


## 1. OPERATIONS

Celulose Irani S.A. ("Company") is a corporation listed on the São Paulo Futures, Commodities and Securities Exchange (BM&FBovespa S.A.), 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 manufacturing corrugated cardboard packaging, packaging paper, resin products and their byproducts. The Company is also engaged in forestation and reforestation and utilizes the production chain of planted forests and paper recycling as the basis for all its production.

The direct subsidiaries are listed in Note 4.

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

The issue of these interim financial statements was authorized by the Company's Board of Directors on April 20, 2016.

## 2. PRESENTATION OF THE INTERIM FINANCIAL STATEMENTS

The parent company and consolidated interim financial statements have been prepared and are being presented 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 interim financial statements, which is consistent with the information utilized by management in the performance of its duties.

The interim 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 date of transition to IFRS/CPCs.

## 3. SIGNIFICANT ACCOUNTING PRACTICES

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

The parent company and consolidated interim 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, 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. Cash and cash equivalents are classified in financial instruments as "loans and receivables."

### c) Trade receivables and provision for impairment of trade receivables

Trade receivables are recorded at their original amounts plus the effect of foreign exchange rate changes, when applicable. The provision for impairment of trade receivables is calculated based on losses estimated through an individual analysis of trade receivables and considering the history of losses, and is recognized at an amount considered sufficient by the Company's management to cover expected losses on the collection of these receivables. Trade receivables are classified in financial instruments as "Loans and receivables."

### d) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

### e) Impairment of financial assets

The Company assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are recognized

only if there is objective evidence that one or more events have an impact on the estimated future cash flows of the financial asset or group of financial assets, which can be estimated reliably.

The criteria that the Company uses to determine whether there is objective evidence of an impairment loss include:

i) significant financial difficulty of the issuer or debtor;
ii) a breach of contract, such as a default in interest or principal payments;
iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
iv) the disappearance of an active market for that financial asset because of financial difficulties;
v) adverse changes in the conditions and/or the economy that indicate a reduction in estimated future cash flows of the portfolios of financial assets.

If there is evidence that a financial asset or a group of financial assets is impaired, the difference between the carrying amount and the present value of the future cash flows is estimated, and the impairment loss is recognized in the statement of operations.

f) 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.

g) Investments

Investments in subsidiaries are accounted for under the equity method in the parent company interim financial statements.

Under the equity method, 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 provides evidence of impairment of the asset transferred. The accounting policies of the subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Company.

h) Investment properties

Depreciation is recognized based on the estimated useful life of each asset on the straight-line basis, to fully write off the cost less 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 operations on the accrual basis of accounting.

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

i) Property, plant and equipment and intangible assets

Property, plant and equipment are stated at deemed cost less accumulated depreciation and impairment losses, when 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 their intended use and is calculated on the same basis as that of 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 expectations of the generation of future economic benefits, except for land, which is not depreciated. The estimated useful lives of the assets are reviewed annually and adjusted if necessary, and may vary based on the technological stage of each unit.

The 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 the assets and liabilities of the acquiree. Goodwill on acquisitions of subsidiaries is recorded as "Intangible assets" in the consolidated interim financial statements. If a gain on advantageous purchase is determined, the amount is recorded as a gain in the statement of operations for the period, at the acquisition date. Goodwill is tested for impairment annually and carried at cost less accumulated impairment losses. Impairment losses 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 those CGUs or groups of CGUs that are expected to benefit from the business combination from which the goodwill arose, identified according to the operating segment.

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

j) Biological assets

The Company's biological assets are represented mainly by pine forests, which are used in the production of packaging papers, corrugated cardboard boxes and sheets, and also for sale to third parties and extraction of gum resin. 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 periodically measured at fair value less selling expenses, and the variation during each period is recognized in the statement of operations 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.

k) 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. The reviews conducted in 2015 did not indicate the need to recognize any impairment losses.

l) 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 operations, 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 for each company individually, based on the statutory rates prevailing at year-end. The Company calculates its taxes at a rate of 34% on its taxable profit; however, the subsidiaries Habitasul Florestal S.A. and Iraflor Comércio de Madeiras Ltda. adopt a deemed 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 that adopt the deemed taxable profit regime, in respect of the fair value of biological assets and the deemed cost of property, plant and equipment.

Deferred tax assets and liabilities are presented net in the balance sheet when there is a legally enforceable right and the intention to offset them upon the calculation of current taxes, generally when related to the same legal entity and the same tax authority.

m) Borrowings and debentures

Borrowings and debentures are stated at their original amounts, less the related transaction costs, when 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, when applicable, through the balance sheet dates, as described in the notes to the financial statements.

n) Hedge accounting

At the inception of the transaction, the Company documents 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 in "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 operations.

The amounts accumulated in equity are reclassified to the statement of operations 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 operations within "Finance results". The gain or loss relating to the ineffective portion is recognized in the statement of operations 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 operations for the period.

o) 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 finance leases. All other leases are classified as operating leases and recorded in the statement of operations. The 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 beginning of the lease agreement. 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 operations 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.

p) 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.

q) 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.

r) Significant accounting judgments, estimates and assumptions

In the preparation of the interim financial statements, judgments, estimates and assumptions were used 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 interim 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 provision for impairment of trade receivables (Notes 6 and 10), the measurement of the fair value of biological assets (Note 15), the provision for tax, social security, civil and labor claims (Note 20), and the provision for impairment of assets.

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

The Company has a Value-added Tax on Sales and Services (ICMS) incentive granted by the Governments of the States of Santa Catarina and Minas Gerais. The Federal Supreme Court (STF) issued decisions on Direct Actions, declaring the unconstitutionality of several state laws that granted ICMS tax benefits without any previous agreement between the States.

Although the Company has no tax incentive being judged by the STF, it has been following, together with its legal advisors, the evolution of this issue in the courts to assess possible impacts on its operations and consequent effects on the interim financial statements (Note 32).

s) 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 changes at official rates, applicable to current and non-current assets and liabilities and, when applicable, adjustments to realizable value.

t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of products and services, less any expected returns, trade discounts and/or bonuses granted to the customer and other similar deductions. Revenue between the Company and its subsidiaries is eliminated from the consolidated results.

Sales revenue is recognized when all of the following conditions are met:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the products;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the products sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

u) 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 operations, and is appropriated based on the amortized cost and the effective rate over the period.

v) Statement of value added

Brazilian Corporate Law requires the presentation of the parent company and consolidated statements of value added as an integral part of the interim financial statements. 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 was prepared pursuant to the provisions of CPC 09 - "Statement of Value Added", with information obtained from the same accounting records used to prepare the interim financial statements.

## 4. CONSOLIDATION OF THE INTERIM FINANCIAL STATEMENTS

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

| Ownership interest - (%) | | | |
|---|---|---|---|
| Subsidiaries - direct ownership | Activity | 3/31/2016 | 12/31/2015 |
| Habitasul Florestal S.A. | Forest production | 100.00 | 100.00 |
| HGE - Geração de Energia Sustentável LTDA * | Power generation | 100.00 | 100.00 |
| Iraflor - Comércio de Madeiras LTDA | Timber sales | 99.99 | 99.99 |
| Irani Geração de Energia Sustentável LTDA * | Power generation | 99.43 | 99.43 |

* currently reviewing 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. The accounting information of the subsidiaries used for consolidation considers the same date as that of the Company's accounting information.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Fixed-income fund | 29 | 29 | 30 | 32 |
| Banks | 2,106 | 3,275 | 2,297 | 3,499 |
| Financial investments with immediate liquidity | 36,650 | 76,775 | 38,424 | 122,201 |
| | 38,785 | 80,079 | 40,751 | 125,732 |

The financial investments with immediate liquidity in Bank Deposit Certificates (CDBs) earn an average of 99.88 % of the Interbank Deposit Certificate (CDI) interest rate and have a maturity of 90 days or less. These investments are held for the purpose of meeting short-term commitments.

## 6. TRADE RECEIVABLES

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Trade receivables: | | | | |
| Trade receivables - domestic market | 136,322 | 130,605 | 138,346 | 131,839 |
| Trade receivables - foreign market | 24,727 | 19,405 | 24,727 | 19,405 |
| | 161,049 | 150,010 | 163,073 | 151,244 |
| Provision for impairment of trade receivables. | (14,858) | (14,733) | (15,515) | (15,390) |
| | 146,191 | 135,277 | 147,558 | 135,854 |

At March 31, 2016, the amount of R$ 24,450 in consolidated trade receivables was overdue and not provided for. This balance relates to independent customers with no history of default.

The ageing analysis of trade receivables is as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Not yet due | 122,148 | 116,233 | 123,108 | 116,709 |
| Less than 30 days overdue | 13,118 | 11,374 | 13,337 | 11,425 |
| 31 to 60 days overdue | 5,340 | 3,662 | 5,424 | 3,666 |
| 61 to 90 days overdue | 1,767 | 664 | 1,843 | 670 |
| 91 to 180 days overdue | 1,340 | 2,059 | 1,360 | 2,059 |
| More than 180 days overdue | 17,336 | 16,018 | 18,001 | 16,715 |
| | 161,049 | 150,010 | 163,073 | 151,244 |

The average credit term on the sale of products is 42 days. The Company recognizes a provision for impairment of trade receivables for balances past due for over 180 days, based on an analysis of the financial position of each debtor and past default experience. A provision for impairment of trade receivables is also recorded for balances past due for less than 180 days when these balances are considered as uncollectible, based on the financial position of each debtor.

The changes in the provisions were as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Balance at the beginning of the period | (14,733) | (13,836) | (15,390) | (14,494) |
| Provision for losses recognized | (125) | (897) | (125) | (897) |
| Amounts recovered in the period | - | - | - | 1 |
| Balance at the end of the period | (14,858) | (14,733) | (15,515) | (15,390) |

A portion of the receivables, amounting to R$ 73,764, has been assigned as collateral for certain financing transactions, as disclosed in Notes 16 and 17.

The credit quality of financial assets that were neither past due nor impaired at March 31, 2016 was assessed with reference to historical information on default rates, as follows:

Quality of trade receivables

| | | Consolidated |
|---|---|---|
| Customer category | History - % | Amount receivable |
| a) Customers with no history of default | 88.31 | 108,717 |
| b) Customers with history of default of up to 7 days | 9.11 | 11,215 |
| c) Customers with history of default of more than 7 days | 2.58 | 3,176 |
| | | 123,108 |

a) Performing customers with no history of default
b) Defaulting customers with a history of default of up to 7 days, without history of delinquency.
c) Defaulting customers with a history of default of more than 7 days, without history of delinquency.

## 7. INVENTORIES

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Finished products | 5,925 | 10,265 | 5,925 | 10,265 |
| Production materials | 38,965 | 32,046 | 38,965 | 32,046 |
| Consumable materials | 21,717 | 21,494 | 21,815 | 21,594 |
| Other inventories | 544 | 3,601 | 544 | 3,601 |
| | 67,151 | 67,406 | 67,249 | 67,506 |
| Write-down to net realizable value | (69) | (287) | (69) | (287) |
| | 67,082 | 67,119 | 67,180 | 67,219 |

The cost of inventories recognized as an expense for the quarter totaled R$ 145,471 (R$ 129,713 in 1Q15) in the parent company and R$ 141,993 (R$ 127,933 in 1Q15) in the consolidated.

The cost of inventories recognized in the statement of operations in the first quarter of 2016 does not include a write-down to net realizable value. Management expects the remaining inventory items to be realized in less than 12 months.

## 8. TAXES RECOVERABLE

Taxes recoverable consist of the following:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Value-added Tax on Sales and Services (ICMS) | 6,085 | 7,282 | 6,085 | 7,282 |
| Social Integration Program (PIS)/ Social Contribution on Revenues (COFINS) | 240 | 894 | 240 | 894 |
| Excise Tax (IPI) | 142 | 101 | 142 | 101 |
| Income tax | 199 | 340 | 199 | 340 |
| Social contribution | 39 | 39 | 39 | 39 |
| Withholding Income Tax (IRFF) on investments | 3,346 | 3,655 | 3,652 | 3,655 |
| | 10,051 | 12,311 | 10,357 | 12,311 |
| Current | 7,096 | 9,245 | 7,402 | 9,245 |
| Non-current | 2,955 | 3,066 | 2,955 | 3,066 |

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

## 9. BANKS - RESTRICTED ACCOUNT

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Banco do Brasil - New York | 26,735 | 19,722 | 26,735 | 19,722 |
| Total current | 26,735 | 19,722 | 26,735 | 19,722 |

The balances with Banco do Brasil - New York/ United States of America - are represented by amounts in U.S. dollars retained to guarantee the settlement of the quarterly installments of the export prepayment loan obtained from Credit Suisse Bank, referring to the installment falling due in May 2016. The contract, which deals with the retention realized on September 26, 2014, has been renegotiated and establishes that only the contractual interest will be due up to May 2017.

## 10. OTHER ASSETS

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Advances to suppliers | 4,991 | 3,503 | 5,064 | 3,575 |
| Receivables from employees | 3,703 | 2,269 | 3,738 | 2,284 |
| Renegotiations with customers | 33,495 | 33,358 | 33,526 | 33,390 |
| Prepaid expenses | 1,089 | 1,513 | 1,089 | 1,513 |
| Receivable from XKW Trading | 4,873 | 4,697 | 4,873 | 4,697 |
| Other receivables | 1,405 | 1,559 | 1,431 | 1,587 |
| | 49,556 | 46,899 | 49,721 | 47,046 |
| Provision for impairment of trade receivables under renegotiation | (4,049) | (4,049) | (4,049) | (4,049) |
| | 45,507 | 42,850 | 45,672 | 42,997 |
| Current | 22,979 | 19,293 | 23,117 | 19,413 |
| Non-current | 22,528 | 23,557 | 22,555 | 23,584 |

Renegotiations with customers - refers to overdue trade receivables for which debt acknowledgment agreements have been formalized. The final maturity of the monthly installments will be in 2021, and the average interest rate is 1% to 2% per month, recognized in the statement of operations upon receipt. Some agreements contain clauses that require the provision of machinery, equipment and properties as collateral for the renegotiated debt amount.

The Company assesses the customers with balances under renegotiation and, when applicable, records a provision for impairment of the amount of the renegotiated debts, as shown below:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Balance at the beginning of the period | (4,049) | (2,043) | (4,049) | (2,043) |
| Provision for losses recognized | - | (2,006) | - | (2,006) |
| Balance at the end of the period | (4,049) | (4,049) | (4,049) | (4,049) |

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

Receivables from XKW Trading Ltda. - refer to the sale of the former subsidiary Meu Móvel de Madeira Ltda. on December 20, 2012, in annual installments with final maturity in 2017.

## 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 2016 and 2015, the Company computed income tax and social contribution on foreign exchange variations on a cash basis, and recorded a deferred tax liability related to unrealized foreign exchange variations.

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 | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Deferred income tax assets | | | | |
| On temporary provisions | 4,639 | 7,159 | 4,639 | 7,159 |
| On tax losses | 21,402 | 11,793 | 21,402 | 11,793 |
| Cash flow hedges | 43,482 | 54,922 | 43,482 | 54,922 |
| Deferred social contribution assets | | | | |
| On temporary provisions | 1,677 | 2,577 | 1,677 | 2,577 |
| On tax losses | 7,706 | 4,246 | 7,706 | 4,246 |
| Cash flow hedges | 15,654 | 19,772 | 15,654 | 19,772 |
| | 94,560 | 100,469 | 94,560 | 100,469 |

| **LIABILITIES** | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Deferred income tax liabilities | | | | |
| Unrealized foreign exchange gains taxed on a cash basis | 3,538 | 1,922 | 3,538 | 1,922 |
| Fair value of biological assets | 37,678 | 37,565 | 39,414 | 39,251 |
| Deemed cost of property, plant and equipment | 122,656 | 122,764 | 130,255 | 130,363 |
| Government grants | 943 | 949 | 943 | 949 |
| Customer portfolio | 1,128 | 1,177 | 1,128 | 1,177 |
| Amortization of goodwill for tax purposes | 8,386 | 7,487 | 8,386 | 7,487 |
| Deferred social contribution liabilities | | | | |
| Unrealized foreign exchange gains taxed on a cash basis | 1,274 | 692 | 1,274 | 692 |
| Fair value of biological assets | 13,564 | 13,523 | 14,501 | 14,434 |
| Deemed cost of property, plant and equipment | 44,156 | 44,195 | 46,893 | 46,930 |
| Government grants | 340 | 342 | 340 | 342 |
| Customer portfolio | 406 | 424 | 406 | 424 |
| Amortization of goodwill for tax purposes | 3,019 | 2,695 | 3,019 | 2,695 |
| | 237,088 | 233,735 | 250,097 | 246,666 |
| Deferred tax liabilities, net | 142,528 | 133,266 | 155,537 | 146,197 |

Management records 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 liabilities, net | Consolidated |
|---|---|
| Year | 3/31/2016 |
| 2016 | 8,503 |
| 2017 | 9,354 |
| 2018 | 10,289 |
| 2019 | 11,085 |
| 2020 onward | 116,306 |
| | 155,537 |

The changes in deferred income tax and social contribution were as follows:

| Parent Assets | Opening balance 12/31/2015 | Recognized in profit or loss | Recognized in equity | Closing balance 3/31/2016 |
|---|---|---|---|---|
| Deferred tax assets related to: | | | | |
| Provision for profit sharing | (3,752) | 2,122 | - | (1,630) |
| Provision for sundry risks | (5,984) | 1,298 | - | (4,686) |
| Cash flow hedges | (74,694) | - | 15,558 | (59,136) |
| Other | - | - | - | - |
| Total temporary differences | (84,430) | 3,420 | 15,558 | (65,452) |
| Tax losses | (16,039) | (13,069) | - | (29,108) |
| | (100,469) | (9,649) | 15,558 | (94,560) |

| Consolidated Assets | Opening balance 12/31/2015 | Recognized in profit or loss | Recognized in equity | Closing balance 3/31/2016 |
|---|---|---|---|---|
| Deferred tax assets related to: | | | | |
| Provision for profit sharing | (3,752) | 2,122 | - | (1,630) |
| Provision for sundry risks | (5,984) | 1,298 | - | (4,686) |
| Cash flow hedges | (74,694) | - | 15,558 | (59,136) |
| Other | - | - | - | - |
| Total temporary differences | (84,430) | 3,420 | 15,558 | (65,452) |
| Tax losses | (16,039) | (13,069) | - | (29,108) |
| | (100,469) | (9,649) | 15,558 | (94,560) |

| Parent Liabilities | Opening balance 12/31/2015 | Recognized in profit or loss | Closing balance 3/31/2016 |
|---|---|---|---|
| Deferred tax liabilities related to: | | | |
| Foreign exchange variation taxed on the cash basis | 2,614 | 2,198 | 4,812 |
| Fair value of biological assets | 51,088 | 154 | 51,242 |
| Deemed cost and review of useful lives | 166,959 | (147) | 166,812 |
| Government grants | 1,291 | (8) | 1,283 |
| Customer portfolio | 1,601 | (67) | 1,534 |
| Amortization of goodwill for tax purposes | 10,182 | 1,223 | 11,405 |
| | 233,735 | 3,353 | 237,088 |

| Consolidated Liabilities | Opening balance 12/31/2015 | Recognized in profit or loss | Closing balance 3/31/2016 |
|---|---|---|---|
| Deferred tax liabilities related to: | | | |
| Foreign exchange variation taxed on the cash basis | 2,614 | 2,198 | 4,812 |
| Fair value of biological assets | 53,685 | 230 | 53,915 |
| Deemed cost and useful life review | 177,293 | (145) | 177,148 |
| Government grants | 1,291 | (8) | 1,283 |
| Customer portfolio | 1,601 | (67) | 1,534 |
| Amortization of goodwill for tax purposes | 10,182 | 1,223 | 11,405 |
| | 246,666 | 3,431 | 250,097 |

## 12. INVESTMENTS

| | Habitasul Florestal | Iraflor Comércio de Madeiras | HGE Geração de Energia | Irani Geração de Energia | Total |
|---|---|---|---|---|---|
| At December 31, 2014 | 131,913 | 112,335 | 540 | 386 | 245,174 |
| Equity in the results of subsidiaries | (6,575) | 3,897 | (71) | (128) | (2,877) |
| Proposed dividends | (15,734) | (522) | - | - | (16,256) |
| Capital increase | - | 25,118 | - | - | 25,118 |
| Advances for future capital increase | 20,978 | - | 94 | - | 21,072 |
| At December 31, 2015 | 130,582 | 140,828 | 563 | 258 | 272,231 |
| Equity in the results of subsidiaries | 3,565 | 5,810 | (2) | (24) | 9,349 |
| Capital reduction | - | (43,797) | - | | (43,797) |
| At March 31, 2016 | 134,147 | 102,841 | 561 | 234 | 237,783 |
| Liabilities | 17,308 | 797 | - | 7 | |
| Equity | 134,148 | 102,848 | 562 | 236 | |
| Assets | 151,456 | 103,645 | 562 | 243 | |
| Net revenue | 4,543 | 8,468 | - | - | |
| Profit (loss) for the period | 3,565 | 5,810 | (2) | (25) | |
| Ownership interest - % | 100.00 | 99.99 | 100.00 | 99.43 | |

At the subsidiary Habitasul Florestal S.A., the dividends approved related to 2015, of R$ 15,734, were paid in cash.

During 2015, the Company made an advance for future capital increase in the subsidiary Habitasul Florestal S.A. in the amount of R$ 20,978.

In 2015, Iraflor Comércio de Madeiras Ltda. received a capital contribution from its parent company Celulose Irani S.A., amounting to R$ 25,118, which was paid up through the transfer of forest assets.

At the subsidiary Iraflor Comércio de Madeiras Ltda., the dividends approved related to 2015, of R$ 522, were paid in cash.

On March 10, 2016, the partners decided to reduce the capital of the subsidiary Iraflor Comércio de Madeiras Ltda., which was excessive in relation to the company's business purpose. The amount of R$ 43,797 was refunded to the parent company Celulose Irani S.A., in cash, with no changes to the partners' ownership interests.

## 13. INVESTMENT PROPERTIES

Parent

| | Land | Buildings | Total |
|---|---|---|---|
| At December 31, 2015 | | | |
| Opening balance | 16,427 | 3,927 | 20,354 |
| Additions | 6,926 | 8,299 | 15,225 |
| Disposals | (72) | - | (72) |
| Depreciation | - | (175) | (175) |
| Net book value | 23,281 | 12,051 | 35,332 |
| Cost | 23,281 | 12,702 | 35,983 |
| Accumulated depreciation | - | (651) | (651) |
| Net book value | 23,281 | 12,051 | 35,332 |
| At March 31, 2016 | | | |
| Opening balance | 23,281 | 12,051 | 35,332 |
| Depreciation | - | (123) | (123) |
| Net book value | 23,281 | 11,928 | 35,209 |
| Cost | 23,281 | 12,702 | 35,983 |
| Accumulated depreciation | - | (774) | (774) |
| Net book value | 23,281 | 11,928 | 35,209 |

Consolidated

| | Land | Buildings | Total |
|---|---|---|---|
| At December 31, 2015 | | | |
| Opening balance | 160 | 3,927 | 4,087 |
| Additions | 6,926 | 8,299 | 15,225 |
| Depreciation | - | (175) | (175) |
| Net book value | 7,086 | 12,051 | 19,137 |
| Cost | 7,086 | 12,702 | 19,788 |
| Accumulated depreciation | - | (651) | (651) |
| Net book value | 7,086 | 12,051 | 19,137 |
| At March 31, 2016 | | | |
| Opening balance | 7,086 | 12,051 | 19,137 |
| Depreciation | - | (123) | (123) |
| Net book value | 7,086 | 11,928 | 19,014 |
| Cost | 7,086 | 12,702 | 19,788 |
| Accumulated depreciation | - | (774) | (774) |
| Net book value | 7,086 | 11,928 | 19,014 |

### Land

Refers mainly to land held by the parent company for the future construction of wind farms in the State of Rio Grande do Sul, recognized at cost of acquisition. The project for the implementation of wind farms is currently in the evaluation phase, through the subsidiary Irani Geração de Energia Sustentável Ltda.

At the meeting held on December 18, 2015, the Board of Directors approved the purchase of land where the headquarters of Koch Metalúrgica S.A. are located, for R$ 6,926. The land, in the municipality of Cachoeirinha, State of Rio Grande do Sul, has a total area of 67,957 m² and will be possibly used for the implementation of a packaging plant in the future.

Buildings

Refer to the buildings located in Rio Negrinho, State of Santa Catarina, with a constructed area of 25,271 m², which are rented to companies in the region, and are recorded at net book value on the balance sheet date.

Investment properties now include the buildings purchased together with the land where the headquarters of Koch Metalúrgica S.A. are located, with a constructed area of 16,339 m² and amounting to R$ 8,229.

The rental income from investment properties is recognized in the statement of operations.

The investment properties are stated at historical cost, and for disclosure purposes, the Company assessed the fair value less cost to sell of these properties at R$ 53,312 (parent company) and R$ 37,118 (consolidated). The appraisals were conducted by independent experts, who applied market evidences related to prices for recent transactions with similar properties.

# 14. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

## a) Breakdown of property, plant and equipment

| Parent | Land | Buildings and constructions | Equipment and facilities | Vehicles and tractors | Other PP&E (*) | Construction in progress | Assets under finance lease | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|---|---|
| At December 31, 2015 | | | | | | | | | |
| Opening balance | 183,028 | 152,122 | 419,467 | 3,031 | 5,719 | 19,525 | 9,152 | 12,099 | 804,143 |
| Additions | - | 580 | 7,943 | 539 | 761 | 33,675 | - | - | 43,498 |
| Disposals | (1) | - | (518) | - | (24) | (15) | (90) | - | (648) |
| Transfers | - | 6,521 | 16,360 | 33 | 872 | (23,786) | - | - | - |
| Depreciation | - | (2,176) | (48,977) | (696) | (2,132) | - | (2,845) | (640) | (57,466) |
| Net book value | 183,027 | 157,047 | 394,275 | 2,907 | 5,196 | 29,399 | 6,217 | 11,459 | 789,527 |
| Cost | 183,027 | 208,439 | 785,015 | 5,532 | 14,066 | 29,399 | 28,481 | 16,061 | 1,270,020 |
| Accumulated depreciation | - | (51,392) | (390,740) | (2,625) | (8,870) | - | (22,264) | (4,602) | (480,493) |
| Net book value | 183,027 | 157,047 | 394,275 | 2,907 | 5,196 | 29,399 | 6,217 | 11,459 | 789,527 |
| At March 31, 2016 | | | | | | | | | |
| Opening balance | 183,027 | 157,047 | 394,275 | 2,907 | 5,196 | 29,399 | 6,217 | 11,459 | 789,527 |
| Additions | - | - | 1,785 | 230 | 168 | 11,869 | - | - | 14,052 |
| Disposals | - | - | (811) | - | (37) | (901) | (24) | - | (1,773) |
| Transfers | - | 696 | 17,043 | - | 24 | (17,763) | - | - | - |
| Depreciation | - | (577) | (12,769) | (191) | (464) | - | (598) | (155) | (14,754) |
| Net book value | 183,027 | 157,166 | 399,523 | 2,946 | 4,887 | 22,604 | 5,595 | 11,304 | 787,052 |
| Cost | 183,027 | 209,135 | 803,032 | 5,762 | 14,221 | 22,604 | 28,457 | 16,061 | 1,282,298 |
| Accumulated depreciation | - | (51,969) | (403,509) | (2,816) | (9,334) | - | (22,862) | (4,757) | (495,246) |
| Net book value | 183,027 | 157,166 | 399,523 | 2,946 | 4,887 | 22,604 | 5,595 | 11,304 | 787,052 |

| Consolidated | Land | Buildings and constructions | Equipment and facilities | Vehicles and tractors | Other PP&E (*) | Construction in progress | Assets under finance lease | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|---|---|
| At December 31, 2015 | | | | | | | | | |
| Opening balance | 251,399 | 153,969 | 419,485 | 3,294 | 6,088 | 19,972 | 9,166 | 12,099 | 875,472 |
| Additions | 57 | 580 | 7,962 | 725 | 773 | 33,228 | - | - | 43,325 |
| Disposals | (1) | - | (518) | - | (24) | (15) | (90) | - | (648) |
| Transfers | - | 6,521 | 16,360 | 33 | 872 | (23,786) | - | - | - |
| Depreciation | - | (2,359) | (48,933) | (715) | (2,239) | - | (2,853) | (640) | (57,739) |
| Net book value | 251,455 | 158,711 | 394,356 | 3,337 | 5,470 | 29,399 | 6,223 | 11,459 | 860,410 |
| Cost | 251,455 | 212,941 | 785,110 | 6,090 | 16,125 | 29,399 | 28,522 | 16,061 | 1,345,703 |
| Accumulated depreciation | - | (54,230) | (390,754) | (2,753) | (10,655) | - | (22,299) | (4,602) | (485,293) |
| Net book value | 251,455 | 158,711 | 394,356 | 3,337 | 5,470 | 29,399 | 6,223 | 11,459 | 860,410 |
| At March 31, 2016 | | | | | | | | | |
| Opening balance | 251,455 | 158,711 | 394,356 | 3,337 | 5,470 | 29,399 | 6,223 | 11,459 | 860,410 |
| Additions | - | - | 1,789 | 230 | 173 | 11,869 | - | - | 14,061 |
| Disposals | - | - | (811) | - | (37) | (901) | (24) | - | (1,773) |
| Transfers | - | 696 | 17,043 | - | 24 | (17,763) | - | - | - |
| Depreciation | - | (622) | (12,772) | (217) | (471) | - | (600) | (155) | (14,837) |
| Net book value | 251,455 | 158,785 | 399,605 | 3,350 | 5,159 | 22,604 | 5,599 | 11,304 | 857,861 |
| Cost | 251,455 | 213,637 | 803,131 | 6,320 | 16,285 | 22,604 | 28,498 | 16,061 | 1,357,990 |
| Accumulated depreciation | - | (54,852) | (403,526) | (2,970) | (11,126) | - | (22,899) | (4,757) | (500,129) |
| Net book value | 251,455 | 158,785 | 399,605 | 3,350 | 5,159 | 22,604 | 5,599 | 11,304 | 857,861 |

(*) Balance referring to assets such as furniture and fittings and IT equipment.

b) Breakdown of intangible assets

| Parent | Trademarks | Goodwill | Customer portfolio | Software | Total |
|---|---|---|---|---|---|
| At December 31, 2015 | | | | | |
| Opening balance | 1,473 | 104,380 | 5,502 | 921 | 112,276 |
| Additions | - | - | - | 970 | 970 |
| Disposals | (1,473) | - | - | (84) | (1,557) |
| Amortization | - | - | (792) | (411) | (1,203) |
| Net book value | - | 104,380 | 4,710 | 1,396 | 110,486 |
| Cost | - | 104,380 | 5,502 | 8,547 | 118,429 |
| Accumulated amortization | - | - | (792) | (7,151) | (7,943) |
| Net book value | - | 104,380 | 4,710 | 1,396 | 110,486 |
| At March 31, 2016 | | | | | |
| Opening balance | - | 104,380 | 4,710 | 1,396 | 110,486 |
| Additions | - | - | - | 15 | 15 |
| Amortization | - | - | (198) | (114) | (312) |
| Net book value | - | 104,380 | 4,512 | 1,297 | 110,189 |
| Cost | - | 104,380 | 5,502 | 8,562 | 118,444 |
| Accumulated amortization | - | - | (990) | (7,265) | (8,255) |
| Net book value | - | 104,380 | 4,512 | 1,297 | 110,189 |

| Consolidated | Trademarks | *Goodwill* | Customer portfolio | *Software* | Total |
|---|---|---|---|---|---|
| At December 31, 2015 | | | | | |
| Opening balance | 1,473 | 104,380 | 5,502 | 1,456 | 112,811 |
| Additions | - | - | - | 970 | 970 |
| Disposals | (1,473) | - | - | (84) | (1,557) |
| Amortization | - | - | (792) | (411) | (1,203) |
| Net book value | - | 104,380 | 4,710 | 1,931 | 111,021 |
| Cost | - | 104,380 | 7,081 | 7,507 | 118,968 |
| Accumulated amortization | - | - | (2,371) | (5,576) | (7,947) |
| Net book value | - | 104,380 | 4,710 | 1,931 | 111,021 |
| At March 31, 2016 | | | | | |
| Opening balance | - | 104,380 | 4,710 | 1,931 | 111,021 |
| Additions | - | - | - | 15 | 15 |
| Amortization | - | - | (198) | (114) | (312) |
| Net book value | - | 104,380 | 4,512 | 1,832 | 110,724 |
| Cost | - | 104,380 | 7,081 | 7,522 | 118,983 |
| Accumulated amortization | - | - | (2,569) | (5,690) | (8,259) |
| Net book value | - | 104,380 | 4,512 | 1,832 | 110,724 |

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 - % | |
|---|---|---|
| | 3/31/2016 | 12/31/2015 |
| Buildings and constructions * | 2.19 | 2.19 |
| Equipment and facilities ** | 5.86 | 5.86 |
| Furniture, fittings 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 rates of finance leases

d) Other information

Construction in progress refers to works for improvement and maintenance of the Company's production process, among which the new scanner MP - VII in the Santa Luzia Paper unit (MG) should be highlighted. The new scanner, which has the purpose of improving quality, will be concluded in 2016.

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

Leasehold improvements refer to the renovation of the Corrugated Cardboard Packaging plant in Indaiatuba - SP, and are depreciated on the straight-line method, at the rate of 4% per year. The property is owned by the companies MCFD - Administração de Imóveis Ltda. and PFC - Administração de Imóveis Ltda., and the costs of the renovation were fully absorbed by Celulose Irani S.A.

The depreciation of property, plant and equipment in the first quarters of 2016 and 2015 was as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Used in administrative activities | 352 | 318 | 435 | 377 |
| Used in production | 14,402 | 13,648 | 14,402 | 13,648 |
| | 14,754 | 13,966 | 14,837 | 14,025 |

The amortization of intangible assets in 1Q16 and 1Q15 was as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Used in administrative activities | 265 | 349 | 265 | 348 |
| Used in production | 47 | 62 | 47 | 62 |
| | 312 | 411 | 312 | 410 |

e) Impairment of property, plant and equipment

No indicators of impairment were identified in the first quarter of 2016 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, as disclosed below.

| | 3/31/2016 |
|---|---|
| Equipment and facilities | 111,875 |
| Buildings and constructions | 40,680 |
| Land | 229,088 |
| Total PP&E pledged as collateral | 381,643 |

g) Trademark

The trademark acquired through business combination was recognized at the fair value of R$ 1,473 at the acquisition date. In 2015, the brand was discontinued and derecognized.

h) Customer portfolio

The customer portfolio acquired in the business combination is recognized at the fair value of R$ 6,617, and the amortization in the first quarter of 2016 amounted to R$ 198 (R$ 196 in the first quarter of 2015), resulting in a net carrying amount of R$ 4,512. Amortization is calculated on the straight-line basis, over the expected life of the relationship with the customer.

i) Goodwill

The goodwill arising from the business combination with São Roberto S.A., recognized at R$ 104,380, is attributable to the expectation of future profitability.

Impairment tests for intangible assets:

At December 31, 2015, the Company assessed the impairment of the goodwill based on its value in use, using the discounted cash flow method for the Cash-generating Unit (CGU). The recoverable value of the CGU was based on the expected future profitability. These calculations utilize cash flow projections based on financial budgets approved by management, covering a six-year period and extrapolating to perpetuity in the other periods, based on estimated growth rates. The test was not realized at March 31, 2016, since it is performed annually.

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 through the Capital Asset Pricing Model method, considering a number of components of borrowings, debt and own capital utilized by the Company to finance its activities.

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

| | Assumptions |
|---|---|
| Average sales prices of Paper for Packaging and Corrugated Cardboard Packaging (% of the annual growth rate) | 5.5% |
| Gross margin (% of net revenue) | 29.3% |
| Estimated growth rate | 5.0% |
| Discount rate (WACC) | 9.56% |

The impairment test of the cash generating units did not identify the need for recognizing loss in the year.

Management believes that future changes in the sale price net of taxes may change the recoverable value of the CGU. For sensitivity calculation purposes, we understand that, even if the net selling price of the products falls by 5% over the next six years of the discounted cash flow projections, the recoverable value will still remain 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 raw materials for the production of pulp used in the packaging paper production process, production of resins and sales of timber logs to third parties. All of the Company's biological assets form a single group named "forests", 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 timber sales, 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 formation of forests and the fair value difference in relation to the cost of formation. Consequently, the balance of biological assets as a whole is recorded at fair value as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Expenses incurred with formation of biological assets | 39,571 | 38,599 | 59,703 | 58,727 |
| Difference in the fair value of biological assets | 56,276 | 54,271 | 204,521 | 202,832 |
| | 95,847 | 92,870 | 264,224 | 261,559 |

Of the total biological assets, R$ 173,316 refers to forests used as raw material for the production of pulp and paper, which are located nearby the pulp and paper plant in Vargem Bonita, State of Santa Catarina, where they are consumed. Of this amount, R$ 131,622 refers 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 plant's production demand.

The biological assets utilized for the production of resins and sale of timber logs totaled R$ 90,908 and are located on the coast of the State of Rio Grande do Sul. The resin is extracted based on the capacity of the existing forest to generate this product, and the trees for sale of logs are extracted based on the demand for wood in the region.

a) Assumptions for recognition of 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 corresponds to the projection of future cash flows, 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 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 projected productivity volumes of the forests are defined based on stratification, according to the type of 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 management 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) Expenditure on planting corresponds 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 on a quarterly basis, which is an interval considered sufficient to prevent any disparity in the fair value balance of the biological assets recorded in the interim financial statements.

| | Consolidated | | |
|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | Impact on fair value of biological assets |
| Planted area (in hectares) | 23,909 | 23,909 | Assumption increases, fair value increases |
| Remuneration of the Company's own contributing assets - % | 3.00% | 3.00% | Assumption increases, fair value decreases |
| Discount rate - Own areas - % | 9.50% | 9.50% | Assumption increases, fair value decreases |
| Discount rate - Partnerships - % | 10.00% | 10.00% | Assumption increases, fair value decreases |
| Net average selling price (m³) | 47.00 | 46.00 | Assumption increases, fair value increases |
| Average annual increase - Forests in Santa Catarina (*) | 39.4 | 39.4 | Assumption increases, fair value increases |
| Average annual increase - Forests in Rio Grande do Sul (*) | 22.3 | 22.3 | Assumption increases, fair value increases |

* The Average Annual Increase (IMA) of the Pine Forests in the States of Rio Grande do Sul and Santa Catarina is different because of the specific forest stewardship, species, 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.

During the period, 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 the first quarter of 2016, no other events had a negative impact on the valuation of the biological assets, such as rainstorms, lightning or other events that could affect the forests.

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

Main changes

The changes in the period were as follows:

| | Parent | Consolidated |
|---|---|---|
| At 12/31/2014 | 101,114 | 281,621 |
| Planting | 4,719 | 6,662 |
| Acquisition of forests | - | 305 |
| Depletion | | |
| Historical cost | (779) | (3,635) |
| Fair value | (815) | (16,944) |
| Transfer for capitalization in the subsidiary Iraflor | (25,118) | - |
| Changes in fair value | 13,749 | (6,450) |
| At 12/31/2015 | 92,870 | 261,559 |
| Planting | 1,265 | 1,754 |
| Depletion | | |
| Historical cost | - | (485) |
| Fair value | - | (3,509) |
| Changes in fair value | 1,712 | 4,905 |
| At 3/31/2016 | 95,847 | 264,224 |

The depletion of biological assets in the first quarter of 2016 and in the first quarter of 2015 was mainly charged to production cost, after an initial allocation to inventory, when forests were harvested, and the subsequent utilization in the production process or sale to third parties.

In 2015, a transfer of new biological assets, amounting to R$ 25,118, was authorized. The purpose of this transaction was to improve the management of forest assets and the raising of funds through Agribusiness Credit Right Certificates (CDCA), as mentioned in Note 16.

b) Biological assets pledged as collateral

Part of the biological assets of the Company and its subsidiaries, totaling R$ 87,030, is pledged as collateral for financing transactions. The pledged assets represent approximately 33% of the total biological assets, equivalent to 15.9 thousand hectares of land in use, and approximately 6.8 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. The amount of biological assets on third-party land accounts for approximately 10% of the total area with the Company's biological assets.

## 16. BORROWINGS

### a) Breakdown of accounting balances

| | | Parent and Consolidated | |
|---|---|---|---|
| | | 3/31/2016 | 12/31/2015 |
| **Current** | **Annual charges - %** | | |
| Local currency | | | |
| FINAME | Fixed at 3.45% and TJLP + 4.05% | 7,234 | 7,521 |
| Working capital | Fixed at 8.16%; CDI + 3.93% and TJLP + 6.00% | 46,583 | 52,815 |
| Working capital - CDCA | IPCA + 10.22% | 23,707 | 21,910 |
| Finance leases | Fixed at 15.66% | 306 | 443 |
| BNDES | TJLP + 3.60% | 6,210 | 13,737 |
| Total in local currency | | 84,040 | 96,426 |
| Foreign currency | | | |
| Advances on foreign exchange contracts | Fixed at 3.80% and 6.00% | 22,511 | 34,174 |
| Banco Itaú BBA - CCE | Fixed at 5.80% | 18,152 | 19,509 |
| Banco Santander PPE | Libor + 5.50% | 4,197 | 4,392 |
| Banco do Brasil - FINIMP | Libor + 2.50% | - | 195 |
| Banco Citibank - FINIMP | Libor + 4.09% | 311 | 915 |
| Banco Rabobank and Santander PPE | Libor + 5.95% | 47,030 | 38,683 |
| Banco LBBW - FINIMP | Euribor + 1.55% | 1,299 | 1,326 |
| Total in foreign currency | | 93,500 | 99,194 |
| Total current | | 177,540 | 195,620 |
| **Non-current** | | | |
| Local currency | | | |
| FINAME | Fixed at 3.45% and TJLP + 4.05% | 11,761 | 13,287 |
| Working capital | Fixed at 8.16%; CDI + 3.93% and TJLP + 6.00% | 151,242 | 183,207 |
| Working capital - CDCA | IPCA + 10.22% | 20,704 | 20,008 |
| Finance lease | Fixed at 15.66% | 99 | 114 |
| BNDES | TJLP + 3.60% | 46,169 | 39,743 |
| Total in local currency | | 229,975 | 256,359 |
| Foreign currency | | | |
| Banco Credit Suisse - PPE | Libor + 7,50% | 139,566 | 153,052 |
| Banco Itaú BBA - CCE | Fixed at 5.80% | 19,834 | 9,537 |
| Banco Santander PPE | Libor + 5.50% | 7,875 | 8,640 |
| Banco Rabobank and Santander PPE | Libor + 5.95% | 200,628 | 233,138 |
| Banco LBBW - FINIMP | Euribor + 1.55% | 4,823 | 5,035 |
| Total in foreign currency | | 372,726 | 409,402 |
| Total non-current | | 602,701 | 665,761 |
| Total | | 780,241 | 861,381 |

| | Parent and Consolidated | |
|---|---|---|
| Long-term maturities: | 3/31/2016 | 12/31/2015 |
| 2017 | 167,850 | 209,915 |
| 2018 | 172,257 | 180,339 |
| 2019 | 143,672 | 151,993 |
| 2020 to 2024 | 118,922 | 123,514 |
| | 602,701 | 665,761 |

b) Schedule for amortization of funding costs

| | Parent and Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
| In local currency | | | | | | | |
| Working capital | (505) | (574) | (339) | (119) | (33) | - | (1,570) |
| Working capital - CDCA | (209) | (108) | - | - | - | - | (317) |
| Total in local currency | (714) | (682) | (339) | (119) | (33) | - | (1,887) |
| In foreign currency | | | | | | | |
| Banco Credit Suisse - PPE | (801) | (1,086) | (831) | (396) | (21) | - | (3,135) |
| Banco Itaú BBA - CCE | (18) | (4) | - | - | - | - | (22) |
| Banco Rabobank and Santander PPE | (315) | (385) | (311) | (233) | (150) | (70) | (1,464) |
| Banco LBBW - FINIMP | (104) | (81) | (15) | - | - | - | (200) |
| Total in foreign currency | (1,238) | (1,556) | (1,157) | (629) | (171) | (70) | (4,821) |
| | (1,952) | (2,238) | (1,496) | (748) | (204) | (70) | (6,708) |

c) Significant operations contracted in the period

i) Advance on Foreign Exchange Contracts (ACC) amounting to US$ 3 million (equivalent to R$ 12,330 on the contract date), maturing up to January 2017, subject to fixed interest rate of 6% p.a.

d) Collateral

Collateral for 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$ 265,265. Other transactions have specific guarantees, as follows:

i) For working capital - Agribusiness Credit Rights Certificate (CDCA) - the Company provided secured guarantees of approximately R$ 40,725, as follows:

- Assignment of credit rights relating to Rural Producer Notes (CPRs) in favor of the creditor;
- Mortgages on some of the Company's properties, with a total area of 3,263 hectares, in favor of the banks;
- Statutory lien on pine and eucalyptus forests existing in the mortgaged properties owned by the Issuer.

iii) For the Export Prepayment (PPE) financing granted by Banco Credit Suisse, the Company pledged as collateral the shares held in its subsidiary Habitasul Florestal S.A.

ii) For the Export Prepayment (PPE) financing from Banco Rabobank and Santander, land and forests amounting to R$ 116,008 were pledged as collateral.

e) Restrictive Financial Covenants:

Certain financing agreements with financial institutions have restrictive covenants requiring the maintenance of financial ratios, calculated based on the consolidated financial statements, as shown below:

i) Working capital - CDCA
ii) Banco Itaú BBA - CCE
iii) Banco Santander Brasil - PPE
iv) Banco Rabobank and Santander - PPE
v) Banco Rabobank - CCE

Restrictive financial covenants were determined requiring compliance with certain financial ratios, on annual bases. Non-compliance may trigger the accelerated maturity of the debt.

a) The ratio between net debt and EBITDA over the last 12 months must not exceed: 3.65 times for the year ended December 31, 2013; 3.25 times for the year ended December 31, 2014; and 3.00 times from the year ended December 31, 2015.

b) The ratio between EBITDA and net finance costs over the last 12 months must not be lower than 2.00 times for the years ended from December 31, 2013.

c) The ratio between EBITDA and net revenue over the last 12 months must not be lower than 17% for the years ended from December 31, 2013.

At March 31, 2016, there was no need to measure these financial ratios, as they are measured annually.

vi) Banco Credit Suisse - PPE

a) Net debt/EBITDA ratio of (i) 3.00 times for the quarters ended between June 30, 2012 and September 30, 2013; (ii) 3.65 times for the quarter ended December 31, 2013; (iii) 3.75 times for the quarters ended March 31, 2014 and June 30, 2014; (iv) 4.50 times for the quarter ended September 30, 2014; (v) 3.25 times for the quarter ended December 31, 2014; (vi) 4.25 times for the quarters ended between March 31, 2015 and September 30, 2015; (vii) 3.00 times for the quarters ended from December 31, 2015; (viii) 4.50 times for the quarters ended between March 31, 2016 and December 31, 2016; (ix) 4.25 times for the quarters ended between March 31, 2017 and September 30, 2017; and (x) 3.00 times for the quarters ended from December 31, 2017.

b) EBITDA/net finance costs ratio of 2.00 times for the quarters ended from June 30, 2012 to 2021.

At March 31, 2016, the Company complied with all the financial ratios agreed upon with Banco Credit Suisse.

Key:
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

## 17. DEBENTURES

### a) Breakdown of accounting balances

| Current | Date of issue | Annual charges % | Parent and Consolidated 3/31/2016 | 12/31/2015 |
|---|---|---|---|---|
| In local currency | | | | |
| Simple debentures | 11/30/2012 | CDI + 2.75% | 13,142 | 12,163 |
| Simple debentures | 5/20/2013 | CDI + 2.75% | 15,295 | 9,085 |
| Total current | | | 28,437 | 21,248 |
| **Non-current** | | | | |
| In local currency | | | | |
| Simple debentures | 11/30/2012 | CDI + 2.75% | 11,937 | 11,913 |
| Simple debentures | 5/20/2013 | CDI + 2.75% | 23,274 | 27,878 |
| Total non-current | | | 35,211 | 39,791 |
| Total | | | 63,648 | 61,039 |

| Long-term maturities: | Parent and Consolidated 3/31/2016 | 12/31/2015 |
|---|---|---|
| 2017 | 30,508 | 30,656 |
| 2018 | 4,703 | 9,135 |
| | 35,211 | 39,791 |

The debentures issued by the Company are not convertible into shares.

### b) Schedule for amortization of funding costs

| | Date of issue | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| In local currency | | | | |
| Simple debentures | 11/30/2012 | (152) | (63) | - |
| Simple debentures | 5/20/2013 | (425) | (245) | (33) |
| Total in local currency | | (577) | (308) | (33) |

c) Collateral

i) The debentures issued on November 30, 2012 have secured guarantees totaling R$ 56,887, as follows:

- Statutory lien on pieces of land owned by Celulose Irani in favor of the Trustee, in conformity with the terms and conditions set out in the Private Instrument of Assignment of Real Estate of Irani and other Covenants, amounting to R$ 10,263 (first degree) and R$ 32,079 (second degree).
- Agricultural pledge of certain forest assets owned by Celulose Irani in favor of the Trustee, in conformity with the terms and conditions of the Private Instrument of Agricultural Pledge and Other Covenants.
- Assignment of credit rights held by Celulose Irani in favor of the Trustee, equivalent to 25% of the outstanding principal balance of the Debentures;

ii) The Debentures issued on May 20, 2013 have secured and fiduciary guarantees in favor of the Trustee, consisting of the following Company's assets and rights, amounting to R$ 49,942:

- Statutory lien on real estate in favor of the Trustee;
- Statutory lien on industrial equipment of the Paper Plant located in Santa Luzia, State of Minas Gerais;
- Assignment of 25% of the outstanding principal balance of receivables over the life of the debentures.

d) Restrictive Financial Covenants:

Simple debentures issued on November 30, 2012 and May 20, 2013 have restrictive covenants that are verified on an annual basis, as presented below:

a) The ratio between net debt and EBITDA over the last 12 months must not exceed: 3.50 times for the year ended December 31, 2012; 3.65 times for the year ended December 31, 2013; 3.25 times for the year ended December 31, 2014; and 3.00 times from the year ended December 31, 2015.

b) The ratio between EBITDA and net finance costs over the last 12 months must not be lower than 2.00 times for the years ended from December 31, 2012.

At March 31, 2016, there was no need to measure these financial ratios, as they are measured annually.

## 18. TRADE PAYABLES

Payables to suppliers are as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| CURRENT | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Domestic suppliers | | | | |
| Materials | 48,010 | 48,539 | 46,911 | 48,176 |
| Service providers | 7,471 | 6,143 | 7,586 | 6,305 |
| Carriers | 11,617 | 14,019 | 11,619 | 14,028 |
| Related parties | 27,083 | 16,466 | - | - |
| Other | 1,266 | 520 | 1,266 | 520 |
| Foreign suppliers | | | | |
| Materials | 560 | 1,106 | 560 | 1,106 |
| | 96,007 | 86,793 | 67,942 | 70,135 |

## 19. RELATED PARTIES

| Parent | Receivables | | Payables | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Habitasul Florestal S.A. | - | - | 5,085 | 745 |
| Management | 1,169 | 1,154 | - | - |
| Iraflor - Com. de Madeiras Ltda | - | - | 23,284 | 15,721 |
| Management compensation | - | - | 736 | 716 |
| Management profit sharing | - | - | 9,236 | 17,780 |
| Habitasul Desenvolvimentos Imobiliarios | 54 | 54 | - | - |
| Irani Geração de Energia Sustentável LTDA | - | - | 3 | 23 |
| Koch Metalúrgica S.A. | 152 | - | - | 4,786 |
| Total | 1,375 | 1,208 | 38,344 | 39,771 |
| Current | 206 | 54 | 38,344 | 39,771 |
| Non-current | 1,169 | 1,154 | - | - |

| Parent | Income | | Expenses | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Habitasul Florestal S.A. | - | - | 3,506 | 1,868 |
| Iraflor - Com. de Madeiras Ltda | - | - | 6,814 | 5,374 |
| Druck, Mallmann, Oliveira & Advogados Associados | - | - | 67 | 61 |
| MCFD Administração de Imóveis Ltda | - | - | 309 | 279 |
| Irani Participações S/A | - | - | 120 | 120 |
| Habitasul Desenvolvimentos Imobiliarios | - | - | 59 | 31 |
| Koch Metalúrgica S.A. | 457 | 11 | - | - |
| Management compensation | - | - | 1,907 | 2,023 |
| Total | 457 | 11 | 12,782 | 9,756 |

| Consolidated | Receivables | | Payables | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Habitasul Desenvolvimentos Imobiliarios | 54 | 54 | - | - |
| Koch Metalúrgica S.A. | 152 | - | - | 4,786 |
| Management compensation | - | - | 736 | 716 |
| Management | 1,169 | 1,154 | - | - |
| Management profit sharing | - | - | 9,236 | 17,780 |
| Total | 1,375 | 1,208 | 9,972 | 23,282 |
| Current | 206 | 54 | 9,972 | 23,282 |
| Non-current | 1,169 | 1,154 | - | - |

| Consolidated | Income | | Expenses | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Irani Participações S/A | - | - | 120 | 120 |
| Druck, Mallmann, Oliveira & Advogados Associados | - | - | 67 | 61 |
| MCFD Administração de Imóveis Ltda | - | - | 309 | 279 |
| Management remuneration | - | - | 1,924 | 2,036 |
| Habitasul Desenvolvimentos Imobiliarios | - | - | 59 | 31 |
| Koch Metalúrgica S.A. | 457 | 11 | - | - |
| Total | 457 | 11 | 2,479 | 2,527 |

The receivables from/payables to the subsidiaries Habitasul Florestal S.A. and Iraflor Comércio de Madeiras Ltda. refer to commercial transactions, as well as the acquisition of raw materials and supply of products. The transactions were carried out in accordance with the respective market conditions and prices.

Receivables from Management refer to loans granted by the Company to its officers, which will be settled during 2016.

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 an agreement signed on December 26, 2006 and effective for 20 years, with the possibility of renewal. The monthly amount being paid to the related party is R$ 113. The total contracted monthly rental is R$ 227, adjusted annually based on the variation of the General Market Price Index (IGPM) disclosed by the Getúlio Vargas Foundation.

The debt to Koch Metalúrgica S.A. refers to the acquisition of property, as disclosed in Note 13.

Management remuneration expenses, excluding payroll charges, totaled R$ 1,924 at March 31, 2016 (R$ 2,036 at March 31, 2015). The total management remuneration, in the maximum amount of R$ 11,000, was approved at the Annual General Meeting held on April 20, 2016.

## 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 balance of the provision for civil, labor and tax contingencies is sufficient to cover probable losses.

Breakdown of the balance of the provision:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Civil contingencies | 1,260 | 1,260 | 1,260 | 1,260 |
| Labor contingencies | 2,948 | 3,340 | 3,046 | 3,438 |
| Tax contingencies | 9,557 | 12,885 | 9,557 | 12,885 |
| Total | 13,765 | 17,485 | 13,863 | 17,583 |

| Parent | 12/31/2015 | Additions | Payments | Reversal | 3/31/2016 |
|---|---|---|---|---|---|
| Civil | 1,260 | - | - | - | 1,260 |
| Labor | 3,340 | - | (15) | (377) | 2,948 |
| Tax | 12,885 | 239 | - | (3,567) | 9,557 |
| | 17,485 | 239 | (15) | (3,944) | 13,765 |

| Consolidated | 12/31/2015 | Additions | Payments | Reversal | 3/31/2016 |
|---|---|---|---|---|---|
| Civil | 1,260 | - | - | - | 1,260 |
| Labor | 3,438 | - | (15) | (377) | 3,046 |
| Tax | 12,885 | 239 | - | (3,567) | 9,557 |
| | 17,583 | 239 | (15) | (3,944) | 13,863 |

The provisions recorded refer mainly to:

a) Civil lawsuits relate, among other matters, to indemnity claims in respect of termination of agreements with sales representatives. A provision of R$ 1,260 was recorded at March 31, 2016, to cover losses arising from these contingencies.

b) Labor lawsuits mainly relate to claims filed by former employees for payment of overtime, health hazard premiums, hazardous duty premiums, occupational illnesses and accidents. Based on past experience and on the opinion of its legal counsel, the Company maintained

recorded a provision of R$ 3,046 at March 31, 2016, which is considered sufficient to cover potential losses arising from labor contingencies.

c) The provisions for tax contingencies totaled R$ 9,557 and relate mainly to:

i) Offsetting of federal taxes against IPI credits on purchases of paper scrap by the Company. The amount offset from April 2011 to December 2011 was R$ 5,189, and the adjusted balance at March 31, 2016 totaled R$ 8,623.

ii) Administrative and judicial proceedings relating to the disallowance of ICMS credits by the Finance Department of the State of São Paulo, totaling R$ 618, which are awaiting judgment.

Contingencies not provided for

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 March 31, 2016, the amounts of these possible contingencies of labor, civil, environmental and tax nature were as follows:

| | Consolidated | |
|---|---|---|
| | 3/31/2016 | 12/31/2015 |
| Labor contingencies | 8,956 | 10,239 |
| Civil contingencies | 5,446 | 5,446 |
| Tax contingencies | 88,880 | 83,524 |
| | 103,282 | 99,209 |

Labor contingencies:

The labor lawsuits assessed by management and the legal counsel as involving possible losses total R$ 8,956 and refer mainly to indemnity claims (hazardous duty premiums, health hazard premiums, overtime, salary premiums, damages and losses arising from occupational accidents). Management expects a favorable outcome for these lawsuits, which are currently at different court levels.

Civil contingencies:

The civil lawsuits classified by management and its legal counsel as possible losses total R$ 5,446 and primarily include indemnity claims, which are currently at different court levels and for which management expects a favorable outcome.

Tax contingencies:

The tax lawsuits assessed by management and its legal counsel as involving possible losses total R$ 88,880 and mainly include the following:

- Administrative proceeding 10925.000172/2003-66 related to a tax notification for an alleged irregularity in the offsetting of IPI credits, amounting to R$ 10,241 at March 31, 2016. This proceeding is currently awaiting a decision on the Special Appeal filed by the Company at the Taxpayers' Council.

- Tax Collection Lawsuit 2004.72.03.001555-8 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 revenue from the sale of the production of agro-industrial companies, amounting to R$ 5,124 at March 31, 2016. The lawsuit has been suspended by court decision and the Company awaits judgment of the Action for Annulment 2005.71.00.002527-8.

- Administrative Proceedings 11080.013972/2007-12 and 11080.013973/2007-67, amounting to R$ 5,399 at March 31, 2016, related to tax assessments for PIS and COFINS, arise from an alleged undue tax credit. The Company has challenged these assessments at the administrative level and is awaiting judgment of the respective Voluntary Appeals.

- Administrative Proceeding 11080.014747/2008-84, amounting to R$ 2,235 at March 31, 2016, related to tax assessments for IRPJ. The Company awaits judgment of its Special Appeal filed at the administrative level.

- Administrative Proceeding 11080.014746/2008-30 amounting to R$ 611 at March 31, 2016 and related to tax assessment for CSLL, in respect of which an unappeasable decision has already been rendered at the administrative level. The Company is currently starting a dispute at the judicial level.

- Administrative Proceeding 11080.009904/2006-88 relates to federal taxes offset against deemed IPI credits on exports, which were allegedly miscalculated. The restated amount involved was R$ 5,073 at March 31, 2016. The Company is discussing these notices at the administrative level and awaiting the judgment of the respective appeal by the Brazilian Administrative Council of Tax Appeals (CARF).

- Administrative Proceedings 11080.009905/2006-12 and 11080.009902/2006-89, with a restated amount of R$ 5,553 at March 31, 2016, relate to federal taxes offset against deemed IPI credits on exports, in respect of which an unappeasable decisions have already been rendered at the administrative level. The Company is currently awaiting the collection process to commence a judicial dispute.

- Administrative Proceeding 11080.730311/2014-84, with a restated amount of R$ 10,056 at March 31, 2016, referring to the allegation by the Brazilian Federal Revenue Service (RFB) that IRANI failed to recognize income from the use of income tax and social contribution losses established by Law 11,941/09. The Company is currently awaiting the decision on the Objection/Administrative Defense filed.

- Administrative and judicial proceedings referring to assessments received from the State 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$ 39,534 at March 31, 2016. The Company is challenging these tax assessments at the administrative and judicial levels.

## 21. EQUITY

### a. Share capital

The Company's share capital at March 31, 2016 was R$ 161,895 (R$ 161,895 at December 31, 2015), represented by 153,909,975 common shares and 12,810,260 preferred shares, totaling 166,720,235 shares, without par value. The holders of preferred shares are entitled to dividends under the same conditions as those for common shares; priority in the reimbursement of capital, without a premium, in the event of liquidation of the Company; and a 100% tag-along right. The Company may issue preferred shares, without par value and voting rights, up to the limit of two thirds of its total shares, and increase the existing types or classes of shares without maintaining a fixed proportion between them.

The Extraordinary General Meeting held on April 23, 2015 approved a proposal to increase the Company's share capital, through the capitalization of the legal reserve, in the amount of R$ 2,829, and the profit retention reserve, in the amount of R$ 7,171, totaling R$ 10,000. Accordingly, the Company's share capital increased from R$ 151,895 to R$ 161,895, without the issue of new shares.

### b. Treasury shares

| | | Parent | | Parent | |
|---|---|---|---|---|---|
| | | 3/31/2016 | | 12/31/2015 | |
| | | Number of shares | Value | Number of shares | Value |
| i) Share repurchase plan | Common | 24,000 | 30 | 24,000 | 30 |
| ii) Right of withdrawal | Preferred | 2,352,100 | 6,804 | 2,352,100 | 6,804 |
| | | 2,376,100 | 6,834 | 2,376,100 | 6,834 |

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

ii) 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.

The Company's management will propose, in due course, either the allocation of these shares to treasury stock, or their cancellation.

c. Share-based payment

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

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 has no legal or constructive obligation to repurchase or settle the 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. Revenue reserves

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

i) In conformity with the Company's bylaws, 5% of the annual profit is transferred to the legal reserve, which can be used to offset losses or increase capital.

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 profits reserve was transferred to this account.

(iii) The profit retention reserve comprises the remaining profits after the offsetting of losses and the transfer to the legal reserve, as well as 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 if approved by the Annual General Meeting. Certain agreements with creditors contain restrictive clauses relating to the distribution of dividends in excess of the minimum mandatory dividend.

iv) The tax incentives reserve was constituted by the portion of 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.

e. Carrying value adjustments

The carrying value adjustments account was recorded when the Company measured its property, plant and equipment (land, machinery and buildings) at deemed cost in the opening balance sheet, at first-time adoption of IFRS. Their realization will occur 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 March 31, 2016, net of tax effects, represented a gain of R$ 215,786 (R$ 218,022 at December 31, 2015).

The effects of the financial instruments designated as cash flow hedges, net of tax, were also recorded in carrying value adjustments, and corresponded to a loss of R$ 114,794 at March 31, 2016 (R$ 144,993 at December 31, 2015).

The changes in the carrying value adjustments account were as follows:

| | Consolidated |
|---|---|
| At December 31, 2014 | 178,617 |
| Cash flow hedges | (96,541) |
| Realization - deemed cost | (9,047) |
| At December 31, 2015 | 73,029 |
| Cash flow hedges | 30,199 |
| Realization - deemed cost | (2,236) |
| At March 31, 2016 | 100,992 |

## 22. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share are calculated by dividing the profit or 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, the diluted earnings (loss) per share equal the basic earnings (loss) per share.

Basic and diluted earnings (loss) from continuing operations:

| | 3/31/2016 | | |
|---|---|---|---|
| | Common shares | Preferred shares | Common and preferred shares - Total |
| Weighted average number of shares | 153,885,975 | 10,458,160 | 164,344,135 |
| Profit (loss) for the period attributable to each type of share | (1,574) | (107) | (1,681) |
| Basic and diluted earnings (loss) per share - R$ | (0.0102) | (0.0102) | |

| | 3/31/2015 | | |
|---|---|---|---|
| | Common shares | Preferred shares | Common and preferred shares - Total |
| Weighted average number of shares | 153,885,975 | 10,458,160 | 164,344,135 |
| Profit (loss) for the period attributable to each type of share | 2,931 | 199 | 3,130 |
| Basic and diluted earnings (loss) per share - R$ | 0.0190 | 0.0190 | |

## 23. NET SALES REVENUE

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

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Gross sales revenue | 244,188 | 237,306 | 246,794 | 239,903 |
| Taxes on sales | (51,002) | (55,206) | (51,268) | (55,455) |
| Returns | (4,119) | (1,668) | (4,119) | (1,677) |
| Net sales revenue | 189,067 | 180,432 | 191,407 | 182,771 |

## 24. COSTS AND EXPENSES BY NATURE

Costs and expenses by nature are as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Fixed and variable costs (raw and consumable materials) | (103,498) | (93,028) | (93,741) | (85,755) |
| Personnel costs | (33,768) | (28,361) | (36,149) | (29,824) |
| Change in the fair value of biological assets | 1,712 | (1,867) | 4,905 | 510 |
| Depreciation, amortization and depletion | (15,189) | (14,710) | (19,266) | (18,857) |
| Freight | (11,409) | (9,822) | (11,409) | (9,822) |
| Outsourced services | (7,337) | (5,074) | (7,573) | (5,284) |
| Selling expenses | (8,490) | (8,397) | (8,490) | (8,397) |
| Total costs and expenses by nature | (177,979) | (161,259) | (171,723) | (157,429) |
| | | | | |
| Costs | (145,471) | (129,713) | (141,993) | (127,933) |
| Expenses | (34,220) | (29,679) | (34,635) | (30,006) |
| Change in the fair value of biological assets | 1,712 | (1,867) | 4,905 | 510 |

## 25. OTHER OPERATING INCOME AND EXPENSES

| Income | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Income from assets damaged and sold | 1,284 | 186 | 1,284 | 186 |
| Other operating income | 838 | 572 | 842 | 576 |
| | 2,122 | 758 | 2,126 | 762 |

| Expenses | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Cost of assets damaged and sold | (1,132) | (40) | (1,120) | (40) |
| Social security contribution on the provision for vacation pay of prior years | (1,988) | - | (1,988) | - |
| Other operating expenses | - | (736) | - | (735) |
| | (3,120) | (776) | (3,108) | (775) |
| Total | (998) | (18) | (982) | (13) |

## 26. INCOME TAX AND SOCIAL CONTRIBUTION

The reconciliation of the effective tax rate is as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Operating profit (loss) before taxation | (7,976) | 650 | (7,373) | 894 |
| Standard tax rate | 34% | 34% | 34% | 34% |
| Tax credit (debit) at the standard rate | 2,712 | (221) | 2,507 | (304) |
| Tax effect of permanent deductions (additions): | | | | |
| Equity in the results of subsidiaries | 3,179 | 2,130 | - | - |
| Subsidiaries taxed under the deemed profit method | - | - | 2,233 | 1,798 |
| Other permanent differences | 404 | 571 | 952 | 742 |
| | 6,295 | 2,480 | 5,692 | 2,236 |
| Current income tax and social contribution | - | - | (526) | (185) |
| Deferred income tax and social contribution | 6,295 | 2,480 | 6,218 | 2,421 |
| Effective rate - % | 78.9 | (381.5) | 77.2 | (250.1) |

On May 13, 2014, Provisional Measure (MP) 627 was converted into Law 12,973/14 and repealed the Transitional Tax System (RTT), among other provisions. It is effective as from 2015, but could have been adopted early in 2014, as did the Company, after a detailed study. The main impact of this early adoption related to the dividends calculated based on the profits recorded up to the end of 2013, which are tax exempted.

## 27. FINANCE INCOME AND FINANCE COSTS

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 3/31/2015 | 3/31/2016 | 3/31/2015 |
| Finance income | | | | |
| Income from financial investments | 1,471 | 3,407 | 2,813 | 3,747 |
| Interest | 708 | 582 | 708 | 582 |
| Discounts obtained | 44 | 21 | 44 | 21 |
| | 2,223 | 4,010 | 3,565 | 4,350 |
| Foreign exchange variation | | | | |
| Foreign exchange gains | 7,187 | 3,867 | 7,187 | 3,867 |
| Foreign exchange losses | (11,683) | (11,062) | (11,683) | (11,062) |
| Net foreign exchange variation | (4,496) | (7,195) | (4,496) | (7,195) |
| Finance costs | | | | |
| Interest | (24,627) | (21,333) | (24,627) | (21,335) |
| Discounts granted | (127) | (26) | (127) | (26) |
| Banking expenses | (19) | (27) | (21) | (27) |
| Other | (369) | (200) | (369) | (202) |
| | (25,142) | (21,586) | (25,144) | (21,590) |
| Finance result, net | (27,415) | (24,771) | (26,075) | (24,435) |

## 28. INSURANCE

Insurance coverage is determined according to the nature of the risks involving the assets, and is considered sufficient to cover possible losses arising from damages. At March 31, 2016, the Company had corporate insurance against fire, lightning, explosions, electrical damage and wind storm damage to plants, residential areas and offices, as well as general civil liability coverage and directors' and officers' liability (D&O), with a total coverage of R$ 576,240. 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 elected not to contract insurance coverage because the preventive measures against fire and other risks to the forests 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 management

The Company's capital structure consists of its net indebtedness (borrowings and debentures detailed in Notes 16 and 17, less cash and banks and restricted bank accounts, as disclosed in Notes 5 and 9), and equity (which includes issued capital, reserves and retained earnings, as disclosed in Note 21).

The Company is not subject to any external capital requirements.

The 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 March 31, 2016, the capital structure comprised 35% of own capital and 65% of third-party capital, mainly due to the effects of exchange rate variation on debts in foreign currency, which account for 55.3% of the Company's total debt, and the exchange rate variation on hedge accounting, which reduced equity by R$ 114,794.

Debt to equity ratio

The debt to equity ratio at March 31, 2016 and December 31, 2015 was as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Debt (a) | 843,889 | 922,420 | 843,889 | 922,420 |
| Cash and banks | (38,785) | (80,079) | (40,751) | (125,732) |
| Restricted bank accounts | (26,735) | (19,722) | (26,735) | (19,722) |
| Net debt | 778,369 | 822,619 | 776,403 | 776,966 |
| Equity (b) | 425,133 | 396,615 | 425,143 | 396,628 |
| Net debt ratio | 1.83 | 2.07 | 1.83 | 1.96 |

(a) Debt is defined as short and long-term borrowings, including debentures, as detailed in Notes 16 and 17.

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

Categories of financial instruments

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Financial assets** | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Investments held to maturity | 26,735 | 19,722 | 26,735 | 19,722 |
| Restricted bank accounts | 26,735 | 19,722 | 26,735 | 19,722 |
| Loans and receivables | | | | |
| Cash and banks | 38,785 | 80,079 | 40,751 | 125,732 |
| Trade receivables | 146,191 | 135,277 | 147,558 | 135,854 |
| Other receivables | 33,149 | 31,578 | 33,215 | 31,625 |
| **Financial liabilities** | | | | |
| Amortized cost | | | | |
| Borrowings | 780,241 | 861,381 | 780,241 | 861,381 |
| Debentures | 63,648 | 61,039 | 63,648 | 61,039 |
| Trade payables | 96,007 | 86,793 | 67,942 | 70,135 |

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. The derivative instruments currently in effect were contracted to hedge the obligations arising from the Company's borrowings in foreign currencies or exports and were approved by the Board of Directors.

Foreign exchange rate risk

The Company has transactions exposed to fluctuations in the exchange rates of foreign currencies. At March 31, 2016 and December 31, 2015, these transactions resulted in a net liability exposure, as shown in the table below.

As most of the borrowings in foreign currency are repayable in the long-term, the Company hedges the net foreign exchange exposure with the equivalent to 28 months of exports, based on the average of exports carried out in 2016, and to 39 months of exports based on the average exports carried out in 2015.

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | 3/31/2016 | 12/31/2015 | 3/31/2016 | 12/31/2015 |
| Trade receivables | 24,727 | 19,405 | 24,727 | 19,405 |
| Restricted bank accounts | 26,735 | 19,722 | 26,735 | 19,722 |
| Advances from customers | (302) | (443) | (302) | (443) |
| Trade payables | (560) | (1,106) | (560) | (1,106) |
| Borrowings | (466,226) | (508,596) | (466,226) | (508,596) |
| Net exposure | (415,626) | (471,018) | (415,626) | (471,018) |

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 the 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 accompanies the future market projections of BM&FBovespa for the next reporting date (June 30, 2016).

2 - Adverse scenario: 25% deterioration in the foreign exchange rate compared to that at June 30, 2016.

3 - Remote scenario: 50% deterioration in the foreign exchange rate compared to that at June 30, 2016.

| Transaction | Balance at 3/31/2016 | Base scenario Gain (loss) | | Adverse scenario Gain (loss) | | Remote scenario Gain (loss) | |
|---|---|---|---|---|---|---|---|
| | U$$ | Rate | R$ | Rate | R$ | Rate | R$ |
| **Assets** | | | | | | | |
| Trade receivables and restricted bank accounts | 14,460 | 3.61 | 785 | 4.52 | 13,846 | 5.42 | 26,910 |
| **Liabilities** | | | | | | | |
| Trade payables and advances from customers | (242) | 3.61 | (13) | 4.52 | (232) | 5.42 | (450) |
| Borrowings | (131,003) | 3.61 | (7,109) | 4.52 | (125,443) | 5.42 | (243,797) |
| Net effect | | | (6,337) | | (111,829) | | (217,337) |

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 March 31, 2016 were used as a basis for the projection of the future balance. The actual behavior of debt balances and derivative instruments will depend on the respective contracts, while balances receivable and payable may fluctuate due to the normal course of the Company's and its subsidiaries' activities. The settlement of transactions involving these estimates 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 tries to maintain the level of its borrowings and derivative transactions exposed to foreign exchange changes, with annual net payments that are equivalent to or below the receipts from its exports. Consequently, 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 interest rate risk exposure refers mainly to changes in market interest rates affecting the Company's assets and liabilities indexed to the Long-term Interest Rate (TJLP) from BNDES, Interbank Deposit Certificate (CDI), Special System for Settlement and Custody (SELIC), London Interbank Offered Rate (LIBOR) or Amplified Consumer Price Index (IPCA).

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: maintenance of the CDI and TJLP interest rates for the next reporting date (June 30, 2016). These estimates are based on future market projections of BM&FBovespa for the CDI and the TJLP extracted from the National Bank for Economic and Social Development (BNDES).

2 - Adverse scenario: 25% adjustment of interest rates compared to the level at June 30, 2016.

3 - Remote scenario: 50% adjustment of interest rates compared to the level at June 30, 2016.

| Transaction | Index | At 3/31/2016 | Base scenario Gain (loss) Rate (%) p.a. | R$ | Adverse scenario Gain (loss) Rate (%) p.a. | R$ | Remote scenario Gain (loss) Rate (%) p.a. | R$ |
|---|---|---|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | | | | |
| Bank Deposit Certificate (CDB) | CDI | 38,579 | 14.07% | (20) | 17.59% | 1,149 | 21.11% | 2,317 |
| **New borrowings** | | | | | | | | |
| Working capital | CDI | (175,924) | 14.07% | 121 | 17.59% | (6,992) | 21.11% | (14,106) |
| Debentures | CDI | (64,566) | 14.07% | 40 | 17.59% | (2,294) | 21.11% | (4,627) |
| National Bank for Economic and Social Development (BNDES) | TJLP | (52,379) | 7.50% | - | 9.38% | (982) | 11.25% | (1,964) |
| Government Agency for Machinery and Equipment Financing (FINAME) | TJLP | (3,002) | 7.50% | - | 9.38% | (56) | 11.25% | (113) |
| Working capital | IPCA | (44,728) | 9.39% | 434 | 11.73% | (616) | 14.08% | (1,666) |
| Financing - foreign currency | Libor 3M | (392,134) | 0.63% | (18) | 0.79% | (635) | 0.94% | (1,252) |
| Financing - foreign currency | Libor 12M | (12,072) | 1.21% | 1 | 1.51% | (36) | 1.81% | (72) |
| Financing - foreign currency | Euribor 6M | (6,322) | 0.00% | - | 0.00% | - | 0.00% | - |
| Net effect on result | | | | 558 | | (10,463) | | (21,483) |

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:

- Cash and cash equivalents, accounts receivable, short-term accounts payable are presented in the Company's balance sheet at amounts at their fair values due to the short terms of settlement.

- Borrowings are presented at their fair values due to the fact that these financial instruments are subject to floating interest rates.

The fair value of financial liabilities is equivalent to their carrying amount, since the impact of the discount to present value is not significant.

Credit risks

The Company's credit sales are managed through a credit rating and credit granting policy. Doubtful receivables are properly covered by the 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, when appropriate, credit guarantee coverage is requested.

Additionally, the Company is exposed to credit risk in relation to the financial investments that comprise its cash and cash equivalents, which are maintained to meet the cash flow requirements. Management ensures that the investments are made in financial institutions with which the Company has a stable relationship, by means of the application of the financial policy that determines the allocation of cash, without limitations, to:

i) Government securities issued by and/or with co-obligation of the National Treasury;

ii) CDBs at banks that maintain a stable relationship with the Company;
iii) Debentures issued by banks that maintain a stable relationship with the Company;
iv) Fixed-income investment funds of conservative profile.

Investments in the variable-income market (shares) are not allowed.

Liquidity risk

Management monitors the liquidity level based on the expected cash flow, which comprises cash, short-term 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 the liquidity ratios of the balance sheet 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 March 31, 2016, and the details on the expected maturity dates for non-derivative, undiscounted financial assets, including accrued interest on these assets. The inclusion of information on non-derivative financial assets is necessary to understand the Company's liquidity risk management, since it is based on net assets and liabilities.

**Parent**

| | 2016 | 2017 | 2018 | 2019 | 2020 onward |
|---|---|---|---|---|---|
| Liabilities | | | | | |
| Trade payables | 96,007 | - | - | - | - |
| Borrowings | 160,193 | 243,641 | 191,909 | 154,458 | 123,530 |
| Debentures | 25,504 | 31,577 | 9,461 | - | - |
| Other liabilities | 1,623 | 2,008 | 335 | - | - |
| | 283,327 | 277,226 | 201,705 | 154,458 | 123,530 |
| Assets | | | | | |
| Cash and cash equivalents | 38,785 | - | - | - | - |
| Restricted bank accounts | 26,735 | - | - | - | - |
| Trade receivables not yet due | 146,191 | - | - | - | - |
| Renegotiations with customers | 17,012 | 4,791 | 3,714 | 3,123 | 806 |
| Other assets | 14,798 | 1,263 | - | - | - |
| | 243,521 | 6,054 | 3,714 | 3,123 | 806 |
| | (39,806) | (271,172) | (197,991) | (151,335) | (122,724) |

| **Consolidated** | 2016 | 2017 | 2018 | 2019 | 2020 onward |
|---|---|---|---|---|---|
| Liabilities | | | | | |
| Trade payables | 67,942 | - | - | - | - |
| Borrowings | 160,193 | 243,641 | 191,909 | 154,458 | 123,530 |
| Debentures | 25,504 | 31,577 | 9,461 | - | - |
| Other liabilities | 1,649 | 2,008 | 335 | - | - |
| | 255,288 | 277,226 | 201,705 | 154,458 | 123,530 |
| Assets | | | | | |
| Cash and cash equivalents | 40,751 | - | - | - | - |
| Restricted bank accounts | 26,735 | - | - | - | - |
| Trade receivables not yet due | 147,558 | - | - | - | - |
| Renegotiations with customers | 17,043 | 4,791 | 3,714 | 3,123 | 806 |
| Other assets | 14,932 | 1,263 | - | - | - |
| | 247,019 | 6,054 | 3,714 | 3,123 | 806 |
| | (8,269) | (271,172) | (197,991) | (151,335) | (122,724) |

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.

At the end of the reporting period, the Company had unused credit facilities totaling R$ 79,684, which increase as borrowings are repaid. The Company expects to meet its other obligations using the cash flow from operating activities and income earned on financial assets.

Derivative financial instruments measured at fair value

The Company did not have any derivative financial instruments measured at fair value at March 31, 2016.

Derivative financial instruments linked to borrowings (recognized directly in the statement of operations)

Given their nature, the derivative instruments described below were considered, together with the debt, to be a single instrument at amortized cost.

i) On March 23, 2012, the Company entered into a cash flow swap transaction with Banco Itaú BBA to change the remuneration and risks associated with the interest rate of the transaction entered into between the parties on the same date, under an Export Credit Bill (CCE) contract. The notional value attributed at the contracting date was R$ 40,000 (equivalent to USD 21,990 thousand at that date), decreasing as the payments of the semi-annual installments are made under the contract, until its final maturity in March 2017.

The purpose of this swap transaction was to align the transaction price and the related maturity dates to the original transaction. The swap contract cannot be settled separately. The CCE contract started to be remunerated at a fixed interest rate plus the

U.S. dollar variation, and, consequently, it is no longer exposed to the CDI variations. Considering the characteristics of this swap contract together with the CCE contract, the Company considers the two instruments to be equivalent to a single instrument. The contract is included in the sensitivity analysis of currency exposure disclosed in this same note.

This transaction was approved by the Company's Board of Directors on March 23, 2012.

ii) On July 25, 2014, the Company contracted an interest rate swap with Banco Santander, in order to change the remuneration associated with the interest rate of the transactions entered into between the parties in January 2013, under Export Credit Bill (CCE) and Export Credit Note (NCE) contracts. The maturity of these contracts, which would be January 2016, was extended to June 2017. The current fixed rates of the contracts were changed to rates indexed to the TJLP.

The notional value attributed at the contracting date was R$ 30,000, payable only at the end of the contract term.

The purpose of this swap transaction was to align the transaction price and the related maturity dates to the original transaction. The swap contract cannot be settled on a separate basis.

Cash flow hedges

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

The Company hedges the foreign exchange rate variation risk of its future cash flows through the cash flow hedge, in which the hedging instruments are non-derivative financial liabilities contracted by the Company. The currently effective hedging financial instruments contracted by the Company include an Export Prepayment (PPE) contract with Banco Credit Suisse, an Export Credit Bill (CCE) contract with Banco Itaú BBA, a PPE contract with Banco Rabobank and Santander, and another PPE contract with Banco 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$ 114,794 at March 31, 2016 (R$ 144,993 in December 2015).

| | Parent and Consolidated 3/31/2016 | Parent and Consolidated 12/31/2015 |
|---|---|---|
| Opening balance | 219,686 | 73,412 |
| Changes in cash flow hedges | (41,934) | 158,165 |
| Reclassification to the statement of operations | (3,823) | (11,891) |
| | 173,929 | 219,686 |
| Opening balance - taxes | (74,693) | (24,960) |
| Taxes on changes in cash flow hedges | 14,258 | (53,776) |
| Taxes on reclassification to the statement of operations | 1,300 | 4,043 |
| | (59,135) | (74,693) |
| Closing balance | 114,794 | 144,993 |

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

The balances of effective variations on transactions designated as cash flow hedges are reclassified from equity to the statement of operations for the period when the foreign exchange variation of the hedge is effectively realized. The cash flow hedge results that are effective in the offsetting of the variations of the 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.

The Company did not identify any ineffectiveness in the period.

The sensitivity analysis of the hedge instruments of the cash flow hedge transactions is considered in this same note, within foreign exchange exposure risk, together with the other financial instruments.

## 30. OPERATING SEGMENTS

a) Identification criteria for operating segments

The Company segmented its operating structure based on the manner in which management runs the business.

Management defined the operating segments as follows: corrugated cardboard 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, and has three production units: Campina da Alegria (SC), Indaiatuba (SP), and Vila Maria (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 the 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 wood and extracts resin from pines trees, which is used as raw material for the production of tar and turpentine.

c) Consolidated information on operating segments

| | Consolidated 3/31/2016 | | | | |
|---|---|---|---|---|---|
| | Corrugated Cardboard Packaging | Paper for Packaging | RS Forest and Resins | Corporate/ eliminations | Total |
| Net sales: | | | | | |
| Domestic market | 114,969 | 29,843 | 1,571 | - | 146,383 |
| Foreign market | - | 25,017 | 20,007 | - | 45,024 |
| Revenues from sales to third parties | 114,969 | 54,860 | 21,578 | - | 191,407 |
| Inter-segment revenues | - | 1,808 | - | (1,808) | - |
| Total net sales | 114,969 | 56,668 | 21,578 | (1,808) | 191,407 |
| Changes in the fair value of biological assets | - | 2,133 | 2,772 | - | 4,905 |
| Cost of products sold | (100,966) | (26,813) | (15,670) | 1,456 | (141,993) |
| Gross profit (loss) | 14,003 | 31,988 | 8,680 | (352) | 54,319 |
| Operating expenses | (16,846) | (5,276) | (1,383) | (12,112) | (35,617) |
| Operating profit (loss) before finance result | (2,843) | 26,712 | 7,297 | (12,464) | 18,702 |
| Finance result | (11,259) | (12,751) | (2,065) | - | (26,075) |
| Net operating profit (loss) | (14,102) | 13,961 | 5,232 | (12,464) | (7,373) |
| Total assets | 593,615 | 766,731 | 151,886 | 80,946 | 1,593,178 |
| Total liabilities | 335,969 | 530,822 | 86,815 | 214,429 | 1,168,035 |
| Equity | 44,198 | 148,840 | 131,463 | 100,642 | 425,143 |

| | Consolidated 3/31/2015 | | | | |
|---|---|---|---|---|---|
| | Corrugated Cardboard Packaging | Paper for Packaging | RS Forest and Resins | Corporate/ eliminations | Total |
| Net sales: | | | | | |
| Domestic market | 120,972 | 29,888 | 1,581 | - | 152,441 |
| Foreign market | - | 15,847 | 14,483 | - | 30,330 |
| Revenues from sales to third parties | 120,972 | 45,735 | 16,064 | - | 182,771 |
| Inter-segment revenues | - | 5,848 | - | (5,848) | - |
| Total net sales | 120,972 | 51,583 | 16,064 | (5,848) | 182,771 |
| Changes in the fair value of biological assets | - | (1,205) | 1,715 | - | 510 |
| Cost of products sold | (103,873) | (18,587) | (11,037) | 5,564 | (127,933) |
| Gross profit (loss) | 17,099 | 31,791 | 6,742 | (284) | 55,348 |
| Operating expenses | (14,589) | (4,756) | (952) | (9,722) | (30,019) |
| Operating profit (loss) before finance result | 2,510 | 27,035 | 5,790 | (10,006) | 25,329 |
| Finance result | (12,317) | (12,583) | 465 | - | (24,435) |
| Net operating profit (loss) | (9,807) | 14,452 | 6,255 | (10,006) | 894 |
| Total assets | 575,475 | 767,046 | 168,732 | 121,094 | 1,632,347 |
| Total liabilities | 147,661 | 519,277 | 25,898 | 482,676 | 1,175,512 |
| Equity | 76,864 | 243,480 | 133,694 | 2,797 | 456,835 |

The amounts in the column "Corporate/eliminations" refer basically to the expenses of the corporate support area, which are not apportioned between the segments, and the eliminations refer to the adjustments of transactions between 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

In the first quarter of 2016, net sales revenue totaled R$ 191,407, (R$ 182,771 in the first quarter of 2015).

The net sales revenue from exports in 2016 amounted to R$ 45,024 (R$ 30,330 in the first quarter of 2015), distributed across various countries, as follows:

| Consolidated 3/31/2016 | | |
|---|---|---|
| Country | Net revenue from exports | % of total net revenue |
| China | 6,343 | 3.31% |
| Germany | 5,846 | 3.05% |
| Argentina | 5,124 | 2.68% |
| France | 4,218 | 2.20% |
| Saudi Arabia | 4,123 | 2.15% |
| Chile | 2,292 | 1.20% |
| Spain | 1,351 | 0.71% |
| Paraguay | 2,055 | 1.07% |
| South Africa | 2,016 | 1.05% |
| Peru | 1,342 | 0.70% |
| Japan | 1,268 | 0.66% |
| Singapore | 1,035 | 0.54% |
| Uruguay | 959 | 0.50% |
| Turkey | 952 | 0.50% |
| United Arab Emirates | 918 | 0.48% |
| Netherlands | 831 | 0.43% |
| Austria | 564 | 0.29% |
| Portugal | 554 | 0.29% |
| Pakistan | 455 | 0.24% |
| Bolivia | 429 | 0.22% |
| Malasia | 402 | 0.21% |
| Norway | 392 | 0.20% |
| Serbia | 275 | 0.14% |
| United States | 256 | 0.13% |
| Dubai | 251 | 0.13% |
| Colombia | 150 | 0.08% |
| Israel | 128 | 0.07% |
| Other countries | 495 | 0.26% |
| | 45,024 | 23.52% |

| Consolidated 3/31/2015 | | |
|---|---|---|
| Country | Net revenue from exports | % of total net revenue |
| Germany | 6,769 | 3.70% |
| Argentina | 3,728 | 2.04% |
| Saudi Arabia | 3,553 | 1.94% |
| France | 3,380 | 1.85% |
| South Africa | 1,427 | 0.78% |
| Peru | 1,227 | 0.67% |
| China | 1,155 | 0.63% |
| Japan | 1,069 | 0.58% |
| Paraguay | 981 | 0.54% |
| Kuwait | 973 | 0.53% |
| Bolivia | 817 | 0.45% |
| Chile | 741 | 0.41% |
| Austria | 698 | 0.38% |
| Netherlands | 670 | 0.37% |
| Portugal | 667 | 0.36% |
| Norway | 389 | 0.21% |
| Hong Kong | 350 | 0.19% |
| United Kingdom | 316 | 0.17% |
| Canada | 310 | 0.17% |
| Uruguay | 222 | 0.12% |
| Colombia | 202 | 0.11% |
| Singapore | 192 | 0.11% |
| Other countries | 494 | 0.27% |
| | 30,330 | 16.58% |

In the domestic market, net sales revenue totaled R$ 146,383 in the first quarter of 2016 (R$ 152,441 in the first quarter of 2015).

In the first quarter of 2016, a single customer accounted for 4.1% of net sales in the domestic market of the Corrugated Cardboard Packaging segment, equivalent to R$ 4,714. The Company's other sales in the domestic and foreign markets were spread over a number of customers, without any customer 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 at March 31, 2016, 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, referring to the rental of the Packaging Plant in Indaiatuba, SP, is effective for 20 years, with a contracted monthly rental of R$ 227, which is annually adjusted based on the General Market Price Index (IGPM) variation.

The rental expenses recognized by the parent company in the first quarter of 2016, net of taxes when applicable, were as follows:

- Rentals of production units = R$ 618 (R$ 615 in the first quarter of 2015);
- Rentals of commercial and administrative units = R$ 70 (R$ 65 in the first quarter of 2015).

The future commitments arising from these contracts totaled a minimum amount of R$ 121,847 at March 31, 2016. The rentals were calculated at present value, using the accumulated IGPM index in the last 12 months, i.e., 11.57% per year.

| | No later than 1 year | Later than 1 year and no later than 5 years | Later than 5 years | Total |
|---|---|---|---|---|
| Future operating leases | 3,384 | 17,930 | 100,533 | 121,847 |
| Operating leases at present value | 3,033 | 12,132 | 30,330 | 45,495 |

Lease of planting area

The Company entered into non-cancellable lease agreements for the production of biological assets on third-party land, referred to as partnerships, which covers a total area of 3,3 thousand hectares, of which 2,2 thousand hectares comprise the planted area. For certain areas, there is a lease commitment, subject to monthly payments, as shown below.

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

Non-cancellable operating lease commitments

The rentals were calculated at present value, using the accumulated IGPM index in the last 12 months, i.e., 11.57% per year.

| | No later than 1 year | Later than 1 year and no later than 5 years | Later than 5 years | Total |
|---|---|---|---|---|
| Future operating leases | 379 | 2,646 | 1,345 | 4,370 |
| Operating leases at present value | 339 | 1,793 | 551 | 2,683 |

## 32. GOVERNMENT GRANTS

The Company has Value-added Tax on Sales and Services (ICMS) incentives from the States of Santa Catarina and Minas Gerais:

i. ICMS/SC - Development Program for Companies of the State of Santa Catarina (PRODEC): Under this program, 60% of the ICMS increase in the State of Santa Catarina, calculated on an average basis (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 planned investments and the maintenance of jobs, in addition to the maintenance of a regular status with the State. The Company has been in compliance with all the requirements.

   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 17.35% 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 the benefits, and obtained the result of R$ 3,772.

   The benefit is effective for 14 years, from January 2009 to December 2022, or up to the limit of R$ 55,199 of deferred ICMS. At March 31, 2016, the Company had deferred ICMS liabilities of R$ 18,552 (net of government grants of R$ 14,780).

ii. ICMS/SC - Presumed Credit: For the purpose of enabling the expansion of the industrial unit located in Vargem Bonita, the State of Santa Catarina grants as a principal benefit the recording of a presumed credit in an ICMS memorandum account, on taxed shipments realized by the Company in the State, referring to 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 approximately R$ 600,000, which will be incurred over the next five years, and will be used to expand the production capacity of the Packaging Paper plant by 135,000 metric tons/year and of the Corrugated Cardboard Packaging plant by 24,000 metric tons/year.

iii. ICMS/MG - Presumed Credit: For the purpose of enabling the expansion of the industrial unit in Santa Luzia, the State of Minas Gerais grants the ICMS presumed credit as a principal benefit, resulting in the effective payment of 2% of the amount of the shipment of products manufactured by the Company. The total investment, estimated at approximately R$ 220,000, was expected to start in 2014 and be concluded in 2017. This amount will 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 transactions not affecting cash relating to its investing activities, which, therefore, were not reflected in the statement of cash flows.

During the first quarter of 2016, the Company paid R$ 2,658 for purchases of property, plant and equipment, which were financed directly by suppliers.

During the first quarter of 2015, the Company purchased property, plant and equipment items amounting to R$ 123, which were financed directly by suppliers.

## 34. EVENTS AFTER THE REPORTING PERIOD

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$ 55.5 million. Pursuant to the Contract, Global acquired the right to explore the Forests for 11 years.

As a result of the 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 to Global forest stewardship services related to the Forests.

b) Global granted purchase options to Irani Participações S.A., the Company's parent, for the acquisition of plots of the Forests. These options may be exercised annually over the next 11 (eleven) years, so that plots of forests may be acquired during this period, directly by Irani Participações S.A. or through an associate, including the Company.