Celulose Irani S.A. - National Corporate Taxpayers' Registry (CNPJ) 92.791.243/0001-03

NOTES TO THE INTERIM FINANCIAL STATEMENTS AT SEPTEMBER 30, 2016

(All amounts in thousands of reais unless otherwise stated)

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, and its ultimate parent company is D.P. Representações e Participações Ltda., both companies of the Habitasul Group.

The issue of these interim financial statements was authorized by the Board of Directors on October 14, 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 the 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 items 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 under 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 under financial instruments as "Loans and receivables."

d) Offsetting of financial instruments

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

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, with the recognition of impairment losses 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) the probability 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.

Depreciation is calculated 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 synergies of the combination, which are 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. As the Company's trademarks do not have a defined useful life, they 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 paper, corrugated cardboard boxes and sheets, and also for sale to third parties and extraction of gum resin. The pine forests are located near the pulp and paper plant in the State of Santa Catarina and also in the State of Rio Grande do Sul, where they are used for the production of gum resin and sale of timber logs.

Biological assets are 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 the 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 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 presumed rate of 3.08%.

The Company recognizes deferred income tax and social contribution on temporary differences for tax purposes, tax losses, deemed cost adjustments and changes in the fair value of biological assets. Deferred tax liabilities are generally recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences only when it is probable that the Company will have sufficient future taxable profit against which such deductible temporary differences can be utilized. Deferred income tax and social contribution are recorded for the subsidiaries taxed under the presumed profit method, in respect of the fair value of biological assets and the deemed cost of property, plant and equipment.

Deferred 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, where applicable, through the balance sheet dates, as described in the explanatory notes.

n) Hedge accounting

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

The changes in the hedging amounts, classified 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 for the period.

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. Finance leases are recorded in the same manner as a financed purchase, recognizing a property, plant and equipment item and a financing liability (lease) at the inception of the lease. Property, plant and equipment items acquired under finance leases are depreciated at the rates disclosed in Note 14.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis over the period of the lease.

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 a liability and an expense 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 biological assets at fair value (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, could 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 monitoring, together with its legal advisors, the evolution of this issue in the courts to assess any possible impacts on its operations and their effects on its 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 variations at official rates, applicable to current and non-current assets and liabilities, and, where 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 at 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 its subsidiaries, as follows:

Ownership interest - (%)			
Subsidiaries - direct ownership	Business activity	9/30/2016	12/31/2015
Habitasul Florestal S.A.	Forest production	100.00	100.00
HGE - Geração de Energia Sustentável LTDA *	Electric power generation	100.00	100.00
Iraflor - Comércio de Madeiras LTDA.	Timber sales	99.99	99.99
Irani Geração de Energia Sustentável LTDA *	Electric 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 was prepared at 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	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Fixed-income fund	29	29	30	32
Cash at banks	27,126	3,275	27,218	3,499
Financial investments with immediate liquidity	81,492	76,775	101,848	122,201
	108,647	80,079	129,096	125,732

The financial investments with immediate liquidity in Bank Deposit Certificates (CDBs) earn an average of 99.79 % 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	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Trade receivables:				
Domestic market	154,106	130,605	155,420	131,839
Foreign market	17,280	19,405	17,280	19,405
	171,386	150,010	172,700	151,244
Provision for impairment of trade receivables	(15,604)	(14,733)	(16,261)	(15,390)
	155,782	135,277	156,439	135,854

At September 30, 2016, the consolidated trade receivables included an overdue amount of R$ 16,492, for which no provision was recorded, referring to customers with no history of default.

The ageing analysis of trade receivables is as follows:

	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Not yet due	139,509	116,233	139,947	116,709
Overdue up to 30 days	11,043	11,374	11,226	11,425
31 to 60 days overdue	1,620	3,662	1,621	3,666
61 to 90 days overdue	992	664	1,000	670
31 to 180 days overdue	817	2,059	838	2,059
More than 180 days overdue	17,405	16,018	18,068	16,715
	171,386	150,010	172,700	151,244

The average credit term on the sale of products is 61 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 overdue for less than 180 days when these balances are considered uncollectible, taking into consideration the financial position of each debtor.

Changes in the provisions were as follows:

	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Balance at the beginning of the period	(14,733)	(13,836)	(15,390)	(14,494)
Provision for losses recognized	(871)	(897)	(871)	(897)
Amounts recovered duriing the period	-	-	-	1
Balance at the end of the period	(15,604)	(14,733)	(16,261)	(15,390)

A portion of the receivables, amounting to R$ 78,067, 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 September 30, 2016 was assessed with reference to historical information on default rates, as follows:

Customer category	History - %	Consolidated Amount receivable
a) Customers with no history of late payment	93.72	131,158
b) Customers with history of late payment of up to 7 days	5.45	7,627
c) Customers with history of late payment over 7 days	0.83	1,162
		139,947

a) Performing customers with no history of late payment.
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	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Finished products	7,654	10,265	8,148	10,265
Production materials	45,080	32,046	45,079	32,046
Consumable materials	24,499	21,494	24,601	21,594
Other inventories	458	3,601	458	3,601
	77,691	67,406	78,286	67,506
Write-down to net realizable value	(69)	(287)	(69)	(287)
	77,622	67,119	78,217	67,219

The cost of inventories recognized as an expense during the third quarter of 2016 totaled R$ 149,042 (R$ 134,108 in the third quarter of 2015) in the parent company and R$ 149,937 (R$ 133,969 in the third quarter of 2015) in the consolidated. For the nine-month period ended September 30, 2016, the balance recorded in the statement of operations was R$ 442,195 (R$ 395,114 in the nine-month period ended September 30, 2015) in the parent company, and R$ 437,775 (R$ 392,330 in the nine-month period ended September 30, 2015) in the consolidated.

The cost of inventories recognized in the statement of operations in the nine-month period ended September 30, 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	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Value-added Tax on Sales and Services (ICMS)	5,924	7,282	5,924	7,282
Social Integration Program (PIS)/ Social Contribution on Revenues (COFINS)	1,251	894	1,251	894
Excise Tax (IPI)	151	101	151	101
Income Tax (IRPJ)	140	340	140	340
Social Contribution on Net Income (CSLL)	105	39	105	39
Withholding Income Tax (IRRF) on investments	1,362	3,655	1,425	3,655
	8,933	12,311	8,996	12,311
Current	6,113	9,245	6,176	9,245
Non-current	2,820	3,066	2,820	3,066

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

9. BANKS - RESTRICTED ACCOUNT

	Parent		Consolidated	
	30/09/2016	31/12/2016	30/09/2016	31/12/2016
Banco do Brasil - New York	13,349	19,722	13,349	19,722
Banco Itaú - b)	18,019	-	18,019	-
Banco Santander - b)	30,016	-	30,016	-
Banco Rabobank - b)	18,000	-	18,000	-
Total current	79,384	19,722	79,384	19,722

a. The balances with Banco do Brasil - New York/ United States of America is 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, and refers to the installment falling due in November 2016. The renegotiation of the retention agreement signed on September 26, 2014 establishes that only the contractual interest will be due up to May 2017.

b. Banco Itaú, Banco Santander and Banco Rabobank - represented by financial investments that will be redeemed in 2017, at the maturity dates of transactions to finance working capital contracted with the respective banks.

10. OTHER ASSETS

	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Advances to suppliers	3,532	3,503	3,601	3,575
Receivables from employees	2,201	2,269	2,253	2,284
Renegotiation with customers	26,628	33,358	26,659	33,390
Prepaid expenses	644	1,513	644	1,513
Credits receivable - XKW Trading	4,718	4,697	4,718	4,697
Other receivables	3,462	1,559	3,490	1,587
	41,185	46,899	41,365	47,046
Provision for impairment of trade receivables under renegotiation	(4,272)	(4,049)	(4,272)	(4,049)
	36,913	42,850	37,093	42,997
Current	14,639	19,293	14,792	19,413
Non-current	22,274	23,557	22,301	23,584

Renegotiations with customers - refers to overdue trade receivables for which debt acknowledgment agreements have been signed. The final maturity of the monthly installments will be in 2021, and the average interest rate 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, where applicable, records a provision for impairment of the amount of the renegotiated debts, as shown below:

	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Balance at the beginning of the period	(4,049)	(2,043)	(4,049)	(2,043)
Provision for losses recognized	(223)	(2,006)	(223)	(2,006)
Balance at the end of the period	(4,272)	(4,049)	(4,272)	(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 ON NET INCOME

Deferred income tax and social contribution 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	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Deferred income tax assets				
On temporary differences	4,910	7,159	4,910	7,159
On tax losses	22,484	11,793	22,484	11,793
Cash flow hedges	31,671	54,922	31,671	54,922
Deferred social contribution assets				
On temporary differences	1,768	2,577	1,768	2,577
On tax losses	8,095	4,246	8,095	4,246
Cash flow hedges	11,402	19,772	11,402	19,772
	80,330	100,469	80,330	100,469

LIABILITIES	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Deferred income tax liabilities				
Unrealized foreign exchange gains taxed on a cash basis	3,715	1,922	3,715	1,922
Fair value of biological assets	33,056	37,565	34,787	39,251
Deemed cost of property, plant and equipment	122,389	122,764	129,988	130,363
Government grants	965	949	965	949
Customer portfolio	1,029	1,177	1,029	1,177
Tax amortization of goodwill	10,183	7,487	10,183	7,487
Deferred social contribution liabilities				
Unrealized foreign exchange gains taxed on a cash basis	1,337	692	1,337	692
Fair value of biological assets	11,900	13,523	12,835	14,434
Deemed cost of property, plant and equipment	44,060	44,195	46,796	46,930
Government grants	347	342	347	342
Customer portfolio	370	424	370	424
Tax amortization of goodwill	3,666	2,695	3,666	2,695
	233,017	233,735	246,018	246,666
Deferred tax liabilities, net	152,687	133,266	165,688	146,197

Management recorded 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
Period	9/30/2016
2016	8,365
2017	9,201
2018	10,121
2019	10,900
2020 onward	127,101
	165,688

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 9/30/2016
Deferred tax assets related to:				
Provision for profit sharing	(3,752)	(267)	-	(4,019)
Provision for sundry risks	(5,984)	3,325	-	(2,659)
Cash flow hedge	(74,694)	-	31,621	(43,073)
Total temporary differences	(84,430)	3,058	31,621	(49,751)
Tax losses	(16,039)	(14,540)	-	(30,579)
	(100,469)	(11,482)	31,621	(80,330)

Consolidated Assets	Opening balance 12/31/2015	Recognized in profit or loss	Recognized in equity	Closing balance 9/30/2016
Deferred tax assets related to:				
Provision for profit sharing	(3,752)	(267)	-	(4,019)
Provision for sundry risks	(5,984)	3,325	-	(2,659)
Cash flow hedge	(74,694)	-	31,621	(43,073)
Total temporary differences	(84,430)	3,058	31,621	(49,751)
Tax losses	(16,039)	(14,540)	-	(30,579)
	(100,469)	(11,482)	31,621	(80,330)

Parent Liabilities	Opening balance 12/31/2015	Recognized in profit or loss	Closing balance 9/30/2016
Deferred tax liabilities related to:			
Exchange rate variations taxed on the cash basis	2,614	2,438	5,052
Fair value of biological assets	51,088	(6,132)	44,956
Deemed cost and review of useful lives	166,959	(510)	166,449
Government grants	1,291	21	1,312
Customer portfolio	1,601	(202)	1,399
Tax amortization of goodwill	10,182	3,667	13,849
	233,735	(718)	233,017

Consolidated Liabilities	Opening balance 12/31/2015	Recognized in profit or loss	Closing balance 9/30/2016
Deferred tax liabilities related to:			
Exchange rate variations taxed on the cash basis	2,614	2,438	5,052
Fair value of biological assets	53,685	(6,063)	47,622
Deemed cost and review of useful lives	177,293	(509)	176,784
Government grants	1,291	21	1,312
Customer portfolio	1,601	(202)	1,399
Tax amortization of goodwill	10,182	3,667	13,849
	246,666	(648)	246,018

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 investees	(6,575)	3,897	(71)	(128)	(2,877)
Proposed dividends	(15,734)	(522)	-	-	(16,256)
Capital increase	-	25,118	-	-	25,118
Advance 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 investees	3,468	10,742	(1)	(85)	14,124
Proposed dividends	-	(3,897)	-	-	(3,897)
Capital increase	31,721	-	-	90	31,811
Capital reduction	-	(43,797)	-		(43,797)
Advance for future capital increase	(31,721)	-	-	-	(31,721)
At September 30, 2016	134,050	103,876	562	263	238,751
Liabilities	14,583	276	-	9	
Equity	134,052	103,883	562	264	
Assets	148,635	104,159	562	273	
Net revenue	11,067	15,987	-	-	
Profit (loss) for the period	3,468	10,743	(1)	(86)	
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 parent company Celulose Irani S.A. made an advance for future capital increase in the subsidiary Habitasul Florestal S.A. in the amount of R$ 20,978. In the first six-month period of 2016 advances for future capital increase made in 2014 (R$ 10,743) and 2015 (R$ 20,978) were capitalized, in the total amount of R$31,721.

During 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 2016, amounting to R$ 3,897, were paid in cash (R$ 522 in 2015).

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
Purchases	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 September 30, 2016			
Opening balance	23,281	12,051	35,332
Depreciation	-	(367)	(367)
Net book value	23,281	11,684	34,965
Cost	23,281	12,702	35,983
Accumulated depreciation	-	(1,018)	(1,018)
Net book value	23,281	11,684	34,965

Consolidated

	Land	Buildings	Total
At December 31, 2015			
Opening balance	160	3,927	4,087
Purchases	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 September 30, 2016			
Opening balance	7,086	12,051	19,137
Depreciation	-	(367)	(367)
Net book value	7,086	11,684	18,770
Cost	7,086	12,702	19,788
Accumulated depreciation	-	(1,018)	(1,018)
Net book value	7,086	11,684	18,770

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 the town of Rio Negrinho (State of Santa Catarina) with a constructed area of 25,271 m², which are rented to companies in the region and recorded based on net book value at 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, 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 transactions carried out 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 leases	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
Purchases	-	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 September 30, 2016									
Opening balance	183,027	157,047	394,275	2,907	5,196	29,399	6,217	11,459	789,527
Purchases	-	-	5,080	1,154	593	35,066	-	-	41,893
Disposals	(111)	-	(1,051)	(13)	(46)	(25)	(162)	-	(1,408)
Transfers	-	3,539	22,584	-	263	(26,386)	-	-	-
Depreciation	-	(1,984)	(39,599)	(608)	(1,366)	-	(1,717)	(466)	(45,740)
Net book value	182,916	158,602	381,289	3,440	4,640	38,054	4,338	10,993	784,272
Cost	182,916	211,978	811,628	6,673	14,876	38,054	28,319	16,061	1,310,505
Accumulated depreciation	-	(53,376)	(430,339)	(3,233)	(10,236)	-	(23,981)	(5,068)	(526,233)
Net book value	182,916	158,602	381,289	3,440	4,640	38,054	4,338	10,993	784,272

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
Purchases	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 September 30, 2016									
Opening balance	251,455	158,711	394,356	3,337	5,470	29,399	6,223	11,459	860,410
Purchases	-	-	5,092	1,154	600	35,066	-	-	41,912
Disposals	(111)	-	(1,051)	(13)	(46)	(25)	(163)	-	(1,409)
Transfers	-	3,539	22,584	-	263	(26,386)	-	-	-
Depreciation	-	(2,134)	(39,610)	(687)	(1,369)	-	(1,722)	(466)	(45,988)
Net book value	251,344	160,116	381,371	3,791	4,918	38,054	4,338	10,993	854,925
Cost	251,344	216,480	811,735	7,231	16,942	38,054	28,359	16,061	1,386,206
Accumulated depreciation	-	(56,364)	(430,364)	(3,440)	(12,024)	-	(24,021)	(5,068)	(531,281)
Net book value	251,344	160,116	381,371	3,791	4,918	38,054	4,338	10,993	854,925

(*) Balance of 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 September 30, 2016					
Opening balance	-	104,380	4,710	1,396	110,486
Additions	-	-	-	3,284	3,284
Amortization	-	-	(594)	(372)	(966)
Net book value	-	104,380	4,116	4,308	112,804
Cost	-	104,380	5,502	11,831	121,713
Accumulated amortization	-	-	(1,386)	(7,523)	(8,909)
Net book value	-	104,380	4,116	4,308	112,804

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 September 30, 2016					
Opening balance	-	104,380	4,710	1,931	111,021
Additions	-	-	-	3,284	3,284
Amortization	-	-	(594)	(372)	(966)
Net book value	-	104,380	4,116	4,843	113,339
Cost	-	104,380	7,081	10,791	122,252
Accumulated amortization	-	-	(2,965)	(5,948)	(8,913)
Net book value	-	104,380	4,116	4,843	113,339

c) Depreciation/amortization method

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

	Rate - %	
	9/30/2016	12/31/2015
Buildings and constructions *	2.19	2.19
Equipment and facilities **	5.86	5.86
Furniture, fittings and 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.

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

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

The depreciation of property, plant and equipment in the nine-month periods ended September 30, 2016 and 2015 is broken down as follows:

	Parent		Consolidated	
Assets used in:	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Administrative activities	1,024	1,089	1,272	1,288
Production	44,716	41,539	44,716	41,539
	45,740	42,628	45,988	42,827

The amortization of intangible assets in the nine-month periods ended September 30, 2016 and 2015 is broken down as follows:

	Parent		Consolidated	
Assets used in:	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Administrative activities	821	764	821	764
Production	145	135	145	135
	966	899	966	899

e) Impairment of property, plant and equipment

No indicators of impairment were identified in the nine-month period ended September 30, 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.

	9/30/2016
Equipment and facilities	100,823
Buildings and constructions	40,680
Land	247,567
Total assets pledged as collateral	389,070

g) Trademark

The trademark acquired in a 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 recorded in the nine-month period ended September 30, 2016 amounted to R$ 594 (R$ 594 in the same period of 2015), resulting in a net book balance of R$ 4,116. Amortization is calculated using the straight-line method over the expected life of the customer relationship.

i) Goodwill

The goodwill arising from the business combination with São Roberto S.A., recognized for the amount of 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 use 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 the estimated growth rates. The test was not performed at September 30, 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 used 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 income)	29.3%
Estimated growth rate	5.0%
Discount rate (WACC)	9.56%

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

Management believes that future changes in the sale price net of taxes may change the recoverable value of the CGU. For the purposes of calculating sensitivity, management understands 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 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 sales of timber, and also considering that all areas are replanted, the fair values of these biological assets are not significantly affected at the time of harvesting.

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

	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Expenses incurred with development of biological assets	29,948	38,599	46,455	58,727
Difference in the fair value of biological assets	47,636	54,271	175,729	202,832
	77,584	92,870	222,184	261,559

Of the total consolidated biological assets, R$ 130,907 (R$ 173,212 at December 31, 2015) refers to forests used as raw material for the production of pulp and paper. These forests are located close to the pulp and paper mill in the town of Vargem Bonita, State of Santa Catarina, where they are consumed. Of this amount, R$ 99,976 (R$ 46,247 at December 31, 2015) refers to mature forests, which are more than six years old. The remaining amount refers to growing forests, which still need 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, forming a renovation cycle that meets the production demand of the plant.

The biological assets utilized for the production of resins and the sale of timber logs totaled R$ 91,277 (R$ 88,347 at December 31, 2015), 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 fair value less costs to sell of biological assets.

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, determined based on the optimization of production, taking into account 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 each species, inputs for production planning, as well as the age, productive potential and production cycle of the forests. This projected volume corresponds to the Average Annual Increase (IMA). Forest stewardship alternatives are created to establish the optimum long-term production flow which is ideal to maximize the yield of the forests;

(iv) The prices adopted for biological assets are those practiced in the last three years, based on market research in the regions where the assets are located. Prices are calculated in

R$/cubic meter, taking into consideration the costs incurred to bring the assets to a condition that enables their sale or consumption;

(v) Planting expenses relate to the costs incurred by the Company in the development of the 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, an interval considered sufficient to prevent any disparity in the fair value balance of the biological assets recorded in the interim financial statements.

	Consolidated		
	9/30/2016	12/31/2015	Impact on fair value of biological assets
Planted area (in hectares)	19,396	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 assets - %	9.00%	9.50%	Assumption increases, fair value decreases
Discout 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 (IMA) - Forests in Santa Catarina (*)	39.4	39.4	Assumption increases, fair value increases
Average Annual Increase (IMA) - 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.

No other events took place in the nine-month period ended September 30, 2016 that could affect the devaluation of the biological assets, such as rainstorms, lightning and other events that could impact 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 calculation framework.

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 forest	-	305
Depletion		
Historical cost	(779)	(3,635)
Fair value	(815)	(16,944)
Transfers for capitalization in subsidiary Iraflor	(25,118)	-
Changes in the fair value	13,749	(6,450)
At 12/31/2015	92,870	261,559
Planting	3,686	5,340
Depletion		
Historical cost	(12,044)	(17,330)
Fair value	(18,172)	(42,701)
Changes in the fair value	11,244	15,316
At 9/30/2016	77,584	222,184

The depletion of biological assets for the nine-month periods ended September 30, 2016 and 2015 was mainly charged to the cost of production, after an initial allocation to inventories when the forests were harvested and then used in the production process or sold to third parties.

On April 11, 2016, the Company and its subsidiary Iraflor Comércio de Madeiras Ltda. entered into a Contract for Purchase and Sale of Standing Timber with Global Fund Reflorestamento e Exploração de Madeira Ltda. ("Global"), through which the Company sold approximately 4,644 hectares of standing timber to Global, for R$ 55,500, as disclosed in Note 25. Pursuant to the Contract, Global acquired the right to explore the Forests for 11 years. The forests sold do not compromise the Company's forest supply, since they exceed the volume necessary according to the strategy to supply the plant.

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.

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

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 39% of the total biological assets, equivalent to 15.9 thousand hectares of land in use, with 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 planted forests 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	
		9/30/2016	12/31/2015
Current	**Annual charges %**		
Local currency			
FINAME	Fixed at 3.47%, TJLP + 4.46% and SELIC + 5.40%	8,103	7,521
Working capital	Fixed at 8.00%, CDI + 4.15% and TJLP + 6.00%	92,850	52,815
Working capital - CDCA	IPCA + 10.22%	21,885	21,910
Working Capital - Syndicated Loan	CDI + 5.00%	129	-
Finance lease	Fixed at 16.24%	78	443
BNDES	TJLP + 3.60%	5,288	13,737
Total local currency		128,333	96,426
Foreign currency			
Advances on foreign exchange contracts	Fixed from 4.90% to 6.75%	28,281	34,174
Banco Credit Suisse - PPE	Libor + 7.50%	16,084	-
Banco Itaú BBA - CCE	Fixed at 5.80%	8,651	19,509
Banco Santander PPE	Libor + 5.50%	4,182	4,392
Banco do Brasil - FINIMP	Libor + 2.50%	-	195
Banco Citibank - FINIMP	Libor + 4.09%	-	915
Banco Rabobank and Santander PPE	Libor + 5.95%	42,880	38,683
Banco LBBW - FINIMP	Euribor + 1.55%	1,186	1,326
Banco De Lage Landen	8.20% p.a.	315	-
Total foreign currency		101,579	99,194
Total current		229,912	195,620
Non- Current			
Local currency			
FINAME	Fixed at 3.47%, TJLP + 4.46% and SELIC + 5.40%	9,475	13,287
Working capital	Fixed at 8.00%, CDI + 4.15% and TJLP + 6.00%	104,883	183,207
Working capital - CDCA	IPCA + 10.22%	-	20,008
Working Capital - Syndicated Loan	CDI + 5.00%	176,083	-
Finance lease	Fixed at 16.24%	68	114
BNDES	TJLP + 3.60%	44,566	39,743
Total local currency		335,075	256,359
Foreign currency			
Banco Credit Suisse - PPE	Libor + 7.50%	111,445	153,052
Banco Itaú BBA - CCE	Fixed at 5.80%	19,893	9,537
Banco Santander PPE	Libor + 5.50%	7,183	8,640
Banco Rabobank and Santander PPE	Libor + 5.95%	161,456	233,138
Banco LBBW - FINIMP	Euribor + 1.55%	3,745	5,035
Banco De Lage Landen	8.20% p.a.	1,177	-
Total foreign currency		304,899	409,402
Total non-current		639,974	665,761
Total		869,886	861,381

	Parent and Consolidated	
Long-term maturities:	9/30/2016	12/31/2015
2017	35,330	209,915
2018	216,729	180,339
2019	187,035	151,993
2020 to 2024	200,880	123,514
	639,974	665,761

b) Schedule for amortization of funding costs

							Parent and Consolidated
	2016	2017	2018	2019	2020	2021	Total
In local currency							
Working capital	(226)	(780)	(496)	(219)	(84)	(4)	(1,809)
Working capital - CDCA	(55)	(108)	-	-	-	-	(163)
Working Capital - Syndicated Loan CCE	(249)	(1,133)	(1,103)	(828)	(496)	(109)	(3,918)
Total local currency	(530)	(2,021)	(1,599)	(1,047)	(580)	(113)	(5,890)
In foreign currency							
Banco Credit Suisse - PPE	(271)	(1,086)	(831)	(396)	(21)	-	(2,605)
Banco Itaú BBA - CCE	(6)	(4)	-	-	-	-	(10)
Banco Rabobank and Santander PPE	(107)	(385)	(311)	(233)	(150)	(70)	(1,256)
Banco LBBW - FINIMP	(31)	(81)	(15)	-	-	-	(127)
Total foreign currency	(415)	(1,556)	(1,157)	(629)	(171)	(70)	(3,998)
	(945)	(3,577)	(2,756)	(1,676)	(751)	(183)	(9,888)

c) Significant operations contracted in the year

i) Advance on Foreign Exchange Contracts (ACC) amounting to US$ 8.5 million (equivalent to R$ 30,172 on the contract date), maturing up to August 2017, subject to fixed interest rate ranging from 4.90% to 6.75% p.a.

ii) Working capital:

. Export Credit Bill (CCE) facility contract of R$ 8.9 million, entered into with Banco Rabobank, with maturity in 2019, and subject to interest rate equivalent to the CDI variation plus 4.75% p.a. The borrowing will be repaid in 12 quarterly installments from July 2016.

a. Banco do Brasil - Bank Credit Note (CCB) of R$ 15 million, entered into with Banco do Brasil, maturing in 2020, and subject to interest rate equivalent to the CDI variation plus 5.03% p.a. The borrowing will be repaid in 52 monthly installments beginning August 2016.

iii) Banco de Lage Landen – Bank Credit Note (CCB): facility contract of US$ 0.5 million (equivalent to R$ 1.6 million on the contract date) entered into with Banco de Lage Landen, with maturity in 2021 and subject to fixed interest rate of 8.2% p.a. The borrowing will be repaid in 58 monthly installments from September 2016.

iv) Working Capital - Syndicated Loan - Export Credit Bill of R$ 180 million, entered into with Banco Itaú, Santander and Rabobank, with maturity in 2021, and subject to interest rate equivalent to the CDI variation plus 5% p.a. The borrowing will be repaid in 15 quarterly installments beginning January 2018.

d) Collateral

Collateral for the borrowings include sureties of the controlling companies and/or mortgages or statutory liens on land, buildings, machinery and equipment, biological assets (forests), commercial pledges and assignments of receivables, amounting to approximately R$ 275,426. Other transactions have specific guarantees, as follows:

i) For working capital - Certificates of Agribusiness Receivables (CDCA) - the Company provided secured guarantees of approximately R$ 15,005 represented by financial investments in restricted accounts with Banco Itaú and Rabobank.

ii) For the export prepayment financing contracted with Banco Credit Suisse, the Company pledged as collateral the shares held in its subsidiary Habitasul Florestal S.A.

a. For the export prepayment financing contracted with Banco Rabobank and Santander, land and forests amounting to R$ 116,008 were pledged as collateral.

iii) For Working Capital financing - Syndicated Loan, contracted with Banco Itaú, Santander and Rabobank, the Company provided as collateral land and forests amounting to R$ 104,299, and assignment of receivables amounting to R$ 15,000.

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 September 30, 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 quarter ended 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 September 30, 2016, the Company complied with all the financial ratios agreed upon with Banco Credit Suisse.

vii) Working Capital - Syndicated Loan

a) The ratio between net debt and EBITDA over the last 12 months must not exceed: 3.80 times for the year ended December 31, 2016; 4.00 times for the year ended December 31, 2017; and 3.00 times from the year ended December 31, 2018.

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, 2016.

At September 30, 2016, there was no need to measure these financial ratios, as they are measured annually.

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

			Parent and Consolidated	
Current	**Issue**	**Annual charges %**	9/30/2016	12/31/2015
In local currency				
Simple Debentures	11/30/2012	CDI + 2.75%	15,316	12,163
Simple Debentures	5/20/2013	CDI + 2.75%	19,072	9,085
Total current			34,388	21,248
Non- Current				
In local currency				
Simple Debentures	11/30/2012	CDI + 2.75%	11,984	11,913
Simple Debentures	5/20/2013	CDI + 2.75%	14,003	27,878
Total non-current			25,987	39,791
Total			60,375	61,039

	Parent and Consolidated	
Long-term maturities:	9/30/2016	12/31/2015
2017	21,340	30,656
2018	4,647	9,135
	25,987	39,791

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

b) Schedule for amortization of funding costs

	Issue	2016	2017	2018
In local currency				
Simple Debentures	11/30/2012	(109)	(16)	-
Simple Debentures	5/20/2013	(336)	(53)	(88)
Total local currency		(445)	(69)	(88)

c) Collateral

i) The Debentures issued on November 30, 2012 have secured guarantees totaling R$ 24,000 to be invested with Banco Itaú.

ii) The Debentures issued on May 20, 2013 have secured and fiduciary guarantees in favor of the Trustee, amounting to R$ 48,766, and consisting of the following Company's assets and rights:

- 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 have restrictive covenants, which 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; and 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.

Simple debentures issued on May 20, 2013 have restrictive covenants, which 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: 3.65 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, except for the year ended December 31, 2016, which must not exceed 4.50 times.

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.

At September 30, 2016, there was no need to measure these financial ratios, as they are measured annually.

18. TRADE PAYABLES

Payables to suppliers were as follows:

	Parent		Consolidated	
CURRENT	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Domestic suppliers				
Materials	50,336	48,539	51,367	48,176
Service providers	5,557	6,143	5,689	6,305
Carriers	11,861	14,019	11,874	14,028
Related parties	32,835	16,466	-	-
Other	527	520	527	520
Foreign suppliers				
Materiais	599	1,106	599	1,106
	101,715	86,793	70,056	70,135

19. RELATED PARTIES

Parent	Receivables		Payables	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Habitasul Florestal S.A.	-	-	2,150	745
Management	-	1,154	-	-
Iraflor - Comércio de Madeiras LTDA.	-	-	29,844	15,721
Management remuneration	-	-	1,593	716
Management profit sharing	-	-	692	17,780
Habitasul Desenvolvimentos Imobiliarios	54	54	-	-
Irani Geração de Energia Sustentável LTDA	-	-	-	23
Koch Metalúrgica S.A.	13,799	-	-	4,786
Total	13,853	1,208	34,279	39,771
Current	13,853	54	34,279	39,771
Non-current	-	1,154	-	-

Parent	Revenues		Expenses		Revenues		Expenses	
	Quarter ended		Quarter ended		Nine-month period ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Habitasul Florestal S.A.	-	-	1,183	1,557	-	-	7,783	5,704
Iraflor - Comércio de Madeiras LTDA.	-	-	1,825	5,233	-	-	12,769	16,942
Druck, Mallmann, Oliveira & Advogados Associados	-	-	73	66	-	-	207	406
MCFD Administração de Imóveis Ltda	-	-	309	308	-	-	927	866
Irani Participações S/A	-	-	120	120	-	-	360	360
Habitasul Desenvolvimentos Imobiliarios	-	-	45	112	-	54	149	255
Koch Metalúrgica S.A.	457	20	-	-	1,371	35	-	-
Management remuneration	-	-	2,000	1,884	-	-	5,824	5,753
Total	457	20	5,555	9,280	1,371	89	28,019	30,286

Consolidated	Receivables		Payables	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Habitasul Desenvolvimentos Imobiliarios	54	54	-	-
Koch Metalúrgica S.A.	13,799	-	-	4,786
Management remuneration	-	-	1,593	716
Management	-	1,154	-	-
Management profit sharing	-	-	692	17,780
Total	13,853	1,208	2,285	23,282
Current	13,853	54	2,285	23,282
Non-current	-	1,154	-	-

Consolidated	Revenues		Expenses		Revenues		Expenses	
	Quarter ended		Quarter ended		Nine-month period ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Irani Participações S/A	-	-	120	120	-	-	360	360
Druck, Mallmann, Oliveira & Advogados Associados	-	-	73	66	-	-	207	406
MCFD Administração de Imóveis Ltda	-	-	309	308	-	-	927	866
Management remuneration	-	-	2,013	1,897	-	-	5,867	5,792
Habitasul Desenvolvimentos Imobiliarios	-	-	45	58	-	54	149	200
Koch Metalúrgica S.A.	457	20	-	-	1,371	35	-	-
Total	457	20	2,560	2,449	1,371	89	7,510	7,624

Payables to the subsidiaries Habitasul Florestal S.A. and Iraflor - Comércio de Madeiras Ltda. refer to commercial transactions and acquisition of raw materials. 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 were settled during the first half of 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 contractual 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, and the receivables refer to advance payment for the supply of equipment.

Management remuneration expenses, net of payroll charges, totaled R$ 5,867 in the nine-month period ended September 30, 2016 (R$ 5,792 in the nine-month period ended September 30, 2015). The total annual management remuneration was approved by the Annual General Meeting held on April 20, 2016, at the maximum amount of R$ 11,000.

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	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Civil contingencies	1,260	1,260	1,260	1,260
Labor contingencies	2,849	3,340	2,849	3,438
Tax contingencies	3,691	12,885	3,691	12,885
Total	7,800	17,485	7,800	17,583

Parent	12/31/2015	Additions	Payments	Reversal	9/30/2016
Civil	1,260	-	-	-	1,260
Labor	3,340	1,281	(233)	(1,539)	2,849
Tax	12,885	548	-	(9,742)	3,691
	17,485	1,829	(233)	(11,281)	7,800

Consolidated	12/31/2015	Additions	Payments	Reversal	9/30/2016
Civil	1,260	-	-	-	1,260
Labor	3,438	1,281	(247)	(1,623)	2,849
Tax	12,885	548	-	(9,742)	3,691
	17,583	1,829	(247)	(11,365)	7,800

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 September 30, 2016 to cover losses arising from these contingencies.

b) Labor lawsuits are mainly related to claims filed by former employees for payment of overtime, health hazard premiums, hazardous duty premiums, occupational illnesses and occupational accidents. Based on past experience and the opinion of its legal counsel, the Company maintained a provision of R$ 2,849 at September 30, 2016, which is considered sufficient to cover potential losses arising from labor contingencies.

c) The provisions for tax contingencies totaled R$ 3,691 and relate mainly to:

i) Offsetting of federal taxes against IPI credits on purchases of paper scrap by the Company. The amount offset from October 2011 to December 2011 was R$ 1,584, and the adjusted balance at September 30, 2016 totaled R$ 2,693.

ii) Administrative and judicial proceedings relating to the disallowance of ICMS credits by the Finance Department of the State of São Paulo, totaling R$ 660, 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 September 30, 2016, the amounts of these possible contingencies of a labor, civil, environmental and tax nature were as follows:

	Consolidated	
	9/30/2016	12/31/2015
Labor contingencies	10,785	10,239
Civil contingencies	5,446	5,446
Tax contingencies	83,993	83,524
	100,224	99,209

Labor contingencies:

The labor lawsuits assessed by management and the legal counsel as involving possible losses total R$ 10,785 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 on 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$ 83,993 and include the following main proceedings:

- Administrative proceeding 10925.000172/2003-66 related to a tax assessment notice for an alleged irregularity in the offsetting of IPI credits, amounting to R$ 10,912 at September 30, 2016. This proceeding has been closed at the administrative level and the Company currently awaits judgment of the respective tax collection lawsuit to start the dispute at court level.

- 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$ 5,460 at September 30, 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$ 5,754 at September 30, 2016, related to tax assessments for PIS and COFINS, originating from an alleged undue tax credit. The Company has challenged these assessments at the administrative level and is awaiting judgment of the Voluntary Appeals.

- Administrative Proceeding 11080.014747/2008-84, amounting to R$ 2,382 at September 30, 2016, relating to tax assessments for IRPJ. The Company awaits judgement of its Special Appeal at the administrative level.

- Administrative Proceeding 11080.014746/2008-30, amounting to R$ 650 at September 30, 2016, relating to tax assessments for CSLL. This proceeding has been closed at the administrative level and the Company currently awaits judgment of the respective tax collection lawsuit to start the dispute at court level.

- Administrative Proceeding 11080.009904/2006-88 related to federal taxes offset against deemed IPI credits on exports, which were allegedly miscalculated. The restated amount involved was R$ 5,406 at September 30, 2016. The Company is discussing these notices at the administrative level, and awaits judgement 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$ 5,917 at September 30, 2016, relate to federal taxes offset against deemed IPI credits on exports, in respect of which unappealable decisions have already been rendered at the administrative level. These proceedings have been closed at the administrative level and the Company currently awaits judgment of the respective tax collection lawsuit to start the dispute at court level.

- 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$ 42,176 at September 30, 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 September 30, 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 granted to holders of common shares; priority in the reimbursement of capital, without premium, in the event of liquidation of the Company; and 100% Tag Along rights. The Company may issue preferred shares, without par value and

voting rights, up to the limit of two thirds of its total shares, and may increase the existing types or classes of shares without maintaining a fixed proportion between them.

At the Extraordinary General Meeting held on April 23, 2015, the stockholders approved a proposal for capital increase 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	
		9/30/2016		12/31/2015	
		Number of shares	Value	Number of shares	Value
i) Share buyback 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 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.

c. Share-based payment

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

The share options were granted to management and certain employees, in accordance with the decision of the Board of Directors on May 9, 2012, approved at the Extraordinary General Meeting held on May 25, 2012. The options were exercised from April 1, 2013 to April 30, 2013. The Company had 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 on 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, as approved by the Annual General Meeting. Certain agreements with creditors contain restrictive clauses relating to the distribution of dividends exceeding 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, upon first-time adoption of IFRS. Their realization will occur as the related deemed cost is depreciated, when the related amounts will also be adjusted in the basis for calculating dividends. The balance at September 30, 2016, net of tax effects, represented a gain of R$ 211,312 (R$ 218,022 at December 31, 2015).

The financial instruments designated as cash flow hedges, net of tax effects, were also recorded in carrying value adjustments, and corresponded to a loss of R$ 83,611 at September 30, 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	61,382
Realization - deemed cost	(6,710)
At September 30, 2016	127,701

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, diluted earnings (loss) per share are equal to basic earnings (loss) per share.

Basic and diluted earnings (loss) from continuing operations:

	Quarter ended 9/30/2016		
	Common shares (ON)	Preferred shares (PN)	ON and PN shares Total
Weighted average number of shares	153,885,975	10,458,160	164,344,135
Profit (loss) for the period attributable to each category of shares	(6,492)	(441)	(6,933)
Basic and diluted earnings (loss) per share - R$	(0.0422)	(0.0422)	

	Quarter ended 9/30/2015		
	Common shares (ON)	Preferred shares (PN)	ON and PN shares Total
Weighted average number of shares	153,885,975	10,458,160	164,344,135
Profit (loss) for the period attributable to each category of shares	3,451	235	3,686
Basic and diluted earnings (loss) per share - R$	0.0224	0.0224	

	Nine month period ended 9/30/2016		
	Common shares (ON)	Preferred shares (PN)	ON and PN shares Total
Weighted average number of shares	153,885,975	10,458,160	164,344,135
Profit (loss) for the period attributable to each category of shares	(5,363)	(364)	(5,727)
Basic and diluted earnings (loss) per share - R$	(0.0349)	(0.0349)	

	Nine month period ended 9/30/2015		
	Common shares (ON)	Preferred shares (PN)	ON and PN shares Total
Weighted average number of shares	153,885,975	10,458,160	164,344,135
Profit (loss) for the period attributable to each category of shares	16,237	1,103	17,340
Basic and diluted earnings (loss) per share - R$	0.1055	0.1055	

23. NET SALES REVENUE

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

	Parent		Parent	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Gross sales revenue	256,778	252,026	752,898	727,181
Taxes on sales	(59,490)	(56,937)	(165,676)	(166,568)
Returns	(2,951)	(2,055)	(9,844)	(5,735)
Net sales revenue	194,337	193,034	577,378	554,878

	Consolidated		Consolidated	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Gross sales revenue	258,024	256,208	759,367	738,327
Taxes on sales	(59,589)	(57,372)	(166,319)	(167,750)
Returns	(2,951)	(2,055)	(9,843)	(5,749)
Net sales revenue	195,484	196,781	583,205	564,828

24. COSTS AND EXPENSES BY NATURE

Costs and expenses by nature are as follows:

	Parent		Parent	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Fixed and variable costs (raw and consumable materials)	(109,136)	(95,489)	(289,898)	(283,771)
Personnel expenses	(33,363)	(29,186)	(100,719)	(86,574)
Changes in the fair value of biological assets	(173)	(1,480)	11,244	1,848
Depreciation, amortization and depletion	(16,111)	(16,036)	(77,289)	(45,253)
Freight	(11,333)	(11,656)	(34,539)	(32,248)
Outsourced services	(3,472)	(4,535)	(14,371)	(13,703)
Other selling expenses	(9,269)	(9,663)	(27,022)	(26,368)
Total costs and expenses by nature	(182,857)	(168,045)	(532,594)	(486,069)
Cost of goods sold	(149,042)	(134,108)	(442,195)	(395,114)
Expenses	(33,642)	(32,457)	(101,643)	(92,803)
Change in the fair value of biological assets	(173)	(1,480)	11,244	1,848

	Consolidated		Consolidated	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Fixed and variable costs (raw materials and consumables)	(108,605)	(88,681)	(251,476)	(262,169)
Personnel expenses	(33,363)	(31,161)	(105,510)	(91,935)
Changes in the fair value of biological assets	2,487	783	15,316	7,923
Depreciation, amortization and depletion	(17,747)	(20,930)	(107,352)	(59,272)
Freight	(11,333)	(11,656)	(34,539)	(32,248)
Services contracted	(3,472)	(4,750)	(14,506)	(14,343)
Other selling expenses	(9,269)	(9,663)	(27,022)	(26,368)
Total costs and expenses by nature	(181,302)	(166,058)	(525,089)	(478,412)
Cost of goods sold	(149,937)	(133,969)	(437,775)	(392,330)
Expenses	(33,852)	(32,872)	(102,630)	(94,005)
Change in the fair value of biological assets	2,487	783	15,316	7,923

25. OTHER OPERATING INCOME AND EXPENSES

Income	Parent		Parent	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Income from assets damaged and sold	461	968	1,981	1,298
Income from sale of forests	-	-	34,700	-
Other operating income	1,073	857	2,935	2,192
	1,534	1,825	39,616	3,490

Expenses	Parent		Parent	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Cost of assets damaged and sold	(419)	(1,290)	(1,724)	(1,467)
Cost of forests sold	(20)	-	(30,289)	-
Social security contribution on accrued vacation pay for prior years	-	-	(1,988)	-
Other operating expenses	(13)	(429)	(1,042)	(1,870)
	(452)	(1,719)	(35,043)	(3,337)
Total	1,082	106	4,573	153

Income	Consolidated		Consolidated	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Imcome from assets damaged and sold	461	968	1,981	1,298
Income from sale of forests	-	-	55,500	-
Other operating income	1,078	861	2,949	2,205
	1,539	1,829	60,430	3,503

Expenses	Consolidated		Consolidated	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Cost of assets damaged and sold	(419)	(1,290)	(1,724)	(1,467)
Cost of forests sold	(20)	-	(51,845)	-
Social security contribution on accrued vacation pay for prior years	-	-	(1,988)	-
Other operating expenses	(30)	(433)	(1,063)	(1,873)
	(469)	(1,723)	(56,620)	(3,340)
Total	1,070	106	3,810	163

26. INCOME TAX AND SOCIAL CONTRIBUTION

The reconciliation of the tax rate is as follows:

	Parent		Parent	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Operating profit (loss) before taxation	(12,775)	1,846	(17,930)	15,101
Standard tax rate	34%	34%	34%	34%
Tax credit (expense) at standard rate	4,344	(628)	6,096	(5,134)
Tax effect of permanent (additions) /exclusions:				
Equity in the results of investees	1,038	2,089	4,802	6,206
Other permanent differences	460	379	1,305	1,166
	5,842	1,840	12,203	2,238
Current income tax and social contribution	-	-	2	(2)
Deferred income tax and social contribution	5,842	1,840	12,201	2,240
Effective rate - %	45.7	(99.7)	68.1	(14.8)

	Consolidated		Consolidated	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Operating profit (loss) before taxation	(12,439)	2,327	(16,765)	16,124
Standard tax rate	34%	34%	34%	34%
Tax credit (expense) at standard rate	4,229	(791)	5,700	(5,482)
Tax effect of permanent (additions) /exclusions:				
Subsidiaries taxed based on deemed profit	750	1,504	3,341	4,900
Other permanent differences	527	646	1,997	1,798
	5,506	1,359	11,038	1,216
Current income tax and social contribution	(267)	(423)	(1,092)	(881)
Deferred income tax and social contribution	5,773	1,782	12,130	2,097
			-	
Effective rate - %	44.3	(58.4)	65.8	(7.5)

27. FINANCE INCOME AND COSTS

	Parent		Parent	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Finance income				
Income from financial investments	732	1,669	4,159	6,987
Interest	563	570	1,947	2,035
Discounts obtained	22	77	130	142
	1,317	2,316	6,236	9,164
Foreign exchange variation				
Foreign exchange gains	2,803	6,318	18,884	15,619
Foreign exchange losses	(9,307)	(15,873)	(34,349)	(31,679)
Foreign exchange variations, net	(6,504)	(9,555)	(15,465)	(16,060)
Finance costs				
Interest	(22,539)	(21,303)	(70,501)	(63,721)
Discounts granted	(356)	(489)	(564)	(656)
Bank charges and expenses	(16)	(14)	(65)	(49)
Other	(292)	(349)	(1,052)	(791)
	(23,203)	(22,155)	(72,182)	(65,217)
Finance result, net	(28,390)	(29,394)	(81,411)	(72,113)

	Consolidated		Consolidated	
	Quarter ended		Nine-month period ended	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Finance income				
Income from financial investments	1,412	2,563	6,855	8,654
Interest	587	571	1,980	2,035
Discounts obtained	22	78	132	143
	2,021	3,212	8,967	10,832
Foreign exchange variation				
Foreign exchange gains	2,803	6,318	18,884	15,619
Foreign exchange losses	(9,307)	(15,873)	(34,349)	(31,679)
Foreign exchange variations, net	(6,504)	(9,555)	(15,465)	(16,060)
Finance costs				
Interest	(22,540)	(21,304)	(70,505)	(63,721)
Discounts granted	(356)	(489)	(564)	(661)
Bank charges and expenses	(16)	(17)	(68)	(54)
Other	(296)	(349)	(1,056)	(791)
	(23,208)	(22,159)	(72,193)	(65,227)
Finance result, net	(27,691)	(28,502)	(78,691)	(70,455)

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 September 30, 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 insurance (D&O), with a total amount of R$

565,640. 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 efficient. Management understands that the risk management structure related to the forests is appropriate to ensure the continuity of the Company's activities.

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 bank's restricted account, as disclosed in Notes 5 and 9), and equity (which includes issued capital, reserves and retained earnings, as presented 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 September 30, 2016, the capital structure comprised 39% of own capital and 61% of third-party capital, mainly due to the effects of the exchange rate variation on debt in foreign currency, which accounts for 54.1% of the Company's total debt, and the exchange rate variation on hedge accounting, which reduces equity by R$ 83,611.

Debt to equity ratio

The debt to equity ratio at September 30, 2016 and December 31, 2015 was as follows:

	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Debt (a)	930,261	922,420	930,261	922,420
Cash and banks	(108,647)	(80,079)	(129,096)	(125,732)
Banks - restricted account	(79,384)	(19,722)	(79,384)	(19,722)
Net debt	742,230	822,619	721,781	776,966
Equity (b)	452,270	396,615	452,280	396,628
Net indebtedness ratio	1.64	2.07	1.60	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 capital and the Company's reserves managed as capital.

Categories of financial instruments

	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Financial assets				
Loans and receivables				
Cash and banks	108,647	80,079	129,096	125,732
Trade receivables	155,782	135,277	156,439	135,854
Other receivables	24,557	31,578	24,640	31,625
Banks - restricted account	79,384	19,722	79,384	19,722
Financial liabilities				
Amortized cost				
Borrowings	869,886	861,381	869,886	861,381
Debentures	60,375	61,039	60,375	61,039
Trade payables	101,715	86,793	70,056	70,135

Financial risk factors

The Company is exposed to various financial risks: 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 September 30, 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 is repayable in the long-term, the Company hedges the net foreign exchange exposure with the equivalent to 30 months of exports, based on the average of exports carried out in the nine-month period ended September 30, 2016, and to 35 months of exports based on the average exports carried out in 2015.

	Parent		Consolidated	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015
Accounts receivable	17,280	19,405	17,280	19,405
Banks - restricted account	13,349	19,722	13,349	19,722
Advances from customers	(534)	(443)	(534)	(443)
Trade payables	(599)	(1,106)	(599)	(1,106)
Borrowings	(406,478)	(508,596)	(406,478)	(508,596)
Net exposure	(376,982)	(471,018)	(376,982)	(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 a base scenario. These scenarios may impact the Company's results and equity, as described below:

1 – Base scenario: for the definition of the base scenario, the U.S. dollar quotation used by the Company accompanies the future market projections of BM&FBovespa for the next reporting date (December 31, 2016).

2 – Adverse scenario: 25% deterioration in the foreign exchange rate compared to that at December 31, 2016.

3 – Remote scenario: 50% deterioration in the foreign exchange rate compared to that at December 31, 2016.

Transaction	Balance at 9/30/2016	Base scenario Gain (loss)		Adverse scenario Gain (loss)		Remote scenario Gain (loss)	
	U$$	Rate	R$	Rate	R$	Rate	R$
Assets							
Trade receivables and Banks - restricted account	9,435	3.30	555	4.13	8,350	4.96	16,143
Liabilities							
Trade payables and advances from customers	(349)	3.30	(21)	4.13	(309)	4.96	(597)
Borrowings	(125,217)	3.30	(7,360)	4.13	(110,820)	4.96	(214,246)
Net effect			(6,826)		(102,779)		(198,700)

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 September 30, 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, whereas balances receivable and payable could fluctuate due to the normal activities of the Company and its subsidiaries. The settlement of transactions involving these projections may result in amounts that differ from those estimated due to the subjectivity of the process used in the preparation of these analyses. The Company tries to maintain the level of its borrowings and derivative transactions exposed to foreign exchange changes with annual net payments 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 the cash flow.

Interest rate risk

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

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 (December 31, 2016). These estimates are based on future market projections of BM&FBovespa for the CDI and the TJLP extracted from BNDES.

2 – Adverse scenario: 25% adjustment of interest rates compared to the level at December 31, 2016.

3 – Remote scenario: 50% adjustment of interest rates compared to the level at December 31, 2016.

Transaction			Base scenario Gain (loss)		Adverse scenario Gain (loss)		Remote scenario Gain (loss)	
	Index	Balance at 9/30/2016	Rate % p.a.	R$	Rate % p.a.	R$	Rate % p.a.	R$
Cash and cash equivalents								
CDB	CDI	167,945	13.71%	(692)	17.14%	4,959	20.57%	10,610
New borrowings								
Working capital	CDI	(358,686)	13.71%	1,645	17.14%	(11,783)	20.57%	(25,210)
Debentures	CDI	(60,977)	13.71%	263	17.14%	(1,884)	20.57%	(4,032)
BNDES	Long-Term Interest Rate (TJLP)	(49,854)	7.50%	-	9.38%	(935)	11.25%	(1,870)
FINAME	Long-Term Interest Rate (TJLP)	4,563	7.50%	-	9.38%	(86)	11.25%	(171)
FINAME	SELIC	(290)	13.73%	2	17.16%	(9)	20.60%	(19)
Working capital	Long-Term Interest Rate (TJLP)	(30,693)	7.50%	-	9.38%	(610)	11.25%	(1,220)
Working capital	Amplified Consumer Price Index (IPCA)	(22,047)	8.48%	110	10.60%	(357)	12.71%	(824)
Financing - foreign currency	Libor 3M	(335,727)	0.87%	(75)	1.08%	(803)	1.30%	(1,532)
Financing - foreign currency	Libor 6M	-	0.00%	-	0.00%	-	0.00%	-
Financing - foreign currency	Libor 12M	(11,366)	1.57%	(2)	1.97%	(47)	2.36%	(91)
Financing - foreign currency	Euribor 6M	(5,057)	0.00%	-	0.00%	-	0.00%	-
Net effect				1,251		(11,555)		(24,359)

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 and 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, and management ensures that the investments are made in financial institutions with which it 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 in banks with a stable relationship with the Company;
iii) Debentures issued by banks with a stable relationship with the Company;
iv) Fixed-income investment funds of conservative profile.

Investments in the variable-income market (i.e. 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 the repayment of borrowings. The liquidity management policy involves the projection of cash flows in the applicable currencies, and the consideration of 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 September 30, 2016, and the details on the expected maturity dates for non-derivative, undiscounted financial assets, including interest that will be earned 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	101,715	-	-	-	-
Borrowings	44,516	271,454	244,856	203,349	208,418
Debentures	21,073	31,577	9,461	-	-
Other liabilities	502	2,008	335	-	-
	167,806	305,039	254,652	203,349	208,418

Assets					
Cash and cash equivalents	108,647	-	-	-	-
Banks – restricted account	13,349	66,035	-	-	-
Trade receivables not yet due	146,256	9,526	-	-	-
Renegotiation with customers	1,454	5,433	6,679	4,508	4,282
Other assets	7,661	6,896	-	-	-
	277,367	87,890	6,679	4,508	4,282
	109,561	(217,149)	(247,973)	(198,841)	(204,136)

Consolidated

	2016	2017	2018	2019	2020 onward
Liabilities					
Trade payables	70,056	-	-	-	-
Borrowings	44,516	271,454	244,856	203,349	208,418
Debentures	21,073	31,577	9,461	-	-
Other liabilities	513	2,008	335	-	-
	136,158	305,039	254,652	203,349	208,418
Assets					
Cash and cash equivalents	129,096	-	-	-	-
Banks – restricted account	13,349	66,035	-	-	-
Trade receivables not yet due	146,913	9,526	-	-	-
Renegotiation with customers	1,458	5,440	6,688	4,514	4,287
Other assets	7,810	6,896	-	-	-
	298,626	87,897	6,688	4,514	4,287
	162,468	(217,142)	(247,964)	(198,835)	(204,131)

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$ 69,660, 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 September 30, 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 contracted a Cash Flow Swap Transaction with Banco Itaú BBA, in order to modify the remuneration and risks associated with the interest rate of the transaction contracted on the same date between the parties under an Export Credit Bill (CCE) contract. The notional value attributed at the contracting date was R$ 40,000 (equivalent to US$ 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 Export Credit Note (CCE) contract began 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 a single instrument. The contract is included in the sensitivity analysis of currency exposure disclosed in this same note.

The Company's Board of Directors approved this transaction 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 which would be January 2016, but was extended to June 2017. The current fixed rates of the contracts were changed to rates that are indexed to the TJLP.

The notional amount 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 separately.

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 hedged financial instruments contracted by the Company include a PPE (Export Prepayment) contract with Banco Credit Suisse, a CCE (Export Credit Bill) contract with Banco Itaú BBA, a PPE contract with Banco Rabobank and Santander, and another PPE contract with Banco Santander.

The hedged cash flows comprise the exports projected up to 2021, and the amount recorded in equity in respect of hedge accounting amounted to R$ 83,611 at September 30, 2016 (R$ 144,993 in December 2015).

	Parent and Consolidated 9/30/2016	Parent and Consolidated 12/31/2015
Opening balance	219,686	73,412
Changes in cash flow hedges	(79,302)	158,165
Reclassification to the statement of operations	(13,701)	(11,891)
	126,683	219,686
Opening balance	(74,693)	(24,960)
Taxes on changes in cash flow hedges	26,963	(53,776)
Taxes on reclassification to the statement of operations	4,658	4,043
	(43,072)	(74,693)
Closing balance	83,611	144,993

The Company estimates 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 range between 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, which are effective in the offsetting of the variations of 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, in the item "foreign exchange exposure risk", together with the other financial instruments.

30. OPERATING SEGMENTS

a) Identification criteria for operating segments

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

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

Corrugated Cardboard (PO) Packaging 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 its production is sent to the Corrugated Cardboard Packaging segment. It has two production units: Campina da Alegria (SC) and Santa Luzia (MG).

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

b) Consolidated information on operating segments

	Consolidated				
	Quarter ended 9/30/2016				
	Corrrugated Cardboard Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	126,115	39,366	1,454	-	166,935
Foreign market	-	17,540	11,009	-	28,549
Revenue from sales to third parties	126,115	56,906	12,463	-	195,484
Inter-segment revenue	-	4,030	-	(4,030)	-
Total net sales	126,115	60,936	12,463	(4,030)	195,484
Changes in the fair value of biological assets	-	1,615	872	-	2,487
Cost of products sold	(111,482)	(30,753)	(11,630)	3,928	(149,937)
Gross profit	14,633	31,798	1,705	(102)	48,034
Operating expenses	(16,698)	(5,327)	(1,099)	(9,658)	(32,782)
Operating result before finance result	(2,065)	26,471	606	(9,760)	15,252
Finance result	(11,877)	(14,614)	(1,200)	-	(27,691)
Net operating result	(13,942)	11,857	(594)	(9,760)	(12,439)
Total assets	453,647	810,027	166,630	269,992	1,700,296
Total liabilities	384,922	609,517	86,459	167,118	1,248,016
Equity	30,255	140,572	134,050	147,403	452,280

	Consolidated				
	Quarter ended 9/30/2016				
	Corrugated Cardboard Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	363,463	103,316	4,749	-	471,528
Foreign market	-	66,841	44,836	-	111,677
Revenue from sales to third parties	363,463	170,157	49,585	-	583,205
Inter-segment revenue	-	11,096	-	(11,096)	-
Total net sales	363,463	181,253	49,585	(11,096)	583,205
Changes in the fair value of biological assets	-	12,137	3,179	-	15,316
Cost of products sold	(320,256)	(88,532)	(39,383)	10,396	(437,775)
Gross profit	43,207	104,858	13,381	(700)	160,746
Operating expenses	(50,220)	(12,893)	(3,867)	(31,840)	(98,820)
Operating result before finance result	(7,013)	91,965	9,514	(32,540)	61,926
Finance result	(33,974)	(39,727)	(4,990)	-	(78,691)
Net operating result	(40,987)	52,238	4,524	(32,540)	(16,765)
Total assets	453,647	810,027	166,630	269,992	1,700,296
Total liabilities	384,922	609,517	86,459	167,118	1,248,016
Equity	30,255	140,572	134,050	147,403	452,280

	Consolidated				
	Quarter ended 9/30/2015				
	Corrugated Cardboard Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	125,122	32,515	1,207	-	158,844
Foreign market	-	23,400	14,537	-	37,937
Revenue from sales to third parties	125,122	55,915	15,744	-	196,781
Inter-segment revenue	-	7,387	-	(7,387)	-
Total net sales	125,122	63,302	15,744	(7,387)	196,781
Changes in the fair value of biological assets	-	(254)	1,037	-	783
Cost of products sold	(106,526)	(23,143)	(11,422)	7,122	(133,969)
Gross profit	18,596	39,905	5,359	(265)	63,595
Operating expenses	(16,551)	(5,676)	(1,404)	(9,135)	(32,766)
Operating result before finance result	2,045	34,229	3,955	(9,400)	30,829
Finance result	(16,514)	(13,245)	1,257	-	(28,502)
Net operating result	(14,469)	20,984	5,212	(9,400)	2,327
Total assets	606,043	752,650	163,147	157,774	1,679,614
Total liabilities	407,025	608,701	15,198	240,707	1,271,631
Equity	46,231	158,918	119,316	83,518	407,983

	Consolidated				
	Quarter ended 9/30/2015				
	Packaging Cardboard Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	367,057	91,397	4,381	-	462,835
Foreign market	-	58,281	43,712	-	101,993
Revenue from sales to third parties	367,057	149,678	48,093	-	564,828
Inter-segment revenue	-	62,065	-	(62,065)	-
Total net sales	367,057	211,743	48,093	(62,065)	564,828
Changes in the fair value of biological assets	-	4,050	3,873	-	7,923
Cost of products sold	(311,937)	(63,625)	(33,978)	17,210	(392,330)
Gross profit	55,120	152,168	17,988	(44,855)	180,421
Operating expenses	(46,300)	(14,558)	(3,859)	(29,125)	(93,842)
Operating result before finance result	8,820	137,610	14,129	(73,980)	86,579
Finance result	(36,966)	(35,382)	1,893	-	(70,455)
Net operating result	(28,146)	102,228	16,022	(73,980)	16,124
Total assets	606,043	752,650	163,147	157,774	1,679,614
Total liabilities	407,025	608,701	15,198	240,707	1,271,631
Equity	46,231	158,918	119,316	83,518	407,983

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 other segments, which are carried out under usual market prices and conditions.

Finance income (costs) were allocated by operating segments, 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 the working capital requirements of each segment.

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 third quarter of 2016, net sales revenue totaled R$ 195,484 (R$ 196,781 in the third quarter of 2015). In the nine-month period ended September 30, 2016, net sales revenue totaled R$ 583,205 (R$ 564,828 in the same period of 2015).

Net sales from exports in the third quarter of 2016 amounted to R$ 28,549 (R$ 37,937 in the third quarter of 2015). In the nine-month period ended September 30, 2016, net sales from exports totaled R$ 111,677 (R$ 101,993 in the same period of 2015), distributed across various countries, as follows:

Consolidated		
Quarter ended 9/30/2016		
Country	Net export revenues	% of total net revenues
Germany	5,275	2.70%
China	4,355	2.20%
Argentina	3,092	1.60%
Saudi Arabia	2,789	1.40%
South Africa	1,854	0.90%
Paraguay	1,745	0.90%
Netherlands	1,487	0.80%
Japan	1,109	0.60%
Chile	1,000	0.50%
Portugal	868	0.40%
Peru	673	0.30%
Bolivia	552	0.30%
Uruguay	492	0.30%
Dubai	460	0.20%
Singapore	417	0.20%
Austria	379	0.20%
Turkey	301	0.20%
Serbia	234	0.10%
United Kingdom	205	0.10%
United Arab Emirates	200	0.10%
Spain	169	0.10%
Kuwait	157	0.10%
Pakistan	149	0.10%
Malaysia	146	0.10%
Colombia	135	0.10%
Other countries	306	0.20%
	28,549	14.70%

Consolidated		
Quarter ended 9/30/2015		
Country	Net export revenues	% of total net revenues
Germany	5,895	3.00%
Argentina	5,882	3.00%
Saudi Arabia	4,242	2.20%
France	3,360	1.70%
Kuwait	2,320	1.20%
South Africa	2,124	1.10%
Netherlands	1,734	0.90%
India	1,415	0.70%
Chile	1,363	0.70%
Paraguay	1,245	0.60%
Uruguay	985	0.50%
Bolivia	896	0.50%
Spain	847	0.40%
Peru	714	0.40%
Japan	652	0.30%
Singapore	631	0.30%
Hong Kong	593	0.30%
Portugal	527	0.30%
Austria	433	0.20%
United Kingdom	403	0.20%
Other countries	1,676	0.90%
	37,937	19.40%

Consolidated		
Quarter ended 9/30/2016		
Country	Net export revenues	% of total net revenues
Germany	17,568	3.00%
China	16,041	2.80%
Argentina	13,543	2.30%
Saudi Arabia	10,883	1.90%
South Africa	6,169	1.10%
France	5,764	1.00%
Paraguay	5,244	0.90%
Chile	4,997	0.90%
Netherlands	3,197	0.50%
Peru	2,957	0.50%
Japan	2,952	0.50%
Spain	2,689	0.50%
Portugal	2,434	0.40%
Turkey	1,981	0.30%
Singapore	1,970	0.30%
Bolivia	1,786	0.30%
Uruguay	1,779	0.30%
Austria	1,510	0.30%
Dubai	1,199	0.20%
United Arab Emirates	1,118	0.20%
Pakistan	778	0.10%
Malaysia	648	0.10%
Serbia	560	0.10%
Israel	537	0.10%
Norway	527	0.10%
Kuwait	508	0.10%
Canada	447	0.10%
United Kingdom	429	0.10%
Colombia	428	0.10%
United States of America	284	0.00%
Other countries	750	0.10%
	111,677	19.20%

Consolidated		
Quarter ended 9/30/2015		
Country	Net export revenues	% of total net revenues
Germany	16,989	3.00%
Argentina	13,374	2.40%
Saudi Arabia	11,435	2.00%
France	9,156	1.60%
South Africa	5,116	0.90%
Kuwait	4,833	0.90%
Chile	4,240	0.80%
China	4,209	0.70%
Netherlands	3,778	0.70%
Paraguay	3,580	0.60%
Peru	3,234	0.60%
Japan	2,942	0.50%
Bolivia	2,554	0.50%
India	2,256	0.40%
Austria	1,660	0.30%
Uruguay	1,585	0.30%
Spain	1,371	0.20%
Portugal	1,194	0.20%
Singapore	1,181	0.20%
Norway	966	0.20%
Hong Kong	943	0.20%
Canada	753	0.10%
United Kingdom	719	0.10%
Other countries	3,925	0.70%
	101,993	18.10%

In the domestic market, net sales revenue totaled R$ 166,935 in the third quarter of 2016 (R$ 158,844 in the third quarter of 2015). In the nine-month period ended September 30, 2016 net sales in the domestic market totaled R$ 471,528 (R$ 462,835 in the nine-month period ended September 30, 2015).

In the second quarter of 2016, a single customer accounted for 4.8% of net sales in the domestic market of the Corrugated Cardboard Packaging segment, equivalent to R$ 5,874. 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 September 30, 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 in the third quarter of 2016 by the parent company, net of taxes when applicable, were as follows:

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

The future commitments arising from these contracts totaled a minimum amount of R$ 112,513 at September 30, 2016. The rentals were calculated at present value, using the accumulated IGPM index in the last 12 months, i.e., 10.68% per year.

	Up to 1 year	From 1 to to 5 years	After 5 years	Total
Future operating leases	3,355	17,408	91,750	112,513
Operating leases at present value	3,032	12,127	30,317	45,476

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, covering a total area of 3.2 thousand hectares, of which 2.2 thousand hectares comprised the planted area. For certain areas, there is a lease commitment, with payments to be disbursed monthly, 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., 10.68% per year.

	Up to 1 year	From 1 to to 5 years	After 5 years	Total
Future operating leases	125	2,570	1,257	3,952
Operating leases at present value	113	1,793	551	2,457

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): Allows 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, to be deferred for payment after 48 months. This benefit is calculated monthly and subject to the completion of the investments planned and maintenance of jobs, in addition to the maintenance of regular status with the State. 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 17.62% 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$ 3,858.

   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 September 30, 2016, the Company had deferred ICMS liabilities of R$ 18,262 (net of government grants of R$ 14,404).

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 presumed credits 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 as a principal benefit, the recording of ICMS presumed credit, resulting in the effective payment of 2% on shipments of products manufactured by the Company. The total investment is estimated at approximately R$ 220,000, starting in 2014 and expected to 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 investment activities, which, therefore, were not reflected in the statement of cash flows.

In the nine-month period ended September 30, 2016, the Company purchased property, plant and equipment, intangible assets and biological assets amounting to R$ 4,579, which were financed directly by the suppliers.

During the nine-month period ended September 30, 2015, the Company purchased property, plant and equipment, intangible assets and biological assets amounting to R$ 2,012, which were financed directly by the suppliers.