this transaction, Global and the Company also entered into a Service Agreement, through which the Company, in view of its extensive experience in this field, undertakes to provide Global with forest stewardship services related to the Forests.

Global granted to the Company's parent company, Irani Participações S.A., purchase options for the acquisition of plots of forests. These options may be exercised annually, either directly by Irani Participações S.A. or through an associate, including the Company, over the next 11 (eleven) years. The options for the purchase of forests may or may not be exercised by Irani Participações or the Company, depending on the evolution of the forest market and the Company's strategy of wood supply.

The Company exercised the call options from 2016 to 2018, and they totaled approximately 1,650 hectares of forests. On June 21, 2018, the other call options were cancelled, including the 2018 option, with no call option remaining valid as of this date. As a result of the cancellation of the 2018 option, which had been exercised, the call options that were actually exercised are those relating to the 2016 and 2017 periods, which amount to approximately 1,450 hectares of forests.

In the first quarter of 2018, the contribution of new biological assets to the subsidiary Iraflor Comércio de Madeiras Ltda., amounting to R\$ 5,030, was authorized, and had the ultimate purpose of improving the management of forestry assets.

b) Biological assets pledged as collateral

Part of the biological assets of the Company and its subsidiaries, totaling R\$ 81,595, is pledged as collateral for financing transactions. The pledged assets represent approximately 44% of the total biological assets, or the equivalent to 15.6 thousand hectares of land in use, and approximately 6.6 thousand hectares of planted forests.

c) Production on third-party land

The Company has entered into non-cancellable lease agreements for production of biological assets on third-party land, called partnerships. These agreements are effective until all forests planted in these areas are harvested, over a cycle of approximately 15 years. As a result of the transaction carried out with Timber XI SPE S.A., through which the Company sold approximately 1,520 hectares of land and entered into a Property Lease Agreement for eight years, approximately 732 hectares of forests were included in the production on third-party land. The amount of biological assets on third-party land accounts for approximately 5% of the total area with the Company's biological assets.

## 16. BORROWINGS

### a) Breakdown of accounting balances

	Annual Charges %	Parent company		Consolidated	
		12/31/2018	12/31/2017	12/31/2018	12/31/2017
<b>Current</b>					
Local currency					
Finame	Fixed at 3.47%, TJLP + 5.06%, Selic + 5.59%	2,492	4,687	2,492	4,687
Working capital	Fixed at 9.83%, CDI + 5.87% and 136.7% of CDI	99,798	84,086	99,834	84,086
Working Capital - Syndicated Loan	CDI + 5.00%	43,764	13,059	43,764	13,059
Financial lease	Fixed rate at 14.85%	1,360	928	1,360	928
BNDES	TJLP + 3.60%	10,616	8,413	10,616	8,413
Total local currency		158,030	111,173	158,066	111,173
Foreign currency					
Advance on Exchange Contract	Fixed rate 5.05–6.10%	21,530	26,800	21,530	26,800
Bank of America - PPE	Libor + 8.00%	53,469	467	53,469	467
Banco Santander PPE	Libor + 6.95%	2,222	591	2,222	591
Banco Rabobank and Santander PPE	Libor + 6.95%	50,183	14,195	50,183	14,195
Banco LBBW - FINIMP	Euribor + 1.55%	1,533	1,358	1,533	1,358
Banco De Lage Landen	8.20% a.a.	375	321	375	321
Total foreign currency		129,312	43,732	129,312	43,732
Total current		287,342	154,905	287,378	154,905
<b>Non-current</b>					
Local currency					
Finame	Fixed at 3.47%, TJLP + 5.06%, Selic + 5.59%	2,575	6,339	2,575	6,339
Working capital	Fixed at 9.83%, CDI + 5.87% and 136.7% of CDI	140,418	111,118	140,474	111,118
Working Capital - Syndicated Loan	CDI + 5.00%	121,949	162,310	121,948	162,310
Financial lease	Fixed rate at 14.85%	1,094	1,482	1,094	1,482
BNDES	TJLP + 3.60%	22,554	33,237	22,554	33,237
Total local currency		288,590	314,486	288,645	314,486
Foreign currency					
Bank of America - PPE	Libor + 8.00%	91,747	122,668	91,747	122,668
Banco Santander PPE	Libor + 6.95%	5,902	6,734	5,902	6,734
Banco Rabobank and Santander PPE	Libor + 6.95%	149,967	170,450	149,967	170,450
Banco LBBW - FINIMP	Euribor + 1.55%	765	2,053	765	2,053
Banco De Lage Landen	8.20% a.a.	562	800	562	800
Total foreign currency		248,943	302,705	248,943	302,705
Total non-current		537,533	617,191	537,588	617,191
Total		824,875	772,096	824,966	772,096
		Parent company		Consolidated	
Long-term maturity dates:		12/31/2018	12/31/2017	12/31/2018	12/31/2017
	2019	-	207,635	-	207,635
	2020	250,322	168,280	250,363	168,280
	2021	182,908	144,431	182,922	144,431
	2022–2024	104,303	96,845	104,303	96,845
		537,533	617,191	537,588	617,191

On March 28, 2018, Bank Credit Suisse presented us the contract entered into with Bank of America NA, through which the latter became the creditor of the Company's Credit Agreement and Export Prepayment Agreement (PPE) CBSBBR20101000015.

b) Schedule for amortization of funding costs

	Parent company and Consolidated				
	2019	2020	2021	2022	Total
In domestic currency					
Working capital	(1,481)	(586)	(179)	(48)	(2,294)
Working Capital - CCE Syndicated Loan	(1,369)	(1,040)	(679)	(219)	(3,307)
Total local currency	<u>(2,850)</u>	<u>(1,626)</u>	<u>(858)</u>	<u>(267)</u>	<u>(5,601)</u>
In foreign currency					
Bank Of America NA - PPE	(495)	(183)	(28)	-	(706)
Banco Rabobank and Santander PPE	(851)	(634)	(406)	(129)	(2,020)
Total foreign currency	<u>(1,346)</u>	<u>(817)</u>	<u>(434)</u>	<u>(129)</u>	<u>(2,726)</u>
	<u>(4,196)</u>	<u>(2,443)</u>	<u>(1,292)</u>	<u>(396)</u>	<u>(8,327)</u>

c) Significant operations contracted in the period

- i) Working Capital - Bank BTG Pactual - Export Credit Note (CCE): two facility contracts totaling R\$ 36.2 million, entered into with Bank BTG Pactual, maturing in March 2021, and subject to interest rate equivalent to the changes in CDI rate plus 6.00% p.a. The borrowing will be repaid in monthly installments from April 2019. The extension of two export credit notes amounting to R\$ 33.6 million was also agreed upon, under the same conditions above.
- ii) Working Capital - Bank Safra SA - Export Credit Note (CCE): two CCE contracts were signed with Bank Safra SA at an interest rate of 137% of CDI pa. In the case of: a contract in the amount of R\$ 10,000 with maturity final in August 2021, which will be settled in monthly installments beginning in October 2018, another agreement in the amount of R\$ 9,500 with final maturity in July 2021 with grace period of 12 months and payment of monthly interest from September 2018 and also extended the contract in the amount of R\$ 38,700 with grace period of 12 months, final maturity in July 2021 and payment of interest from September 2018, with the same interest rate mentioned above.

d) Collateral

Collateral for the borrowings include sureties of the controlling companies and/or mortgages or statutory liens on land, buildings, machinery and equipment, biological assets (forests), commercial pledges and assignments of receivables, amounting to approximately R\$ 289,800. Other transactions have specific guarantees, as follows:

- i) For the export prepayment financing contracted with Bank Credit Suisse, and transferred to Bank of America NA on March 28, 2018, the Company pledged as collateral the shares it holds in the subsidiary Habitasul Florestal S.A.
- ii) For the export prepayment financing contracted with Bank Rabobank and Santander, land and forests amounting to R\$ 164,700 were pledged as collateral.
- iii) For the Working Capital - Syndicated Loan, contracted with Bank Itaú, Santander and Rabobank, the Company pledged as collateral land and forests amounting to R\$ 156,709, and assignment of receivables amounting to R\$ 15,000.
- iv) For the financing contracted with the National Bank for Economic and Social Development (BNDES), an industrial property comprising the land, facilities and equipment, two commercial buildings and one residential building, in the total amount of R\$ 121,436, were pledged as collateral.
- v) For the working capital loan (CCE) contracted with Bank BTG Pactual, secured and fiduciary guarantees consisting of the Company's assets and rights amounting to R\$ 59,216 were pledged.
- vi) To extend the maturity profile of the borrowings contracted with Itaú BBA, Santander and Rabobank, the Paper plant in the state of Santa Catarina, comprising the land, buildings and equipment, and totaling R\$ 289,800, was pledged as additional collateral.

e) Restrictive Financial Covenants

Some financing agreements entered into with financial institutions have restrictive covenants requiring the maintenance of financial ratios, calculated based on the consolidated financial statements. Non-compliance may trigger the accelerated maturity of the debt.

Financial ratios annually verified:

- i) Banco Itaú BBA - CCE
- ii) Banco Santander Brasil - PPE
- iii) Working Capital - Syndicated Loan
- iv) Banco Rabobank – CCE
- v) Banco Santander – CCE
- vi) Banco Rabobank and Santander - PPE
- vii) Working Capital - Banco BTG Pactual - CCE

a) Net debt/EBITDA ratio:

	Contracted 2018	Computed 2018	Contracted 2019	Contracted 2020	Contracted 2021
i) Banco Itaú BBA - CCE	4	3.88	3.5	3.5	3.5
ii) Banco Santander Brasil - PPE	4	3.88	3.5	3.5	3.5
iii) Working capital - Syndicated Loan	4	3.88	3.5	3.5	3.5
iv) Banco Rabobank - CCE	4	3.88	3.5	3.5	3.5

v) Banco Itaú BBA - CCE	4	3.88	3.5	3.5	3.5
vi) Bank Rabobank and Santander - PPE	4	3.88	3.5	3.5	3.5
vii) Working capital - Bank BTG Pactual - CCE	4.5	3.88	4	3.5	-

b) EBITDA/net finance costs ratio:

	Contracted 2018	Computed 2018	Contracted 2019	Contracted 2020	Contracted 2021
i) Banco Itaú BBA - CCE	1.75	1.85	2	2	2
ii) Banco Santander Brasil - PPE	1.75	1.85	2	2	2
iii) Working capital - Syndicated Loan	1.75	1.85	2	2	2
iv) Banco Rabobank - CCE	1.75	1.85	2	2	2
v) Banco Santander - CCE	1.75	1.85	2	2	2
vi) Bank Rabobank and Santander - PPE	1.75	1.85	2	2	2
vii) Working capital - Bank BTG Pactual - CCE	1.50	1.85	2	2	-

At December 31, 2018, the Company had complied with the financial ratios agreed upon with the creditors mentioned.

Financial ratios quarterly verified:

Bank of America - PPE

a) Net debt/EBITDA ratio:

	1Q18-3Q18	4Q18-3Q19	4Q19-3Q20	4Q20-2Q21
Contracted	5	4.5	4	3.5
Computed	3.5 - 3.58 - 3.29	3.88	-	-

b) EBITDA/net finance costs ratio:

	EBITDA/net finance costs ratio - greater than or equal to (x)		
	1Q18	2Q18-3Q18	4Q18-2Q21
Contracted	1.5	1.75	2
Computed	2.09	2.12 - 2.23	1.85

On December 31, 2018, the Company obtained a waiver from the creditor for failing to comply with the ratio indicated in item "b".

Caption:

TJLP - Long-term Interest Rate

CDI - Interbank Deposit Certificate.

EBITDA - Operating income (loss) plus net finance income (costs) and depreciation, depletion and amortization.

ROL - Net operating revenue

f) Summary movement of loans and financings:

Parent company	12/31/2016	Changes in cash		Changes not involving cash			12/31/2017	
		Receipt/(Payment) of financing activities	Payment of interest / Dividends	Exchange-rate change and interest	Hedge accounting	Dividends payable		Bank assigned account
Loans, financing and debentures	<b>917,375</b>	(140,346)	(105,624)	106,175	(5,598)	-	114	<b>772,096</b>
Interest on Shareholders' Equity and Dividends	<b>4,234</b>	-	(4,143)	-	-	-	-	<b>91</b>
<b>Parent company</b>								
Parent company	12/31/2017	Changes in cash		Changes not involving cash			12/31/2018	
		Receipt/(Payment) of financing activities	Payment of interest / Dividends	Exchange-rate change and interest	Hedge accounting	Dividends payable		Bank assigned account
Loans, financing and debentures	<b>772,096</b>	(23,477)	(68,675)	98,237	46,694	-	-	<b>824,875</b>
Interest on Shareholders' Equity and Dividends	<b>91</b>	-	(68)	-	-	3,746	-	<b>3,769</b>
<b>Consolidated</b>								
Consolidated	12/31/2016	Changes in cash		Changes not involving cash			12/31/2017	
		Receipt/(Payment) of financing activities	Payment of interest / Dividends	Exchange-rate change and interest	Hedge accounting	Dividends payable		Bank assigned account
Loans, financing and debentures	<b>917,375</b>	(140,346)	(105,624)	106,175	(5,598)	-	114	<b>772,096</b>
Interest on Shareholders' Equity and Dividends	<b>4,234</b>	-	(4,143)	-	-	-	-	<b>91</b>
<b>Consolidated</b>								
Consolidated	12/31/2017	Changes in cash		Changes not involving cash			12/31/2018	
		Receipt/(Payment) of financing activities	Payment of interest / Dividends	Exchange-rate change and interest	Hedge accounting	Dividends payable		Bank assigned account
Loans, financing and debentures	<b>772,096</b>	(23,386)	(68,675)	98,237	46,694	-	-	<b>824,966</b>
Interest on Shareholders' Equity and Dividends	<b>91</b>	-	(68)	-	-	3,746	-	<b>3,769</b>

## 17. TRADE PAYABLES

Payables to suppliers are as follows:

CURRENT	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Internal				
Material	67,138	59,042	67,534	59,276
Service provider	8,637	7,628	9,048	7,775
Carriers	15,593	14,867	15,683	14,876
Related parties	24,795	13,626	-	-
Other	2,268	629	2,268	629
External				
Material	552	395	552	395
	<u>118,983</u>	<u>96,187</u>	<u>95,085</u>	<u>82,951</u>

## 18. RELATED PARTIES

Parent company	Credits receivable		Accounts payable	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Habitasul Florestal S.A.	-	-	1,056	1,890
Iraflor - Com. de Madeiras Ltda	-	-	23,752	11,725
Management remuneration	-	-	1,907	799
Management profit sharing	-	-	692	692
Habitasul Desenvolvimentos Imobiliários	-	-	17	17
Irani Geração de Energia Sustentável Ltda	-	13	-	-
Koch Metalúrgica S.A.	157	19,686	-	-
Irani Participações S/A	4,500	-	764	751
Total	<u>4,657</u>	<u>19,699</u>	<u>28,188</u>	<u>15,874</u>
Current portion	1,957	1,956	28,188	15,874
Non-current portion	2,700	17,743	-	-

Parent company	Income		Expenses	
	2018	2017	2018	2017
Habitasul Florestal S.A.	-	-	8,638	8,969
Bonus to Directors	-	-	-	5,000
Iraflor - Com. de Madeiras Ltda	-	-	23,986	11,839
Druck, Mallmann, Oliveira & Advogados Associados	-	-	288	289
MCFD Administração de Imóveis Ltda	-	-	1,296	1,297
PFD Administradora de Imóveis Ltda	-	-	324	1,297
Irani Participações S/A	-	-	9,271	5,269
Habitasul Desenvolvimentos Imobiliários	-	-	176	177
Koch Metalúrgica S.A.	310	726	-	-
Management remuneration	-	-	10,433	8,218
Total	<u>310</u>	<u>150</u>	<u>54,412</u>	<u>42,355</u>

Consolidated	Credits receivable		Accounts payable	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Habitasul Desenvolvidores Imobiliários	-	-	17	17
Koch Metalúrgica S.A.	157	19,686	-	-
Management remuneration	-	-	1,907	799
Irani Participações S/A	4,500	-	764	751
Management profit sharing	-	-	692	692
Total	<u>4,657</u>	<u>19,686</u>	<u>3,380</u>	<u>2,259</u>
Current portion	1,957	1,943	3,380	2,259
Non-current portion	2,700	17,743	-	-

Consolidated	Income		Expenses	
	12/31/2018	2017	12/31/2018	2017
Irani Participações S/A	-	-	9,271	5,269
Bonus to Directors	-	-	-	5,000
Druck, Mallmann, Oliveira & Advogados Associados	-	-	216	289
MCFD Administração de Imóveis Ltda	-	-	1,296	1,297
PFD Administradora de Imóveis Ltda	-	-	324	1,297
Management remuneration	-	-	10,485	8,271
Habitasul Desenvolvidores Imobiliários	-	-	176	177
Koch Metalúrgica S.A.	<u>310</u>	<u>726</u>	<u>-</u>	<u>-</u>
Total	<u>310</u>	<u>726</u>	<u>21,768</u>	<u>21,600</u>

The payables to the subsidiaries Habitasul Florestal S.A. and Iraflor - Comércio de Madeiras Ltda. relate to commercial transactions and acquisition of raw materials.

The amount payable to MCFD Administração de Imóveis Ltda. is equivalent to 50% of the monthly rental of the Packaging Plant in Indaiatuba (SP), in accordance with agreement signed on December 26, 2006, which is effective for 20 years, with the possibility of renewal. The monthly amount being paid to the related party is R\$ 128. The total contractual monthly rental is R\$ 256, adjusted annually based on the change in the General Market Price Index (IGPM) disclosed by the Getúlio Vargas Foundation.

The receivables from Koch Metalúrgica S.A. are related to receivables related to property rent in the amount of R\$ 20 and receivables related to the sale of goods in the amount of R\$ 137. These balances are maintained at historical values, without monetary updates nor interest rates. The related parties Irani Participações S.A. and Companhia Comercial de Imóveis are the guarantors of these balances. During this year, the Agreement was signed and distract from Equipment Purchase and Sale Agreements, under which the Company was reimbursed in cash of the total amount of the advance of R\$ 17,743. Also in this year the amount of R\$ 2,098 was received referring to the payment of receivables from rental of property. The lease agreement was terminated on December 24, 2018 as a result of the sale of the property, as described in note 13.

In 2018, management remuneration expenses, excluding payroll charges, totaled R\$ 10,433 in the parent company in 2018 (R\$ 13,218 in 2017), and R\$ 10,485 in the consolidated in 2018 (R\$ 13,271 in 2017).

The total management remuneration, in the maximum amount of R\$ 12,000, was approved at the Annual General Meeting held on April 30, 2018.

The payables to Irani Participações S/A. relate mainly to a guarantee remuneration contract, under which the Company remunerates sureties and guarantees granted by Irani Participações S/A. on behalf of the Company to facilitate the contracting of borrowings.

The credit with Irani Participações S.A. corresponds to the assumption of debt of Koch Metalúrgica S.A. regarding the sale of property, as described in note 13.

#### 19. INSTALLMENTS TAXES

These are installments of PIS and COFINS in which the Company made compensations originating from the exclusion of ICMS from the basis of said contributions. The Company maintained a provision for contingencies in relation to the matter, and due to the delay and indecision regarding the modulation of the effects of the judgment in a general repercussion by the Federal Supreme Court (STF), it opted for its installment payment.

The total amount of tribute paid in installments was R\$ 25,219 (R\$ 31,349 updated with fine and interest), which was paid in 60 months. The balance of this installment as of December 31, 2018 is R\$ 29,218, of which R\$ 6,493 are classified in the short term and R\$ 22,725 are classified in the long term.

#### 20. PROVISION FOR CIVIL, LABOR AND TAX CONTINGENCIES

The Company and its subsidiaries are parties to tax, civil, and labor lawsuits, and administrative proceedings of a tax nature. Management, supported by the opinion of its attorneys and legal counsel, believes that the provisions recorded for civil, labor and tax contingencies are sufficient to cover probable losses.

Breakdown of the balance of the provisions:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Civil provisions	1,635	1,716	1,635	1,716
Labor provisions	6,550	6,428	6,874	6,832
Tax provisions	14,797	47,549	14,797	47,549
Total	22,982	55,693	23,306	56,097

Changes in the balance of provisions:

Parent company	12/31/2017	Provision	Payments	Reversal	Judicial deposits linked	12/31/2018
	Civil	1,716	95	(28)	(148)	-
Labor	6,428	2,191	(981)	(66)	(1,022)	6,550
Tax	47,549	11,583	-	(44,335)	-	14,797
	<u>55,693</u>	<u>13,869</u>	<u>(1,009)</u>	<u>(44,549)</u>	<u>(1,022)</u>	<u>22,982</u>
Consolidated	12/31/2017	Provision	Payments	Reversal	Judicial deposits linked	12/31/2018
Civil	1,716	95	(28)	(148)	-	1,635
Labor	6,832	2,369	(1,026)	(279)	(1,022)	6,874
Tax	47,549	11,583	-	(44,335)	-	14,797
	<u>56,097</u>	<u>14,047</u>	<u>(1,054)</u>	<u>(44,762)</u>	<u>(1,022)</u>	<u>23,306</u>

The provisions recorded relate mainly to:

- a) Civil lawsuits relate, among other matters, to indemnity claims in respect of termination of agreements with sales representatives. As of December 31, 2018, the provision for possible convictions in these lawsuits totaled R\$ 1,635.
- b) Labor lawsuits are mainly related to claims filed by former employees for payment of overtime, health hazard premiums, hazardous duty premiums, occupational illnesses and occupational accidents. Based on past experience and on the opinion of its legal counsel, the Company maintained a provision of R\$ 7,896 at December 31, 2018, which is considered sufficient to cover potential losses arising from labor losses.
- c) Provisions for tax contingencies total R\$ 14,797 and relate mainly to:
  - i) Administrative and judicial proceedings relating to the disallowance of ICMS credits by the Finance Department of the State of São Paulo, totaling R\$ 796, which await judgment. The proceedings are in process at the administrative and judicial levels and pending judgment.
  - ii) Recognition of ICMS Presumed Credit from the state of Minas Gerais, linked to the Letter of Intent for Investment in the Paper Plant located in the municipality of Santa Luzia. The related investments were not initiated because the Company waits for the Environmental Bodies' authorization, and also due to strategic market reasons. The amount recognized up to December 31, 2018 totaled R\$ 6,552, and a related provision for tax risks was recorded, at the adjusted amount of R\$ 9,002.

The Company maintained a provision for contingencies in relation to the compensation of PIS and COFINS arising from the exclusion of ICMS on the basis of these

contributions, and due to the delay and indecision related to the modulation of the effects of the judgment in a general repercussion by the Supreme Court Federal Court (STF), opted for its installment payment. The total amount of tribute paid in installments was R\$ 25,219 (R\$ 31,349 restated with fine and interest), according to note 19.

### Contingencies

No provisions were recorded for contingencies in respect of which the likelihood of loss has been assessed as possible by management and the legal counsel. At December 31, 2018, the amounts of these possible contingencies of a labor, civil, environmental and tax nature were as follows:

	<u>Consolidated</u>	
	<u>12/31/2018</u>	<u>12/31/2017</u>
Labor contingencies	10,422	15,289
Civil liability contingencies	8,539	7,897
Tax contingencies	<u>99,884</u>	<u>70,389</u>
	<u>118,845</u>	<u>93,575</u>

### Labor contingencies:

The labor lawsuits assessed by management and the legal counsel as involving possible risk of loss amounted to R\$ 10,422 at December 31, 2018 and relate mainly to indemnity claims (hazardous duty premiums, health hazard premiums, overtime, salary premiums, damages and losses arising from occupational accidents). These lawsuits are currently at different procedural stages.

### Civil contingencies:

The tax lawsuits classified by management and its legal counsel as involving risk of possible losses totaled R\$ 8,539 at December 31, 2018, and relate mainly to indemnity claims that are currently at different procedural stages.

### Tax contingencies:

The tax lawsuits assessed by management and its legal counsel as involving possible losses totaled R\$ 99,884 at December 31, 2018, and mainly include the following:

- Administrative and judicial proceedings relating to assessments received from the state government of Santa Catarina for allegedly undue ICMS tax credits recorded on the purchase of materials used in the manufacturing units located in that state, which amounted to R\$ 44,822 at December 31, 2018. The Company is challenging these tax assessments at the administrative and judicial levels.

- Administrative Proceedings related to Tax Assessments for PIS and COFINS, arising from alleged undue tax credits, amounting to R\$ 34,250 at December 31, 2018. The Company has challenged these assessments at the administrative level and awaits judgment of the Special Appeals filed.
- Administrative and judicial proceedings filed by the National Institute of Social Security (INSS), with respect to a Debt Assessment Notice referring to the payment of social security contribution on the gross income from sale of the production of agro-industrial companies, and the offset of debts against credits arising from the application of a higher Environmental Occupational Risk (RAT) rate at the Company's Administrative Units totaling R\$ 6,941 as of December 31, 2018. The Company is discussing said tax assessment notices in the administrative and judicial spheres.
- Administrative Proceeding relating to federal taxes offset against deemed Excise Tax (IPI) credits on exports, amounting to R\$ 5,957 at December 31, 2018. The Company is challenging this tax assessment at the judicial level.
- Proceedings relating to Tax Assessment Notices issued for the offset of Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) against credits from the same taxes, amounting to R\$ 3,433 at December 31, 2018. The Company is challenging these tax assessments at the administrative and judicial levels.

## 21. EQUITY

### a) Share capital

At December 31, 2018 and December 31, 2017, the share capital is R\$ 161,895, comprised of 166,720,235 nominative common shares, with no par value, 153,909,975 are common and 12,810,260 are preferred shares. The holders of preferred shares are entitled to: dividends under the same conditions as those granted to holders of common shares; priority in the reimbursement of capital at the equity value, without premium, in the event of liquidation of the Company; and 100% Tag Along rights. The Company may issue preferred shares, without par value and with no voting rights, up to the limit of two thirds of its total shares, and may increase the existing types or classes of shares without the requirement of maintaining a fixed proportion between them.

### b) Treasury shares

		Parent company		Parent company	
		12/31/2018		12/31/2017	
		Amount.	Amount	Amount.	Amount
i) Repurchase Plan	Common	24,000	30	24,000	30
iii) Withdrawal right	Preferred	2,352,100	6,804	2,352,100	6,804
		<u>2,376,100</u>	<u>6,834</u>	<u>2,376,100</u>	<u>6,834</u>

i) Share buyback plan: the objective was to maximize the value of the shares for stockholders. This program was concluded within 365 days, on November 23, 2011.

iii) Right of withdrawal: the shares acquired suffered changes in relation to the advantages attributed to the Company's preferred shares, as approved at the Annual and Extraordinary General Meeting held on April 19, 2012. Dissenting holders of preferred shares had the right to withdraw from the Company and receive a reimbursement for their shares, based on the equity value recorded in the balance sheet at December 31, 2011.

c) Share-based payment

In 2013, the Company introduced a share-based remuneration plan, called the First Stock Option Plan (Program I), settled with its own shares, under which the Company received services from employees as consideration for equity instruments (stock options) of the Company.

The stock options were granted to management and certain employees, in accordance with the decision of the Board of Directors on May 9, 2012 and approval at the Extraordinary General Meeting held on May 25, 2012. The options were exercised from April 1, 2013 to April 30, 2013. The Company does not have any legal or non-formalized obligation (constructive obligation) of repurchasing or settling options in cash.

The options exercised by the participants totaled 1,612,040 shares, at the average exercise price of R\$ 1.26 per share.

d) Profit for the year

In accordance with Article 202 of Law No. 6.404/1976, the stockholders have the right to minimum and mandatory dividends. The Company bylaws provides for that the minimum dividends will be 25% of net income after offsetting accumulated losses, the allocation of the legal reserve and the allocation of the tax incentive reserve.

The Company adds the realization of the biological assets reserve and of the carrying value adjustments reserve to the base profit for distribution of dividends.

The calculation of dividends and the balance of dividends payable are as follows:

	2018	2017
Net loss for the year	3,011	(108,173)
(-) Legal reserve	(151)	-
Realized revenue reserve - biological assets	2,587	10,120
Realized revenue reserve - biological assets (subsidiaries)	590	518
Realization - deemed cost	8,948	12,530
Base income/(loss) for dividend distribution	14,985	(85,005)
Minimum compulsory dividend	3,746	-
Dividends distributed in advance	-	-
Balance of dividends payable	3,746	-
Total dividends per common share (R\$ per share)	0.022794	-
Total dividends per preferred share (R\$ per share)	0.022794	-

e) Revenue reserves

The revenue reserves comprise: i) legal reserve, ii) biological assets reserve, iii) profit retention reserve, and iv) tax incentives reserve.

i) In compliance with the Company's Bylaws, the legal reserve is formed through the allocation of 5% of net income for the year and may be used to offset the losses or for capital increase.

ii) The biological assets reserve was constituted because the Company measured its biological assets at fair value in the opening balance sheet at the first-time adoption of IFRS. The creation of this statutory reserve was approved at the Extraordinary General Meeting held on February 29, 2012, when the amount previously recognized in the unrealized revenue reserve was transferred to this account.

iii) The profit retention reserve comprises the remaining profits after the offsetting of losses and transfer to the legal reserve, as well as after the distribution of dividends. The respective resources will be allocated to investments in property, plant and equipment previously approved by the Board of Directors, or may be distributed in the future, as approved by the Annual General Meeting. Certain agreements with creditors contain restrictive clauses relating to the distribution of dividends that exceed the minimum mandatory dividend.

iv) The tax incentives reserve was constituted with a portion of prior years' profit arising from government grants for investments, as disclosed in items (ii) and (iii) of Note 32, and was not included in the mandatory dividend calculation basis.

f) Carrying value adjustments

The carrying value adjustments account was established when the Company measured its property, plant and equipment (land, machinery and buildings) at deemed cost in the opening balance sheet, at the first-time adoption of IFRS. Its realization will take place as the related deemed cost is depreciated, at which time the related amounts will also be adjusted in the basis for calculating dividends. The balance at December 31, 2018, net of tax effects, represented a gain of R\$ 187,597 (R\$ 196,545 at December 31, 2017).

The financial instruments designated as cash flow hedges, net of tax effects, were also recorded in carrying value adjustments, and corresponded to a loss of R\$ 108,691 at December 31, 2018 (R\$ 77,873 at December 31, 2017).

Changes in carrying value adjustments are as follows:

	<u>Consolidated</u>
December 31, 2016	<u>127,507</u>
Cash flow hedge	3,695
Realization - deemed cost	<u>(12,530)</u>
December 31, 2017	<u>118,672</u>
Cash flow hedge	(30,818)
Realization - deemed cost	<u>(8,948)</u>
December 31, 2018	<u>78,906</u>

## 22. LOSS PER SHARE

Basic and diluted earnings (loss) per share are calculated by dividing the profit (loss) from continuing and discontinued operations attributable to the Company's stockholders by the weighted average number of shares outstanding during the period. The shares are not subject to the effects of potential dilution, such as debt convertible into shares. Consequently, diluted earnings (loss) per share are equal to basic earnings (loss) per share.

Basic and diluted earnings (loss) from continuing operations:

	<u>2018</u>		
	<u>Common Shares</u>	<u>Preferred shares</u>	<u>Total shares (ON) + (PN)</u>
Weighted average of the number of shares	153,885,975	10,458,160	164,344,135
Income for the year attributable to each type of shares	2,819	192	3,011
Basic and diluted profit per share - R\$	<u>0.0183</u>	<u>0.0183</u>	
	<u>2017</u>		
	<u>Common Shares</u>	<u>Preferred shares</u>	<u>Total shares (ON) + (PN)</u>
Weighted average of the number of shares	153,885,975	10,458,160	164,344,135
Income for the year attributable to each type of shares	(101,289)	(6,884)	(108,173)
Basic and diluted profit per share - R\$	<u>(0.6582)</u>	<u>(0.6582)</u>	

## 23. NET SALES REVENUE

The Company's net sales revenue comprises the following:

	Parent company		Consolidated	
	2018	2017	2018	2017
Gross sales of goods	1,174,115	1,100,859	1,186,109	1,109,805
Sales tax	(240,282)	(239,290)	(241,000)	(239,978)
Sales returns	(12,126)	(10,500)	(12,292)	(10,658)
Net sales	921,707	851,069	932,817	859,169

## 24. COSTS AND EXPENSES BY NATURE

Costs and expenses by nature are as follows:

	Parent company		Consolidated	
	2018	2017	2018	2017
Fixed and variable costs (raw and consumption material)	(506,116)	(423,809)	(476,494)	(405,919)
Personnel expenses	(147,572)	(148,264)	(157,648)	(157,477)
Changes in the fair value of biological assets	6,138	(1,030)	(1,368)	(10,847)
Depreciation, amortization and depletion	(51,949)	(85,485)	(68,833)	(95,576)
Freight - Sales	(47,524)	(45,297)	(47,524)	(45,297)
Contracting services	(24,352)	(22,406)	(26,189)	(23,531)
Other sales expenses	(37,384)	(40,734)	(37,384)	(40,734)
Total costs and expenses by type	(808,759)	(767,025)	(815,440)	(779,381)
Portion of cost	(670,709)	(621,676)	(668,334)	(622,425)
Portion of expense	(144,188)	(144,319)	(145,738)	(146,109)
Change in fair value of biological assets	6,138	(1,030)	(1,368)	(10,847)

## 25. OTHER OPERATING INCOME AND EXPENSES

Income	Parent company		Consolidated	
	2018	2017	2018	2017
Revenue from claimed and disposed goods	13,135	14,896	13,135	14,946
Income from disposal of forests	-	19,100	-	19,100
Other operating income	2,959	2,861	3,183	2,891
	16,094	36,857	16,318	36,937

Expenses	Parent company		Consolidated	
	2018	2017	2018	2017
Costs of claimed and disposed goods	(15,358)	(8,322)	(15,358)	(8,371)
Cost of forests sold	-	(31,642)	-	(31,642)
Adhesion to the Special Program for Tax Regularization.	-	(4,893)	-	(4,893)
Exclusion of ICMS from the PIS/Cofins contribution base	(2,514)	(25,051)	(2,514)	(25,051)
Fine for exclusion of ICMS from the PIS/Cofins contribution base	4,350	(9,394)	4,350	(9,394)
Reversal of provision for credit losses receivable - XKW Trading	500	(3,018)	500	(3,018)
Provision for impairment of receivables from customers under renegotiation or in-court reorganization	-	(18,506)	-	(18,506)
Provision for government subsidy from the state government of Mina	(1,244)	(5,969)	(1,244)	(5,969)
Provision for tax credit loss - REFIS consolidation	-	(1,701)	-	(1,701)
Other operating expenses	(1,461)	(2,424)	(1,594)	(2,445)
	<u>(15,727)</u>	<u>(110,920)</u>	<u>(15,860)</u>	<u>(110,990)</u>
Total	367	(74,063)	458	(74,053)

The expense, recorded as exclusion of the State Value-Added Tax (ICMS) from PIS/COFINS tax basis, relates to the provision for tax risks, described in Note 20. During this period, the Company adjusted and reversed the provision, constituting a tax installment as detailed in note 19.

## 26. FINANCE INCOME AND COSTS

	Parent company		Consolidated	
	2018	2017	2018	2017
Financial income				
Yields from financial investments	4,713	7,120	4,748	7,969
Interest	1,210	176	1,210	184
Discounts obtained	385	127	388	127
	<u>6,308</u>	<u>7,423</u>	<u>6,346</u>	<u>8,280</u>
Exchange-rate change				
Foreign-exchange income	19,899	13,662	19,899	13,662
Foreign exchange costs	(25,494)	(22,459)	(25,494)	(22,459)
Net exchange rate change	<u>(5,595)</u>	<u>(8,797)</u>	<u>(5,595)</u>	<u>(8,797)</u>
Financial expenses				
Interest	(100,784)	(103,646)	(100,792)	(103,672)
Discounts granted	(927)	(541)	(928)	(541)
Negative goodwill/bank expenses	-	(35)	-	(43)
Other	(1,240)	(1,533)	(1,243)	(1,533)
	<u>(102,951)</u>	<u>(105,755)</u>	<u>(102,963)</u>	<u>(105,789)</u>
Net finance income (costs)	<u>(102,238)</u>	<u>(107,129)</u>	<u>(102,212)</u>	<u>(106,306)</u>

## 27. INCOME TAX AND SOCIAL CONTRIBUTION

The reconciliation of the effective tax rate is as follows:

	Parent company		Consolidated	
	2018	2017	2018	2017
Operating income/(loss) before tax effects	15,553	(100,687)	15,623	(100,571)
Basic rate	34%	34%	34%	34%
Tax credit (expense) at the standard rate	(5,288)	34,234	(5,312)	34,194
Unrecognized income tax and social contribution	-	(34,234)	-	(34,194)
Tax effect from permanent (additions) exclusions:				
Equity in the results of subsidiaries	1,522	(1,203)	-	-
Subsidiaries taxed by the presumed profit	-	-	1,861	(905)
Other permanent differences	(8,776)	(6,283)	(9,161)	(6,697)
	<u>(12,542)</u>	<u>(7,486)</u>	<u>(12,612)</u>	<u>(7,602)</u>
Current income tax and social contribution	-	-	(405)	(525)
Deferred income tax and social contribution	(12,542)	(7,486)	(12,207)	(7,077)
Effective rate - %	80.6	(7.4)	80.7	(7.6)

## 28. INSURANCE

Insurance coverage is determined according to the nature of the risks to the assets, and is considered sufficient to cover possible losses arising from damages. At December 31, 2018, the Company had corporate insurance against fire, lightning, explosions, electrical damage and wind storm damage to plants, residential locations and offices, as well as general civil liability coverage and coverage of liabilities of officers and directors (D&O), with a total amount of R\$ 479,340. The Company also contracted group life insurance for employees with a minimum coverage of 24 times the employee's salary, or a maximum coverage of R\$ 500, in addition to insurance for the fleet of vehicles with coverage at market value.

With respect to forests, the Company assessed the existing risks and opted not to contract insurance coverage because the preventive measures against fire and other risks have proven to be efficient. Management understands that the risk management structure related to the forestry activities is appropriate to ensure the continuity of the Company's operations.

## 29. FINANCIAL INSTRUMENTS

### Capital risk management

The Company's capital structure consists of its net debt (borrowings and debentures detailed in Note 16, less cash and banks and bank's restricted accounts, as disclosed in Notes 5 and 9), and equity (which includes issued share capital, reserves and retained earnings, as disclosed in Note 21).

The Company is not subject to any external capital requirements.

Company's Management periodically reviews its capital structure. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Company intends to maintain a capital structure consisting of between 50% and 70% of own capital and between 50% and 30% of third-party capital. At September 30, 2018, the capital structure comprised 31% of own capital and 69% of third-party capital, mainly due to the effects of the exchange-rate change on foreign currency debt, which accounts for 47.29% of the Company's total debt, and also the effects of the exchange-rate change on hedge accounting, which reduces equity by R\$ 120,688.

#### Debt to equity ratio

The debt to equity ratio at December 31, 2018 and December 31, 2017 was as follows:

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Debt (a)	824,875	772,096	824,966	772,096
Cash and balance in banks	(130,778)	(75,896)	(132,219)	(76,949)
Banks - restricted account	-	(8,732)	-	(8,732)
Net debt	<u>694,097</u>	<u>687,468</u>	<u>692,747</u>	<u>686,415</u>
Equity (b)	<u>309,160</u>	<u>340,713</u>	<u>309,168</u>	<u>340,721</u>
Net debt ratio	<u>2.25</u>	<u>2.02</u>	<u>2.24</u>	<u>2.01</u>

(a) Debt is defined as short and long-term borrowings, including debentures, as detailed in Note 16.

(b) Equity includes the Company's entire capital and reserves managed as capital.

#### Categories of financial instruments

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
<b>Financial assets</b>				
Fair value through profit or loss				
Cash and balance in banks	130,778	75,896	132,219	76,949
Amortized cost				
Trade receivables	169,226	167,140	170,873	168,124
Other trade receivables	783	8,993	819	9,029
Banks - restricted account	-	8,732	-	8,732
<b>Financial liabilities</b>				
Amortized cost				
Loans and financing	824,875	772,096	824,966	772,096
Suppliers	118,983	96,187	95,085	82,951
Advance from customers	1,395	1,462	1,399	1,466

### Financial risk factors

The Company is exposed to various financial risks, such as market risk (including currency risk and interest rate risk), credit risk, and liquidity risk.

In order to provide a framework for its financial management, the Company has maintained in effect since 2010, a Financial Management Policy that determines rules and defines guidelines for the use of financial instruments.

The Company does not enter into derivative transactions or transactions involving other financial assets for speculative purposes.

### Foreign exchange rate risk

The Company has transactions in the foreign market that are exposed to fluctuations in the exchange rates of foreign currencies. At December 31, 2018 and December 31, 2017, these transactions resulted in a net liability exposure, as shown below.

As most of the loans and financing in foreign currency are repayable in the long-term, the Company hedges the net foreign exchange exposure with the equivalent to 25 months of exports, based on the average of exports carried out in 2018, and to 34 months of exports based on the average exports carried out in 2017.

	Parent company		Consolidated	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Trade receivables	25,303	27,508	25,303	27,508
Banks - restricted account	-	6,188	-	6,188
Advance from customers	565	(346)	565	(346)
Suppliers	(552)	(395)	(552)	(395)
Loans and financing	(378,255)	(346,437)	(378,255)	(346,437)
Net exposure	(352,939)	(313,482)	(352,939)	(313,482)

The Company has identified the main risk factors that could generate losses in connection with its financial instruments. Accordingly, a sensitivity analysis was performed, as determined by CVM Instruction 475, which requires the presentation of two scenarios with deterioration of 25% and 50% in the risk variable considered, in addition to a base scenario. These scenarios may impact the Company's results and equity, as described below:

1 – Base scenario: for the definition of the base scenario, the U.S. dollar quotation used by the Company is based on future market projections of B3 for the next reporting date (March 31, 2019).

2 – Adverse scenario: 25% deterioration in the foreign exchange rate compared to that projected for March 31, 2019.

3 – Remote scenario: 50% deterioration in the foreign exchange rate compared to that projected for March 31, 2019.

Operation	Balance at 12/31/2018		Base scenario		Adverse scenario		Remote scenario	
	US\$	Rate	Gain (Loss) R\$	Rate	Gain (Loss) R\$	Rate	Gain (Loss) R\$	
<b>Assets</b>								
Trade receivables and banks - restricted acco	6,530	3,72	(1,015)	4,65	5,057	5,58	11,127	
<b>Liabilities</b>								
Suppliers and advances from customers	3	3,72	-	4,65	2	5,58	5	
Loans and financing	(97,619)	3,72	15,170	4,65	(75,601)	5,58	(166,343)	
Net effect			14,155		(70,542)		(155,211)	

The Company maintains natural cash flow hedges on exports, at the amount of US\$ 91,794, which, in accordance with the accounting practice, are not considered in this sensitivity analysis.

This sensitivity analysis is intended to measure the impact of changes in foreign exchange market variables on each financial instrument of the Company. The balances at December 31, 2018 were used as a basis for the projection of the future balance. The actual behavior of debt balances will follow the respective contracts, while balances receivable and payable may fluctuate due to the normal course of the activities of the Company and its subsidiaries. The settlement of transactions involving these projections may result in amounts that differ from those estimated due to the subjectivity of the process used in the preparation of these analyses. The Company maintains its borrowings exposed to exchange-rate changes by making annual net payments that are equivalent to or below the receipts from its exports. Accordingly, the Company seeks to hedge its cash flow against foreign currency risks, and the effects of the scenarios above, if they materialize, are not expected to generate material impacts on its cash flow.

### Interest rate risk

The Company may be affected by adverse changes in interest rates. This exposure to interest rate risk relates primarily to changes in market interest rates that affect the Company's assets and liabilities indexed to the TJLP (Long-term interest rate from BNDES), CDI (Interbank Deposit Certificate), SELIC (Official Interest Rate), LIBOR

(London Interbank Offered Rate), EURIBOR (The Euro Interbank Offered Rate), and ECM (Currency Basket Charges).

The sensitivity analysis calculated for the base, adverse and remote scenarios on the borrowings subject to floating interest rates is as follows:

1 – Base scenario: for the definition of the base scenario, the CDI and SELIC rates used by the Company accompany the future market projections of B3 for the next reporting date (March 31, 2019). The TJLP is extracted from the BNDES. For LIBOR, EURIBOR and EMC, the rates used are those prevailing on the date of the analysis.

2 – Adverse scenario: 25% adjustment of interest rates compared to the level projected for March 31, 2019.

3 – Remote scenario: 50% adjustment of interest rates compared to the level projected for March 31, 2019.

Transaction	Index	Balance at 12/31/2018	Base scenario Gain (loss)		Adverse scenario Gain (loss)		Remote scenario Gain (loss)	
			Rate % a.	R\$	Rate % a.	R\$	Rate % a.	R\$
<b>Cash and cash equivalents</b>								
CDB	CDI	104,663	6.40%	-	8.00%	1,528	9.60%	3,055
<b>Funding</b>								
Working capital	CDI	(394,845)	6.40%	-	8.00%	(6,946)	9.60%	(13,893)
BNDES	TJLP	(33,170)	7.03%	(17)	8.79%	(600)	10.55%	(1,183)
Finame	TJLP	(3,274)	7.03%	(2)	8.79%	(59)	10.55%	(117)
Finame	SELIC	(420)	6.40%	-	8.00%	(7)	9.60%	(14)
Financing in foreign currency	Libor 3M	(356,216)	2.74%	208	3.42%	(2,230)	4.11%	(4,669)
Financing in foreign currency	Euribor 6M	(2,298)	0.00%	-	0.00%	-	0.00%	-
Net Effect on Income				189		(8,314)		(16,821)

### Fair value vs. book value

Fair value is the price for which an asset would be sold or a liability transferred in a transaction between parties willing to negotiate, determined on the measurement date. The following methods and assumptions were used to estimate the fair value:

- The accounting balances of accounts receivable, and short-term accounts payable are presented in the Company's balance sheet at amounts that approximate their fair values due to the short terms of settlement.

- Borrowings - considering the renegotiations of recent debts and the interest rates on borrowings contracted, and based on market information, management believes that the fair value of borrowings does not differ significantly from its carrying value.

### Credit risks

The Company's credit sales are managed through a credit rating and credit granting policy. Doubtful receivables are properly covered by a provision for impairment.

Trade receivables comprise a large number of customers from different sectors and geographical areas. A continuous credit assessment is carried out on the financial positions of receivables and, where appropriate, credit guarantee coverage is requested.

Most of the renegotiations with customers are backed by debt acknowledgment agreements, machinery, equipment, and properties pledged as collateral, in addition to individual sureties to guarantee the amount of debt.

### Liquidity risk

Management monitors the liquidity level based on the expected cash flow, which comprises cash, financial investments, flows of receivables and payables, and repayment of borrowings. The liquidity management policy involves the projection of cash flows on the currencies used, and considers the level of net assets necessary to achieve these projections, the monitoring of balance sheet liquidity ratios in relation to internal and external regulatory requirements, and the maintenance of debt financing plans.

The table below shows the maturity ranges of the financial liabilities contracted by the Company, where the reported amounts include the principal and fixed interest on transactions, calculated using rates and indices in effect at December 31, 2018, and the details on the expected maturity dates for non-derivative, undiscounted financial assets, including accrued interest on these assets. Although the Company presents the aging analyses only for financial liabilities, the inclusion of information on non-derivative financial assets is necessary to understand the Company's liquidity risk management, which is based on net assets and liabilities.

#### **Parent company**

	2019	2020	2021	2022	over 2022
Liabilities					
Suppliers	118,983	-	-	-	-
Loans and financing	329,257	275,986	194,872	107,086	125
Installments	6,493	6,493	6,493	6,493	3,246
	<u>454,733</u>	<u>282,479</u>	<u>201,365</u>	<u>113,579</u>	<u>3,371</u>

#### **Consolidated**

	2019	2020	2021	2022	over 2022
Liabilities					
Suppliers	95,085	-	-	-	-
Loans and financing	329,306	276,027	194,885	107,086	125
Installments	6,493	6,493	6,493	6,493	3,246
	<u>430,884</u>	<u>282,520</u>	<u>201,378</u>	<u>113,579</u>	<u>3,371</u>

The amounts included above for non-derivative financial assets and liabilities at floating rates are subject to changes in the event the floating interest rates differ from the estimates made at the end of the reporting period.

The Company expects to meet its other obligations using the cash flow from operating activities and income earned on financial assets.

## Derivative financial instruments

At December 31, 2018, the Company did not have any derivative financial instrument contracted.

## Hedge accounting

The Company adopted hedge accounting on May 1, 2012 for transactions contracted to cover the exchange-rate change risk of exports, classified as a cash flow hedge.

Accordingly, the Company hedges the exchange-rate change risk of its future cash flows by contracting non-derivative financial liabilities, which are considered as natural hedge. The currently effective hedging instruments contracted by the Company include an export prepayment contract (PPE) with Bank Credit Suisse, a PPE contract with Bank Rabobank and Santander, and a PPE contract with Bank Santander.

The hedged cash flows are the estimated exports up to 2021, and the amount recorded in equity based on hedge accounting amounted to R\$ 108,691 at December 31, 2018 (R\$ 77,873 in December 2017).

	Parent company and Consolidated 12/31/2018	Parent company and Consolidated 12/31/2017
Opening balance	117,989	123,587
Changes in cash flow hedge	55,167	3,867
Reclassification to income (loss)	(8,473)	(9,465)
	<u>164,683</u>	<u>117,989</u>
Opening balance	(40,116)	(42,019)
Taxes on change in cash flow hedge	(18,757)	(1,315)
Taxes on reclassification to the statement of profit and loss	2,881	3,218
	<u>(55,992)</u>	<u>(40,116)</u>
Closing balance	<u>108,691</u>	<u>77,873</u>

The Company estimates the hedge effectiveness based on the U.S. dollar offset methodology, according to which the changes in the fair value of the hedge instrument are compared with the changes in the fair value of the hedged item, which should range between 80% and 125%.

The balances of effective changes in transactions designated as cash flow hedges are reclassified from equity to the statement of profit and loss for the period in which the exchange-rate change of the hedge is effectively realized. The cash flow hedge results which are effective in offsetting the changes in hedged expenses are recorded as a reduction of these expenses, decreasing or increasing the operating profit or loss, while the non-effective portion is recorded as finance income or costs for the period.

Ineffectiveness were not detected in the period.

### 30. OPERATING SEGMENTS

#### a) Criteria for identification of operating segments

The Company's operating structure is segmented based on the manner in which management runs the business. The Company's revenue is segmented according to defined products and operating segments

Management has defined the operating segments as follows: corrugated cardboard (PO) packaging; packaging paper; and RS forest and resins, described below:

**Corrugated Cardboard (PO) Packaging:** this segment manufactures light and heavy corrugated cardboard boxes and sheets, in three production units: Campina da Alegria, in the state of Santa Catarina (SC), and Indaiatuba and Vila Maria, both in the state of São Paulo (SP).

**Packaging Paper:** this segment produces low and high-weight Kraft paper and recycled paper for the domestic and foreign markets. In addition, part of its production is sent to the Corrugated Cardboard Packaging segment. It has two production units: Campina da Alegria (SC) and Santa Luzia (MG).

**RS Forest and Resins:** in this segment, the Company plants pine trees for its own consumption, sells timber, and extracts resin from pines trees, which is used as raw material for the production of tar and turpentine.

#### b) Consolidated information on operating segments

	Consolidated				Total
	2018				
	PO Packaging	Paper for Packaging	Forestry RS and Resins	Corporate/eli minations	
Net sales:					
Domestic market	560,935	192,870	8,901	-	762,706
Foreign market	-	90,805	79,306	-	170,111
Revenue from sales to third parties	560,935	283,675	88,207	-	932,817
Income between segments	-	39,921	-	(39,921)	-
Total net sales	560,935	323,596	88,207	(39,921)	932,817
Change in fair value - biological assets	-	9,062	(10,430)	-	(1,368)
Cost of products sold	(504,796)	(140,373)	(61,974)	38,809	(668,334)
Gross income	56,139	192,285	15,803	(1,112)	263,115
Operating expenses	(65,013)	(23,850)	(9,212)	(47,205)	(145,280)
Operating income (loss) before Finance income (costs)	(8,874)	168,435	6,591	(48,317)	117,835
Finance income (costs)	(41,531)	(54,962)	(5,719)	-	(102,212)
Operating net income	(50,405)	113,473	872	(48,317)	15,623
Depreciation and amortization	(13,935)	(35,776)	(1,134)	(1,401)	(52,246)

	Consolidated				Total
	2017				
	PO Packaging	Paper for Packaging	Forestry RS and Resins	Corporate/eli minations	
Net sales:					
Domestic market	560,595	165,048	7,488	-	733,131
Foreign market	-	73,413	52,625	-	126,038
Revenue from sales to third parties	560,595	238,461	60,113	-	859,169
Income between segments	-	43,345	-	(43,345)	-
Total net sales	560,595	281,806	60,113	(43,345)	859,169
Change in fair value - biological assets	-	4,987	(15,834)	-	(10,847)
Cost of products sold	(499,816)	(116,316)	(48,928)	42,635	(622,425)
Gross income	60,779	170,477	(4,649)	(710)	225,897
Operating expenses	(113,518)	(42,934)	(6,068)	(57,642)	(220,162)
Operating income (loss) before Finance income (costs)	(52,739)	127,543	(10,717)	(58,352)	5,735
Finance income (costs)	(44,742)	(54,980)	(6,584)	-	(106,306)
Operating net income	(97,481)	72,563	(17,301)	(58,352)	(100,571)
Depreciation and amortization	(12,624)	(38,739)	(974)	(1,478)	(53,815)

The amounts in the column "Corporate/eliminations" relate basically to expenses of the corporate support area, which are not apportioned between the segments, and the eliminations relate to adjustments of transactions between other segments, which are carried out under usual market prices and conditions.

Finance income (costs) were allocated by operating segment, taking into consideration the specific allocation of each item of finance income and costs to the respective segment, and the allocation of common income and costs based on each segment's need for working capital.

The information relating to income tax and social contribution is not disclosed because the Company's management does not use this information by segment.

c) Net sales revenue

Net sales revenue in 2018 totaled R\$ 932,817 (R\$ 859,169 in 2017).

Net sales revenue for the foreign market in 2018 totaled R\$ 170,111 (R\$ 126,038 in 2017), distributed by several countries, as follows:

Consolidated 2018			Consolidated 2017		
Country	Net export revenue	% of total net revenue	Country	Net export revenue	% of total net revenue
Argentina	23,593	2.53%	Germany	18,584	2.16%
China	18,706	2.01%	Saudi Arabia	15,133	1.76%
Saudi Arabia	17,291	1.85%	Argentina	12,191	1.42%
Germany	16,486	1.77%	China	10,652	1.24%
Japan	9,660	1.04%	France	9,367	1.09%
Chile	8,735	0.94%	South Africa	7,943	0.92%
South Africa	8,264	0.89%	Chile	7,053	0.82%
Paraguay	7,624	0.82%	Paraguay	5,178	0.60%
Netherlands	7,239	0.78%	Netherlands	4,613	0.54%
France	7,178	0.77%	Japan	3,885	0.45%
Peru	6,671	0.72%	Peru	3,288	0.38%
India	6,111	0.66%	Singapore	2,945	0.34%
Portugal	4,685	0.50%	Turkey	2,582	0.30%
Turkey	4,453	0.48%	Portugal	2,211	0.26%
Mexico	4,329	0.46%	India	2,149	0.25%
Uruguay	3,595	0.39%	Bolivia	2,028	0.24%
Hong Kong	3,518	0.38%	Kuwait	1,970	0.23%
Bolivia	2,550	0.27%	Uruguay	1,843	0.21%
Spain	1,816	0.19%	Mexico	1,676	0.20%
Colombia	1,251	0.13%	Spain	1,515	0.18%
Israel	1,031	0.11%	Colombia	1,324	0.15%
Austria	955	0.10%	Austria	1,303	0.15%
Singapore	847	0.09%	Pakistan	1,066	0.12%
United Kingdom	684	0.07%	Malasya	939	0.11%
United States	642	0.07%	Hong Kong	922	0.11%
Other countries	2,197	0.24%	Other countries	3,678	0.43%
	<u>170,111</u>	<u>18.26%</u>		<u>126,038</u>	<u>14.66%</u>

In 2018, Company's net sales in domestic market totaled R\$ 762,706 (R\$ 733,131 in 2017).

In 2018, a single customer accounted for 5.2% of net sales in the domestic market of the Corrugated Cardboard Packaging segment, equivalent to R\$ 29,259. The Company's other sales in the domestic and foreign markets were spread over a number of customers, none of them accounting for more than 10% of net sales.

### 31. OPERATING LEASE AGREEMENTS (PARENT COMPANY)

#### Rental of production plant properties

The Company had one rental agreement for a production unit, in addition to other minor rental agreements for commercial and administrative units, all of which were classified as operating leases and allocated to expenses on the accrual basis over the lease period.

The rental agreement entered into on December 26, 2006, for the Packaging Plant, in Indaiatuba, SP, is effective for 20 years, with a contracted monthly rental of R\$ 256, annually adjusted based on changes in the General Market Price Index (IGPM) rate.

Rental expenses net of taxes, where applicable, were recognized by the parent company in 2018, as follows:

- Rentals of production units = R\$ 3,075 (R\$ 2,859 in 2017).
- Rentals of commercial and administrative units = R\$ 376 (R\$ 323 in 2017).

Future liabilities arising from these agreements, calculated at amounts as of December 31, 2018, totaled a minimum amount of R\$ 89,808, distributed as follows: The rentals were calculated at present value, using the accumulated Amplified Consumer Price Index (IPCA) for the last 12 months, i.e., 3.75% per year.

	<u>up to 1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Future operating leases	3,412	16,427	20,826	40,665
Operating leases at present value	3,289	14,405	15,432	33,126

#### Lease of planting area

The Company has entered into non-cancellable lease agreements for production of biological assets on third-party land, comprising a total area of approximately 880 hectares of planted land. Of the total leased area, approximately 732 hectares correspond to the lease agreement signed with Timber XI SPE S.A., as detailed in Note 15, pursuant to which the Company committed to make annual payments. For other small areas, there are lease commitments subject to monthly payments, which comprise the Company's operating leases, as shown below.

These agreements are in force until all the forests existing in these areas are harvested.

#### Non-cancellable operating lease commitments

The rentals were calculated at present value, using the accumulated Amplified Consumer Price Index (IPCA) for the last 12 months, i.e., 3.75% per year.

	<u>Up to 1 year</u>	<u>1-5 years</u>	<u>&gt;5 years</u>	<u>Total</u>
Future operating leases	1,570	7,560	7,105	16,235
Operating leases at present value	1,514	6,630	5,422	13,566

## 32. GOVERNMENT GRANTS

The Company has ICMS incentives from the states of Santa Catarina and Minas Gerais:

- i) ICMS/SC – Prodec: under this program, 60% of the ICMS increase in the state of Santa Catarina, calculated on an average basis (comprising the period from September 2006 to August 2007) prior to the investments made, are deferred for payment after 48 months. This benefit is calculated monthly and subject to the completion of the investments planned and maintenance of jobs, in addition to the maintenance of regular status with the State obligations.

These incentives are subject to charges at an annual contractual rate of 4.0%. In order to calculate the present value of these benefits, the Company used the average rate of 11.44% as the cost of funding on the base date for credit lines with characteristics similar to those applicable to the respective disbursements, which would have been required in the absence of said benefits.

The benefit is effective for 14 years (10 years of fruition and 4 years of grace), from January 2009 to December 2022, or up to the limit of R\$ 55,199 of deferred ICMS. Up to December 31, 2018, the Company had deferred ICMS liabilities of R\$ 17,558 (R\$ 15,476 net of government grants).

- ii) ICMS/SC – Presumed Credit: for the purpose of enabling the expansion of the industrial unit located in Vargem Bonita, the government of the state of Santa Catarina grants as a principal benefit the recording of presumed credits in an ICMS memorandum account, on taxed shipments carried out by the Company within the state, of products manufactured with recyclable material corresponding to, at least, 40% of the raw material cost, so that the final tax burden on the own operation is equivalent to 2.25%. The expected investment is of approximately R\$ 600,000, which will be incurred over the five years of the benefit grant, with the possibility of renewal for an equal period, and will be used to expand the paper and packaging production capacity.
- iii) ICMS/MG - Presumed Credit: For the purpose of enabling the expansion of the industrial unit in Santa Luzia, the government of the state of Minas Gerais grants as a principal benefit, the recording of ICMS presumed credit, resulting in the effective payment of 2% on shipments of products manufactured by the Company. The total investment is estimated at approximately R\$ 220,000 million, to be invested in the modernization and expansion of the production capacity of Paper Machine No. 7 (PM 7), and also in the construction of a new corrugated cardboard packaging plant.

### 33. TRANSACTIONS NOT AFFECTING CASH

The Company carried out non-cash transactions relating to investment activities, which were not reflected in the statement of cash flows.

During the year 2018, the Company made a capital contribution with planted forests at the subsidiary Iraflor Comércio de Madeiras Ltda. in the amount of R\$ 5,030.

During the year 2017, the Company made payments regarding purchases of property, plant and equipment, intangible assets and biological assets in the amount of R\$ 1,095, which were directly funded by suppliers. It also carried out operations with its subsidiaries that do not affect cash, as described in note 12, as follows: i) advance for future capital increase in the subsidiary Habitusul Florestal S.A. in the amount of R\$ 17,598 offset against dividends payable; ii) capital contribution with planted forests in the subsidiary Iraflor Comércio de Madeiras Ltda. in the amount of R\$ 7,896; iii) capital decrease in the subsidiary Iraflor Comércio de Madeiras Ltda. in the amount of R\$ 32,717, offset against existing credits.

\* \* \*

(A free translation of the original in Portuguese)

## **Dear Stockholders,**

The management of **Celulose Irani S.A.** submits for your appreciation the Company's Management Report and Financial Statements, together with the independent auditor's report for the year ended December 31, 2018. The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and accounting practices adopted in Brazil, based on the technical pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), which are fully convergent with IFRS, and the standards established by the Brazilian Securities Commission (CVM).

## **Message to the Stockholders**

Celulose Irani S.A. is an integrated Paper Packaging company, with a robust own forest base. Its core business consists of the manufacture and sale of corrugated cardboard packaging and packaging paper. The main raw materials are the planted pine forests (long fiber) owned by the Company and long-fiber recycled paper (trimmings).

## **2018 Highlights**

The world economy started the year 2018 optimistic, but the trade war between the major economies highlighted the uncertainties about the consistency and timing of world economic growth. The US economy maintained robust growth, mainly driven by tax cuts and increased spending that stimulated demand.

In Brazil, after the beginning of economic expansion in the second half of 2017, the year 2018 recorded a slow growth, marked by a still high unemployment and the consequent increase in informal employment. The economy showed a weaker than expected pace due to uncertainties with the political future, the economic agenda to be adopted

by the new government and its ability to implement it. The truck drivers' strike in May also had a significant impact on worsening the economic growth forecast, which dropped to 1.3%.

According to the Brazilian Association of Corrugated Board (ABPO), the shipment in metric tons of corrugated board increased by 1.8% in 2018, when compared to 2017.

In the comparison with 2017, IRANI's net revenue grew by 8.6% in 2018, mainly as the result of higher sales volume for Paper Packaging and RS Forest and Resins, coupled with better prices for all aforementioned segments, above the market average. The

share of sales to the domestic market represented 82% of the Company's sales, while the sales to the foreign market reached 18%.

In 2018, the Corrugated Cardboard Packaging segment represented 60% of IRANI's net revenue, while the Packaging Paper represented 30% and the Forest RS and Resins segments represented 10%.

#### Key financial and economic indicators

KEY INDICATORS - CONSOLIDATED	4Q18	3Q18	4Q17	Var. 4Q18/3Q18	Var. 4Q18/4Q17	2018	2017	Var. 2018/2017
<b>Economic and Financial (R\$ thousand)</b>								
Net operating revenue	240,606	248,019	230,618	-3.0%	4.3%	932,817	859,169	8.6%
Domestic market	195,686	194,653	197,015	0.5%	-0.7%	762,706	733,131	4.0%
Foreign market	44,920	53,366	33,603	-15.8%	33.7%	170,111	126,038	35.0%
Gross profit (including *)	52,471	79,378	38,731	-33.9%	35.5%	263,115	225,897	16.5%
(*) Change in the Fair Value of Biological Assets	(10,451)	4,960	(22,012)	-310.7%	-52.5%	(1,368)	(10,847)	-87.4%
<b>Gross margin</b>	<b>21.8%</b>	<b>32.0%</b>	<b>16.8%</b>	<b>-10.2 p.p.</b>	<b>5.0 p.p.</b>	<b>28.2%</b>	<b>26.3%</b>	<b>1.9 p.p.</b>
Operating result before taxes and profit sharing	(18,424)	24,476	(82,727)	-175.3%	-77.7%	15,623	(100,571)	-
<b>Operating margin</b>	<b>-7.7%</b>	<b>9.9%</b>	<b>-35.9%</b>	<b>-17.6 p.p.</b>	<b>-28.2 p.p.</b>	<b>1.7%</b>	<b>-11.7%</b>	<b>13.4 p.p.</b>
Profit (loss)	(19,032)	22,020	(98,421)	-186.4%	-80.7%	3,011	(108,173)	-
<b>Net margin</b>	<b>-7.9%</b>	<b>8.9%</b>	<b>-42.7%</b>	<b>-16.8 p.p.</b>	<b>-34.8 p.p.</b>	<b>0.3%</b>	<b>-12.6%</b>	<b>12.9 p.p.</b>
Adjusted EBITDA <sup>1</sup>	43,319	52,415	51,545	-17.4%	-16.0%	178,356	154,530	15.4%
<b>Adjusted EBITDA Margin</b>	<b>18.0%</b>	<b>21.1%</b>	<b>22.4%</b>	<b>-3.1 p.p.</b>	<b>-4.4 p.p.</b>	<b>19.1%</b>	<b>18.0%</b>	<b>1.1 p.p.</b>
Net debt (R\$ million)	692.7	724.6	686.4	-4.4%	0.9%	692.7	686.4	0.9%
Net debt/Adjusted EBITDA (x)	3.88	3.88	4.44	0.0%	-12.6%	3.88	4.44	-12.6%
Net Debt/ Proforma Adjusted EBITDA (x) <sup>2</sup>	2.96	2.90	3.68	2.1%	-19.6%	2.96	3.68	-19.6%
<b>Operating Data (metric tons)</b>								
<b>Corrugated Cardboard Packaging (PO)</b>								
Production/Sales	45,380	46,528	49,228	-2.5%	-7.8%	182,310	193,256	-5.7%
<b>Packaging Paper</b>								
Production	71,599	71,443	73,103	0.2%	-2.1%	279,110	289,019	-3.4%
Sales	26,451	26,021	22,234	1.7%	19.0%	95,959	89,072	7.7%
<b>RS Forest and Resins</b>								
Production	2,727	3,731	2,732	-26.9%	-0.2%	13,472	11,841	13.8%
Sales	3,053	3,690	4,167	-17.3%	-26.7%	13,155	12,000	9.6%

<sup>1</sup> EBITDA (earnings before interest, taxes, depreciation, amortization and depletion) - see the related section in this release.

<sup>2</sup> Excludes from net debt foreign exchange variations accounted for as hedge accounting.

- Net revenue for 4Q18 grew by 4.3% when compared to 4Q17, and decreased 3.0% in 3Q18. In the annual comparison, net revenue increased 8.6% in 2018 in the comparison with 2017 and reached R\$ 932.8 million, reflecting the higher revenue in foreign market for the Packaging Paper and RS Forest and Resins segments.
- The sales volume of the Corrugated Cardboard Packaging segment decreased 5.7% when compared to 2017, and totaled 182.3 thousand tons in 2018, specially due to the end of a production shift in the SP Vila Maria plant. The Packaging Paper Segment totaled 95.9 thousand tons increased 7.7%. The Resins segment increased 9.6%, reaching 13.1 thousand tons.
- The gross profit for 4Q18 increased by 35.5% compared to 4Q17, and decreased by 33.9% compared to 3Q18. In comparison to 2017, gross profit increased by 16.5%, totaling R\$ 263.1 million, mainly due to the lower cost of chips and stable fixed costs.
- Selling expenses in 2018 (including impairment losses on trade receivables) totaled R\$ 87.4 million, remaining stable in relation to 2017 and accounting for 9.4% of consolidated net revenue, below

the 10.2% reached in 2017. Administrative expenses totaled R\$ 58.3 million in 2018, slightly lower than in 2017 (R\$ 58.7 million), accounting for 6.3% of consolidated net revenue, lower when compared to 2017 (6.8%). Selling and administrative expenses remained stable in relation to 2017 due to the cost reduction programs implemented.

- In 4Q18, the result was negative by R\$ 19.0 million, while the loss recorded for 4Q17 was R\$ 98.4, and R\$ 22.0 million for 3Q18. In the annual comparison, the Company recorded profit of R\$ 3.0 million in 2018, compared to a loss of R\$ 108.2 thousand in 2017. The result of 2018 was impacted by the revenue increase in the comparison with 2017 and the better performance in costs and expenses. This result was also better in the comparison with 2017, where there was the additional recognition of tax provisions, losses on the collection of non-recurring receivables and the failure to recognize deferred tax assets on income tax losses for the year.
- In 4Q18, adjusted EBITDA amounted to R\$ 43.3 million, with a 18.0% margin. In 2018, adjusted EBITDA totaled R\$ 178.3 million, an increase of 15.4% when compared to 2017, with a 19.1% margin, that is, 1.1 percentage points above that for 2017. The EBITDA for 2018 was negatively impacted by R\$ 5.6 million due to the truck drivers' strike in May. The EBITDA for 2018 reflects the return of cash generation to normal levels after the recession period. In the year 2018, the Company did not make additional sales of wood or forest, as occurred in the years 2016 and 2017.
- The Net Debt/EBITDA ratio was 3.88 times in December 2018, against 4.4 times at the end of 2017. This change was mainly due to the increase in EBITDA for 2018. Excluding from the net debt the exchange-rate change recorded as hedge accounting, the net debt/EBITDA ratio would be 2.96x.
- The cash position at the end of 2018 was R\$ 132.2 million, with 65% of the debts maturing in the long term.

## **BUSINESS OVERVIEW**

The businesses of Celulose Irani S.A. comprise three segments and are organized in accordance with the markets in which the Company operates. The segments are independent in their operations, but are integrated in a balanced way, seeking to optimize the use of planted pine forests, through multiple uses, paper recycling and vertical integration of the businesses.

The **Corrugated Cardboard Packaging (PO) Division** manufactures boxes and light and heavy corrugated cardboard sheets, and has three plants: Campina da Alegria, in the State of Santa Catarina (SC), and Indaiatuba and Vila Maria, both in the State of São Paulo (SP).

**Packaging Paper** this segment produces low and high-weight Kraft paper and recycled paper for the domestic and foreign markets. In addition, part of its production is sent to the Corrugated Cardboard Packaging segment. Its plant located in Vargem Bonita - SC (Campina da Alegria Paper Plant) has four paper machines, and the plant in Santa Luzia - MG (Santa Luzia Paper Plant) has one paper machine.

The **RS Forest and Resins Division** sells wood, tar and turpentine. It manufactures forest-based products in the State of Rio Grande do Sul, from the forest assets owned by the Company and located in the region. The business unit called RS Balneário Pinhal - Resins, with an industrial plant located in Balneário Pinhal, State of Rio Grande do Sul (RS), produces tar and turpentine, from the natural resin of the pine forest, which are used in the preparation of varnishes, paints, soaps, glues, adhesives etc. The tar and the turpentine produced are destined mainly to the foreign market.

## Subsidiaries

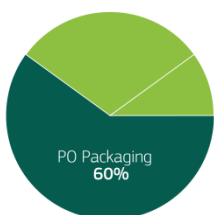
Celulose Irani S.A. has the following wholly-owned subsidiaries:

- Habitasul Florestal S.A., with a forest base of 16.5 thousand hectares, of which 7.9 thousand hectares are planted with pine trees in the State of Rio Grande do Sul, which supplies resin to Resinas da Celulose Irani S.A. and timber to customers in the region.
- HGE - Geração de Energia Sustentável Ltda. and Irani Geração de Energia Sustentável Ltda., which operate in the generation, transmission and distribution of power sourced from wind energy, and are currently in the phase of assessment for implementation.
- Iraflor Comércio de Madeiras Ltda., which carries out activities related to the management and sale of timber and forests for the parent company Celulose Irani S.A. and the market.

## 1. OPERATING PERFORMANCE

### 1.1. Corrugated Cardboard Packaging Segment (PO)

Contribution in income 2018



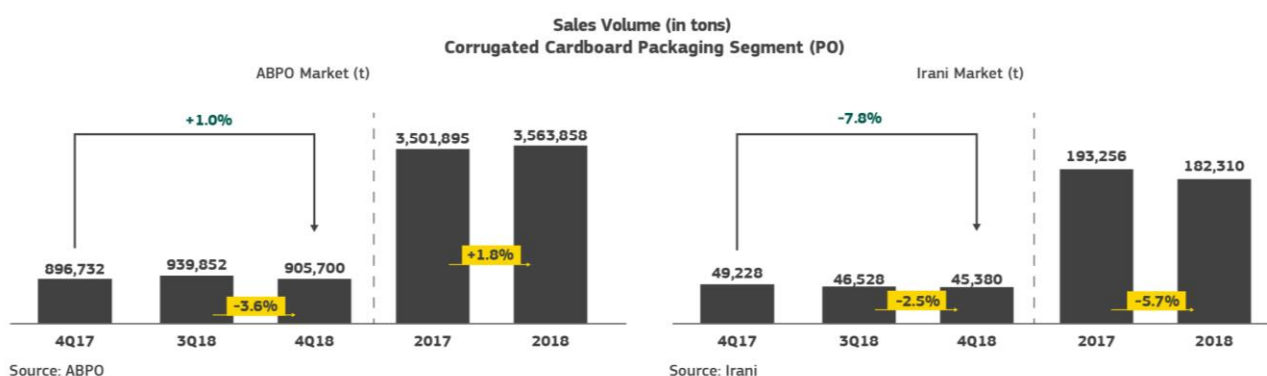
As shown in the charts below, the sales volume in metric tons of corrugated cardboard packaging in the ABPO Market increased by 1.0% in 4Q18 in comparison with 4Q17, and decreased by 7.8% in IRANI Market, totaling 45,380 metric tons. In the comparison with 3Q18, the ABPO Market presented a decrease of 3.6%, while the IRANI Market decreased by 2.5%. In

2018, the ABPO market increased by 1.8% and the IRANI market decreased by 5.7% in relation to 2017. The reduction in the sales volume in tons was caused by the end of a production shift in the SP Vila Maria Packaging unit occurred in the second semester of 2018.

In metric tons, IRANI's market share in 4Q18 was 5.0% lower in relation to the 5.5% recorded for 4Q17 and the 4.9% for 3Q18. In 2018, IRANI's market share was 5.1%, compared to 5.5% in 2017.

The sales performance of boxes in 2018 decreased by 5.2% in the IRANI Market, and increased by 2.3% in the ABPO market. The sales of sheets in IRANI Market decreased by 6.7%, against an stable scenario in the ABPO market. The reduction of the IRANI's Market compared to the ABPO Market for Boxes and Sheets is mainly due to the reduction of one production shift in the SP Vila Maria plant and the consequent review in the portfolio of customers and products in the search for better margins and performance in the segment.

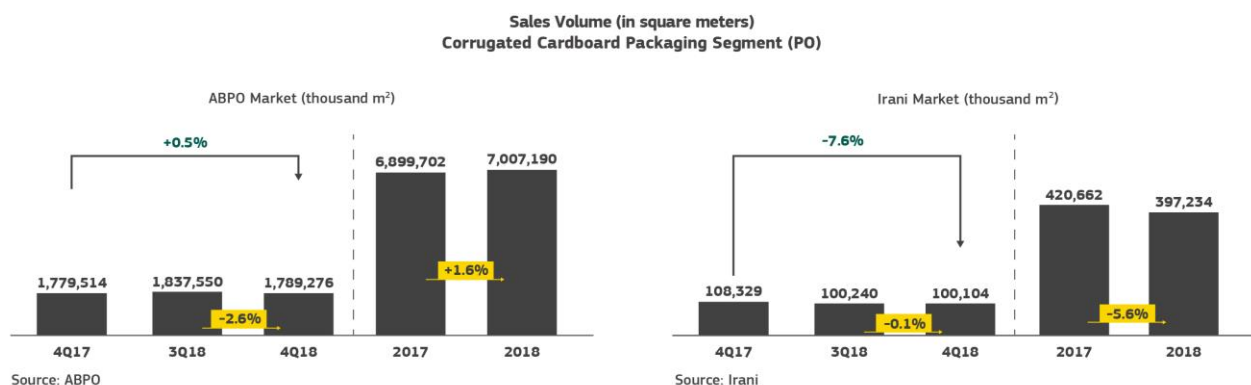
The Indaiatuba (SP), Campina da Alegria (SC) and Vila Maria (SP) Packaging plants accounted for 42%, 32% and 26%, respectively, of the total corrugated cardboard sold in 2018, and all their production was allocated to the domestic market.



The volume of corrugated cardboard packaging sales in square meters (m<sup>2</sup>) remained stable in 4Q18 in the ABPO market compared to 4Q17, and decreased by 2.6% compared to 3Q18. In the comparison between 2018 and 2017, this volume increased by 1.6%. In the comparison between 4Q18 and 4Q17, the IRANI Market decreased by 7.6%. In relation to 3Q18, the IRANI Market remained stable. In 2018 Irani recorded a decrease of 5.6% compared to 2017. Thus, the reduction in the sales volume in square meters was caused by the end of a production shift in the SP Vila Maria plant occurred in the second semester of 2018.

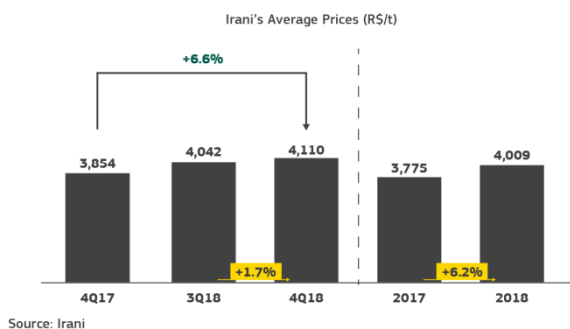
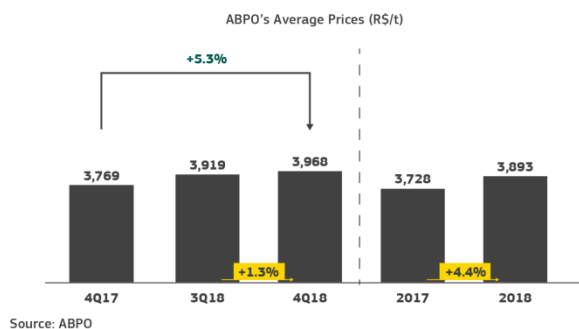
IRANI's market share in square meters reached 5.6% in 4Q18, a decrease in relation to the 6.1% recorded for 4Q17, and an increase when compared to the 5.4% recorded for 3Q18. The sales volume in 2018 totaled 397,234 thousand m<sup>2</sup>, with a market share of 5.7% in the year.

In square meters, the sales performance of boxes in 2018 decreased by 4.3% in the IRANI market, and increased by 2.0% in the ABPO market. The sales of sheets decreased by 8.7% in the IRANI market, and remained stable in the ABPO market.



The production in the Indaiatuba SP Packaging Plant totaled 53,698 metric tons of boxes and 22,040 metric tons of sheets in 2017 (against 53,600 metric tons of boxes and 22,213 metric tons of sheets in 2017). The production in the Campina da Alegria SC Packaging Plant totaled 46,853 metric tons of boxes and 11,568 metric tons of sheets in 2018 (against 45,811 metric tons of boxes and 12,165 metric tons of sheets in 2017). The production in the Vila Maria SP Packaging Plant totaled 29,295 metric tons of boxes and 18,857 metric tons of sheets in 2018 (against 37,624 metric tons of boxes and 21,843 metric tons of sheets in 2017).

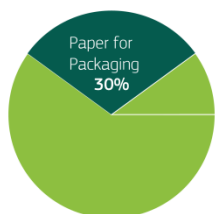
The average ABPO price per metric ton in 4Q18 was 5.3% higher than that of 4Q17, while the average IRANI (CIF) price recorded an increase of 6.6% in 4Q18. In the comparison with 3Q18, the ABPO recorded an increase of 1.3%, while the IRANI market recorded an increase of 1.7%. During the year, prices in the ABPO market was 4.4% higher, while the IRANI market recorded an increase of 6.2%. The best price performance of the Irani Market is due to the strategy of improving the portfolios implemented as a result of the closing of a production shift in the SP Vila Maria plant.



**Note on methodology:** IRANI prices exclude Excise Tax (IPI), Social Contribution on Revenues (COFINS) and Value-added Tax on Sales and Services (ICMS) and are adjusted in accordance with the market mix of boxes and sheets.

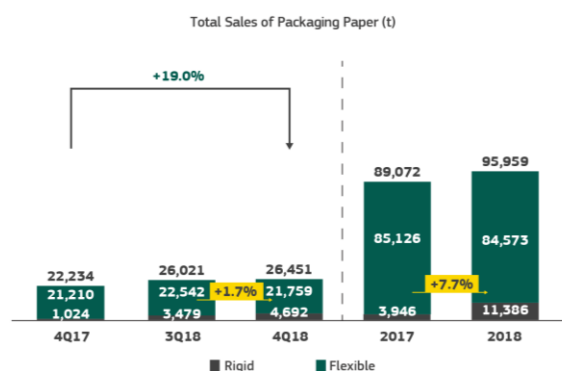
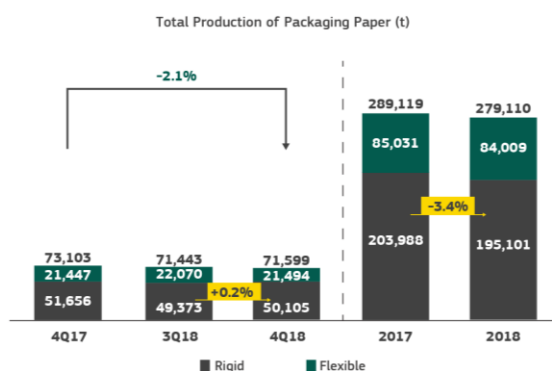
## 1.2 Packaging Paper Segment

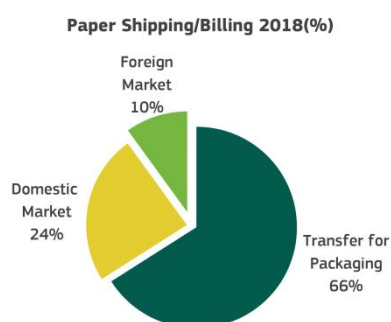
Contribution in income 2018



IRANI operates in the Packaging Paper Segment, with activities both in the hard packaging paper market (paper for corrugated cardboard) and the flexible packaging paper market (paper for sacks).

The Company's total packaging paper production in 4Q18 was 2.1% lower than that recorded for 4Q17, and remained stable in relation to 3Q18. Sales increased by 19.0% and 1.7%, respectively, compared to 4Q17 and 3Q18. In the year to date, production totaled 279,110 metric tons, recording a decrease of 3.4% in relation to 2017, and sales totaled 95,959 metric tons, increasing by 7.7% in relation to 2017.

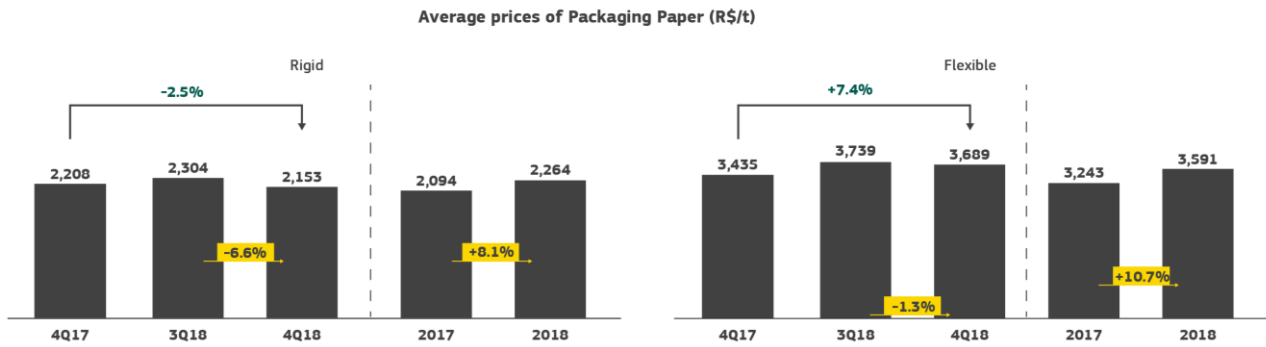




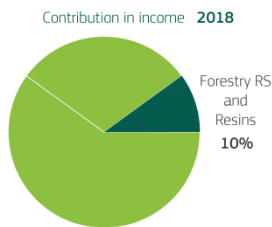
In 4Q18, internal transfers of hard packaging paper (PO segment) totaled 43,482 metric tons (48,942 metric tons in 4Q17 and 46,657 metric tons in 3Q18), allocated as follows: 17,378 metric tons to the SP Indaiatuba Packaging plant (17,857 metric tons in 4Q17 and 18,456 metric tons in 3Q18); 11,021 metric tons to the SP Vila Maria plant (14,991 metric tons in 4Q17 and 11,898 metric tons in 3Q18); and 15,083 metric tons to the SC Campina da Alegria plant (16,094 metric tons in 4Q17 and 16,303 metric tons in 3Q18). In 2018, transfers amounted to 182,153 metric tons (197,635 metric tons in 2017), distributed as follows: 69,692 metric tons to the SP Indaiatuba plant in 2018 (72,120t metric tons in 2017), 50,741 metric tons to the SP Vila Maria plant (63,619 metric tons in 2017) and 61,720 metric tons to the SC Campina da Alegria Plant (61,896 metric tons in 2017).

Of the total internal transfers in 2018, 38% were allocated to the SP Indaiatuba plant, 28% to the SP Vila Maria plant, and 34% to the SC Campina da Alegria plant (in 2017 - 36%, 32% and 31%, respectively).

The hard packaging paper segment, whose sales volume is not significant (accounting for only 4,692 metric tons in 4Q18, as shown in the chart above) recorded a decrease in price of 2.5% and 6.6% when compared to the prices practiced in 4Q17 and 3Q18, respectively. In 2018, in the comparison with 2017, the price increased by 8.1% and followed the increase trend verified in the market for the period. On the other hand, the prices of flexible packaging papers increased by 7.4% in comparison with 4Q17 and 1.3% in relation to 3Q18. In the comparison between 2018 and 2017, an increase of 10.7% was recorded.

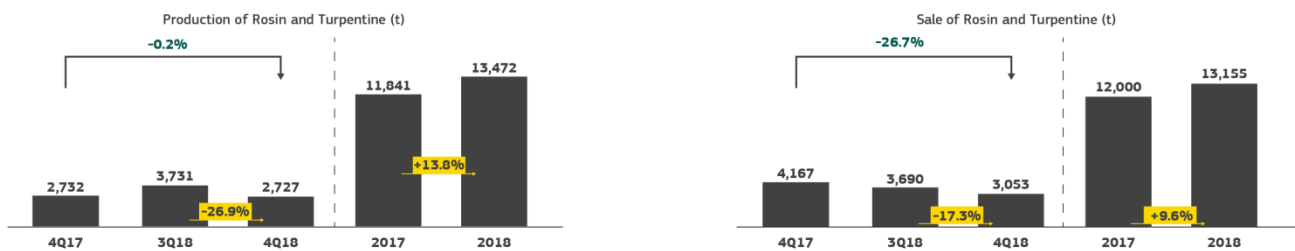


### 1.3 RS Forest and Resins Segment

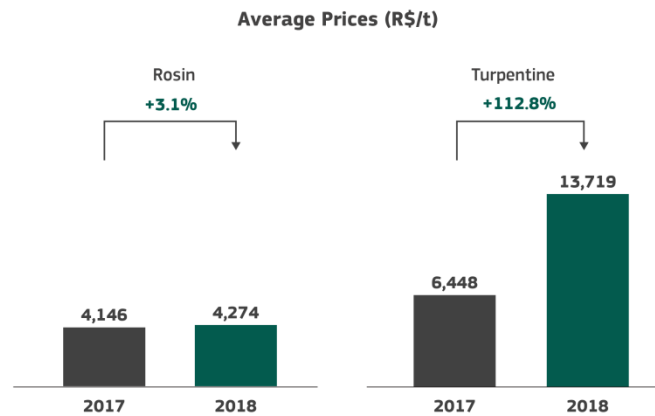


In 2018, the Forest segment of Rio Grande do Sul, through its subsidiary Habitusul Florestal S.A., produced and sold 110 thousand cubic meters of pine logs to the domestic market (96 thousand cubic meters in 2017) and supplied 3,391 metric tons of natural resins to the parent company Celulose Irani S.A. (4,131 metric tons in 2017), to be used in the industrial production of tar and turpentine.

In 4Q18, the production of tar and turpentine of the RS Resin Balneário Pinhal plant remained stable, and sales decreased by 26.7% when compared to 4Q17. In relation to 3Q18, this plant's production and sales performance decreased by 26.9% and 17.3%, respectively. In the year-to-date, production and sales volume totaled 13,472 and 13,155 metric tons, respectively, an increase of 13.8% and 9.6% when compared to 2017.



In 2018, in the comparison with 2017, the average gross selling price of tar increased by 3.1%, while the average price of turpentine increased by 112.8% in relation to 2017. The prices of these products follow the international market and foreign exchange trend, which led to the changes in the period.



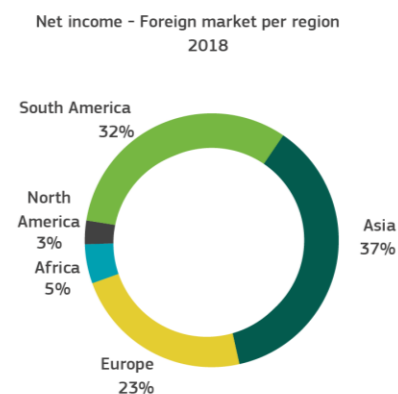
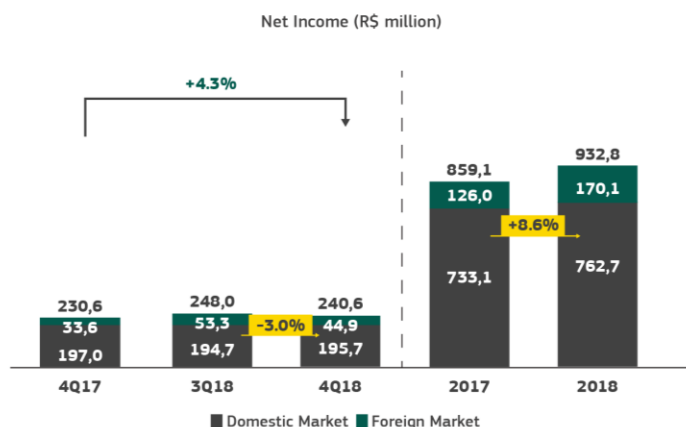
## 2. ECONOMIC AND FINANCIAL PERFORMANCE

### 2.1 Net Operating Revenue

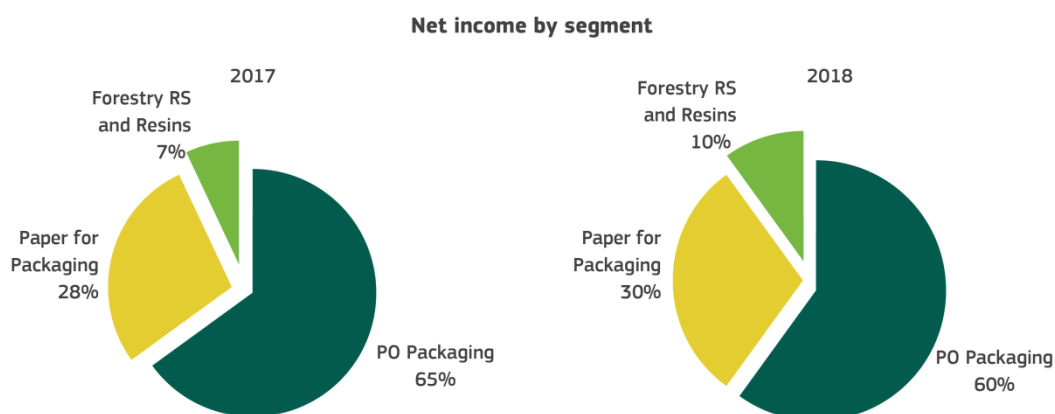
Net operating revenue for 4Q18 totaled R\$ 240,606 thousand, an increase of 4.3% in relation to 4Q17, and a decrease of 3.0% in relation to 3Q18. In the year to date, net operating revenue totaled R\$ 932,817 thousand, recording an increase of 8.6% in the comparison with the same period of previous year.

Net operating revenue in the domestic market totaled R\$ 195,686 thousand in 4Q18, remaining stable in relation to 4Q17 and 3Q18. Total net operating revenue in the domestic market totaled R\$ 762,706 thousand in 2018, increasing by 4.0% in relation to 2017. Revenue from the domestic market accounted for 82% of IRANI's total revenue in 2018.

In 4Q18, exports reached R\$ 44,920 thousand, an increase of 33.7% compared to 4Q17, and of 15.8% compared to 3Q18. In 2018, exports totaled R\$ 170,111 thousand, an amount 35.0% higher than that for 2017, representing 18% of total net operating revenue, concentrating 37% of foreign market revenue, followed by South America with 32%. The other markets are: Europe (23%), Africa (5%) and North America (3%).



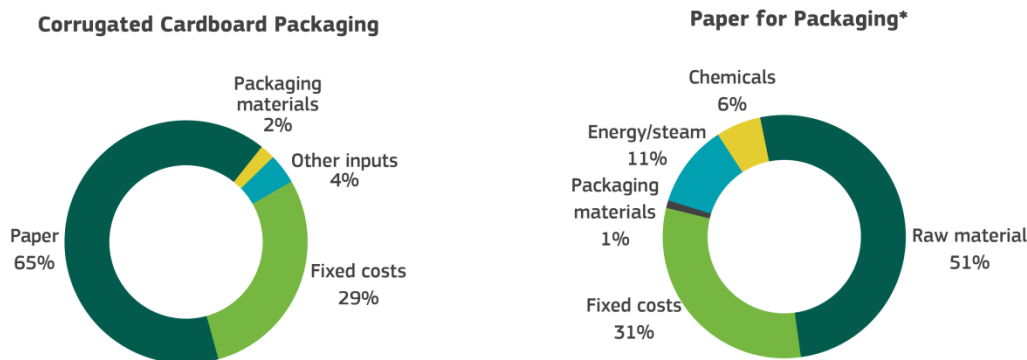
IRANI's main operating segment is the Corrugated Cardboard (PO) Packaging Segment, which was responsible for 60% of the consolidated net revenue in 2018, followed by the Packaging Paper (30%) and RS Forest and Resins (10%) segments.



## 2.2 Cost of Sales

In 2018, cost of sales totaled R\$ 668,334 thousand, or 7.4% higher than in 2017. The change in the fair value of biological assets is not being considered in the cost of sales for any of the periods.

The analysis of cost by business segment in 2018 is shown below:



\*changes in the fair value of biological assets are not included in the cost of the Packaging Paper segment.

## 2.3 Operating Income and Expenses

In 2018, selling expenses (including impairment losses on trade receivables) totaled R\$ 87,425 thousand, remaining stable in relation to 2017, and represented 9.4% of the consolidated net revenue, below the 10.2% recorded for 2017.

Administrative expenses in 2018 remained stable in relation to 2017, and totaled R\$ 58,313 thousand, representing 6.3% of the consolidated net revenue, lower when compared to 2017, when it accounted for 6.8%, mainly due to cost reduction programs in progress at the Company.

Other operating income/expenses resulted in an income of R\$ 458,000 in 2018 against an expense of R\$ 74,053 thousand in 2017.

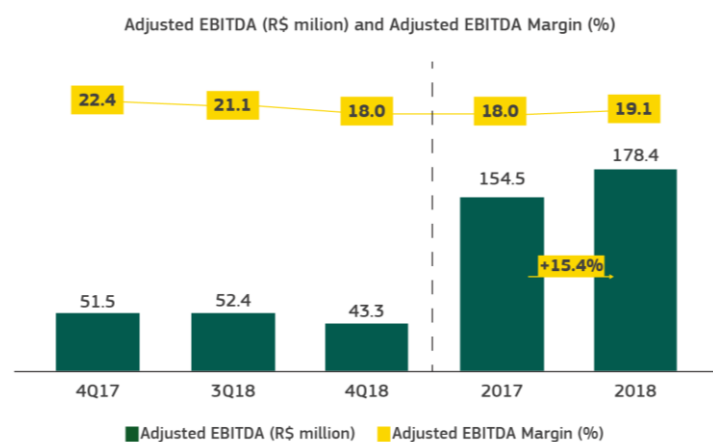
## 3. CASH PROVIDED BY OPERATING ACTIVITIES (ADJUSTED EBITDA)

Consolidated (R\$ thousand)	4Q18	3Q18	4Q17	Var. 4Q18/3Q18	Var. 4Q18/4Q17	2018	2017	Var. 2018/2017
<b>Operating Result before taxes and profit sharing</b>	<b>(18,424)</b>	<b>24,476</b>	<b>(82,727)</b>	-175.3%	-77.7%	<b>(15,623)</b>	<b>(100,571)</b>	-
Depletion	4,981	2,215	35,415	124.9%	-85.9%	16,587	41,761	-60.3%
Depreciation and amortization	13,716	13,608	14,038	0.8%	-2.3%	52,246	53,815	-2.9%
Finance result	30,065	26,758	26,751	12.4%	12.4%	102,212	106,306	-3.9%
<b>EBITDA</b>	<b>30,338</b>	<b>67,057</b>	<b>(6,523)</b>	-54.8%	-	<b>186,668</b>	<b>101,311</b>	<b>84.3%</b>
<b>EBITDA margin</b>	<b>12.6%</b>	<b>27.0%</b>	<b>-2.8%</b>	<b>-14.4 p.p.</b>	<b>15.4 p.p.</b>	<b>20.0%</b>	<b>11.8%</b>	<b>8.2 p.p.</b>
<i>Adjustments pursuant to CVM Instruction 527/12</i>								
Change in the fair value of biological assets <sup>(1)</sup>	10,451	(4,960)	22,012	-	-52.5%	1,368	10,847	-87.4%
Non-recurring events <sup>(2)</sup>	2,530	(9,682)	36,056	-	-93.0%	(9,680)	42,372	-122.8%
<b>Adjusted EBITDA</b>	<b>43,319</b>	<b>52,415</b>	<b>51,545</b>	<b>-17.4%</b>	<b>-16.0%</b>	<b>178,356</b>	<b>154,530</b>	<b>15.4%</b>
<b>Adjusted EBITDA Margin</b>	<b>18.0%</b>	<b>21.1%</b>	<b>22.4%</b>	<b>-3.1 p.p.</b>	<b>-4.4 p.p.</b>	<b>19.1%</b>	<b>18.0%</b>	<b>1.1 p.p.</b>

<sup>1</sup> Change in the fair value of biological assets, since it does not mean cash reduction in the period.

<sup>2</sup> Non-recurring events: The amount of (R\$ 9,680 thousand) (2018) refers to the reversal of non-recurring tax provisions in the amount of (R\$ 11,219 thousand), reversal of losses on receipt of non-recurring credit (R\$ 500 thousand) and the amount of R\$ 2,039 thousand regarding the negative profit or loss from disposal of assets since it is a recurring expense for the year.

Cash provided by operating activities, as measured by adjusted EBITDA, totaled R\$ 178,356 thousand in 2018, with a margin of 19.1% and 15.4% above that computed for 2017, which totaled R\$ 154,530 thousand. The increase of 1.1 p.p. in the margin was mainly due to the better revenue and cost performance for the period. It is worth highlighting that the EBITDA for 2017 considered the sale of forests in the amount of R\$ 19,100 thousand, which did not occur in 2018. Excluding this sale, EBITDA increased from R\$ 135,430 thousand in 2017 to R\$ 178,356 thousand in 2018, an increase of 31.7%, reflecting a robust resumption of operating results after the period of economic recession. The EBITDA for 2018 could have been higher disregarding the negative impact of R\$ 5.6 million caused by the trucker drivers' strike in May.



#### 4. FINANCE RESULT AND INDEBTEDNESS

Finance result was negative by R\$ 30,065 thousand in 4Q18, representing an increase of 12.4% in the comparison with 4Q17 and 3Q18, due to the realization of exchange-rate change in hedge accounting. In 2018, the finance result was negative by R\$ 102,212 thousand, representing a decrease of 3.9% compared to 2017, which totaled a result negative by R\$ 106,306 thousand, impacted by the foreign-exchange income.

In 4Q18, finance costs totaled R\$ 36,097 thousand, compared to R\$ 27,803 thousand in 4Q17, and R\$ 35,504 thousand in 3Q18. In the year, finance costs totaled R\$ 128,457 thousand, against R\$ 128,248 thousand in 2017. Finance income totaled R\$ 6,032 thousand in 4Q18, against R\$ 1,052 thousand in the same period of prior year, and R\$ 8,746 thousand in 3Q18. In 2018, finance income amounted to R\$ 26,245 thousand, against R\$ 21,942 thousand in 2017.

Finance result is broken down as follows:

R\$ thousand	4Q18	3Q18	4Q17	2018	2017
Finance income	6,032	8,746	1,052	26,245	21,942
Finance costs	(36,097)	(35,504)	(27,803)	(128,457)	(128,248)
Finance result	(30,065)	(26,758)	(26,751)	(102,212)	(106,306)

Finance income and costs disclosed include foreign exchange gains and losses, as follows:

R\$ thousand	4Q18	3Q18	4Q17	2018	2017
Foreign exchange gains	4,150	7,074	2,196	19,899	13,662
Foreign exchange losses	(9,731)	(8,624)	(2,260)	(25,493)	(22,459)
Foreign exchange variation, net	(5,581)	(1,550)	(64)	(5,594)	(8,797)

The foreign exchange variations had a negative impact of R\$ 5,581 thousand on the Company's results for 4Q18, and of R\$ 5,594 thousand in 2018, mainly due to the recognition of hedge accounting in the statement of profit and loss.

Finance result net of foreign exchange variation was as follows:

R\$ thousand	4Q18	3Q18	4Q17	2018	2017
Finance result net of foreign exchange variation	(24,484)	(25,208)	(26,687)	(96,618)	(97,509)

For the purpose of hedging its exports in the coming years, the Company maintains the maturity flow of its commitments in foreign currency (U.S. dollars) aligned with the estimated receivables in the same currency. Foreign exchange variations on these transactions are accounted for monthly in Equity and recognized in the statement of profit and loss as finance costs, at realization (hedge accounting). In 4Q18, the Company recognized hedge accounting gains of R\$ 18,177 thousand (R\$ 11,997 thousand net of taxes recorded in equity); finance costs of R\$ 5,679 thousand were recorded in the statement of profit and loss. In the year-to-date, the Company maintains the amount of R\$ 164,683 thousand recorded as exchange-rate change on transactions allocated to hedge accounting, to be recognized in the results at realization, over the coming years and R\$ 108,691 thousand in Equity (net of taxes and R\$ 55,992 thousand is recognized in Non-Current Liabilities (taxes)).

#### Foreign exchange rate

The exchange rate computed as R\$ 3.31/US\$ at December 31, 2017, increased by 16.9% at the end of December 2018, reaching R\$ 3.87/US\$. The average exchange rate for 4Q18 was R\$ 3.81/US\$, or 3.8% lower than in 3Q18 and 17.2% higher than in the same period of 2017. In 2018, the average exchange rate increased by 14.4%, reaching R\$ 3.65/US\$.

R\$ thousand	4Q18	3Q18	4Q17	$\Delta$ 4T18/3T18	$\Delta$ 4T18/4T17	2018	2017	$\Delta$ 2018/2017
Average U.S. dollar	3.81	3.96	3.25	-3.8%	+17.2%	3.65	3.19	+14.4%
Final U.S. dollar	3.87	4.00	3.31	-3.3%	+16.9%	3.87	3.31	+16.9%

Source: Brazilian Central Bank

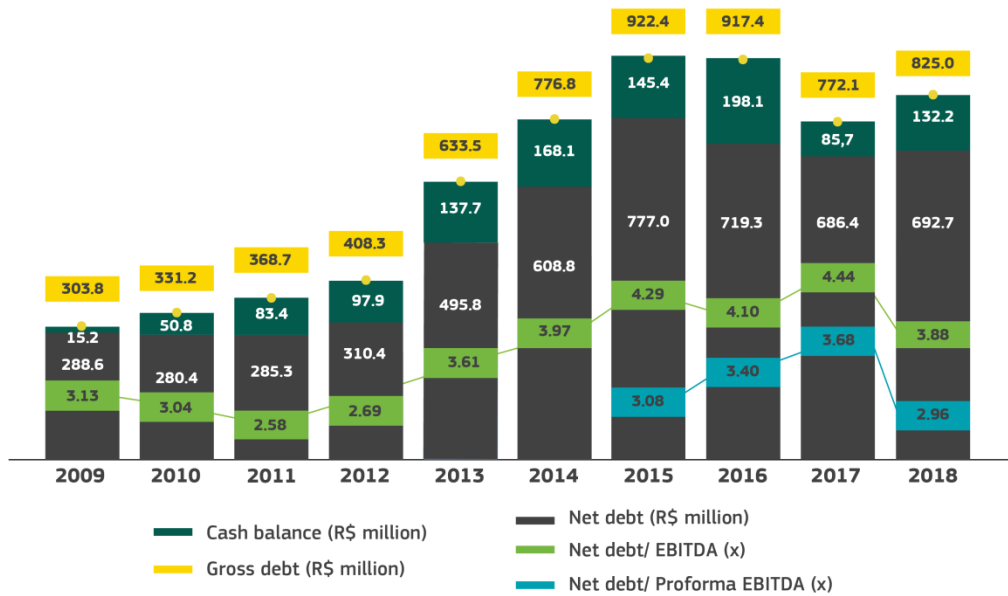
### Indebtedness

At December 31, 2018, consolidated gross indebtedness totaled R\$ 825.0 million, compared to R\$ 772.1 million at December 31, 2017. The change in this indicator was influenced by the new borrowings obtained and settlements made during the year, in addition to the impact of the US dollar on debts in this currency. At December 31, 2018, the Company's gross debt profile presented 35% of debts maturing in the short term and 65% in the long term.

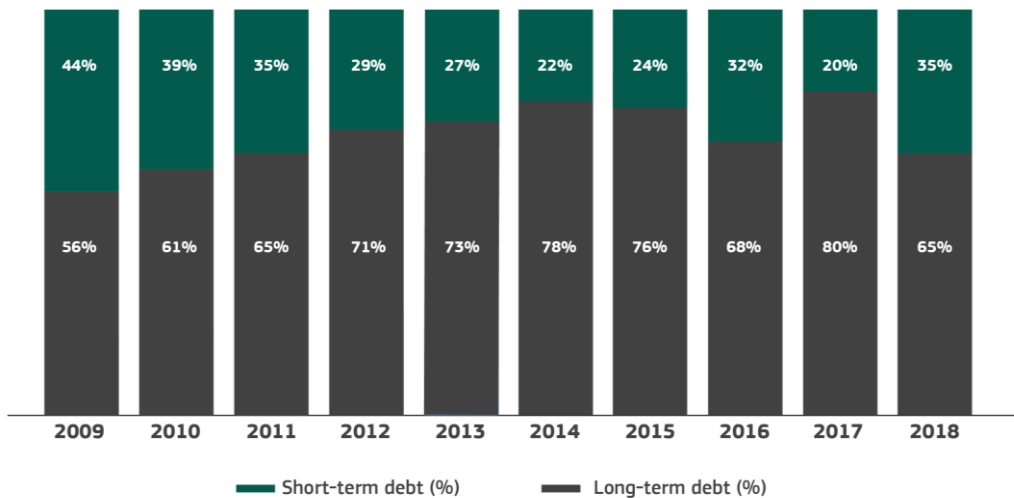
Consolidated cash balance totaled R\$ 132.2 million at December 31, 2018, compared to R\$ 85.7 million (including the balance of banks-restricted account) at December 31, 2017. Cash was mainly impacted by the payments of financial transactions, which exceeded the proceeds from new borrowings, and investments made versus cash generation.

Consequently, consolidated net indebtedness at December 31, 2018 totaled R\$ 692.7 million, compared to R\$ 686.4 million at December 31, 2017. As a result, the net debt/EBITDA ratio changed from 4.44 times at the end of 2017 to 3.88 times at the end of 2018. Excluding from the net debt the exchange-rate change recorded as hedge accounting (Note 29 – Cash flow hedge), the pro forma net debt/EBITDA ratio would be 2.96 at the end of 2018.

Indebtedness and Net Debt/EBITDA



Profile of gross indebtedness



## 5. MEASUREMENT OF BIOLOGICAL ASSETS (FORESTS) AT FAIR VALUE

As from 2010, the Company started to measure its biological assets (forests) at fair value periodically, as determined by CPC 29. The change in fair value of biological assets produced the following effects in the Company's results for 2018:

Changes in the fair value of biological assets

R\$ thousand	2018	2017
Changes in the fair value of biological assets	(1,368)	(10,847)
Depletion of the fair value of biological assets	(15,110)	(30,754)

The change in the fair value of biological assets was negative in 2018, mainly in relation to the forests in the state of Rio Grande do Sul, which were negatively impacted by changes in the costs of resin extraction and forestry.

Changes in the fair value of biological assets, as well as their depletion, is recognized in Cost of Goods Sold (COGS). This accounting practice allows a more precise determination of the market value of the Company's forests, providing the financial statements with more accurate information.

## **6. PROFIT (LOSS) BEFORE TAXES AND PROFIT SHARING**

In 4Q18, operating loss before taxes and profit sharing amounted to R\$ 18,424 thousand, compared to operating loss of R\$ 82,727 thousand in 4Q17 and operating profit of R\$ 24,476 thousand in 3Q18. In 2018, operating profit before taxes and profit sharing for the year totaled R\$ 15,623 thousand, representing an increase in comparison to 2017, when operating loss of R\$ 100,571 thousand was recorded.

## **7. PROFIT/LOSS**

The Company recorded losses of R\$ 19,032 thousand in 4Q18, losses of R\$ 98,421 thousand in 4Q17, and profit of R\$ 22,020 thousand in 3Q18. In the year to date comparison, the Company recorded profit of R\$ 3,011 thousand against losses of R\$ 108,173 computed for 2017. The main factors were the revenue increase in the comparative period to 2017 and the better performance in costs and expenses. This result was also better in the comparison with 2017, where there was the additional recognition of tax provisions, losses on the collection of non-recurring receivables and the failure to recognize deferred tax assets on income tax losses for the year.

## **8. INVESTMENTS**

The Company maintains its strategy of investing in the modernization and automation of its production processes.

The investments in 2018 totaled R\$ 71,767 thousand and were basically directed to the maintenance and improvement of machinery and equipment, facilities, and reforestation.

The investment made in 2018 that deserves special emphasis was the implementation of the SAP S/4HANA system, which is an important step in improving governance and in the Company's digital transformation journey, aiming to achieve greater efficiency, productivity and competitiveness in its businesses.

In 2018, the company also invested in the acquisition of a printer for SP Indaiatuba plant.

R\$ thousand	4Q18	2018
Land	-	21
Buildings	-	79
Equipment	940	37,363
Intangible assets	6,735	20,544
Reforestation	5,333	13,760
<b>Total</b>	<b>13,008</b>	<b>71,767</b>

## 9. SHARE CAPITAL

At December 31, 2018, IRANI's capital was represented by 166,720,235 shares, of which 153,909,975 (92%) are common shares and 12,810,260 (8%), preferred shares. At December 31, 2018, the Company held in treasury 2,376,100 shares, of which 24,000 are common shares and 2,352,100, preferred shares. In the same period, common shares were traded at R\$ 2.95 and preferred shares, at R\$ 2.90.

## 10. SUSTAINABILITY

IRANI adopts an integrated management model, which incorporates into its strategy the balance between economic, social and environmental development. By assuming its commitment to sustainability, the Company promotes a virtuous circle of environmental preservation and innovation, which enhances its responsibility of being an environmentally correct, socially fair and economically viable organization.

In April 2018, IRANI established a Sustainability Committee composed of the Executive Officers, industrial managers, corporate managers and sustainability analysts with the role of ensuring the evolution of the theme in line with the Company's strategic planning and providing guidelines for the management of the initiatives linked to the theme.

The Sustainability Report is published in the first half of each year. In line with guidelines of the [Global Reporting Initiative](#) (GRI) and based on the guidelines for the integrated reporting of the [International Integrated Reporting Council](#) (IIRC), the document is available for consultation in [www.relatorioanualirani.com.br](http://www.relatorioanualirani.com.br).

### 10.1 Awards and Recognitions

In 2018, the Company received the following awards:

- **Quality and Productivity Program of the State of Rio Grande do Sul (PGQP):** awarded by complying with the set of practices of Irani to the requirements applicable to those eligible for the Silver trophy. Irani was also recognized as a highlight in the Industry category by meeting the requirements and for its differentiated performance. Sustainability recognition based on the case 'Fiber recovery and plastic recycling plant'. In this same award, the Company received the innovation trophy, recognizing its management practices and innovation results according to the criteria defined in the Innovation Management System (SGI) Evaluation Guide.
- **Citizen Company Award from the Association of Sales and Marketing Executives of the State of Santa Catarina (ADVB/SC):** awarded to organizations from the State of Santa Catarina that develop outstanding social and environmental initiatives. Irani was recognized in the Environmental Preservation category for the case "Production of coal briquettes from industrial waste."
- **8th Social Responsibility Certification and Highlight Trophy from the State of Santa Catarina:** award established by law by the Legislative Assembly of Santa Catarina to recognize and value companies and organizations committed to the well-being of society and environmental preservation. Irani won this Trophy for the fifth time.
- **ECO® 2018 Award — 36 Years:** promoted by the American Chamber of Commerce for Brazil and by newspaper O Estadão to distinguish and recognize the best companies and business management practices for sustainability in Brazil. Irani was recognized in the solid waste category for the case "Production of coal briquettes from industrial waste."
- **14th AMCHAM RIO Brasil Environmental Award:** recognition of the American Chamber of Commerce of Rio de Janeiro to organizations with best practices in sustainability. Irani won this

award in the solid waste category for the case “Production of coal briquettes from industrial waste.”

- **Certificate of Recognition of the City Council of Joaçaba/SC.**
- **Honorable Mention of the City Council of Vargem Bonita/SC.**

## **10.2 Environmental Performance Management**

IRANI's environmental policy is in line with the standard ISO 14001:2015, and reflects the Company's commitment with the stakeholders through the compliance with applicable legal requirements, pollution prevention, environment preservation, reduction of environmental impacts and continuous improvement focused on enhancing its performance, and always abiding by the best practices of environmental management.

The Company maintains constant monitoring, such as monitoring of water quality, air quality, groundwater, waste, effluents, atmospheric emissions, among others, to ensure compliance with current environmental legislation.

The certifications obtained demonstrate the effectiveness of the environmental system. The Company's plants are ISO 14064 certified. Irani is the first Brazilian company to certify a Greenhouse Gas (GHG) Inventory according to ISO 14064: 2006. This certification proves that it is a carbon neutral company, which means that forests have a higher absorption potential than the Company's emissions.

The forests of Santa Catarina and Rio Grande do Sul have the FFSC® - Forest Stewardship Council® for forest management (FSC®-C020437 / FSC®-C116791) and our plants of pulp and paper, corrugated cardboard packaging and resins hold the Chain of Custody Certification (FSC®-C009947 / FSC®-C120229). The Packaging plants have also been granted the ISO 14001 certification, which reflects the Company's commitment to environmental issues and sustainability oriented practices, as well as enhances IRANI's credibility with its stakeholders.

The FSC Chain of Custody Certification works as a product origin certificate. It shows that the raw material used by the Company is handled, extracted and processed in an eco-friendly, socially fair, and economically viable manner. It has Forest Management Certification and Chain of Custody Certification, which enables the manufacturing of products with the FSC® seal. Certification has

been a voluntary and independent market instrument for companies to provide consumers with reliable information on the source of the raw materials used in their products.

Celulose Irani maintains its Plants duly licensed, and all licenses required to carry out the activities are requested from the competent bodies and systematically renewed before their expiration. All the conditions are duly implemented and the evidence is filed with the environmental agencies according to the periodicity provided for in the license itself.

Several measures are taken to minimize the environmental impacts of its activities. In a pioneering and innovative manner, IRANI has implemented a project for recovery of plastic (waste arising from recycling of paper trimmings), obtaining a new by-product called "mixed plastic trimmings", a raw material which is used by the plastic industry to manufacture recycled plastic fence poles, roof tiles and sheets, thus creating a new production chain with the environmental advantage of avoiding the disposal of plastic waste in landfills.

Through sustainable partnerships which aim at promoting social, environmental, and economic benefits, Irani, together with partner companies, developed projects for providing a proper destination to the coal resulting from the biomass burning process at Irani's boiler. Previously, this coal was disposed in the industrial landfill, which contributed to reduce the useful life of the landfill site and generated greenhouse gases over the degradation process. The partner companies use this waste in several manners, and GTNH processes it, converting coal into charcoal, proper to be used in barbecues and fireplaces, a product named "Carvão Ecomais".

## **11 SOCIAL PERFORMANCE INDICATORS**

### **11.1 People Development**

At the end of 2018, IRANI had 2,426 employees. The Company seeks to achieve excellence through participatory management and investments in programs, actions and benefits that allow the personal and professional development of its employees in a pleasant work environment. During 2018, the Company invested R\$ 32,672 thousand in benefits related to meal, transportation, life insurance and health care plan benefits, R\$ 1,154 thousand in qualification and personal development actions, R\$ 5,654 thousand in the profit sharing program (PPR), and R\$ 6,886 thousand in the SUPERA program.

People are the drivers to fulfill the Company's mission and catalysts to achieve its vision. Thus, building high-performance teams and getting people to reach their maximum personal and professional potential is part of the strategy. This incentive and development are offered to employees through five structuring programs: "GERA", "CRESCE", "CUIDA", "MOTIVA" and "SUPERA".

The GERA Program has a set of processes aimed at attracting, engaging and monitoring the trajectory of Irani professionals, seeking to ensure that they are adequate and integrated to the organizational culture. Thus, it tracks the whole cycle of the professional, hoping that the development of people will be recognized as a merit of both parties. The CRESCE Program acts as a partnership of leaders, seeking to understand the reality of each unit and support areas. Also inspired by the Company's Strategic Planning, further work will be undertaken with the purpose of strengthening the learning culture and providing better solutions to help leaders promote a stimulating environment for high-performance teams. In this sense, the Program seeks to bring a new meaning to the learning methods based on the structured development of Corporate Education with three internal schools: ITEC (Technical), DNA (Culture) and LIDERA (Leadership). The CUIDA Program was structured to provide behavioral changes and improve the physical conditions of the workplace. It consists of a set of practical and applicable procedures under an integrated health and safety management model, whose purpose is to reduce workplace accidents, increase compliance with the legislation and expand the employees' awareness of health and safety subjects. Through the MOTIVA Program, the Company addresses the organizational climate through people management practices. The activities of leaders, employees and support groups in climate management, as well as climate survey and monitoring, are the means used to create one of the best environments to work with. The SUPERA Program is an annual evaluation program based on skills and results management with the purpose of promoting self-knowledge, people development, strengthening feedback culture, identifying talent and recognizing employees.

## **11.2 Society**

Irani's social investments seek to meet the strategic goal of promoting the development of surrounding communities focusing on sharing value and generating wealth for all of those impacted by the Company's business.

To this end, it seeks to establish solid partnerships for the development of projects in the areas of citizenship, social and environmental education, culture and sports. In 2018, we invested R\$ 206 thousand in projects such as:

- Partnership with Junior Achievement in the states of Santa Catarina, São Paulo, Rio Grande do Sul and Minas Gerais, benefiting over 700 school-age children.
- Aluno Destaque (Student of the Year) Project, created to recognize the five best students in the Galeazzo Paganelli Public School, in the town of Campina da Alegria (SC), encouraging them to continue to achieve an excellent performance in school, and be prepared for the Brazilian National High School Exam (ENEM), with educational follow-up and the grant of scholarships.
- Volleyball training center for beginners, in partnership with the Volleyball Association of Joaçaba (AJOV), involving approximately 335 students.
- Sesi Atleta do Futuro (Athlete of the Future) Program, a partnership with the Social Service for Industry (SESI) and the municipal government of Indaiatuba (SP), which aims at the development of citizenship through sports and involves approximately 1,500 children between six and twelve years-old.
- Sesi Sports Center, a partnership with Sesi MG that offers free soccer classes for 48 children and young people between six and seventeen years-old.
- Broto do Galho Project, has been created for the purpose of providing the sustainable development in the town of Campina da Alegria, through a handcraft center that produces goods from industrial waste, stimulating social integration and extra income generation for the participants.
- Occasional donations are evaluated by local social investment committees and they contribute to cultural and social and environmental actions of surrounding communities. In 2018, donations totaled R\$ 10,000.

## **12 AUDIT SERVICES**

In accordance with CVM Instruction 381/03, we inform that during 2018, KPMG Auditores Independentes provided audit services of the financial statements in the amount of R\$ 576 thousand.

The policy of the Company and its subsidiaries in the engagement of independent auditor services ensures that there is neither conflict of interests, nor loss of independence or objectivity.

## **13 PROSPECTS**

The year 2019 begins a new political and economic cycle in Brazil. The country expects that the new government, with a more liberal inclination, will succeed in implementing reforms, especially the social security reform. Building a more prosperous nation involves reformulating the State and simplifying and harmonizing the business environment. The new government shows to be decided to make these changes, which should pave the way for the resumption of the country's more robust and sustainable economic growth.

In the international scenario, more relevant uncertainties begin to emerge as the US economic expansion cycle turns out to be the largest in history. Moreover, geopolitics can bring further challenges as the trade war continues and other protectionist measures can be taken by major economies.

## **ACKNOWLEDGMENTS**

We thank each one of our employees for their effort during this period, our shareholders and creditors for the trust they placed in us, and our customers, suppliers and surrounding communities for their support and partnership, which were crucial for the growth and development of Irani during 2018.

Porto Alegre, March 2019.

The Executive Office.

(A free translation of the original in Portuguese)

To the Shareholders of

**CELULOSE IRANI S.A.**

### **Capital Budget Proposal**

In accordance with the provisions of Article 196 of Law 6404/76, with the wording provided by Law 10303, of October 31, 2001, the Management of Celulose Irani S.A. ("Company") hereby submits the Company's Capital Budget proposal.

The proposal for allocation of the profit attributed to the Company's shareholders for the year ended 12/31/2018, disclosed in the financial statements, foresees that, after the adjustments referred to in Articles 193 and 202 of Law 6,404/76, profits will be retained in the amount of **R\$ 11,239** thousand, destined to Profit Retention Reserve, designated to meet the Company's Investment Plan.

The capital Budget for 2019, approved at the Board of Directors' meeting held on December 12, 2018, totals **R\$ 92,663** thousand, in addition to R\$ 9,558 thousand for working capital needs, distributed as follows:

#### **2019 Capital Budget**

<b>R\$ thousand</b>	<b>Current</b>	<b>Strategic</b>	<b>Total</b>
Packaging Segment PO	-	12,783	12,783
Head office	-	12,637	12,637
Packaging Paper Segment	-	7,243	7,243
Current investment budget	60,000	-	60,000
<b>Total investments for 2019</b>	<b>60,000</b>	<b>32,663</b>	<b>92,663</b>
Working Capital Needs	9,558		9,558

These investments will be realized through own resources (generated with the operational activity during the year) and resources financed, as described below.

#### **Summary of sources and uses**

<b>R\$ Thousand</b>	<b>Current</b>	<b>%</b>	<b>Strategic</b>	<b>%</b>	<b>Total</b>	<b>%</b>
Financed Resources	-	-	2,870	8.79%	2,870	3.10%
Own Resources	60,000	100%	29,793	91.21%	89,793	96.90%
Total	60,000	100%	32,663	100%	92,663	100%

Having presented this proposal, Management is at the disposal of the Shareholders to provide the additional clarifications that they deem necessary.

Porto Alegre, RS, March 1, 2019.

The Executive Office.

(A free translation of the original in Portuguese)

### **Executive officers' statement**

For the purposes of Article 25 of CVM Instruction 480/09

As Executive Officers of Celulose Irani S.A., a corporation headquartered at Rua General João Manoel, 157, 9th floor, room 903, in the city of Porto Alegre, state of Rio Grande do Sul, enrolled in the National Corporate Taxpayers Registry (CNPJ/MF) under No.92.791.243/0001-03, **WE DECLARE**, in compliance with the provisions established in paragraph 1, Article 25 of CVM Instruction 480, of December 7, 2009, that we reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2018.

Porto Alegre, RS, March 1, 2019.

**Sérgio Luiz Cotrim Ribas**

CEO

**Odivan Carlos Cargin**

Administration, Finance and Investors Relations Officer

**Henrique Zugman**

Paper and Forest Business Officer

**Lindomar Lima de Souza**

Packaging Business Officer

**Fabiano Alves de Oliveira**

People, Strategy, and Management Officer

## **Executive officers' statement**

For the purposes of Article 25 of CVM Instruction 480/09

As Executive Officers of Celulose Irani S.A., a corporation headquartered at Rua General João Manoel, 157, 9th floor, room 903, in the city of Porto Alegre, state of Rio Grande do Sul, enrolled in the National Corporate Taxpayers Registry (CNPJ/MF) under No.92.791.243/0001-03, **WE DECLARE**, in compliance with the provisions established in paragraph 1, Article 25 of CVM Instruction 480, of December 7, 2009, that: (i) we reviewed, discussed and agreed with the opinion expressed in the independent auditor's report of the Company referring to the financial statements for the year ended December 31, 2018; and (ii) we reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2018.

Porto Alegre, RS, March 1, 2019.

**Sérgio Luiz Cotrim Ribas**

CEO

**Odivan Carlos Carginin**

Administration, Finance and Investors Relations Officer

**Henrique Zugman**

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