

(A free translation of the original in Portuguese)



Celulose Irani S.A.

*Financial statements at
December 31, 2016 and 2015*

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Celulose Irani S.A.

Opinion

We have audited the accompanying parent company financial statements of Celulose Irani S.A. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2016 and the statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Celulose Irani S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the parent company and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Celulose Irani S.A. and of Celulose Irani S.A. and its subsidiaries as at December 31, 2016, and the parent company's financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the parent company and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Recoverable value of goodwill based on future profitability

Why it is a key audit matter

We focused on this area in our audit because, in order to assess the recoverable value of goodwill arising from the acquisition of Indústria de Papel e Papelão São Roberto S.A., which was later merged into the Company, management has to use critical estimates and apply judgment both regarding the estimation of future cash flows and the determination of the discount rate.

The recoverable value obtained with the calculation of the value in use is sensitive to uncertainties that are inherent to the process and to the judgment made and assumptions used that, if changed, may result in amounts that are significantly different from those calculated by the Company.

How the matter was addressed in the audit

In the context of the financial statement audit, regarding the recoverable value of goodwill, we carried out the procedures described below, among others.

With the support of our internal assessment specialists, we analyzed the logical and arithmetic coherence of the cash flow projections. We also tested the consistency of the information and main assumptions used to project the cash flows, such as growth and discount rates, by comparing them with: (i) budgets approved by the Board of Directors; (ii) market assumptions and data; and (iii) prior-year projections with the effective subsequent results.

We carried out sensitivity analysis and recalculated the projections taking into account different intervals and scenarios concerning growth and discount rates, in addition to reading the disclosures made.

Our audit procedures showed that the judgments applied and assumptions used by management were reasonable, and that the disclosures were consistent with the data and information obtained.

Biological asset valuation

Why it is a key audit matter

Notes 2 and 15 to the financial statements describe that the Company and its subsidiaries have biological assets, valued at fair value, resulting from the planting and cultivation of pine forests. Management has to apply critical judgment to determine the fair value of these assets because it is based on future cash flows related to the projected productivity cycles, which are sensitive to price variations, growth of biological assets, discount rates, among others, in addition to the using of different valuation techniques. Furthermore, some of these assumptions take data into account that are not observable in the market. Changes in assumptions or in valuation techniques used may result in significantly different fair value estimates and, as a result, affect the results for the year.

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How the matter was addressed in the audit

We performed the following procedures, among others:

Obtaining of an understanding and the testing of the main biological asset valuation and measurement controls, and analyses of the template used to estimate the forests' fair value.

With the support of our specialists in biological asset valuation, we assessed the reasonableness of the methodology used and the consistency of the financial and economic information and assumptions that management used to value these assets by comparing them with: (i) market price for wood; (ii) expenditures effectively incurred with planting; and (iii) prior-year projections with the effective subsequent results.

We carried out sensitivity analysis and recalculated the projections taking into account different scenarios regarding wood price, planting expenditures, and discount rates.

Our audit procedures showed that the judgments applied and assumptions used by management were reasonable, and that the disclosures were consistent with the data and information obtained.

Sale of forest owned by the Company and its subsidiary Iraflor Comércio de Madeiras Ltda.

Why it is a key audit matter

Note 15 to the financial statements describes that the Company and its subsidiary Iraflor Comércio de Madeiras Ltda. sold a portion of their forests in 2016. The buyer granted annual purchase options to the Company's parent company, which can be exercised over the next 11 years.

We decided to focus on this transaction in our audit due to the complexity involved in the assessment of the related accounting approach - forests effectively sold to the purchaser or borrowing transaction guaranteed by the forests.

How the matter was addressed in the audit

In the context of the financial statement audit, taking into account that management considered this transaction as asset disposal, we carried out the following procedures, among others.

We inquired of management about whether the main risks and benefits related to the using of these assets were effectively transferred to the buyer, and whether there are no other relevant conditions included in the granting of annual purchase options to the Company's parent company that could disqualify the transaction as an asset disposal.

Furthermore, we closely compared the contracts entered into related to (i) forest disposal, and (ii) granting of annual purchase options to the Company's parent company with the answers and evidence obtained from management, as mentioned above.

We consider that the conclusions and disclosures by management are consistent with the data, information, and documents obtained in our audit.

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Provisions and contingent liabilities

Why it is a key audit matter

Note 20 to the financial statements discloses that, at December 31, 2016, the Company and its subsidiaries had a provision for contingencies based on probable losses estimated in the respective proceedings.

The Company and its subsidiaries also have tax, civil, and labor proceedings in progress for which no provisions were recorded in the financial statements because management considered the likelihood of losses for these proceedings as only possible, based on the opinion of the Company's internal and external legal advisors.

Management applies critical judgments to determine the likelihood of positive outcomes for proceedings in progress, as well as to estimate the probable losses, since these matters depend on future events that management is not able to control. In this context, the progress of these proceedings, at the several applicable levels, can differ from the results estimated by the management and its internal and external legal advisors, taking into account that changes in court directives or new case law may significantly affect management's estimates.

How the matter was addressed in the audit

In this respect, we determined whether the procedures adopted by management to calculate the provisions and their related disclosures were in compliance with the related accounting policy.

Furthermore, we obtained confirmation from the external legal advisors regarding the likelihood of loss for the major proceedings and the quantification of the amounts estimated as possible and probable losses. We counted on the support of our tax specialists to assess the reasonableness of estimates prepared by management and its internal and external legal advisors for certain proceedings, considering their progress and the existing case law, when applicable.

We consider that the criteria and assumptions adopted by management to determine the provisions and the disclosures are consistent with the information received during our audit.

Other matters

Statements of Value Added

The parent company and consolidated statements of value added for the year ended December 31, 2016, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in the Brazilian Technical Pronouncements Committee CPC 09 - "Statement of Value Added". In our opinion, the parent company and consolidated statements of value added have been properly prepared, in all material

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respects, in accordance with the criteria established in the Technical Pronouncement and are consistent with the parent company and consolidated financial statements taken as a whole.

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

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Porto Alegre, February 24, 2017

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Maurício Colombari
Contador CRC 1SP195838/O-3 "S" RS

CELULOSE IRANI S.A.

BALANCE SHEET AT DECEMBER 31

(All amounts in thousands of reais)

ASSETS	Note	Parent		Consolidated		LIABILITIES AND EQUITY	Note	Parent		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015			12/31/2016	12/31/2015	12/31/2016	12/31/2015
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	5	82,844	80,079	103,885	125,732	Borrowings	16	266,926	195,620	266,926	195,620
Trade receivables	6	153,644	135,277	154,227	135,854	Debentures	17	31,114	21,248	31,114	21,248
Inventories	7	66,875	67,119	67,051	67,219	Trade payables	18	111,849	86,793	79,849	70,135
Taxes recoverable	8	5,233	9,245	5,297	9,245	Social security obligations		24,235	40,774	24,719	41,152
Dividends receivable	12	4,400	-	-	-	Tax liabilities		17,820	18,815	18,106	19,256
Banks - restricted account	9	94,198	19,722	94,198	19,722	Income tax and social contribution payable		-	-	344	805
Other assets	10	19,482	19,293	19,629	19,413	Taxes payable in installments		2,008	2,192	2,011	2,222
Total current assets		<u>426,676</u>	<u>330,735</u>	<u>444,287</u>	<u>377,185</u>	Advances from customers		1,355	1,197	1,373	1,218
NON-CURRENT ASSETS						NON-CURRENT LIABILITIES					
Taxes recoverable	8	2,392	3,066	2,392	3,066	Borrowings	16	609,983	665,761	609,983	665,761
Deposits in court		1,849	1,370	1,947	1,475	Debentures	17	9,352	39,791	9,352	39,791
Other assets	10	15,220	23,557	15,248	23,584	Provision for civil, labor and tax contingencies	20	6,104	17,485	6,104	17,583
Related parties	19	-	1,154	-	1,154	Taxes payable in installments		204	1,918	204	1,920
Total long-term receivables		<u>19,461</u>	<u>29,147</u>	<u>19,587</u>	<u>29,279</u>	Tax liabilities		10,538	10,298	10,538	10,298
Investments in subsidiaries	12	255,357	272,231	-	-	Deferred income tax and social contribution	11	139,548	133,266	153,192	146,197
Investment properties	13	34,839	35,332	18,644	19,137	Total non-current liabilities		<u>775,729</u>	<u>868,519</u>	<u>789,373</u>	<u>881,550</u>
Biological assets	15	69,696	92,870	235,407	261,559	TOTAL LIABILITIES					
Property, plant and equipment	14.a	778,543	789,527	849,124	860,410		<u>1,251,748</u>	<u>1,263,713</u>	<u>1,234,750</u>	<u>1,261,963</u>	
Intangible assets	14.b	112,367	110,486	112,902	111,021	EQUITY					
Total non-current assets		<u>1,270,263</u>	<u>1,329,593</u>	<u>1,235,664</u>	<u>1,281,406</u>	Share capital	21.a	161,895	161,895	161,895	161,895
TOTAL ASSETS						TOTAL LIABILITIES AND EQUITY					
		<u>1,696,939</u>	<u>1,660,328</u>	<u>1,679,951</u>	<u>1,658,591</u>	Capital reserve		960	960	960	960
						Revenue reserves	21.e	154,829	160,731	154,829	160,731
						Carrying value adjustments	21.f	127,507	73,029	127,507	73,029
						Equity attributable to owners of the parent		<u>445,191</u>	<u>396,615</u>	<u>445,191</u>	<u>396,615</u>
						Non-controlling interests		-	-	10	13
						Total equity		<u>445,191</u>	<u>396,615</u>	<u>445,201</u>	<u>396,628</u>

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

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STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31

(All amounts in thousands of reais unless otherwise stated)

(A free translation of the original in Portuguese)

	Note	Parent		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
NET SALES REVENUE	23	769,805	747,123	776,795	758,758
Change in the fair value of biological assets	15 to 24	1,938	13,749	27,394	(6,450)
Cost of sales	24	(596,872)	(535,478)	(593,422)	(530,437)
GROSS PROFIT		174,871	225,394	210,767	221,871
OPERATING INCOME (EXPENSES)					
Selling expenses	24	(83,703)	(81,133)	(83,703)	(81,133)
General and administrative expenses	24	(51,320)	(44,826)	(52,642)	(46,415)
Other operating income	25	40,714	5,163	61,536	5,180
Other operating expenses	25	(42,449)	(5,883)	(64,024)	(5,913)
Management profit sharing	19	-	(55)	-	(55)
Equity in the results of subsidiaries	12	35,130	(2,877)	-	-
PROFIT BEFORE FINANCE RESULT AND TAXES		73,243	95,783	71,934	93,535
Finance income (costs), net	27	(110,419)	(95,495)	(107,046)	(92,573)
Finance income		36,537	32,292	39,932	35,228
Finance costs		(146,956)	(127,787)	(146,978)	(127,801)
OPERATING PROFIT/(LOSS) BEFORE TAXATION		(37,176)	288	(35,112)	962
Current income tax and social contribution	26	2	(2)	(1,348)	(1,360)
Deferred income tax and social contribution	26	26,392	209	25,678	893
PROFIT/(LOSS) FOR THE YEAR		(10,782)	495	(10,782)	495
Profit/(loss) attributable to:					
Owners of the parent		(10,782)	495	(10,782)	495
		(10,782)	495	(10,782)	495
BASIC AND DILUTED EARNINGS/(LOSS) PER REGISTERED COMMON SHARE - R\$	22	(0.0656)	0.0030	(0.0656)	0.0030
BASIC AND DILUTED EARNINGS/(LOSS) PER REGISTERED PREFERRED SHARE - R\$	22	(0.0656)	0.0030	(0.0656)	0.0030

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

CELULOSE IRANI S.A.

STATEMENT OF COMPREHENSIVE INCOME (LOSS) AT DECEMBER 31

(All amounts in thousands of reais)

(A free translation of the original in Portuguese)

	Parent		Consolidated	
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Profit /loss) for the year	(10,782)	495	(10,782)	495
Items to be subsequently reclassified to profit or loss	<u>63,425</u>	<u>(96,541)</u>	<u>63,425</u>	<u>(96,541)</u>
Cash flow hedge accounting	96,099	(146,274)	96,099	(146,274)
Income tax and social contribution - cash flow hedges	<u>(32,674)</u>	<u>49,733</u>	<u>(32,674)</u>	<u>49,733</u>
Other comprehensive results	<u>63,425</u>	<u>(96,541)</u>	<u>63,425</u>	<u>(96,541)</u>
Attributable to owners of the parent	<u>52,643</u>	<u>(96,046)</u>	<u>52,643</u>	<u>(96,046)</u>
Comprehensive income (loss) for the year	<u><u>52,643</u></u>	<u><u>(96,046)</u></u>	<u><u>52,643</u></u>	<u><u>(96,046)</u></u>

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

STATEMENT OF CHANGES IN EQUITY
(All amounts in thousands of reais)

(A free translation of the original in Portuguese)

Note	Share capital	Treasury shares	Share-based payment	Revenue reserves				Carrying value adjustments	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total	
				Legal	Statutory for biological assets	Profit retention	Tax incentive						
BALANCE AT DECEMBER 31, 2014	151,895	(6,834)	960	2,829	60,555	105,069	4,520	178,617	-	497,611	14	497,625	
Total comprehensive income (loss) for the year													
Profit for the year	21 d.								495	495	-	495	
Cash flow hedge accounting	21 f.							(96,541)		(96,541)	-	(96,541)	
Realization - deemed cost								(9,047)	9,047	-	-	-	
Realized revenue reserve - biological assets					(4,068)				4,068	-	-	-	
Realized revenue reserve - biological assets (subsidiaries)					(257)				257	-	-	-	
Total comprehensive income (loss) for the year		-	-	-	(4,325)	-	-	(105,588)	13,867	(96,046)	-	(96,046)	
Total contributions by and distributions to stockholders													
Capital increase	21 a.	10,000		(2,829)		(7,171)							
Dilution of non-controlling interests											(1)	(1)	
Proposed allocations													
Legal reserve	21 e.			25					(25)				
Dividends	21 d.								(4,950)	(4,950)		(4,950)	
Tax incentives reserve	21 e.						470		(470)				
Profit retention reserve	21 e.					8,422			(8,422)				
Total contributions by and distributions to stockholders		10,000	-	-	(2,804)	-	1,251	470	-	(13,867)	(4,950)	(1)	(4,951)
BALANCE AT DECEMBER 31, 2015	161,895	(6,834)	960	25	56,230	106,320	4,990	73,029	-	396,615	13	396,628	
Total comprehensive income (loss) for the year													
Loss for the year	21 d.								(10,782)	(10,782)	-	(10,782)	
Cash flow hedge accounting	21 f.							63,425		63,425	-	63,425	
Realization - deemed cost								(8,947)	8,947	-	-	-	
Realized revenue reserve - biological assets					(17,717)				17,717	-	-	-	
Realized revenue reserve - biological assets (subsidiaries)					(387)				387	-	-	-	
Total comprehensive income (loss) for the year		-	-	-	(18,104)	-	-	54,478	16,269	52,643	-	52,643	
Total contributions by and distributions to stockholders													
Capital reduction in subsidiary	21 a.										(3)	(3)	
Proposed allocations													
Dividends	21 d.								(4,067)	(4,067)		(4,067)	
Profit retention reserve	21 e.					12,202			(12,202)				
Total contributions by and distributions to stockholders		-	-	-	-	12,202	-	-	(16,269)	(4,067)	(3)	(4,070)	
BALANCE AT DECEMBER 31, 2016	161,895	(6,834)	960	25	38,126	118,522	4,990	127,507	-	445,191	10	445,201	

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

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STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31
(All amounts in thousands of reais)

	Note	Parent		Consolidated	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before income tax and social contribution		(37,176)	288	(35,112)	962
Reconciliation of profit (loss) with net cash provided by operating activities:					
Change in the fair value of biological assets	15.a	(1,938)	(13,749)	(27,394)	6,450
Depreciation, amortization and depletion	13,14,15	93,788	60,438	124,802	79,696
Dilution of non-controlling interests		-	-	-	(1)
Proceeds from sale of permanent assets		(4,335)	(319)	(4,335)	(319)
Equity in the results of subsidiaries	12	(35,130)	2,877	-	-
Constitution/reversal of provision for civil, labor and tax contingencies	20	(10,920)	(14,415)	(11,004)	(14,401)
Provision for impairment of trade receivables	6	2,879	897	2,879	897
Provision for losses on other assets	10	1,358	2,006	1,358	2,006
Monetary variations and charges		118,445	116,715	118,445	116,715
Management profit sharing	19	-	55	-	55
Write-down to (reversal of) net realizable value		(287)	(250)	(287)	(250)
		<u>126,684</u>	<u>154,543</u>	<u>169,352</u>	<u>191,810</u>
(Increase) decrease in assets:					
Accounts receivable		(21,246)	(8,257)	(21,252)	(6,518)
Inventories		531	(4,281)	455	(4,320)
Taxes recoverable		4,686	(1,592)	4,622	(1,592)
Other assets		7,465	(14,357)	7,444	(14,445)
Dividends received		3,897	21,501	-	-
Increase (decrease) in liabilities:					
Trade payables		12,743	5,864	(2,396)	4,494
Social security obligations		(16,539)	479	(16,433)	657
Advances from customers		158	(798)	155	(1,320)
Tax liabilities		(2,651)	(4,039)	(4,647)	(4,793)
Other payables		(12,059)	7,088	(12,052)	7,013
Cash from operations		<u>103,669</u>	<u>156,151</u>	<u>125,248</u>	<u>170,986</u>
Payment of interest on borrowings		(75,460)	(65,800)	(75,460)	(65,800)
Payment of interest on debentures		(9,604)	(16,277)	(9,604)	(16,277)
Net cash provided by operating activities		<u>18,605</u>	<u>74,074</u>	<u>40,184</u>	<u>88,909</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property, plant and equipment		(39,145)	(42,904)	(39,204)	(43,381)
Transfers to investment properties		-	(10,404)	-	(10,404)
Purchases of biological assets		(5,745)	(4,767)	(8,167)	(6,509)
Purchases of intangible assets		(3,314)	(970)	(3,314)	(970)
Capital decrease in subsidiaries	12	43,797	-	-	-
Reduction in the share capital of non-controlling interests		-	-	(3)	-
Capital contribution		(90)	-	-	-
Proceeds from sales of assets		5,772	2,596	5,772	2,524
Advance for future capital increase		-	(21,072)	-	-
Banks - restricted account		(79,139)	(16,649)	(79,139)	(16,649)
Net cash used in investing activities		<u>(77,864)</u>	<u>(94,170)</u>	<u>(124,055)</u>	<u>(75,389)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of dividends and interest on capital		(312)	(17,435)	(312)	(17,435)
Debentures paid		(21,408)	(52,724)	(21,408)	(52,724)
Proceeds from borrowings		262,076	163,853	262,076	163,853
Repayment of borrowings		(178,332)	(147,467)	(178,332)	(147,467)
Net cash provided by (used in) financing activities		<u>62,024</u>	<u>(53,773)</u>	<u>62,024</u>	<u>(53,773)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS IN THE YEAR		2,765	(73,869)	(21,847)	(40,253)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	5	80,079	153,948	125,732	165,985
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	82,844	80,079	103,885	125,732

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

CELULOSE IRANI S.A.

STATEMENT OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31
(All amounts in thousands of reais)

(A free translation of the original in Portuguese)

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
1. REVENUE	1,070,732	1,002,231	1,099,289	1,015,308
1.1) Sales of goods, products and services	1,005,845	984,594	1,013,581	997,652
1.2) Other revenue	67,766	18,534	88,587	18,553
1.3) Constitution of provision for impairment of trade receivables	(2,879)	(897)	(2,879)	(897)
2. INPUTS PURCHASED FROM THIRD PARTIES	586,162	561,796	563,601	527,143
2.1) Cost of goods sold and services rendered	502,408	508,549	477,301	469,883
2.2) Materials, electricity, outsourced services and other	82,683	51,491	85,229	55,504
2.3) Impairment/recoverability of assets	1,071	1,756	1,071	1,756
3. GROSS VALUE ADDED (1-2)	484,570	440,435	535,688	488,165
4. DEPRECIATION, AMORTIZATION AND DEPLETION	93,788	60,438	124,802	79,696
5. CHANGES IN THE FAIR VALUE OF BIOLOGICAL ASSETS	(1,938)	(13,749)	(27,394)	6,450
6. NET VALUE ADDED GENERATED BY THE ENTITY (3-4-5)	392,720	393,746	438,280	402,019
7. VALUE ADDED RECEIVED THROUGH TRANSFER	71,667	29,415	39,932	35,228
7.1) Equity in the results of subsidiaries	35,130	(2,877)	-	-
7.2) Finance income	36,537	32,292	39,932	35,228
8. TOTAL VALUE ADDED TO DISTRIBUTE (6+7)	464,387	423,161	478,212	437,247
9. DISTRIBUTION OF VALUE ADDED	464,387	423,161	478,212	437,247
9.1) Personnel	147,888	148,564	156,575	155,845
9.1.1 - Direct compensation	114,632	116,425	120,618	121,255
9.1.2. - Benefits	25,957	25,051	28,213	27,162
9.1.3. - Government Severance Indemnity Fund for Employees (FGTS)	7,299	7,088	7,744	7,428
9.2.) Taxes and contributions	141,527	120,231	146,387	127,011
9.2.1. - Federal	93,645	86,084	98,088	92,001
9.2.2. - State	46,435	32,799	46,720	33,495
9.2.3. - Municipal	1,447	1,348	1,579	1,515
9.3) Remuneration of third-party capital	158,703	140,443	158,981	140,468
9.3.1. - Interest	146,956	127,787	146,978	127,801
9.3.2. - Rentals	11,747	12,656	12,003	12,667
9.4) Remuneration of own capital	16,269	13,923	16,269	13,923
9.4.1 - Dividends	4,067	4,950	4,067	4,950
9.4.2 - Retained earnings	12,202	8,918	12,202	8,918
9.4.3 - Management profit sharing	-	55	-	55

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

(A free translation of the original in Portuguese)

CELULOSE IRANI S.A.

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(A free translation of the original in Portuguese)

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

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 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 activities and utilizes the production chain of planted forests and paper recycling as the basis for all its production.

The direct subsidiaries are listed in Note 4.

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

The issue of these financial statements was authorized by the Board of Directors on February 22, 2017.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

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

2.1. New standards, amendments and interpretations of standards that are not yet effective:

Standards, amendments and interpretations to existing standards that will be mandatory for periods from January 1, 2018 and have not been early adopted by the Company, which is currently assessing the possible impacts of their adoption:

IFRS 9 - Financial Instruments: addresses the classification, measurement and recognition of financial assets and liabilities. The standard is effective from January 1, 2018. This standard replaces the guidance provided for in IAS 39, regarding the classification and measurement of financial instruments. The IFRS 9 retains but simplifies the combined measurement model and establishes three primary categories of measurement for financial assets: amortized cost, fair value through other comprehensive results, and fair value through profit or loss. It also brings a model of expected credit losses, in replacement of the current model of incurred losses. IFRS 9 softens hedge effectiveness requirements, requires an economic relationship between the hedged item and the hedging instrument, and requires that the hedging index be the same as that used by management for risk management purposes.

IFRS 15 - Revenue from Contracts with Customers: this new standard sets forth the principles that should be applied by an entity to measure revenue and the time the revenue should be recognized. It takes effect on January 1, 2018 and replaces IAS 11 - "Construction Contracts", IAS 18 - "Revenues" and corresponding interpretations.

IFRS 16 - Leases: The new standard supersedes IAS 17 - Leasing Operations and all related interpretations and requires lessees to recognize the liabilities of future payments and the right of use of the leased asset for virtually all lease agreements, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. The criteria for recognition and measurement of leases in the financial statements of the lessors are substantially maintained. IFRS 16 is effective from January 1, 2019.

There are no other standards, amendments and interpretations that are not yet effective, which would be expected to have a material impact on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Functional currency and translation of foreign currencies

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

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

b) Cash and cash equivalents

Cash and cash equivalents comprise cash, 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 which considers 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 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 them 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. Impairment losses are recognized only if there is objective evidence that one or more events have an impact on the estimated future cash flows of the financial asset or group of financial assets, which can be estimated reliably.

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

- i) significant financial difficulty of the issuer or debtor;
- ii) a breach of contract, such as a default in interest or principal payments;

- iii) 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 in the parent company financial statements by the equity method, under which investments in subsidiaries are adjusted to recognize the Company's share of profit/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 the intended use and is calculated on the same basis as that of other property, plant and equipment items.

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

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

Goodwill represents the positive difference between the amount paid and/or payable for the acquisition of a business and the net fair value of assets and liabilities of the acquiree. Goodwill on acquisitions of subsidiaries is recorded as "Intangible assets" in the consolidated financial statements. If a gain on advantageous purchase is determined, the amount is recorded as a gain in the statement of operations for the year, 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. The Company's trademarks do not have a defined useful life and, therefore, are not amortized.

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

j) Biological assets

The Company's biological assets are represented mainly by pine forests, which are used in the production of packaging 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 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 2016 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 individually for each company, 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 under "Carrying value adjustments" in equity, are shown in Note 21.

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

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 also recognized in the statement of operations for the year.

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 year.

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

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

The Company as the lessor

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

p) Provisions

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

q) Employee benefits

Profit sharing

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

r) Significant accounting judgments, estimates and assumptions

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

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

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

Actual results involving accounting judgments, estimates and assumptions, when realized, could differ from those recognized in the 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 in 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 possible impacts on its operations and consequent effects on the 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 as the difference between the amounts obtained and the fair value calculated based on market interest rates. This difference is recorded with a corresponding entry to sales revenue in the statement of operations, and is appropriated based on the amortized cost and the effective rate over the period.

v) Statement of value added

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

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

4. CONSOLIDATION OF THE FINANCIAL STATEMENTS

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

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

* currently assessing wind power projects for implementation

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Fixed-cash fund	33	29	34	32
Banks	3,610	3,275	3,759	3,499
Financial investments with immediate liquidity	79,201	76,775	100,092	122,201
	<u>82,844</u>	<u>80,079</u>	<u>103,885</u>	<u>125,732</u>

The financial investments with immediate liquidity in Bank Deposit Certificates (CDBs) earn an average of 99.86 % of the Interbank Deposit Certificate (CDI) interest rate and mature in 90 days or less. These investments are held for the purpose of meeting short-term commitments.

6. TRADE RECEIVABLES

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Receivables:				
Trade receivables - domestic market	151,194	130,605	152,434	131,839
Trade receivables - foreign market	20,062	19,405	20,062	19,405
	<u>171,256</u>	<u>150,010</u>	<u>172,496</u>	<u>151,244</u>
Provision for impairment of trade receivables	(17,612)	(14,733)	(18,269)	(15,390)
	<u>153,644</u>	<u>135,277</u>	<u>154,227</u>	<u>135,854</u>

At December 31, 2016, the consolidated trade receivables included an overdue amount of R\$ 24,280, relating to customers that do not have a history of default, for which no provision was recorded.

The ageing analysis of trade receivables is as follows:

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Not yet due	129,543	116,233	129,947	116,709
Less than 30 days overdue	15,679	11,374	15,769	11,425
31 to 60 days overdue	3,961	3,662	3,962	3,666
61 to 90 days overdue	2,164	664	2,164	670
91 to 180 days overdue	1,377	2,059	1,446	2,059
More than 180 days overdue	18,532	16,018	19,208	16,715
	<u>171,256</u>	<u>150,010</u>	<u>172,496</u>	<u>151,244</u>

The average credit term on the sale of products is 63 days. The Company recognizes a provision for impairment of trade receivables for balances overdue for more than 180 days, based on an analysis of the financial position of each debtor 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	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Balance at the beginning of the year	(14,733)	(13,836)	(15,390)	(14,494)
Additions	(2,879)	(897)	(2,879)	(897)
Amounts recovered in the year	-	-	-	1
Balance at the end of the year	<u>(17,612)</u>	<u>(14,733)</u>	<u>(18,269)</u>	<u>(15,390)</u>

A portion of the receivables, amounting to R\$ 74,054, 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 December 31, 2016 was assessed with reference to historical information on default rates, as follows:

Quality of trade receivables

Customer category	History -%	<u>Consolidated</u> Amount receivable
a) Customers with no history of late payment	93.60	121,630
b) Customers with history of late payment of up to 7 days	5.67	7,368
c) Customers with history of late payment of more than 7 days	0.73	949
		<u>129,947</u>

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 late payment of more than 7 days, without history of delinquency.

7. INVENTORIES

	<u>Parent</u>		<u>Consolidated</u>	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Finished products	7,689	10,265	7,792	10,265
Production materials	36,012	32,046	36,012	32,046
Consumable materials	22,695	21,494	22,768	21,594
Other inventories	479	3,601	479	3,601
	<u>66,875</u>	<u>67,406</u>	<u>67,051</u>	<u>67,506</u>
Write-down to net realizable value	-	(287)	-	(287)
	<u>66,875</u>	<u>67,119</u>	<u>67,051</u>	<u>67,219</u>

The cost of inventories recognized as an expense for the year totaled R\$ 596,872 (R\$ 535,478 in 2015) in the parent company and R\$ 593,422 (R\$ 530,437 in 2015) in the consolidated.

The cost of inventories recognized in the statement of operations 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 are as follows:

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Value-added Tax on Sales and Services (ICMS)	5,234	7,282	5,234	7,282
Social Integration Program (PIS)/ Social Contribution on Revenues (COFINS)	155	894	155	894
Excise Tax (IPI)	187	101	187	101
Income tax	137	340	137	340
Social contribution	103	39	103	39
Withholding Income Tax (IRRF) on investments	1,799	3,655	1,863	3,655
Other	10	-	10	-
	<u>7,625</u>	<u>12,311</u>	<u>7,689</u>	<u>12,311</u>
Current portion	5,233	9,245	5,297	9,245
Non-current portion	2,392	3,066	2,392	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	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Banco do Brasil - New York - a)	13,537	19,722	13,537	19,722
Banco Itaú - b)	18,545	-	18,545	-
Banco Santander - b)	30,995	-	30,995	-
Banco Rabobank - b)	18,584	-	18,584	-
Banco Itaú Trustee - b)	12,537	-	12,537	-
Total current	<u>94,198</u>	<u>19,722</u>	<u>94,198</u>	<u>19,722</u>

- 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 February 2017. 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 and 2018, at the maturity dates of transactions to finance working capital contracted with the respective banks.

10. OTHER ASSETS

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Advances to suppliers	3,518	3,503	3,613	3,575
Receivables from employees	1,616	2,269	1,640	2,284
Renegotiation with customers	24,325	33,358	24,352	33,390
Prepaid expenses	1,706	1,513	1,706	1,513
Receivable from XKW Trading	4,624	4,697	4,624	4,697
Other receivables	4,320	1,559	4,349	1,587
	<u>40,109</u>	<u>46,899</u>	<u>40,284</u>	<u>47,046</u>
Provision for impairment of trade receivables under renegotiation	(5,407)	(4,049)	(5,407)	(4,049)
	<u>34,702</u>	<u>42,850</u>	<u>34,877</u>	<u>42,997</u>
Current portion	19,482	19,293	19,629	19,413
Non-current portion	15,220	23,557	15,248	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, when applicable, records a provision for impairment of the amount of the renegotiated debts, as shown below:

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Balance at the beginning of the year	(4,049)	(2,043)	(4,049)	(2,043)
Additions	(1,358)	(2,006)	(1,358)	(2,006)
Balance at the end of the year	<u>(5,407)</u>	<u>(4,049)</u>	<u>(5,407)</u>	<u>(4,049)</u>

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

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

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

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

ASSETS	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Deferred income tax assets				
On temporary provisions	4,335	7,159	4,335	7,159
On tax losses	32,090	11,793	32,090	11,793
Cash flow hedges	30,897	54,922	30,897	54,922
Deferred social contribution assets				
On temporary provisions	1,561	2,577	1,561	2,577
On tax losses	11,552	4,246	11,552	4,246
Cash flow hedges	11,123	19,772	11,123	19,772
	<u>91,558</u>	<u>100,469</u>	<u>91,558</u>	<u>100,469</u>
LIABILITIES				
Deferred income tax liabilities				
Exchange rate variation recognized on a cash basis	3,989	1,922	3,989	1,922
Fair value of biological assets	30,695	37,565	32,844	39,251
Deemed cost of property, plant and equipment	122,206	122,764	129,805	130,363
Government grants	981	949	981	949
Customer portfolio	979	1,177	979	1,177
Amortization of goodwill for tax purposes	11,081	7,487	11,081	7,487
Deferred social contribution liabilities				
Exchange rate variation recognized on a cash basis	1,436	692	1,436	692
Fair value of biological assets	11,050	13,523	12,211	14,434
Deemed cost of property, plant and equipment	43,994	44,195	46,729	46,930
Government grants	353	342	353	342
Customer portfolio	353	424	353	424
Amortization of goodwill for tax purposes	3,989	2,695	3,989	2,695
	<u>231,106</u>	<u>233,735</u>	<u>244,750</u>	<u>246,666</u>
Deferred tax liabilities (net)	<u>139,548</u>	<u>133,266</u>	<u>153,192</u>	<u>146,197</u>

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
<u>Period</u>	<u>12/31/2016</u>
2017	8,322
2018	9,154
2019	10,069
2020	11,076
2021 onward	114,571
	<u>153,192</u>

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 12/31/2016
Deferred tax assets related to:					
	Provision for profit sharing	(3,752)	79	-	(3,673)
	Provision for sundry risks	(5,984)	3,761	-	(2,223)
	Cash flow hedges	(74,694)	-	32,674	(42,020)
	Total temporary differences	(84,430)	3,840	32,674	(47,916)
	Tax losses	(16,039)	(27,603)	-	(43,642)
		<u>(100,469)</u>	<u>(23,763)</u>	<u>32,674</u>	<u>(91,558)</u>
Consolidated	Assets	Opening balance 12/31/2015	Recognized in profit or loss	Recognized in equity	Closing balance 12/31/2016
Deferred tax assets related to:					
	Provision for profit sharing	(3,752)	79	-	(3,673)
	Provision for sundry risks	(5,984)	3,761	-	(2,223)
	Cash flow hedges	(74,694)	-	32,674	(42,020)
	Total temporary differences	(84,430)	3,840	32,674	(47,916)
	Tax losses	(16,039)	(27,603)	-	(43,642)
		<u>(100,469)</u>	<u>(23,763)</u>	<u>32,674</u>	<u>(91,558)</u>

Parent liabilities	Opening balance <u>12/31/2015</u>	Recognized in profit or loss <u></u>	Closing balance <u>12/31/2016</u>
Deferred tax liabilities related to:			
Exchange rate variations recognized on a cash basis	2,614	2,811	5,425
Fair value of biological assets	51,088	(9,343)	41,745
Deemed cost and review of useful lives	166,959	(759)	166,200
Government grants	1,291	43	1,334
Customer portfolio	1,601	(269)	1,332
Amortization of goodwill for tax purposes	10,182	4,888	15,070
	<u>233,735</u>	<u>(2,629)</u>	<u>231,106</u>

Consolidated Liabilities	Opening balance <u>12/31/2015</u>	Recognized in profit or loss <u></u>	Closing balance <u>12/31/2016</u>
Deferred tax liabilities related to:			
Exchange rate variations recognized on a cash basis	2,614	2,811	5,425
Fair value of biological assets	53,685	(8,630)	45,055
Deemed cost and review of useful lives	177,293	(759)	176,534
Government grants	1,291	43	1,334
Customer portfolio	1,601	(269)	1,332
Amortization of goodwill for tax purposes	10,182	4,888	15,070
	<u>246,666</u>	<u>(1,916)</u>	<u>244,750</u>

12. INVESTMENTS

	Habitassul Florestal	Iraflor Comércio de Madeiras	HGE Geração de Energia	Irani Geração de Energia	Total
At December 31, 2014	<u>131,913</u>	<u>112,335</u>	<u>540</u>	<u>386</u>	<u>245,174</u>
Equity in the results of subsidiaries	(6,575)	3,897	(71)	(128)	(2,877)
Proposed dividends	(15,734)	(522)	-	-	(16,256)
Capital increase	-	25,118	-	-	25,118
Advance for future capital increase	20,978	-	94	-	21,072
At December 31, 2015	<u>130,582</u>	<u>140,828</u>	<u>563</u>	<u>258</u>	<u>272,231</u>
Equity in the results of subsidiaries	18,473	16,778	(5)	(116)	35,130
Proposed dividends	(4,400)	(3,897)	-	-	(8,297)
Capital increase	31,721	-	94	90	31,905
Capital reduction	-	(43,797)	-	-	(43,797)
Advance for future capital increase	(31,721)	-	(94)	-	(31,815)
At December 31, 2016	<u>144,655</u>	<u>109,912</u>	<u>558</u>	<u>232</u>	<u>255,357</u>

	Habitasul Florestal	Iraflor Comércio de Madeiras	HGE Geração de Energia	Irani Geração de Energia
Current				
Assets	1,815	52,499	24	6
Liabilities	(5,738)	(342)	-	(9)
Current assets/liabilities, net	(3,923)	52,157	24	(3)
Non-current				
Assets	161,959	58,027	534	237
Liabilities	(13,380)	(265)	-	-
Non-current assets/liabilities, net	148,579	57,762	534	237
Equity	144,656	109,919	558	234
Net revenue	13,476	17,527	-	-
Profit (loss) before income tax and social contribution	19,440	18,666	(5)	(116)
Income tax and social contribution expense	(967)	(1,887)	-	-
Profit (loss) for the year	18,473	16,779	(5)	(116)
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. At December 31, 2016, the minimum mandatory dividends of 25%, amounting to R\$ 4,400, were distributed.

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 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 for 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	<u>23,281</u>	<u>12,051</u>	<u>35,332</u>
Cost	23,281	12,702	35,983
Accumulated depreciation	-	(651)	(651)
Net book value	<u>23,281</u>	<u>12,051</u>	<u>35,332</u>
At December 31, 2016			
Opening balance	23,281	12,051	35,332
Depreciation	-	(493)	(493)
Net book value	<u>23,281</u>	<u>11,558</u>	<u>34,839</u>
Cost	23,281	12,702	35,983
Accumulated depreciation	-	(1,144)	(1,144)
Net book value	<u>23,281</u>	<u>11,558</u>	<u>34,839</u>
Consolidated			
At December 31, 2015			
Opening balance	160	3,927	4,087
Purchases	6,926	8,299	15,225
Depreciation	-	(175)	(175)
Net book value	<u>7,086</u>	<u>12,051</u>	<u>19,137</u>
Cost	7,086	12,702	19,788
Accumulated depreciation	-	(651)	(651)
Net book value	<u>7,086</u>	<u>12,051</u>	<u>19,137</u>
At December 31, 2016			
Opening balance	7,086	12,051	19,137
Depreciation	-	(493)	(493)
Net book value	<u>7,086</u>	<u>11,558</u>	<u>18,644</u>
Cost	7,086	12,702	19,788
Accumulated depreciation	-	(1,144)	(1,144)
Net book value	<u>7,086</u>	<u>11,558</u>	<u>18,644</u>

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 being evaluated by 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, located 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.

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.

Rental income and expenses related to investment properties that are rented are recognized in the statement of operations.

	<u>2016</u>	<u>2015</u>
Rental income	2,459	812
Direct operating expenditures that generated rental income	(412)	(490)

At December 31, 2016, 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\$ 54,132 (parent company) and R\$ 35,980 (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 lease	Leasehold improvements	Total
At December 31, 2015									
Opening balance	183,028	152,122	419,467	3,031	5,719	19,525	9,152	12,099	804,143
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	<u>183,027</u>	<u>157,047</u>	<u>394,275</u>	<u>2,907</u>	<u>5,196</u>	<u>29,399</u>	<u>6,217</u>	<u>11,459</u>	<u>789,527</u>
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	<u>183,027</u>	<u>157,047</u>	<u>394,275</u>	<u>2,907</u>	<u>5,196</u>	<u>29,399</u>	<u>6,217</u>	<u>11,459</u>	<u>789,527</u>
At December 31, 2016									
Opening balance	183,027	157,047	394,275	2,907	5,196	29,399	6,217	11,459	789,527
Purchases	-	-	6,353	1,177	693	43,256	609	-	52,088
Disposals	(111)	-	(1,074)	(13)	(52)	(25)	(162)	-	(1,437)
Transfers	-	3,986	22,610	-	263	(26,859)	-	-	-
Depreciation	-	(2,733)	(53,177)	(847)	(2,031)	-	(2,222)	(625)	(61,635)
Net book value	<u>182,916</u>	<u>158,300</u>	<u>368,987</u>	<u>3,224</u>	<u>4,069</u>	<u>45,771</u>	<u>4,442</u>	<u>10,834</u>	<u>778,543</u>
Cost	182,916	212,425	812,904	6,696	14,970	45,771	28,928	16,061	1,320,671
Accumulated depreciation	-	(54,125)	(443,917)	(3,472)	(10,901)	-	(24,486)	(5,227)	(542,128)
Net book value	<u>182,916</u>	<u>158,300</u>	<u>368,987</u>	<u>3,224</u>	<u>4,069</u>	<u>45,771</u>	<u>4,442</u>	<u>10,834</u>	<u>778,543</u>

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 December 31, 2016									
Opening balance	251,455	158,711	394,356	3,337	5,470	29,399	6,223	11,459	860,410
Purchases	-	-	6,370	1,177	700	43,256	609	-	52,112
Disposals	(111)	-	(1,074)	(13)	(52)	(25)	(163)	-	(1,438)
Transfers	-	3,986	22,610	-	263	(26,859)	-	-	-
Depreciation	-	(2,929)	(53,192)	(949)	(2,038)	-	(2,227)	(625)	(61,960)
Net book value	251,344	159,768	369,070	3,552	4,343	45,771	4,442	10,834	849,124
Cost	251,344	216,927	813,016	7,254	17,036	45,771	28,968	16,061	1,396,377
Accumulated depreciation	-	(57,159)	(443,946)	(3,702)	(12,693)	-	(24,526)	(5,227)	(547,253)
Net book value	251,344	159,768	369,070	3,552	4,343	45,771	4,442	10,834	849,124

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

b) Breakdown of intangible assets

Parent	Customer				Total
	Trademarks	Goodwill	portfolio	Software	
At December 31, 2015					
Opening balance	1,473	104,380	5,502	921	112,276
Purchases	-	-	-	970	970
Disposals	(1,473)	-	-	(84)	(1,557)
Amortization	-	-	(792)	(411)	(1,203)
Net book value	<u>-</u>	<u>104,380</u>	<u>4,710</u>	<u>1,396</u>	<u>110,486</u>
Cost	-	104,380	5,502	8,547	118,429
Accumulated amortization	-	-	(792)	(7,151)	(7,943)
Net book value	<u>-</u>	<u>104,380</u>	<u>4,710</u>	<u>1,396</u>	<u>110,486</u>
At December 31, 2016					
Opening balance	-	104,380	4,710	1,396	110,486
Purchases	-	-	-	3,314	3,314
Amortization	-	-	(792)	(641)	(1,433)
Net book value	<u>-</u>	<u>104,380</u>	<u>3,918</u>	<u>4,069</u>	<u>112,367</u>
Cost	-	104,380	5,502	11,861	121,743
Accumulated amortization	-	-	(1,584)	(7,792)	(9,376)
Net book value	<u>-</u>	<u>104,380</u>	<u>3,918</u>	<u>4,069</u>	<u>112,367</u>
Consolidated					
At December 31, 2015					
Opening balance	1,473	104,380	5,502	1,456	112,811
Purchases	-	-	-	970	970
Disposals	(1,473)	-	-	(84)	(1,557)
Amortization	-	-	(792)	(411)	(1,203)
Net book value	<u>-</u>	<u>104,380</u>	<u>4,710</u>	<u>1,931</u>	<u>111,021</u>
Cost	-	104,380	7,081	7,507	118,968
Accumulated amortization	-	-	(2,371)	(5,576)	(7,947)
Net book value	<u>-</u>	<u>104,380</u>	<u>4,710</u>	<u>1,931</u>	<u>111,021</u>
At December 31, 2016					
Opening balance	-	104,380	4,710	1,931	111,021
Purchases	-	-	-	3,314	3,314
Amortization	-	-	(792)	(641)	(1,433)
Net book value	<u>-</u>	<u>104,380</u>	<u>3,918</u>	<u>4,604</u>	<u>112,902</u>
Cost	-	104,380	7,081	10,821	122,282
Accumulated amortization	-	-	(3,163)	(6,217)	(9,380)
Net book value	<u>-</u>	<u>104,380</u>	<u>3,918</u>	<u>4,604</u>	<u>112,902</u>

c) Depreciation/amortization method

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

	Rate - %	
	12/31/2016	12/31/2015
Buildings and constructions *	2.19	2.19
Equipment and facilities **	5.86	5.86
Furniture, fittings and IT equipment	5.71	5.71
Vehicles and tractors	20.00	20.00
Computer 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 plant in Indaiatuba, state of São Paulo, and are depreciated on the straight-line method, at the rate of 4% (four percent) per year. The property is owned by the companies MCFD - Administração de Imóveis Ltda. and PFC - Administração de Imóveis Ltda., and the renovation costs were fully absorbed by Celulose Irani S.A.

The depreciation of the Company's property, plant and equipment for 2016 and 2015 was as follows:

	Parent		Consolidated	
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Assets used in: administrative activities	1,232	1,607	1,558	1,880
Assets used in: production	<u>60,403</u>	<u>55,859</u>	<u>60,402</u>	<u>55,859</u>
	<u>61,635</u>	<u>57,466</u>	<u>61,960</u>	<u>57,739</u>

The amortization of intangible assets for 2016 and 2015 was as follows:

	Parent		Consolidated	
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Assets used in: administrative activities	1,218	1,023	1,218	1,023
Assets used in: production	<u>215</u>	<u>180</u>	<u>215</u>	<u>180</u>
	<u>1,433</u>	<u>1,203</u>	<u>1,433</u>	<u>1,203</u>

e) Impairment of property, plant and equipment

No indicators of impairment were identified in 2016, which could have affected the realizable values of the assets of the Company and its subsidiaries.

f) Assets pledged as collateral

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

	<u>12/31/2016</u>
Equipment and facilities	112,721
Buildings and constructions	80,011
Land	<u>406,359</u>
Total PP&E pledged as collateral	<u>599,091</u>

g) Trademark

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

h) Customer portfolio

The customer portfolio acquired in the business combination is recognized at the fair value of R\$ 6,617, and the amortization in 2016 amounted to R\$ 792 (R\$ 792 in 2015), resulting in a net book balance of R\$ 3,918. Amortization is calculated on the straight-line basis, over the expected life of the relationship with the customer.

i) Goodwill

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

Impairment tests for intangible assets:

At December 31, 2016, 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 five-year period and extrapolating to perpetuity in the other periods, based on the estimated growth rates.

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

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

	<u>Assumptions</u>
Average sales prices of Paper for Packaging and Corrugated	
Cardboard Packaging (% of the annual growth rate)	5.5%
Gross margin (% of net income)	27.7%
Estimated growth rate	5.0%
Discount rate (WACC)	9.66%

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 pulp used in the production of packaging paper and resins, and sales of timber logs to third parties. All of the Company's biological assets form a single group named "forests", 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	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Development cost of biological assets	31,372	38,599	48,398	58,727
Difference in the fair value of biological assets	38,324	54,271	187,009	202,832
	<u>69,696</u>	<u>92,870</u>	<u>235,407</u>	<u>261,559</u>

Of the total consolidated biological assets, R\$ 127,722 (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\$ 95,363 (R\$ 126,965 at December 31, 2015) refers to mature forests, which are more than six years old. The remaining amount refers to growing forests, which still require forestry treatments.

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

Biological assets utilized for the production of resins and sale of timber logs totaled R\$ 107,685 (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 biological assets' fair value less costs to sell.

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

- (i) The methodology used to measure the fair value of biological assets corresponds to the projection of future cash flows, in accordance with the projected productivity of the forests in the cutting cycles, which are determined based on the optimization of production, considering the price changes and the growth of biological assets;
- (ii) The discount rate used for cash flows was the Cost of Own Capital (Capital Asset Pricing Model - CAPM). The cost of capital is estimated through an analysis of the return targeted by investors for forest assets;
- (iii) The projected productivity volumes of the forests are defined based on stratification, according to the type of 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 its financial statements.

	Consolidated		
	12/31/2016	12/31/2015	Impact on fair value of biological assets
Planted area (hectare)	19,837	23,909	Assumption increases, fair value increases
Remuneration of own assets that contribute - %	3.00%	3.00%	Assumption increases, fair value decreases
Discount rate - Own Forests SC - %	9.00%	9.50%	Assumption increases, fair value decreases
Discount rate - Own Forests RS - %	10.00%	9.50%	Assumption increases, fair value decreases
Discount rate - Partnerships - %	10.50%	10.00%	Assumption increases, fair value decreases
Average net sales price (m³)	48.00	46.00	Assumption increases, fair value increases
Average Annual Increase (IMA) - Forests in Santa Catarina (*)	39.7	39.4	Assumption increases, fair value increases
Average Annual Increase (IMA) - Forests in Rio Grande do Sul (*)	21.9	22.3	Assumption increases, fair value increases

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

During 2016, 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 occurred in 2016 that could cause the devaluation of the biological assets, such as rainstorms, lightning and other events that could affect the forests.

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

The main changes in the year were as follows:

	Parent	Consolidated
At December 31, 2014	<u>101,114</u>	<u>281,621</u>
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 December 31, 2015	<u>92,870</u>	<u>261,559</u>
Planting	5,115	7,370
Depletion		
Historical cost	(12,049)	(17,418)
Fair value	(18,178)	(43,498)
Changes in the fair value	1,938	27,394
At December 31, 2016	<u>69,696</u>	<u>235,407</u>

The depletion of biological assets in 2016 and 2015 was substantially charged to cost of production, after an initial allocation to inventories when the forests are harvested, when subsequently 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 forests to Global, for R\$ 55,500 million, 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 of pulp.

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\$ 74,446, is pledged as collateral for financing transactions. The pledged assets represent approximately 32% of the total biological assets, equivalent to 15.8 thousand hectares of land in use, and approximately 6.7 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

	Annual charges %	Parent and Consolidated	
		12/31/2016	12/31/2015
Current			
Local currency			
FINAME	Fixed at 3.23%, TJLP + 4.54%, SELIC + 5.54% and ECM + 3.65%	7,580	7,521
Working capital	Fixed at 10.85%, CDI + 4.15% and TJLP + 6.00%	112,328	52,815
Working capital - CDCA	IPCA + 10.22%	22,629	21,910
Working Capital - Syndicated Loan	CDI + 5.00%	7,172	-
Finance lease	Fixed at 15.80%	263	443
BNDES	TJLP + 3.60%	7,509	13,737
Total local currency		157,481	96,426
Foreign currency			
Advances on foreign exchange contracts	Fixed from 4.90% to 6.75%	28,807	34,174
Banco Credit Suisse - PPE	Libor + 7.50%	24,360	-
Banco Itaú BBA - CCE	Fixed at 5.80%	8,087	19,509
Banco Santander PPE	Libor + 5.50%	3,657	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%	43,108	38,683
Banco LBBW - FINIMP	Euribor + 1.55%	1,110	1,326
Banco De Lage Landen	8.20% p.a.	316	-
Total foreign currency		109,445	99,194
Total current		266,926	195,620
Non-current			
Local currency			
FINAME	Fixed at 3.23%, TJLP + 4.54%, SELIC + 5.54% and ECM + 3.65%	8,495	13,287
Working capital	Fixed at 10.85%, CDI + 4.15% and TJLP + 6.00%	119,492	183,207
Working capital - CDCA	IPCA + 10.22%	-	20,008
Working Capital - Syndicated Loan	CDI + 5.00%	177,451	-
Finance lease	Fixed at 15.80%	471	114
BNDES	TJLP + 3.60%	41,088	39,743
Total local currency		346,997	256,359
Foreign currency			
Banco Credit Suisse - PPE	Libor + 7.50%	104,000	153,052
Banco Itaú BBA - CCE	Fixed at 5.80%	-	9,537
Banco Santander PPE	Libor + 5.50%	3,606	8,640
Banco Rabobank and Santander PPE	Libor + 5.95%	151,327	233,138
Banco LBBW - FINIMP	Euribor + 1.55%	2,950	5,035
Banco De Lage Landen	8.20% p.a.	1,103	-
Total foreign currency		262,986	409,402
Total non-current		609,983	665,761
Total		876,909	861,381
		Parent and Consolidated	
	Long-term maturities:	12/31/2016	12/31/2015
	2017	-	209,915
	2018	221,707	180,339
	2019	187,603	151,993
	2020	129,824	87,833
	2021 to 2024	70,849	35,681
		609,983	665,761

b) Schedule for amortization of funding costs

	Parent and Consolidated					Total
	2017	2018	2019	2020	2021	
In local currency						
Working capital	(1,032)	(497)	(219)	(84)	(4)	(1,836)
Working capital - CDCA	(108)	-	-	-	-	(108)
Working Capital - Syndicated Loan CCE	(1,139)	(1,109)	(832)	(498)	(110)	(3,688)
Total local currency	(2,279)	(1,606)	(1,051)	(582)	(114)	(5,632)
In foreign currency						
Banco Credit Suisse - PPE	(1,086)	(831)	(396)	(21)	-	(2,334)
Banco Itaú BBA - CCE	(4)	-	-	-	-	(4)
Banco Rabobank and Santander PPE	(385)	(311)	(233)	(150)	(70)	(1,149)
Banco LBBW - FINIMP	(81)	(15)	-	-	-	(96)
Total foreign currency	(1,556)	(1,157)	(629)	(171)	(70)	(3,583)
	(3,835)	(2,763)	(1,680)	(753)	(184)	(9,215)

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 Bradesco, 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.
- 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 54 monthly installments beginning August 2016.
- Banco Pine - Export Credit Bill (NCE): facility contract of R\$ 7 million, entered into with Banco Pine, maturing in 2018, and subject to interest rate equivalent to the CDI variation plus 4.15% p.a. The borrowing will be repaid in seven quarterly installments from April 2017.
- Banco do Brasil - Bank Credit Note (CCB) of R\$ 10 million, entered into with Banco do Brasil, to be settled in a lump sum in November 2017.

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 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\$ 307,177. Other transactions have specific guarantees, as follows:

- i) For working capital - Certificates of Agribusiness Receivables (CDCA) - the Company provided secured guarantees of R\$ 15,662 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.
- iii) For the export prepayment financing contracted with Banco Rabobank and Santander, land and forests amounting to R\$ 158,628 were pledged as collateral.
- iv) For Working Capital financing - Syndicated Loan, contracted with Banco Itaú, Santander and Rabobank, the Company provided as collateral land and forests amounting to R\$ 149,943, and assignment of receivables amounting to R\$ 15,000.
- v) For the financing contracted with the National Bank for Economic and Social Development (BNDES), an industrial property comprising the land, facilities and equipment, two commercial buildings and one residential building, in the total amount of R\$ 121,436, were pledged as collateral.

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
- vi) Banco Santander - 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.

On December 31, 2016, the Company obtained a waiver from creditors due to non-compliance with the ratio mentioned in item "a".

vii) 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 2020.

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

viii) 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.

On December 31, 2016, the Company obtained a waiver from creditors due to non-compliance with the ratio mentioned in item "a".

Key:

TJLP - Long-term Interest Rate

CDI - Interbank Deposit Certificate

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

ROL - Net operating revenue

17. DEBENTURES

a) Breakdown of accounting balances

Current	Issue	Annual charges %	Parent and Consolidated	
			12/31/2016	12/31/2015
In local currency				
Simple Debentures	11/30/2012	CDI + 2.75%	12,077	12,163
Simple Debentures	5/20/2013	CDI + 2.75%	19,037	9,085
Total current			31,114	21,248
Non-current				
In local currency				
Simple Debentures	11/30/2012	CDI + 2.75%	-	11,913
Simple Debentures	5/20/2013	CDI + 2.75%	9,352	27,878
Total non-current			9,352	39,791
Total			40,466	61,039
			Parent and Consolidated	
Long-term maturities:			12/31/2016	12/31/2015
2017			-	30,656
2018			9,352	9,135
			9,352	39,791

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

b) Schedule for amortization of funding costs

	<u>Issue</u>	<u>2017</u>	<u>2018</u>
In local currency			
Simple Debentures	11/30/2012	(87)	-
Simple Debentures	5/20/2013	<u>(290)</u>	<u>(88)</u>
Total local currency		<u><u>(377)</u></u>	<u><u>(88)</u></u>

c) Collateral

- i) The Debentures issued on November 30, 2012 have secured guarantees totaling R\$ 12,673 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\$ 58,362, 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 that are verified on an annual basis, as presented below:

- a) The net debt/EBITDA ratio 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.

On December 31, 2016, the Company obtained a waiver due to non-compliance with the ratio mentioned in item "a".

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

- a) The net debt/EBITDA ratio 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, when the ratio must not exceed 4.5 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 December 31, 2016, the Company complied with all the financial ratios contracted in the Simple Debentures issued on May 20, 2013.

18. TRADE PAYABLES

Trade payables are as follows:

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
CURRENT				
Domestic				
Materials	57,539	48,539	57,578	48,176
Service providers	6,118	6,143	6,254	6,305
Carriers	14,852	14,019	14,858	14,028
Related parties	32,181	16,466	-	-
Other	824	520	824	520
Foreign				
Materials	335	1,106	335	1,106
	<u>111,849</u>	<u>86,793</u>	<u>79,849</u>	<u>70,135</u>

19. RELATED PARTIES

Parent	Accounts receivable		Accounts payable	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Habitasul Florestal S.A.	4,400	-	983	745
Management	-	1,154	-	-
Iraflor - Comércio de Madeiras LTDA.	-	-	31,349	15,721
Management remuneration	-	-	828	716
Management profit sharing	-	-	692	17,780
Habitasul Desenvolvimentos Imobiliarios	17	54	-	-
Irani Geração de Energia Sustentável LTDA	-	-	-	23
Koch Metalúrgica S.A.	18,960	-	-	4,786
Total	23,377	1,208	33,852	39,771
Current portion	4,417	54	33,852	39,771
Non-current portion	18,960	1,154	-	-

Parent	Income		Expenses	
	2016	2015	2016	2015
Habitasul Florestal S.A.	-	-	9,118	8,900
Iraflor - Comércio de Madeiras LTDA.	-	-	14,103	26,613
Druck, Mallmann, Oliveira & Advogados Associados	-	-	280	259
MCFD Administração de Imóveis Ltda	-	-	1,236	1,116
Irani Participações S/A	-	-	480	480
Habitasul Desenvolvimentos Imobiliarios	-	54	213	187
Koch Metalúrgica S.A.	1,824	35	-	64
Management remuneration	-	-	6,643	7,346
Management profit sharing	-	-	-	55
Total	1,824	89	32,073	45,020

Consolidated	Accounts receivable		Accounts payable	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Habitasul Desenvolvimentos Imobiliarios	17	54	-	-
Koch Metalúrgica S.A.	18,960	-	-	4,786
Management remuneration	-	-	828	716
Management	-	1,154	-	-
Management profit sharing	-	-	692	17,780
Total	18,977	1,208	1,520	23,282
Current portion	17	54	1,520	23,282
Non-current portion	18,960	1,154	-	-

Consolidated	Income		Expenses	
	2016	2015	2016	2015
Irani Participações S/A	-	-	480	480
Druck, Mallmann, Oliveira & Advogados Associados	-	-	280	259
MCFD Administração de Imóveis Ltda	-	-	1,236	1,116
Management remuneration	-	-	6,699	7,402
Habitasul Desenvolvimentos Imobiliarios	-	54	213	187
Koch Metalúrgica S.A.	1,824	35	-	64
Management profit sharing	-	-	-	55
Total	1,824	89	8,908	9,563

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. The amounts receivable by the parent company from the subsidiary Habitasul Florestal S.A. refer to dividends for 2016.

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\$ 6,699 in 2016 (R\$ 7,402 in 2015). The total annual management remuneration was approved by the Annual General Meeting held on November 18, 2016, at the maximum amount of R\$ 14,115.

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 provisions:

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Civil contingencies	1,400	1,260	1,400	1,260
Labor contingencies	3,677	3,340	3,677	3,438
Tax contingencies	1,027	12,885	1,027	12,885
Total	<u>6,104</u>	<u>17,485</u>	<u>6,104</u>	<u>17,583</u>

Parent	12/31/2015	Additions	Payments	Reversal	12/31/2016
Civil	1,260	140	-	-	1,400
Labor	3,340	2,542	(462)	(1,743)	3,677
Tax	12,885	611	1	(12,470)	1,027
	<u>17,485</u>	<u>3,293</u>	<u>(461)</u>	<u>(14,213)</u>	<u>6,104</u>
Consolidated	12/31/2015	Additions	Payments	Reversal	12/31/2016
Civil	1,260	140	-	-	1,400
Labor	3,438	2,542	(476)	(1,827)	3,677
Tax	12,885	611	1	(12,470)	1,027
	<u>17,583</u>	<u>3,293</u>	<u>(475)</u>	<u>(14,297)</u>	<u>6,104</u>

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\$ 1,400 was recorded at December 31, 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 on the opinion of its legal counsel, the Company maintained a provision of R\$ 3,677 at December 31, 2016, which is considered sufficient to cover potential losses arising from labor contingencies.
- c) The provisions for tax contingencies totaled R\$ 1,027 and relate mainly to:
 - i) Administrative and judicial proceedings relating to the disallowance of ICMS credits by the Finance Department of the state of São Paulo, totaling R\$ 681, which await judgment.

Contingencies not provided for

No provisions were recorded for contingencies of which the likelihood of loss has been assessed as possible by management and the legal counsel. At December 31, 2016, the amounts of these possible contingencies of a labor, civil, environmental and tax nature were as follows:

	Consolidated	
	12/31/2016	12/31/2015
Labor contingencies	11,924	10,239
Civil contingencies	6,944	5,446
Tax contingencies	84,802	83,524
	103,670	99,209

Labor contingencies:

The labor lawsuits assessed by management and the legal counsel as involving possible losses total R\$ 11,924 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\$ 6,944 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\$ 84,802 and mainly include the following:

- Administrative proceeding 10925.000172/2003-66 related to a tax notification for an alleged irregularity in the offsetting of IPI credits, amounting to R\$ 10,283 at December 31, 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\$ 5,196 at December 31, 2016. The lawsuit has been suspended by court decision and is awaiting judgment of the Action for Annulment 2005.71.00.002527-8.
- Administrative proceeding 11080-729.991/2016-55, amounting to R\$ 831 at December 31, 2016, refers to the assessment notice issued by the National Institute of Social Security (INSS), which challenges the offsetting of debts against credits arising from the application of a higher Environmental Occupational Risk (RAT) rate at the Company's Administrative Units. The proceeding awaits judgment.

- Administrative Proceedings 11080.013972/2007-12 and 11080.013973/2007-67, amounting to R\$ 5,600 at December 31, 2016, related to tax assessments for PIS and COFINS, originating from an allegedly 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\$ 2,354 at December 31, 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\$ 617 at December 31, 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\$ 5,213 at December 31, 2016. The Company is discussing these notices at the administrative level and awaiting the 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\$ 6,626 at December 31, 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\$ 39,745 at December 31, 2016. The Company is challenging these tax assessments at the administrative and judicial levels.

21. EQUITY

a) Share capital

The Company's share capital at December 31, 2016 was R\$ 161,895 (R\$ 161,895 at December 31, 2015), represented by 153,909,975 common shares and 12,810,260 preferred shares, totaling 166,720,235 shares, without par value. The holders of preferred shares are entitled to dividends under the same conditions as those 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.

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

b) Treasury shares

		Parent		Parent	
		12/31/2016		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
		<u>2,376,100</u>	<u>6,834</u>	<u>2,376,100</u>	<u>6,834</u>

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

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

c) Share-based payment

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

The stock options were granted to management and certain employees, in accordance with the decision of the Board of Directors on May 9, 2012 and approval at the Extraordinary General Meeting held on May 25, 2012. The options were exercised from April 1, 2013 to April 30, 2013. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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

d) Profit for the year

In accordance with Art.202 of Law 6,404/1976, the stockholders are entitled to minimum and mandatory dividends. In accordance with the Company's bylaws, stockholders are entitled to the payment of a minimum mandatory dividend of 25% of profit computed after the offset of any accumulated deficit, transfer to the legal reserve and allocation to the tax incentive reserve. Dividends credited in 2016, referring to profit for the year, amounted to R\$ 4,067.

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

	<u>2016</u>	<u>2015</u>
Profit /(loss) for the year	(10,782)	495
(-) Appropriation to legal reserve	-	(25)
Tax incentive reserve	-	(470)
Realized revenue reserve - biological assets	17,717	4,068
Realized revenue reserve - biological assets (subsidiaries)	387	257
Realization - deemed cost	8,947	9,048
Realization - deemed cost (subsidiaries)	-	-
Basis for distribution of dividends	<u>16,269</u>	<u>13,373</u>
Minimum mandatory dividend	<u>4,067</u>	<u>3,343</u>
Dividends distributed in advance	<u>-</u>	<u>4,950</u>
Balance of dividends payable	<u>4,067</u>	<u>-</u>
Total dividends per common share (R\$ per share)	0.024748	0.030120
Total dividends per preferred share (R\$ per share)	0.024748	0.030120

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

e) Revenue reserves

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

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

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

iii) The profit retention reserve comprises the remaining profits after the offsetting of losses and the transfer to the legal reserve, as well as the distribution of dividends. The respective resources will be allocated to investments in property, plant and equipment previously approved by the Board of Directors, or may be distributed in the future, 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 of prior years, arising from government grants for investments, as disclosed in items (ii) and (iii) of Note 32, and was not included in the mandatory dividend calculation basis.

f) Carrying value adjustments

The carrying value adjustments account was recorded when the Company measured its property, plant and equipment (land, machinery and buildings) at deemed cost in the opening balance sheet, at first-time adoption of IFRS. Their realization will occur as the deemed cost is depreciated, at which time the related amounts will also be adjusted in the basis for calculating dividends. The balance at December 31, 2016, net of tax effects, represented a gain of R\$ 209,075 (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\$ 81,568 at December 31, 2016 (R\$ 144,993 at December 31, 2015).

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

	<u>Consolidated</u>
At December 31, 2014	<u>178,617</u>
Cash flow hedges	(96,541)
Realization - deemed cost	(9,047)
At December 31, 2015	<u>73,029</u>
Cash flow hedges	63,425
Realization - deemed cost	(8,947)
At December 31, 2016	<u>127,507</u>

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:

	2016		
	Common shares (ON)	Preferred shares (PN)	Total ON and PN shares
Weighted average number of shares	153,885,975	10,458,160	164,344,135
Loss for the year attributable to each category of shares	(10,096)	(686)	(10,782)
Basic and diluted loss per share - R\$	<u>(0.0656)</u>	<u>(0.0656)</u>	
	2015		
	Common shares (ON)	Preferred shares (PN)	Total ON and PN shares
Weighted average number of shares	153,885,975	10,458,160	164,344,135
Profit for the year attributable to each category of shares	464	31	495
Basic and diluted profit per share - R\$	<u>0.0030</u>	<u>0.0030</u>	

23. NET SALES REVENUE

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

	Parent		Consolidated	
	2016	2015	2016	2015
Gross revenue from sales of products	1,005,845	984,594	1,013,581	997,652
Taxes on sales	(223,724)	(229,204)	(224,457)	(230,604)
Sales returns	(12,316)	(8,267)	(12,329)	(8,290)
Net sales revenue	<u>769,805</u>	<u>747,123</u>	<u>776,795</u>	<u>758,758</u>

24. COSTS AND EXPENSES BY NATURE

Costs and expenses by nature are as follows:

	Parent		Consolidated	
	2016	2015	2016	2015
Fixed and variable costs (raw materials and consumables)	(393,827)	(388,259)	(350,916)	(365,549)
Personnel expenses	(135,816)	(118,831)	(144,981)	(118,831)
Changes in the fair value of biological assets	1,938	13,749	27,394	(6,450)
Depreciation, amortization and depletion	(93,788)	(60,438)	(124,802)	(79,696)
Freight	(44,671)	(43,897)	(44,671)	(43,897)
Services contracted	(26,040)	(14,015)	(26,644)	(14,015)
Other selling expenses	(37,753)	(36,052)	(37,753)	(36,052)
Total costs and expenses by nature	<u>(729,957)</u>	<u>(647,743)</u>	<u>(702,373)</u>	<u>(664,490)</u>
Costs	(596,872)	(535,478)	(593,422)	(530,437)
Expenses	(135,023)	(126,014)	(136,345)	(127,603)
Change in the fair value of biological assets	1,938	13,749	27,394	(6,450)

25. OTHER OPERATING INCOME AND EXPENSES

Income	Parent		Consolidated	
	2016	2015	2016	2015
Assets damaged and sold	2,077	2,021	2,077	2,021
Income from sale of forests	34,700	-	55,500	-
Other operating income	3,937	3,142	3,959	3,159
	<u>40,714</u>	<u>5,163</u>	<u>61,536</u>	<u>5,180</u>
Expenses	Parent		Consolidado	
	2016	2015	2016	2015
Assets damaged and sold - cost	(1,791)	(1,967)	(1,791)	(1,967)
Cost of forests sold	(30,289)	-	(51,845)	-
Social security contribution on accrued vacation pay for prior years	(1,988)	-	(1,988)	-
Other operating expenses	(8,381)	(3,916)	(8,400)	(3,946)
	<u>(42,449)</u>	<u>(5,883)</u>	<u>(64,024)</u>	<u>(5,913)</u>
Total	(1,735)	(720)	(2,488)	(733)

26. INCOME TAX AND SOCIAL CONTRIBUTION

The reconciliation of income tax and social contribution at the effective tax rate is as follows:

	Parent		Consolidated	
	2016	2015	2016	2015
Operating profit (loss) before taxation	(37,176)	288	(35,112)	962
Standard tax rate	34%	34%	34%	34%
Tax credit (expense) at standard rate	12,640	(98)	11,938	(327)
Tax effect of permanent (additions) exclusions:				
Equity in the results of subsidiaries	11,944	(978)	-	-
Subsidiaries taxed under the deemed profit method	-	-	9,131	(2,209)
Constitution of tax incentive reserve	-	2,234	-	2,234
Other permanent differences	1,810	(951)	3,261	(165)
	<u>26,394</u>	<u>207</u>	<u>24,330</u>	<u>(467)</u>
Current income tax and social contribution	2	(2)	(1,348)	(1,360)
Deferred income tax and social contribution	26,392	209	25,678	893
Effective tax rate - %	71.0	(71.9)	69.3	48.5

27. FINANCE INCOME AND COSTS

	Parent		Consolidated	
	2016	2015	2016	2015
Finance income				
Income from financial investments	9,065	9,734	12,422	12,666
Interest	2,549	2,403	2,586	2,404
Discounts obtained	159	270	160	273
	<u>11,773</u>	<u>12,407</u>	<u>15,168</u>	<u>15,343</u>
Foreign exchange variation				
Foreign exchange gains	24,764	19,885	24,764	19,885
Foreign exchange losses	(44,225)	(36,958)	(44,225)	(36,958)
Foreign exchange variation, net	<u>(19,461)</u>	<u>(17,073)</u>	<u>(19,461)</u>	<u>(17,073)</u>
Finance costs				
Interest	(100,136)	(87,657)	(100,148)	(87,663)
Discounts granted	(1,076)	(1,937)	(1,076)	(1,937)
Discounts/bank expenses	(76)	(65)	(80)	(66)
Other	(1,443)	(1,170)	(1,449)	(1,177)
	<u>(102,731)</u>	<u>(90,829)</u>	<u>(102,753)</u>	<u>(90,843)</u>
Finance result, net	<u>(110,419)</u>	<u>(95,495)</u>	<u>(107,046)</u>	<u>(92,573)</u>

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 December 31, 2016, the Company had corporate insurance against fire, lightning, explosions, electrical damage and wind storm damage to plants, residential areas and offices, as well as general civil liability coverage and Directors and Officers liability insurance (D&O), at a total amount of R\$ 570,160. 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 have proven to be efficient. Management understands that the risk management structure related to the forestry activities is appropriate to ensure the continuity of the Company's operations.

29. FINANCIAL INSTRUMENTS

Capital risk management

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

The Company is not subject to any external capital requirements.

The Company's management periodically reviews its capital structure. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Company intends to maintain a capital structure consisting of 50% to 70% of own capital, and 50% to 30% of third-party capital. At December 31, 2016, the capital structure comprised 38% of own capital and 62% of third-party capital, mainly due to the effects of the exchange rate variation on debt in foreign currency, which accounted for 40.60% of the Company's total debt, and the exchange rate variation on hedge accounting, which reduced equity by R\$ 81,568.

Debt to equity ratio

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

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2106	12/31/2015
Debt (a)	917,375	922,420	917,375	922,420
Cash and banks	(82,844)	(80,079)	(103,885)	(125,732)
Banks - restricted account	(94,198)	(19,722)	(94,198)	(19,722)
Net debt	<u>740,333</u>	<u>822,619</u>	<u>719,292</u>	<u>776,966</u>
Equity (b)	<u>445,191</u>	<u>396,615</u>	<u>445,201</u>	<u>396,628</u>
Net indebtedness ratio	<u>1.66</u>	<u>2.07</u>	<u>1.62</u>	<u>1.96</u>

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

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

Categories of financial instruments

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Financial assets				
Loans and receivables				
Cash and banks	82,844	80,079	103,885	125,732
Trade receivables	153,644	135,277	154,227	135,854
Other receivables	20,534	31,578	20,585	31,625
Banks - restricted account	94,198	19,722	94,198	19,722
Financial liabilities				
Amortized cost				
Borrowings	876,909	861,381	876,909	861,381
Debentures	40,466	61,039	40,466	61,039
Trade payables	111,849	86,793	79,849	70,135

Financial risk factors

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

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

The Company does not enter into derivative transactions or transactions involving other financial assets for speculative purposes. The derivative instruments currently in effect were contracted to hedge the obligations arising from the Company's borrowings in foreign currencies or exports and were approved by the Board of Directors.

Foreign exchange rate risk

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

As most of the borrowings in foreign currency are repayable in the long-term, the Company hedges the net foreign exchange exposure with the equivalent to 29 months of exports, based on the average of exports carried out in 2016, and to 32 months of exports based on the average exports carried out in 2015.

	Parent		Consolidated	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Accounts receivable	20,062	19,405	20,062	19,405
Banks - restricted account	13,537	19,722	13,537	19,722
Advances from customers	(139)	(443)	(139)	(443)
Trade payables	(335)	(1,106)	(335)	(1,106)
Borrowings	(372,431)	(508,596)	(372,431)	(508,596)
Net exposure	<u>(339,306)</u>	<u>(471,018)</u>	<u>(339,306)</u>	<u>(471,018)</u>

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&F Bovespa for the next reporting date (March 31, 2017).

2 - Adverse scenario: 25% deterioration in the foreign exchange rate compared to that at March 31, 2017.

3 - Remote scenario: 50% deterioration in the foreign exchange rate compared to that at March 31, 2017.

Transaction	Balance at 12/31/2016		Base scenario		Adverse scenario		Remote scenario	
	US\$	Rate	Gain (loss) R\$	Rate	Gain (loss) R\$	Rate	Gain (loss) R\$	
Assets								
Trade receivables and restricted bank accounts	10,309	3.17	(958)	3.96	7,202	4.75	15,360	
Liabilities								
Trade payables and advances from customers	(145)	3.17	13	3.96	(101)	4.75	(216)	
Borrowings	(114,274)	3.17	10,615	3.96	(79,838)	4.75	(170,268)	
Cash flow hedges on exports	103,754	3.17	(9,638)	3.96	72,489	4.75	154,594	
Net effect			<u>32</u>		<u>(248)</u>		<u>(530)</u>	

This sensitivity analysis is intended to measure the impact of changes in foreign exchange market variables on each financial instrument of the Company. The balances at December 31, 2016 were used as a basis for the projection of the future balance. The actual behavior of debt balances and derivative instruments will depend on the respective contracts, while balances receivable and payable may fluctuate due to the normal course of the Company's and its subsidiaries' activities. The settlement of transactions involving these 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 by making annual net payments that

are equivalent to or below the receipts from its exports. Consequently, the Company seeks to hedge its cash flow against foreign currency risks, and the effects of the scenarios above, if they materialize, are not expected to generate material impacts on its cash flow.

Interest rate risk

The Company may be affected by adverse changes in interest rates. This 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 (Extended National 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: for the definition of the base scenario, the CDI and SELIC rates used by the Company accompany the future market projections of BM&F Bovespa for the next reporting date (March 31, 2017). The TJLP is extracted from the BNDES. For LIBOR, EURIBOR and IPCA, the rates used are those prevailing on the date of the analysis.

2 - Adverse scenario: 25% adjustment of interest rates compared to the level at March 31, 2017.

3 - Remote scenario: 50% adjustment of interest rates compared to the level at March 31, 2017.

Transaction	Index	Balance at 12/31/2016	Base scenario Gain (loss)		Adverse scenario Gain (loss)		Remote scenario Gain (loss)	
			Rate % p.a.	R\$	Rate % p.a.	R\$	Rate % p.a.	R\$
Cash and cash equivalents								
CDB	CDI	180,881	12.37%	(2,209)	15.46%	3,213	18.56%	8,636
Proceeds from borrowings								
Working capital	CDI	(365,494)	12.37%	5,009	15.46%	(7,286)	18.56%	(19,581)
Debentures	CDI	(40,930)	12.37%	530	15.46%	(771)	18.56%	(2,071)
BNDES	TJLP	(48,597)	7.50%	-	9.38%	(911)	11.25%	(1,822)
Finame	TJLP	(4,771)	7.50%	-	9.38%	(89)	11.25%	(179)
Finame	SELIC	(425)	12.38%	6	15.48%	(8)	18.57%	(22)
Working capital	TJLP	(30,671)	7.50%	-	9.38%	(610)	11.25%	(1,219)
Working capital	IPCA	(22,737)	5.35%	371	6.69%	67	8.03%	(237)
Financing - foreign currency	Libor 3M	(326,278)	1.03%	(117)	1.29%	(960)	1.55%	(1,803)
Financing - foreign currency	Libor 6M	-	1.35%	-	0.00%	-	0.00%	-
Financing - foreign currency	Libor 12M	(7,263)	1.71%	(2)	2.14%	(33)	2.57%	(64)
Financing - foreign currency	Euribor 6M	(4,154)	0.00%	-	0.00%	-	0.00%	-
Net effect				<u>3,588</u>		<u>(7,388)</u>		<u>(18,362)</u>

Fair value vs. book value

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

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

- Borrowings are considered at the present value using the current market rate and the Company's credit risk. There is no significant difference between the fair value and the book value.

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.

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

Risks of financial investments

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

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

The table below shows the amounts of cash and cash equivalents invested by the Company in financial institutions, classified according to the Fitch's national rating scale for financial institutions:

	<u>Consolidated</u>	
	<u>12/31/16</u>	<u>12/31/15</u>
National rating AAA (bra)	59,778	91,125
National rating AA+ (bra)	31,013	31,076
National rating A- (bra)	9,301	-
	<u>100,092</u>	<u>122,201</u>

Investments in variable-income market are not allowed.

Liquidity risk

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

The table below shows the maturity ranges of the financial liabilities contracted by the Company, where the reported amounts include the principal and fixed interest on transactions, calculated using rates and indices in effect at December 31, 2016, and the details on the expected maturity dates for non-derivative, undiscounted financial assets, including accrued interest on these assets. The inclusion of information on non-derivative financial assets is necessary to understand the Company's liquidity risk management, since it is based on net assets and liabilities.

Parent

	2017	2018	2019	2020	As from 2021
Liabilities					
Trade payables	111,849	-	-	-	-
Borrowings	307,911	249,553	203,992	136,844	72,062
Debentures	32,288	9,461	-	-	-
Other payables	2,008	335	-	-	-
	<u>454,056</u>	<u>259,349</u>	<u>203,992</u>	<u>136,844</u>	<u>72,062</u>
Assets					
Cash and cash equivalents	82,844	-	-	-	-
Banks - restricted account	94,198	-	-	-	-
Trade receivables - not yet due	153,644	-	-	-	-
Renegotiation with customers	6,656	6,652	4,178	1,432	-
Other receivables	15,784	-	-	-	-
	<u>353,126</u>	<u>6,652</u>	<u>4,178</u>	<u>1,432</u>	<u>-</u>
	<u>(100,930)</u>	<u>(252,697)</u>	<u>(199,814)</u>	<u>(135,412)</u>	<u>(72,062)</u>

Consolidated

	2017	2018	2019	2020	As from 2021
Liabilities					
Trade payables	79,849	-	-	-	-
Borrowings	307,911	249,553	203,992	136,844	72,062
Debentures	32,288	9,461	-	-	-
Other payables	2,011	335	-	-	-
	<u>422,059</u>	<u>259,349</u>	<u>203,992</u>	<u>136,844</u>	<u>72,062</u>
Assets					
Cash and cash equivalents	103,885	-	-	-	-
Banks - restricted account	94,198	-	-	-	-
Trade receivables - not yet due	154,227	-	-	-	-
Renegotiation with customers	6,683	6,652	4,178	1,432	-
Other receivables	15,932	-	-	-	-
	<u>374,925</u>	<u>6,652</u>	<u>4,178</u>	<u>1,432</u>	<u>-</u>
	<u>(47,134)</u>	<u>(252,697)</u>	<u>(199,814)</u>	<u>(135,412)</u>	<u>(72,062)</u>

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

At the end of the reporting period, the Company had unused credit facilities totaling R\$ 49,278, 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 December 31, 2016.

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

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

- i) On March 23, 2012, the Company 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 according to the payments of the semiannual installments under the contract until the final maturity, in March 2017.

The purpose of this swap transaction was to align the transaction price and the related maturity dates to the original transaction. The swap contract cannot be settled separately. The CCE contract starts 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.

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

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

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

The purpose of this swap transaction was to align the transaction price and the related maturity dates to the original transaction. The swap contract cannot be settled 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\$ 81,568 at December 31, 2016 (R\$ 144,993 in December 2015).

	Parent and Consolidated 12/31/2016	Parent and Consolidated 12/31/2015
Opening balance - gross	219,686	73,412
Changes in cash flow hedges	(77,543)	158,165
Reclassification to the statement of operations	(18,556)	(11,891)
	<u>123,587</u>	<u>219,686</u>
Opening balance - tax	(74,693)	(24,960)
Taxes on changes in cash flow hedges	26,365	(53,776)
Taxes on reclassification to the statement of operations	6,309	4,043
	<u>(42,019)</u>	<u>(74,693)</u>
Closing balance - net	<u><u>81,568</u></u>	<u><u>144,993</u></u>

The Company estimates the hedge 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 year 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 year.

The Company did not identify any ineffectiveness in the period. In the event of total ineffectiveness in the period, the amount to be recognized in the statement of operations would be R\$ 81,568.

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

30. OPERATING SEGMENTS

a) Criteria for identification of 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: this segment manufactures light and heavy corrugated cardboard boxes and sheets, in three production units: Campina da Alegria (SC), Indaiatuba (SP), and Vila Maria (SP).

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

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

b) Consolidated information on operating segments

	Consolidated				Total
	Packaging Cardboard Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	
Net sales:					
Domestic market	483,876	145,480	6,077	-	635,433
Foreign market	-	86,099	55,263	-	141,362
Revenue from sales to third parties	483,876	231,579	61,340	-	776,795
Intersegment revenue	-	15,672	-	(15,672)	-
Total net sales	483,876	247,251	61,340	(15,672)	776,795
Changes in the fair value of					
biological assets	-	7,881	19,513	-	27,394
Cost of sales	(432,782)	(122,699)	(52,822)	14,881	(593,422)
Gross profit	51,094	132,433	28,031	(791)	210,767
Operating expenses	(67,655)	(21,948)	(4,871)	(44,359)	(138,833)
Operating result before finance result	(16,561)	110,485	23,160	(45,150)	71,934
Finance result	(46,959)	(54,030)	(6,061)	4	(107,046)
Net operating profit (loss)	(63,520)	56,455	17,099	(45,146)	(35,112)
Total assets	429,406	874,159	176,898	199,488	1,679,951
Total liabilities	411,754	603,533	61,685	157,778	1,234,750
Equity	30,255	138,973	144,656	131,317	445,201

	Consolidated				
	2015				
	Packaging Cardboard Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	497,152	127,450	5,365	-	629,967
Foreign market	-	78,828	49,963	-	128,791
Revenue from sales to third parties	497,152	206,278	55,328	-	758,758
Intersegment revenue	-	23,908	-	(23,908)	-
Total net sales	497,152	230,186	55,328	(23,908)	758,758
Changes in the fair value of					
biological assets	-	41	(6,491)	-	(6,450)
Cost of sales	(424,348)	(89,996)	(38,810)	22,717	(530,437)
Gross profit	72,804	140,231	10,027	(1,191)	221,871
Operating expenses	(66,046)	(19,196)	(4,717)	(38,377)	(128,336)
Operating result before finance result	6,758	121,035	5,310	(39,568)	93,535
Finance result	(48,498)	(45,832)	1,757	-	(92,573)
Net operating profit (loss)	(41,740)	75,203	7,067	(39,568)	962
Total assets	585,990	757,548	154,303	160,750	1,658,591
Total liabilities	390,320	635,897	15,579	220,167	1,261,963
Equity	46,231	156,448	130,584	63,365	396,628

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 segment, taking into consideration the specific allocation of each item of finance income and costs to the respective segment, and the allocation of common income and costs based on each segment's need for working capital.

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

c) Net sales revenue

The net sales revenue in 2016 totaled R\$ 776,795 (R\$ 758,758 in 2015).

The net sales revenue from exports in 2016 amounted to R\$ 141,362 (R\$ 128,791 in 2015) and relates to various countries, as follows:

Consolidated			Consolidated		
2016			2015		
Country	Net export revenue	% of total net revenue	Country	Net export revenue	% of total net revenue
Germany	20,928	2.69%	Germany	17,934	2.36%
China	18,359	2.36%	Argentina	16,796	2.21%
Argentina	16,927	2.18%	Saudi Arabia	16,505	2.18%
Saudi Arabia	13,863	1.78%	France	11,206	1.48%
France	8,627	1.11%	South Africa	7,403	0.98%
South Africa	8,303	1.07%	Paraguay	6,425	0.85%
Paraguay	6,721	0.87%	United Arab Emirates	6,014	0.79%
Chile	6,318	0.81%	Chile	5,729	0.76%
Netherlands	4,117	0.53%	Netherlands	4,860	0.64%
Spain	3,838	0.49%	China	4,752	0.63%
Japan	3,394	0.44%	Peru	4,393	0.58%
Singapore	3,181	0.41%	Japan	3,614	0.48%
Peru	3,119	0.40%	Bolivia	3,089	0.41%
Turkey	2,961	0.38%	India	2,256	0.30%
Portugal	2,764	0.36%	Portugal	2,019	0.27%
Uruguay	2,471	0.32%	Uruguay	1,953	0.26%
Kuwait	2,344	0.30%	Austria	1,938	0.26%
Bolivia	2,297	0.30%	Spain	1,674	0.22%
Austria	1,602	0.21%	Norway	1,630	0.21%
Pakistan	1,349	0.17%	Hong Kong	1,418	0.19%
Dubai	1,199	0.15%	Singapore	1,357	0.18%
Malaysia	1,141	0.15%	Canada	1,141	0.15%
Norway	855	0.11%	Other countries	4,685	0.62%
Israel	762	0.10%		<u>128,791</u>	<u>16.97%</u>
Other countries	3,922	0.50%			
	<u>141,362</u>	<u>18.20%</u>			

The Company's net sales revenue in 2016 in the domestic market amounted to R\$ 635,433 (R\$ 629,967 in 2015).

In 2016, a single customer accounted for 4.7% of net sales in the domestic market of the Corrugated Cardboard Packaging segment, equivalent to R\$ 22,742. 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 December 31, 2016, in addition to other minor rental agreements for commercial and administrative units, all of which were classified as operating leases and allocated to expenses on the accrual basis over the lease period.

The rental agreement entered into on December 26, 2006, referring to the rental of the Packaging Plant in Indaiatuba, SP, is effective for 20 years, with a contracted monthly rental of R\$ 227, which is annually adjusted based on the General Market Price Index (IGPM) variation.

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

Rentals of production units = R\$ 2,471 (R\$ 2,460 in 2015).

Rentals of commercial and administrative units = R\$ 283 (R\$ 267 in 2015).

The future commitments arising from these contracts totaled a minimum amount of R\$ 82,926 at December 31, 2016. The rentals were calculated at present value, using the accumulated IGPM index in the last 12 months, i.e., 7.19% per year.

	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>After 5 years</u>	<u>Total</u>
Future operating leases	3,252	15,520	64,154	82,926
Operating leases at present value	3,034	12,135	30,337	45,506

Lease of planting area

The Company entered into non-cancellable lease agreements for the production of biological assets on third-party land, referred to as partnerships, which covers a total area of 3,1 thousand hectares, of which 2,2 thousand hectares comprise 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., 7.19% per year.

	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>After 5 years</u>	<u>Total</u>
Future operating leases	528	2,143	648	3,319
Operating leases at present value	493	1,701	363	2,557

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 17.94% as the cost of funding on the base date for credit lines with characteristics similar to those applicable to the respective disbursements, which would have been required in the absence of said benefits.

The benefit is effective for 14 years, from January 2009 to December 2022, or up to the limit of R\$ 55,199 of deferred ICMS. At December 31, 2016, the Company had deferred ICMS liabilities of R\$ 18,675 (net of government grants of R\$ 14,752).

- ii) **ICMS/SC - Presumed Credit:** For the purpose of enabling the expansion of the plant 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 plant located 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.

During 2016, the Company paid for purchases of property, plant and equipment, intangible assets and biological assets amounting to R\$ 12,111, which were financed directly by the suppliers.

During 2015, the Company made payments for purchases of property, plant and equipment, amounting to R\$ 5,223, which were directly financed by suppliers. It also made a capital contribution of R\$ 25,118 in the subsidiary Iraflor Comércio de Madeiras Ltda., through planted forests.

34. EVENTS AFTER THE REPORTING PERIOD

In the period from February 5 to February 10, 2017 the forests of the subsidiary Habitasul Florestal S.A., located in the state of Rio Grande do Sul, were hit by forest fires possibly caused by people who trespassed on the Company's property. The fire hit 1,255 hectares of pine forest, of which 77 hectares of standing forest did not suffered major damage and therefore can be resin-coated and have its timber sold, and 1,178 hectares of young forests, aged between one to eight years, which will require restoration.

The Company evaluated the possible effects of the restoration of these forests on the fair value of biological assets, and estimates a loss of approximately R\$ 5.4 million, which should be duly recognized in the financial statements for the first quarter of 2017.

The fire event should not cause any additional impacts on the production of timber and resin, since the young forests will be restored and reallocated to the production flow necessary to the Company's activities.

* * *

(A free translation of the original in Portuguese)

Dear Stockholders,

The management of **Celulose Irani S.A.** submits for your appreciation the Company's Management Report and Financial Statements, together with the independent auditor's report for the year ended December 31, 2016. The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and accounting practices adopted in Brazil, based on the technical pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), which are fully convergent with IFRS, and the standards established by the Brazilian Securities Commission (CVM).

Message to the Stockholders

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

2016 Highlights

The Brazilian economy experienced in 2016 its second consecutive year of contraction, generating an estimated fall of 3.4% in the GDP. The unbalance in the country's economy, which resulted from the serious political crisis, the high primary and nominal deficits, the increase in the gross debt-to-GDP ratio and the high interest rates, has created a challenging business environment, in which the companies were affected by a decrease in the demand for products and services, volatility in exchange rates, increased costs and credit restrictions throughout the year of 2016. In the global scenario, the uncertainties in relation to the Brexit process and the United States' policies from the election of Donald Trump at the end of 2016, added several impacts on the world economy, among which, the devaluation of currencies of emerging countries and a resumption of protectionist measures.

This unfavorable scenario, particularly in relation to the local environment, was reflected in consumption, since, according to the Brazilian Association of Corrugated Board (ABPO), the shipment in metric tons of corrugated board dropped by 2.3% in 2016, when compared to 2015.

IRANI's net revenue increased by 2.4% in the comparison with 2015, helped by the increase in sales to the foreign market, as a result of the more favorable exchange rate in the first half of 2016. At the end of 2016, the share of sales to the foreign market reached 18%, while sales to the domestic market represented 82% of the Company's sales.

In 2016, the Corrugated Cardboard Packaging segment represented 62% of IRANI's net revenue, while the Packaging Paper and the RS Forest and Resins segments represented 30% and 8%, respectively.

Key financial and economic indicators

KEY INDICATORS - CONSOLIDATED	4Q16	3Q16	4Q15	Var. 4Q16/3Q16	Var. 4Q16/4Q15	2016	2015	Var. 2016/2015
Economic and Financial Indicators (R\$ thousand)								
Net Operating Revenue	193,590	195,484	193,930	-1.0%	-0.2%	776,795	758,758	2.4%
Domestic market	163,905	166,935	167,132	-1.8%	-1.9%	635,433	629,967	0.9%
Foreign market	29,685	28,549	26,798	4.0%	10.8%	141,362	128,791	9.8%
Gross profit (including*)	50,020	48,034	41,450	4.1%	20.7%	210,767	221,871	-5.0%
(*) Change in fair value of biological assets	12,078	2,487	(14,372)	385.6%	-	27,394	(6,450)	-
Gross margin	25.8%	24.6%	21.4%	1.2p.p.	4.4p.p.	27.1%	29.2%	-2.1p.p.
Operating result before taxes and profit sharing	(18,347)	(12,439)	(15,162)	47.5%	21.0%	(35,112)	962	-3749.9%
Operating margin	-9.5%	-6.4%	-7.8%	-	-	-4.5%	0.1%	-4.6p.p.
Profit (loss)	(5,055)	(6,933)	(16,844)	-27.1%	-70.0%	(10,782)	495	-2278.2%
Net margin	-2.6%	-3.5%	-8.7%	0.9p.p.	6.1p.p.	-1.4%	0.1%	-1.5p.p.
Adjusted EBITDA 1	19,364	30,512	43,279	-36.5%	-55.3%	175,314	181,209	-3.3%
Adjusted EBITDA Margin	10.0%	15.6%	22.3%	-5.6p.p.	-12.3p.p.	22.6%	23.9%	-1.3p.p.
Net indebtedness [R\$ million]	719.3	721.8	777.0	-0.3%	-7.4%	719.3	777.0	-7.4%
Adjusted Net Debt/EBITDA (x)	4.10	3.62	4.29	13.3%	-4.4%	4.10	4.29	-4.4%
Net Debt/ Pro forma Adjusted EBITDA (x) 2	3.40	2.99	3.08	13.7%	10.4%	3.40	3.08	10.4%
Operating data (metric tons)								
Corrugated Cardboard Packaging (PO)								
Production/Sales	43,905	46,870	52,306	-6.3%	-16.1%	180,516	198,375	-9.0%
Packaging Paper								
Production	62,395	72,093	72,865	-13.5%	-14.4%	275,446	287,247	-4.1%
Sales	23,966	22,255	21,432	7.7%	11.8%	88,764	77,469	14.6%
RS Forest and Resins								
Production	2,675	2,811	1,677	-4.8%	59.5%	11,926	9,970	19.6%
Sales	2,465	2,620	1,252	-5.9%	96.9%	12,214	9,582	27.5%

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

² Excludes from net debt foreign exchange variations accounted for as hedge accounting.

- The sales volume for the Corrugated Cardboard Packaging segment decreased by 9.0% when compared to 2015, and totaled 180.5 thousand metric tons in 2016. Sales in the Packaging Paper segment increased by 14.6%, totaling 88.8 thousand metric tons, and in the Resins segment, by 27.5%, reaching 12.2 thousand metric tons.
- Net revenue for 4Q16 remained stable when compared to 4Q15 and 3Q16. In the comparison with 2015, net revenue grew by 2.4%, reaching R\$ 776.8 million, which reflects the good performance of sales to the foreign market.
- The gross profit for 4Q16 increased by 20.7% compared to 4Q15, and by 4.1% compared to 3Q16. In comparison to 2015, gross profit decreased by 5.0%, totaling R\$ 210.8 million.
- The Company reported losses of R\$ 5.0 million in 4Q16, compared to losses of R\$ 16.8 million in 4Q15, and losses of R\$ 6.9 million in 3Q16. In 2016, the result was negative by R\$ 10.8 million when compared to the profit of R\$ 495 thousand recorded for 2015. This result was impacted by higher costs of raw material, particularly corrugated cardboard trimmings, and the interest expense recognized in the result for the year.

- In 4Q16, adjusted EBITDA amounted to R\$ 19.4 million, with a 10.0% margin. In 2016, adjusted EBITDA totaled R\$ 175.3 million, a decrease of 3.3% when compared to 2015, with a 22.6% margin, that is, 1.3 percentage points below that for 2015.
- The net debt/EBITDA ratio was 4.10 times in December 2016, against 4.29 times at the end of 2015. The variation was mainly due to the reduction in the U.S. dollar exchange rate, which was reflected in the decrease of net debt. Excluding from net debt the exchange variation recorded as hedge accounting, the net debt/EBITDA ratio would be 3.40 times.
- The cash position at the end of 2016 was R\$ 198.1 million, with 68% of the debts maturing in the long term.

BUSINESS OVERVIEW

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

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

The **Packaging Paper Division** manufactures low- and high-weight Kraft paper and recycled paper for the domestic and foreign markets. Most of its production is destined to the Corrugated Cardboard Packaging Division. Its plant located in Vargem Bonita - SC (Campina da Alegria Paper Plant) has four paper machines, and the plant in Santa Luzia - MG (Santa Luzia Paper Plant) has one paper machine.

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

Subsidiaries

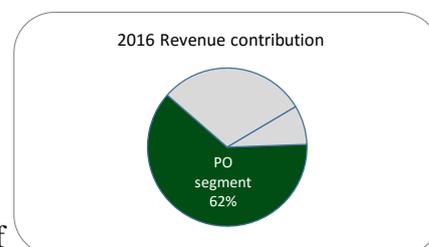
Celulose Irani S.A. has the following wholly-owned subsidiaries:

- Habitasul Florestal S.A., with a forest base of 16.6 thousand hectares, of which 8.4 thousand hectares are planted with pine trees in the state of Rio Grande do Sul, which supplies resin to the Resin unit of Celulose Irani S.A. and timber to customers in the region.
- HGE - Geração de Energia Sustentável Ltda. and Irani Geração de Energia Sustentável Ltda., which operate in the generation, transmission and distribution of power sourced from wind energy, and are currently in the phase of assessment for implementation.
- Iraflor Comércio de Madeiras Ltda., which carries out activities related to the management and sale of timber and forests for the parent company Celulose Irani S.A. and the market.

1. OPERATING PERFORMANCE (not reviewed by the independent auditor)

1.1. Corrugated Cardboard Packaging Segment (PO)

As shown in the charts below, the sales volume in metric tons of corrugated cardboard packaging in the ABPO Market decreased by 4.2% in 4Q16 compared to 4Q15, as well as the sales in the IRANI Market, totaling 43,905 metric tons. In the comparison with 3Q16, the ABPO Market presented a decrease of 2.9%, while the IRANI Market decreased by 6.3%. In 2016, the ABPO market declined by 2.3% and the IRANI market by 9.0% in relation to 2015.

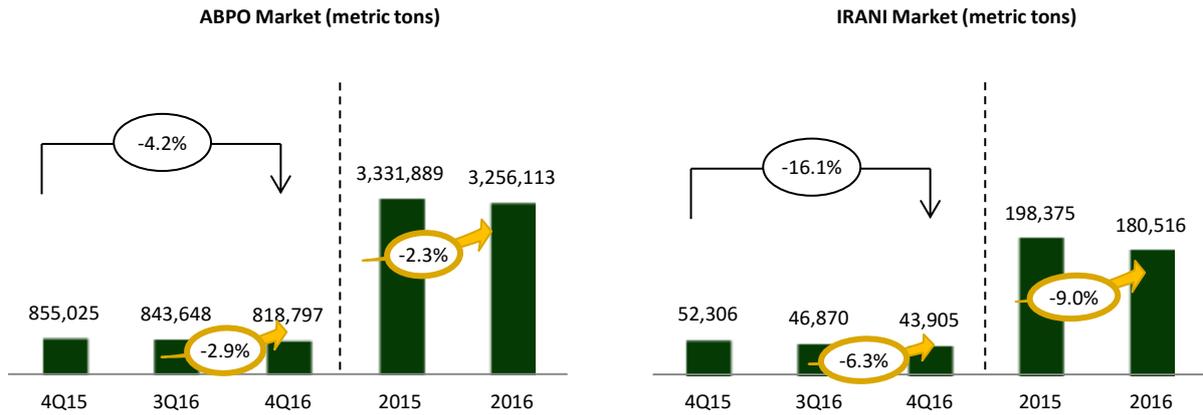


In metric tons, IRANI's market share in this quarter was 5.3%, a decrease in relation to the 6.1% recorded for 4Q15 and the 5.5% recorded for 3Q16. In 2016, IRANI's market share was 5.5%, compared to 5.9% in 2015.

The sales performance of boxes in 2016 reduced by 6.7% in the IRANI market, and by 2.3% in the ABPO market. Sales of sheets reduced by 14.6% in the IRANI market, and by 2.2% in the ABPO market. The reason for the worse performance of the IRANI market in comparison with the APBO was the adoption of a more rigorous credit policy for customers.

The Indaiatuba (SP), Campina da Alegria (SC) and Vila Maria (SP) Packaging plants accounted for 39%, 30% and 31%, respectively, of the total corrugated cardboard sold in 2016, and all their production was allocated to the domestic market.

Sales Volume (in metric tons) - Corrugated Cardboard Packaging Segment (PO)



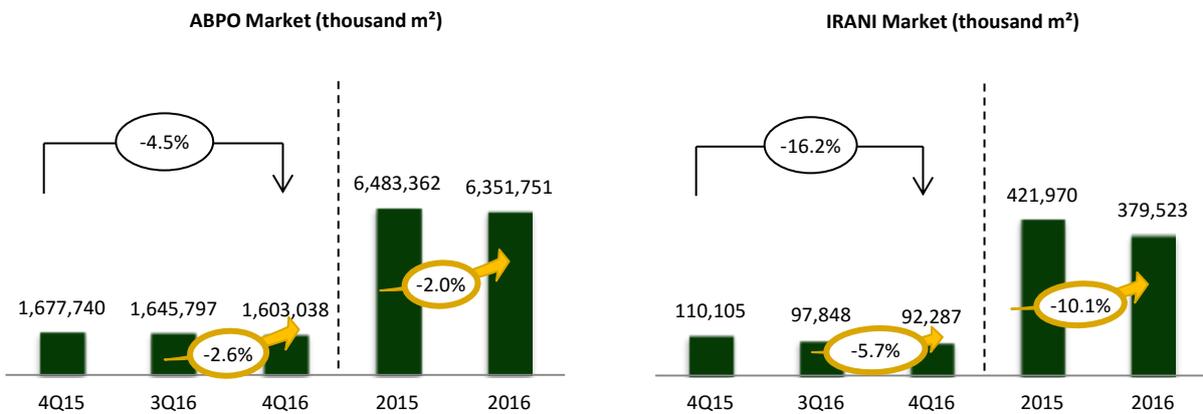
Source: ABPO

Source: IRANI

The volume of corrugated cardboard packaging sales in square meters (m²) decreased by 4.5% in 4Q16 in the ABPO market compared to 4Q15, and by 2.6% compared to 3Q16. In the comparison between 2016 and 2015, sales decreased by 2.0%. In the comparison between 4Q16 and 4Q15, the IRANI Market declined by 16.2%. In relation to 3Q16, the IRANI Market decreased by 5.7%. In the comparison between 2016 and 2015, IRANI recorded a decline of 10.1%. IRANI's market share in square meters reached 5.8% in 4Q16, below the 6.6% recorded for 4Q15 and the 5.9% for 3Q16. IRANI's sales in 2016 totaled 379,523 thousand m², with 6.0% market share in the year.

In square meters, the sales performance of boxes in 2016 reduced by 8.7% in the IRANI market, and by 2.4% in the ABPO market. Sales of sheets reduced by 13.6% in the IRANI market, while remained stable in the ABPO market.

Sales Volume (in square meters) - Corrugated Cardboard Packaging Segment (PO)



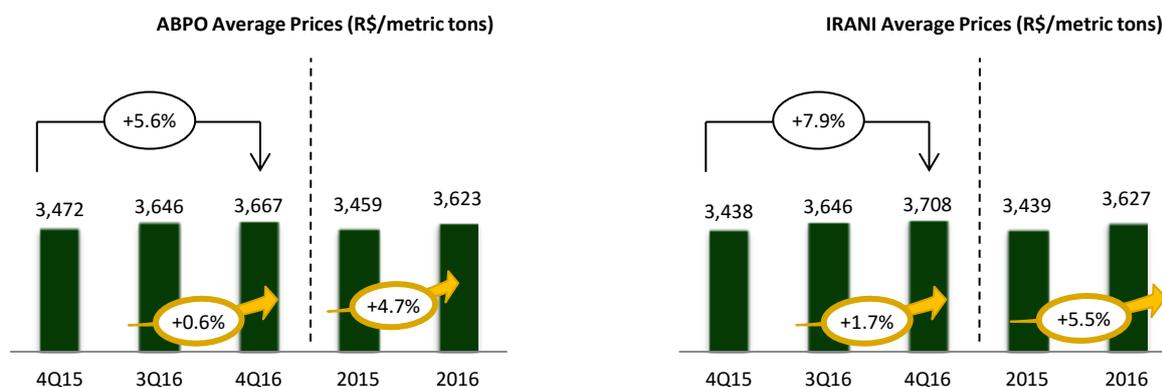
Source: ABPO

Source: IRANI

The production in the Indaiatuba SP Packaging Plant totaled 50,859 metric tons of boxes and 19,565 metric tons of sheets in 2016 (against 54,676 metric tons of boxes and 22,390 metric tons of sheets in 2015).

The production in the Campina da Alegria SC Packaging plant totaled 44,305 metric tons of boxes and 10,339 metric tons of sheets in 2016 (against 44,974 metric tons of boxes and 14,399 metric tons of sheets in 2015). The production in the Vila Maria SP Packaging Plant totaled 36,572 metric tons of boxes and 18,877 metric tons of sheets in 2016 (against 41,575 metric tons of boxes and 20,362 metric tons of sheets in 2015).

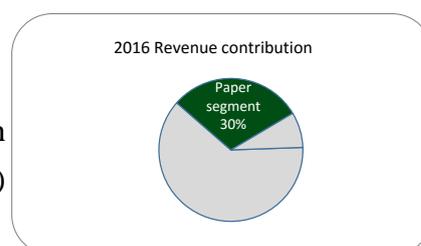
The average ABPO price per metric ton in 4Q16 was 5.6% higher when compared to that of 4Q15, while the average IRANI (CIF) price registered an increase of 7.9% in 4Q16. In the comparison with 3Q16, the ABPO remained stable, and the IRANI market recorded an increase of 1.7%. During 2016, prices in the ABPO and IRANI markets were 4.7% and 5.5% higher, respectively, as shown below:



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

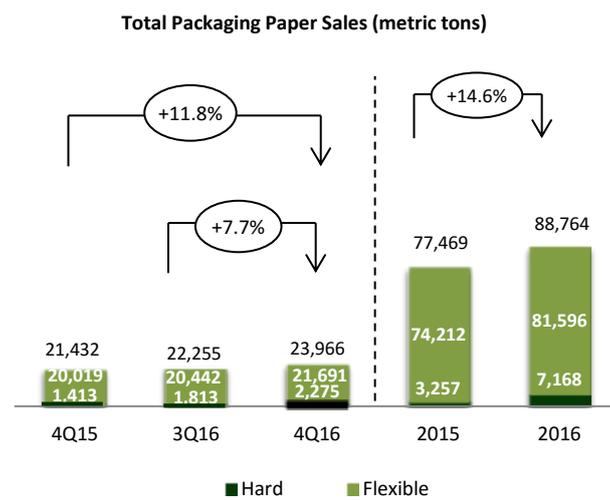
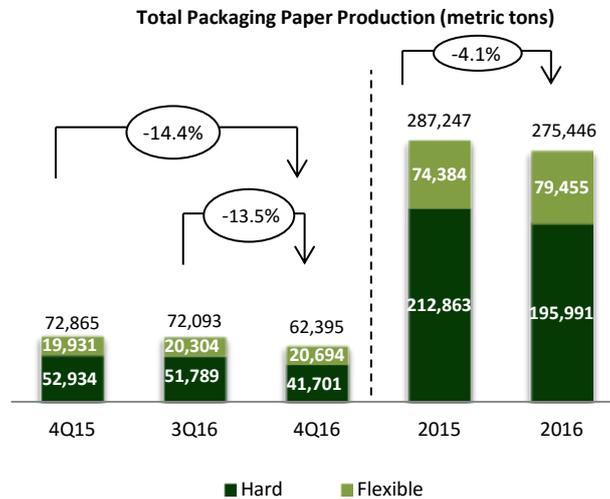
1.2. Packaging Paper Segment

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

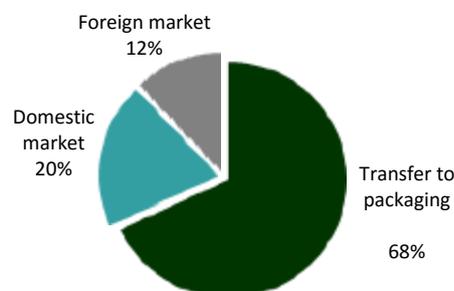


The Company's total packaging paper production in 4Q16 was 14.4% lower than the production of 4Q15 and 13.5% lower when compared to 3Q16, due to the maintenance downtime of the paper machine of Minas Gerais and the paper machine V of Santa Catarina, which took place during this quarter. The sales grew by 11.8% and 7.7%, respectively, compared to 4Q15 and 3Q16. In the year to date, production totaled 275,446 metric tons, decreasing by 4.1% in relation to 2015, and sales totaled 88,764 metric tons, an increase of 14.6% in relation to 2015.

The increase in the sales volume of packaging paper during the year was mainly due to the greater availability of paper for sale, as a result of the reduction in transfers between the Corrugated Cardboard plants, for internal use.



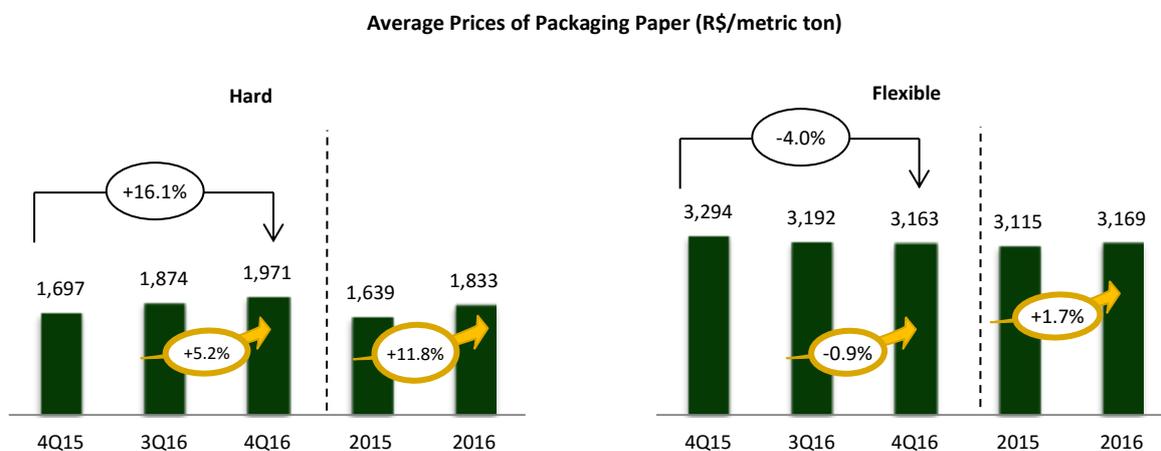
Paper Shipment/Net Sales in 2016



In 4Q16, internal transfers of hard packaging paper (PO segment) totaled 43,911 metric tons (52,819 metric tons in 4Q15 and 49,299 metric tons in 3Q16), allocated as follows: 17,199 metric tons to the SP Indaiatuba Packaging plant (20,549 metric tons in 4Q15 and 18,639 metric tons in 3Q16); 13,953 metric tons to the SP Vila Maria plant (16,428 metric tons in 4Q15 and 14,483 metric tons in 3Q16); and 12,759 metric tons to the SC Campina da Alegria plant (15,842 metric tons in 4Q15 and 16,177 metric tons in 3Q16). Total internal transfers in 2016 amounted to 188,871 metric tons (208,948 metric tons in 2015), distributed as follows: 72,297 metric tons to the SP Indaiatuba plant (80,645 metric tons in 2015), 58,648 metric tons to the SP Vila Maria plant (65,452 metric tons in 2015), and 57,926 metric tons to the SC Campina da Alegria plant (62,851 metric tons in 2015).

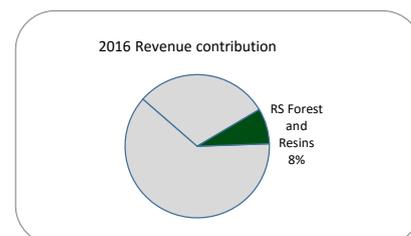
Of the total internal transfers made in 2016, 38% were allocated to the SP Indaiatuba plant, 31% to the SP Vila Maria plant, and 31% to the SC Campina da Alegria plant (in 2015 - 39%, 31% and 30%, respectively).

The hard packaging paper segment, whose sales volume is not significant (accounting for only 2,275 metric tons in 4Q16, as shown in the chart above) recorded an increase in price of 16.1% and 5.2% when compared to the prices practiced in 4Q15 and 3Q16, respectively. In the comparison with 2015, prices increased by 11.8%. The Company's average prices followed the market trend. On the other hand, the prices of flexible packaging papers decreased by 4.0% in comparison with 4Q15 and remained stable in relation to 3Q16. In the comparison between 2015 and 2016, an increase of 1.7% was recorded.

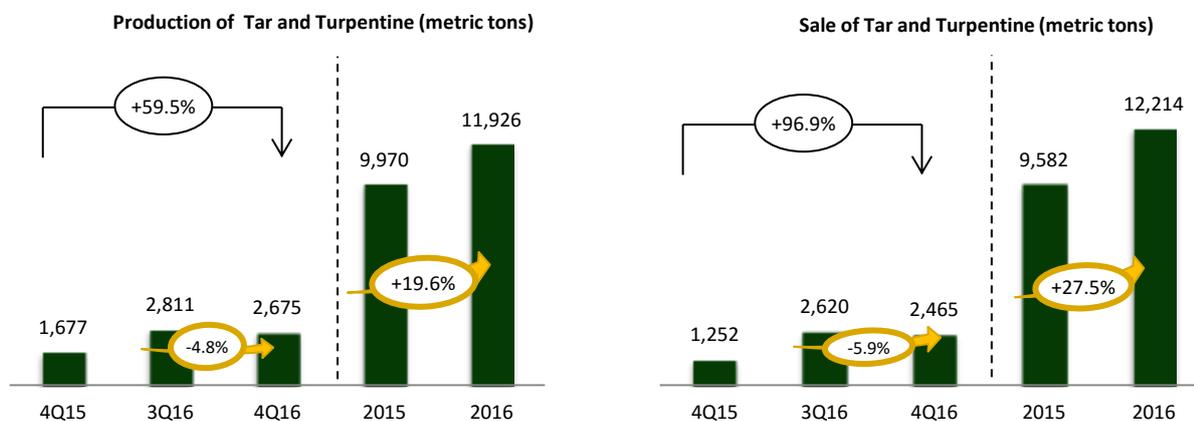


1.3. RS Forest and Resins Segment

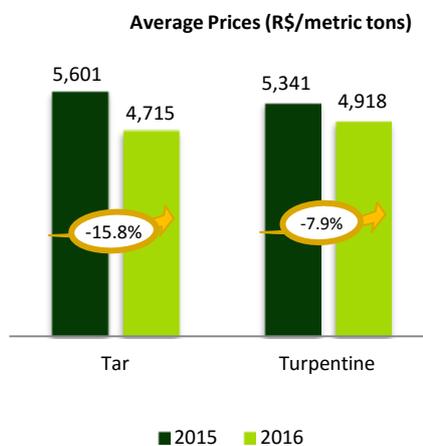
In 2016, the Forest segment of Rio Grande do Sul, through the subsidiary Habitasul Florestal S.A., produced and sold 72 thousand cubic meters of pine logs to the domestic market (48 thousand cubic meters in 2015) and supplied 3,618 metric tons of natural resins to the parent company Celulose Irani S.A. (3,375 metric tons in 2015), to be used in the industrial production of tar and turpentine.



In 4Q16, the production of the RS Resin Balneário Pinhal increased by 59.5% and sales increased by 96.9%, when compared to 4Q15. This plant's production and sales decreased by 4.8% and 5.9%, respectively, compared to the volumes recorded for 3Q16. In the annual comparison, production and sales totaled 11,926 and 12,214 metric tons, an increase of 19.6% and 27.5%, respectively, in relation to 2015.



In the comparison with 2015, the average gross selling price of tar decreased by 15.8%, and the average price of turpentine was 7.9% lower in 2016. The prices of these products follow the international market and foreign exchange trend, which led to the reduction in the year.



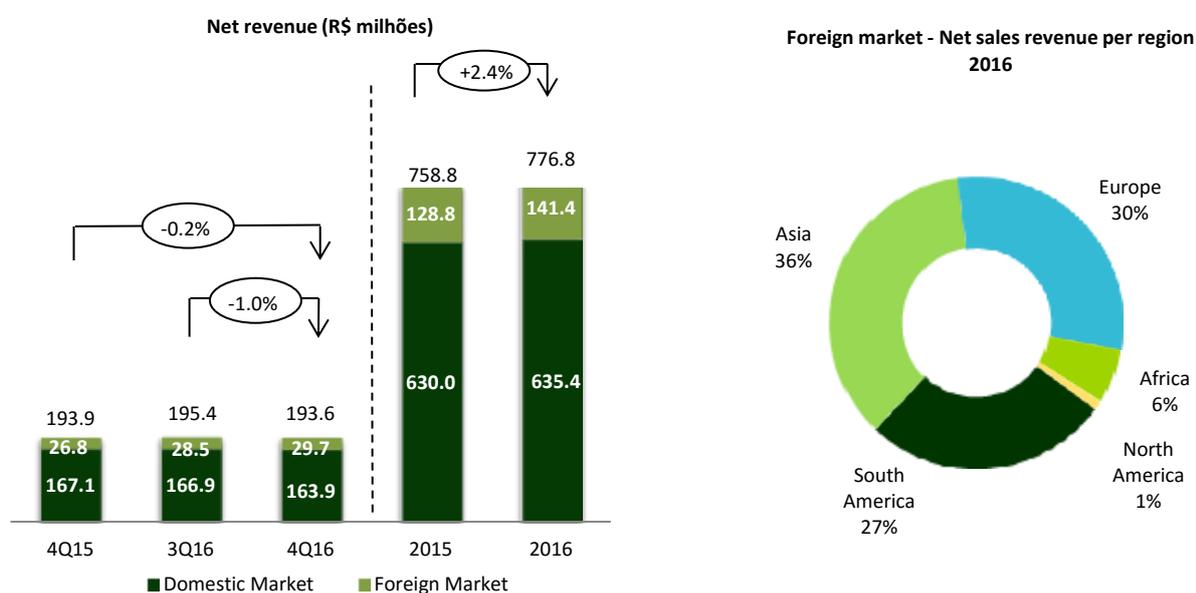
2. ECONOMIC AND FINANCIAL PERFORMANCE

2.1. Net Operating Revenue

Net operating revenue for 4Q16 totaled R\$ 193,590 thousand, remaining stable in relation to that recorded for 4Q15 and 3Q16. In the year to date, net operating revenue totaled R\$ 776,795 thousand, recording an increase of 2.4% in the comparison with the same period of previous year.

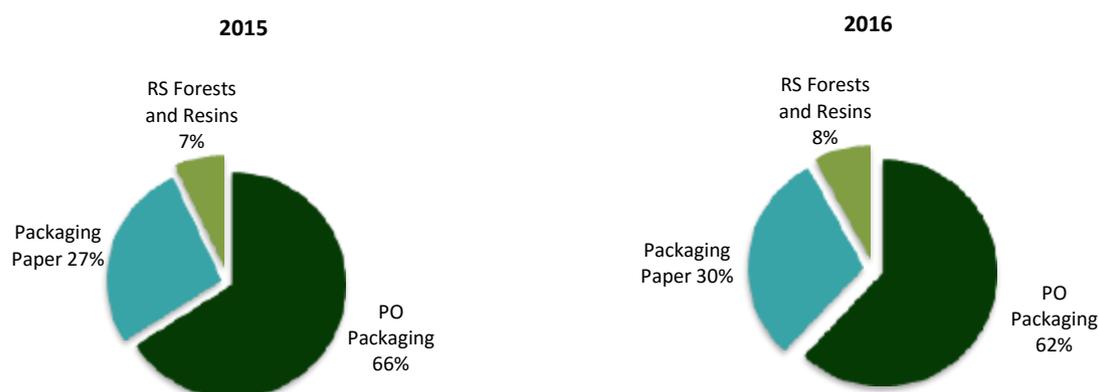
Net operating revenue in the domestic market, of R\$ 163,905 thousand in 4Q16, decreased by 1.9% and 1.8% in relation to 4Q15 and 3Q16, respectively. Total 2016 net operating revenue in the domestic market totaled R\$ 635,433 thousand, remaining stable in relation to 2015. The domestic market accounted for 82% of IRANI's total revenue in 2016.

In 4Q16, exports reached R\$ 29,685 thousand, an increase of 10.8% compared to 4Q15, and 4.0% in relation to 3Q16. In 2016, exports totaled R\$ 141,362 thousand, or 9.8% higher than that for 2015, representing 18% of the total net operating revenue and reflecting the impact of a higher foreign exchange rate. Asia was the main destination of the Company's exports (36% of the export revenue), followed by Europe (30%). Other destinations were South America (27%), Africa (6%) and North America (1%).



IRANI's main operating segment is the Corrugated Cardboard Packaging (PO), which was responsible for 62% of the consolidated net revenue in 2016, followed by the Packaging Paper (30%) and RS Forest and Resins (8%) segments.

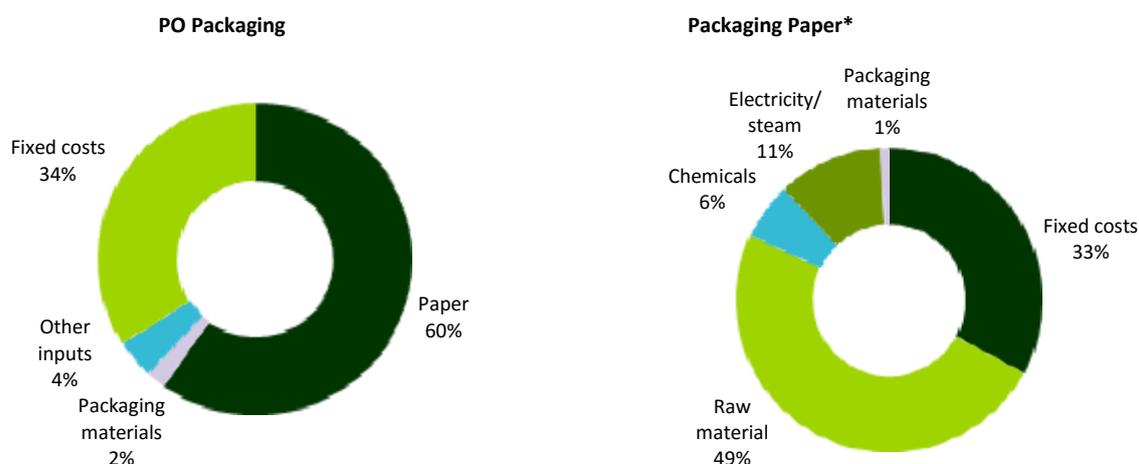
Net Revenue by Segment



2.2. Cost of Sales

In 2016, cost of sales totaled R\$ 593,422 thousand, 11.9% higher than in 2015. The change in the fair value of biological assets is not being considered in the cost of sales for any of the years.

The analysis of cost by business segment in 2016 is shown below:



*the cost of the Packaging Paper segment does not include changes in the fair value of biological assets.

2.3. Operating Income and Expenses

In 2016, selling expenses totaled R\$ 83,703 thousand, an increase of 3.2% in relation to 2015, and represented 10.8% of the consolidated net revenue, slightly above the 10.7% recorded for 2015.

Administrative expenses in 2016 were 13.4% higher, in relation to the 2015, and totaled R\$ 52,642 thousand, representing 6,8% of the consolidated net revenue, an increase when compared to the 6.1% recorded for 2015, mainly due to the reintroduction of the INSS contribution levied on the payroll.

Other operating expenses totaled R\$ 2,488 thousand in 2016 (2015 - R\$ 733 thousand).

3. CASH PROVIDED BY OPERATING ACTIVITIES (ADJUSTED EBITDA)

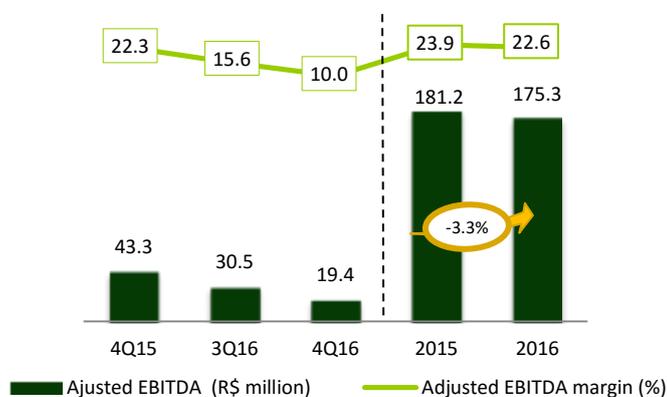
Consolidated (R\$ thousand)	4Q16	3Q16	4Q15	Var. 4Q16/3Q16	Var. 4Q16/4Q15	2016	2015	Var. 2016/2015
Operating result before taxes and profit sharing	(18,347)	(12,439)	(15,162)	47.5%	21.0%	(35,112)	962	-3749.9%
Depletion	885	1,594	5,164	-44.5%	-82.9%	60,916	20,579	196.0%
Depreciation and amortization	16,565	16,153	15,259	2.6%	8.6%	63,886	59,117	8.1%
Finance result	28,355	27,691	22,118	2.4%	28.2%	107,046	92,573	15.6%
EBITDA	27,458	32,999	27,379	-16.8%	0.3%	196,736	173,231	13.6%
EBITDA margin	14.2%	16.9%	14.1%	-2.7p.p.	0.1p.p.	25.3%	22.8%	2.5p.p.
Adjustments pursuant to CVM Instruction 527/12								
Change in the fair value of biological assets (1)	(12,078)	(2,487)	14,372	385.6%	-184.0%	(27,394)	6,450	-524.7%
Management profit sharing	-	-	55	-	-	-	55	-
Non-recurring events (2)	3,984	-	1,473	-	170.5%	5,972	1,473	305.4%
Adjusted EBITDA	19,364	30,512	43,279	-36.5%	-55.3%	175,314	181,209	-3.3%
Adjusted EBITDA Margin	10.0%	15.6%	22.3%	-5.6p.p.	-12.3p.p.	22.6%	23.9%	-1.3p.p.

1 The change in the fair value of biological assets did not represent a cash reduction in the year.

2 Non-recurring events: the amount of R\$ 5,972 thousand (2016) refers to expenditures of R\$ 3,984 thousand incurred with the request for the register of a public share offering, which do not represent recurring expenses in the year; and the transfer of R\$ 1,988 thousand to the provision for the social security contribution on the vacation pay for prior periods, due to change in the taxation system (reintroduction of INSS charges), which does not represent a regular expense in the year.

Cash provided by operating activities, as measured by adjusted EBITDA, totaled R\$ 175,314 thousand in 2016, with a margin of 22.6% and 3.3% below that computed for 2015, which totaled R\$ 181,209 thousand. The reduction of 1.3 p.p. in the margin was mainly due to the lower sales volume of corrugated cardboard boxes and sheets, the higher cost of raw materials, particularly corrugated cardboard trimmings, and the reintroduction of the levy of INSS in the payroll.

Adjusted EBITDA (Million R\$) and Adjusted EBITDA Margin (%)



4. FINANCE RESULT AND INDEBTEDNESS

Finance result was negative by R\$ 28,355 thousand in 4Q16, representing an increase of 28.2% in the comparison with 4Q15. In the comparison with 3Q16, finance result increased by 2.4%. In the year, finance result was negative by R\$ 107,046 thousand, an increase of 15.6% compared to 2015, when finance costs totaled R\$ 92,573 thousand. This result was mainly influenced by the foreign exchange variation, increase in local and foreign interest rates (Interbank Deposit Certificate - CDI and Long-term Interest Rate - TJLP) and LIBOR, and higher funding costs.

In 4Q16, finance costs totaled R\$ 40,436 thousand, compared to R\$ 30,895 thousand in 4Q15, and R\$ 32,515 thousand in 3Q16. In the year, finance costs totaled R\$ 146,978 thousand, against R\$ 127,801 thousand in 2015. Finance income totaled R\$ 12,081 thousand in 4Q16, against R\$ 8,777 thousand in the same period of prior year, and R\$ 4,824 thousand in 3Q16. Finance income in 2016 amounted to R\$ 39,932 thousand, against R\$ 35,228 thousand in 2015.

Finance result is broken down as follows:

R\$ thousand	4Q16	3Q16	4Q15	2016	2015
Finance income	12,081	4,824	8,777	39,932	35,228
Finance costs	(40,436)	(32,515)	(30,895)	(146,978)	(127,801)
Finance result	(28,355)	(27,691)	(22,118)	(107,046)	(92,573)

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

R\$ thousand	4Q16	3Q16	4Q15	2016	2015
Foreign exchange gains	5,879	2,803	4,265	24,764	19,885
Foreign exchange losses	(9,876)	(9,307)	(5,385)	(44,225)	(36,958)
Foreign exchange variation, net	(3,997)	(6,504)	(1,120)	(19,461)	(17,073)

The foreign exchange variations had a negative impact of R\$ 3,997 thousand on the Company's results for 4Q16, and of R\$ 19,461 thousand in the results for the year, mainly due to the recognition of hedge accounting in the statement of operations.

Finance result net of foreign exchange variation was as follows:

R\$ thousand	4Q16	3Q16	4Q15	2016	2015
Finance Result Net of Foreign Exchange Variation	(24,358)	(21,187)	(20,998)	(87,585)	(75,500)

For the purpose of hedging its exports in the coming years, the Company maintains the maturity flow of its commitments in foreign currency (U.S. dollars) aligned with the estimated receivables in U.S. dollars. Foreign exchange variations on these transactions are accounted for monthly in Equity and recognized in the statement of operations as finance costs, when realized (hedge accounting). In 4Q16, the Company recognized hedge accounting gains of R\$ 3,096 thousand (R\$ 2,043 thousand net of taxes) in Equity, and finance costs of R\$ 4,854 thousand in the statement of operations. In the year-to-date, the Company maintains the amount of R\$ 123,587 thousand recorded as exchange rate variation on transactions allocated to hedge accounting, to be recognized in the results on realization, over the coming years. The amount of R\$ 81,568 thousand is recognized in Equity (net of taxes).

Foreign exchange rate

The exchange rate of R\$ 3.90/US\$ at December 31, 2015, decreased by 16.41% at the end of December 2016, reaching R\$ 3.26/US\$. The average exchange rate for 4Q16 was R\$ 3.30/US\$, or 1.54% higher than in 3Q16 and 14.06% lower than in 4Q15. In 2016, the average exchange rate increased by 4.19%, reaching R\$ 3.48/US\$.

	4Q16	3Q16	4Q15	Δ 4Q16/3Q16	Δ 4Q16/4Q15	2016	2015	Δ 2016/2015
Average U.S. dollar	3.30	3.25	3.84	+1.54%	-14.06%	3.48	3.34	+4.19%
Final U.S. dollar	3.26	3.25	3.90	+0.31%	-16.41%	3.26	3.90	-16.41%

Source: Brazilian Central Bank

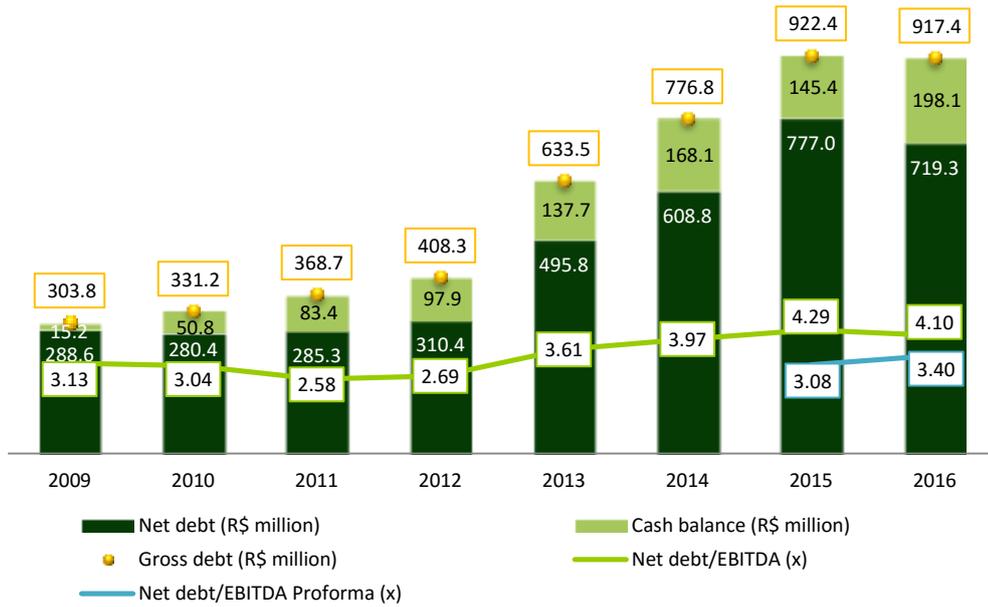
Net Indebtedness

At December 31, 2016, consolidated gross indebtedness totaled R\$ 917.4 million, compared to R\$ 922.4 million at December 31, 2015. The variation in this indicator resulted from proceeds from borrowings and settlements during the year, in addition to the appreciation of the real against the U.S. dollar, since a portion of the debt is denominated in U.S. dollar. At December 31, 2016, the Company's gross debt profile presented 32% of debts maturing in the short term and 68% in the long term.

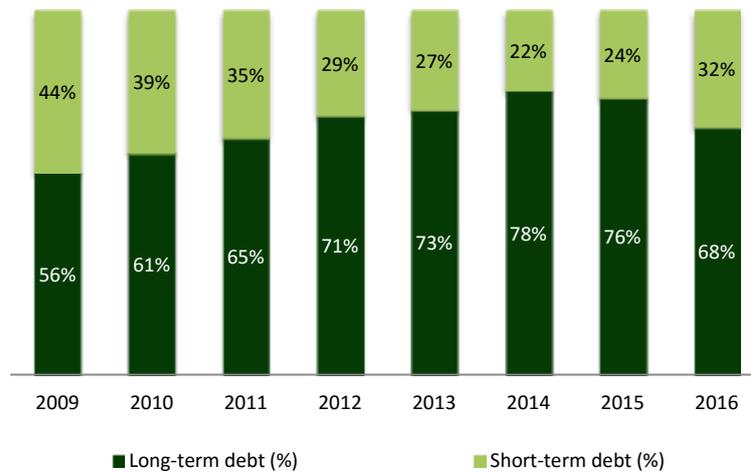
Consolidated cash balance totaled R\$ 198.1 million, at the end of 2016, compared to R\$ 145.4 million at December 31, 2015. The cash balance was mainly impacted by borrowings obtained in the year and additional sale of timber (forest) in the amount of R\$ 55.5 million, which occurred in 2Q16.

Consequently, consolidated net indebtedness at December 31, 2016 totaled R\$ 719.3 million, compared to R\$ 777.0 million at December 31, 2015. As a result, the net debt/EBITDA ratio changed from 4.29 times at the end of 2015 to 4.10 times at the end of 2016. Excluding from the net debt the exchange variation recorded as hedge accounting (Note 29 - Cash flow hedge), the pro forma net debt/EBITDA ratio would be 3.40 at the end of 2016. The variation in this indicator was influenced by the devaluation of the U.S. dollar and the EBITDA computed for the year.

Indebtedness and Net Debt/EBITDA



Gross Indebtedness Profile



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

As from 2010, the Company started to measure its biological assets (forests) at fair value periodically, as determined by CPC 29. Changes in the fair value of biological assets produced the following effects in the Company's results for 2016:

<u>Effects of changes in the fair value of biological assets</u>		
R\$ thousand	2016	2015
Change in the fair value of biological assets	27,394	(6,450)
Depletion of the fair value of biological assets	(43,498)	(16,944)

The fair value of biological assets changed positively in 2016, mainly due to variations in some of the assumptions used for valuation such as: increase in the prices of pine in SC and RS forests, increase in the price of gum resin in RS forests, and change in the average age of plantations.

Changes in the fair value of biological assets, as well as their depletion, are recognized in Cost of Goods Sold (COGS). This new accounting determination allows a more precise evaluation of the market value of the Company's forests, and results in improved financial information.

6. PROFIT (LOSS) BEFORE TAXES AND PROFIT SHARING

Loss before taxes and profit sharing in 4Q16 amounted to R\$ 18,347 thousand, compared to loss of R\$ 15,162 thousand in 4Q15 and of R\$ 12,439 thousand in 3Q16. Loss before taxes and profit sharing for the year totaled R\$ 35,112 thousand, representing a decrease in comparison to 2015, when profit of R\$ 962 thousand was recorded.

7. PROFIT/LOSS

The Company recorded losses of R\$ 5,055 thousand in 4Q16, of R\$ 16,844 thousand in 4Q15, and of R\$ 6,933 thousand in 3Q16. In the year to date comparison, the Company recorded losses of R\$ 10,782 thousand in 2016, against profit of R\$ 495 thousand for 2015. The main circumstances that affected the Company's results were the lower volume of sales of corrugated cardboard boxes and sheets, the increase in the cost of raw materials, particularly of corrugated cardboard trimmings and the finance results recorded for the year.

8. INVESTMENTS

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

Investments in 2016 totaled R\$ 62,796 thousand and were mainly directed to the maintenance and improvement of machinery and equipment, facilities, and reforestation.

R\$ thousand	4Q16	2016
Equipment	10,200	52,112
Intangible assets	30	3,314
Reforestation	2,030	7,370
Total	12,260	62,796

The investment to be highlighted was the implementation of the software KIWIPLAN in the Corrugated Cardboard Packaging plants.

9. SHARE CAPITAL

At December 31, 2016, IRANI's share capital was represented by 166,720,235 shares, of which 153,909,975 (92%) are common shares and 12,810,260 (8%), preferred shares. At the end of 2016, the Company held in treasury 2,376,100 shares, of which 24,000 were common shares and 2,352,100, preferred shares. At the same date, common shares were traded at R\$ 2.38 and preferred shares, at R\$ 2.74.

Dividends

The Company's management is proposing for approval of the Ordinary General Meeting the distribution of dividends referring to 2016, in the amount of R\$ 4,067 thousand, corresponding to R\$ 0.024748 per common and preferred share. These amounts will be tax-free.

10. EVENTS AFTER THE REPORTING PERIOD

In the period from February 5 to February 10, 2017 the forests of the subsidiary Habitasul Florestal S.A., located in the state of Rio Grande do Sul, were hit by forest fires possibly caused by people who trespassed on the Company's property. The fire hit 1,255 hectares of pine forest, of which 77 hectares of standing forest did not suffered major damage, and, therefore, can be resin-coated and have its timber sold, and 1,178 hectares of young forests, aged between one to eight years, which will need restoration.

The Company evaluated the possible effects of the restoration of these forests on the fair value of biological assets, and estimates a loss of approximately R\$ 5.4 million, which should be duly recognized in the financial statements for the first quarter of 2017.

The fire event should not cause any additional impacts on the production of timber and resin, since the young forests will be restored and reallocated to the production flow necessary to the Company's activities.

11. SUSTAINABILITY

IRANI adopts an integrated management model, which incorporates into its strategy the balance between economic, social and environmental development. By assuming its commitment to sustainability, the Company promotes a virtuous circle of environmental preservation and innovation, which enhances its responsibility of being an environmentally correct, socially fair and economically viable organization. The Company's actions and results are disclosed in its Sustainability Report, which is issued in the first half of each year, based on the [Global Reporting Initiative](#) (GRI) guidelines, and founded on the guidance for the preparation of integrated reports issued by the [International Integrated Reporting Council](#) (IIRC). The document is available for consultation at www.relatorioanualirani.com.br.

11.1. Awards and Recognitions

In 2016, the Company received the following awards:

- **TOP Ser Humano (Top Human Being) Award:** an initiative of the Brazilian Association of Human Resources of Rio Grande do Sul (ABRH-RS) The Company was awarded, for the first time, for the case *Escola de Resinagem* (Gumming School), developed at the RS Resins - Balneário Pinhal.
- **Época Negócios 360º:** the Company ranked third among the five best pulp and paper companies in Brazil. It was ranked second in "Innovation Capacity", third in "RH Practices" and "Vision of the Future", and fifth in the "Corporate Governance", "Financial Performance", and "Social and Environmental Responsibility" categories. The Company also ranked in the 71th place among the 300 best companies.
- **Abrasca Award:** the Company was placed 12th in the ranking of the 18th Abrasca (Brazilian Association of Listed Companies) Award for Annual Reports.
- **Best Companies - magazine Isto É Dinheiro:** IRANI was placed third among the companies in the Pulp and Paper industry; second, according to criteria of Social Responsibility, Innovation & Quality and Corporate Governance; third in Human Resources, and fifth in Financial Sustainability.

- **GPTW (Great Place To Work®):** according to survey conducted through the GPTW methodology, 2016/Minas Gerais.
- **Biggest and Best Companies recognized by EXAME magazine:** the survey places IRANI in the 708th position among the 1000 biggest companies in Brazil. In the Pulp and Paper sector, the Company was ranked fourth in profitability/return on investment, sixth in net sales growth/increase, and tenth in the overall score. It was also placed in the 171th position in net sales among the 400 biggest companies in the Agribusiness industry.

11.2. Environmental Performance Management

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

The certifications obtained demonstrate the effectiveness of the Company's environmental system, since its plants are certified by ISO 9001, ISO 14064 and FSC®. The Packaging plants have also been granted the ISO 14001 certification, with the migration to the version ISO 14001:2015 at Indaiatuba Packaging plant, which reflects the Company's commitment to environmental issues and sustainability-oriented practices, as well as enhances IRANI's credibility with its stakeholders.

The FSC Chain of Custody Certification works as a product origin certificate, by showing that the raw material used by the Company is handled, extracted and processed in an eco-friendly, socially fair, and economically viable manner. The Forest Stewardship Certification and the Chain of Custody Certification provide the Company's products with the FSC seal. Certifications have become a voluntary and independent market tool, through which the companies assure that the consumers receive reliable information about the origin of the raw materials used in their products.

Additionally, the companies adopt a number of measures aimed at minimizing environmental impacts arising from their activities. IRANI has implemented an innovative project for recovery of plastic (waste arising from recycling of paper trimmings), obtaining a new by-product called "mixed plastic trimmings", a raw material which is used by the plastic industry to manufacture recycled plastic fence poles, roof tiles and sheets, thus creating a new production chain with the environmental advantage of avoiding the disposal of plastic waste in landfills.

12. SOCIAL PERFORMANCE INDICATORS

12.1. People Development

At the end of 2016, IRANI had 2,472 employees. The Company seeks to achieve excellence through participatory management and investments in programs, actions and benefits that allow the personal and professional development of its employees in a pleasant work environment. During 2016, the Company invested R\$ 27,924 thousand in benefits related to meal, transportation, life insurance and health care plan benefits, R\$ 1,634 thousand in qualification and personal development actions, and R\$ 4,281 thousand in the profit sharing program (PPR).

The Company has five structuring programs in place, which are aligned with its Mission, Vision and Corporate Values and focus on providing the necessary conditions for the employees to achieve their maximum potential, enabling their personal and professional development. These programs are called "GERA", "CRESCE", "CUIDA", "MOTIVA" and "SUPERA".

The GERA Program seeks to enable a healthy renewal of the teams and ensure mutual success in the partnership between the employee and the Company. The CRESCE Program consists of qualification and development actions, through technical and behavioral training courses in line with the Company's strategies. The CUIDA Program consists of a set of practical and applicable procedures under an integrated health and safety management model, whose purpose is to reduce workplace accidents, increase compliance with the legislation and expand the employees' awareness of health and safety subjects. The MOTIVA Program is the name given by IRANI to its Organizational Climate Management Program. Through the SUPERA Program, the Company annually assesses individual performance, based on Competences and Results, seeking to provide challenges for employees and recognize their development, as well as to stimulate a result-oriented culture and self-development.

12.2. Society

IRANI stimulates the development of its surrounding communities through investments and participation in social entities that operate in these locations. Following the guidance of its Social Responsibility Policy, the Company seeks to establish solid partnerships for the development of projects in the areas of citizenship, socio-environmental education, culture and sports. The main social projects supported by the Company in 2016 were as follows:

- Partnership with Junior Achievement in the states of Santa Catarina, São Paulo, Rio Grande do Sul and Minas Gerais;
- *SESI Atleta do Futuro* (Athlete of the Future) Program, in partnership with SESI and the municipal governments of Indaiatuba (SP) and Santa Luzia (MG);

- Volleyball training center for beginners, in partnership with the Volleyball Association of Joaçaba (AJOV), in the towns of Joaçaba, Vargem Bonita, and Campina da Alegria (SC);
- *Broto do Galho* Project, initiated in 2008, to provide a productive activity and extra income for residents of the town of Campina da Alegria, who make handcrafted goods from industrial pulp and paper waste;
- *Aluno Destaque* (Student of the Year) Project, created in 2013 to recognize the five best students in the Galeazzo Paganelli Public School, in the town of Campina da Alegria (SC), encouraging them to continue to achieve an excellent performance in school, with educational follow-up during out-of-school hours;
- Projects encouraged by the Cultural Action Program (PROAC) at the plants located in São Paulo.

13. AUDIT SERVICES

During 2016, PricewaterhouseCoopers provided, in addition to the audit service and review of the translation into English of the financial statements, complementary audit services, as follows:

	In thousands of R\$	%
Audit of the 2016 Financial Statements - Cellulose Irani S.A. and subsidiaries	602	37%
Other services*:		
Due Diligence Services	331	20%
Issue of comfort letter for the Public Share Offering.	682	42%
Review of controls related to <i>e-social</i> (electronic system for digital bookkeeping of tax, social security and labor obligations).	21	1%
Total	1,636	100%

*All the services contracted relate to 2016 and there are no services to be provided in relation to future years.

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

14. PROSPECTS

A gradual recovery is expected for the Brazilian economy in 2017. The economic reforms that are being conducted by the federal government will be essential for the consolidation of a new business environment, with positive effects for the society as a whole. The successful implementation of the tax, social security and labor reforms projected, coupled with microeconomic improvements, may characterize 2017 as the beginning of a new cycle for the country and for business. Instabilities from the external scenario should also be monitored and managed.

ACKNOWLEDGMENTS

We thank each one of our employees for their effort during this period, our stockholders and creditors for the trust they placed in us, and our customers, suppliers, financial institutions and surrounding communities for their support and partnership, which were crucial for the growth and development of Celulose Irani S.A. during 2016.

Porto Alegre, February 2017.

The Management.



(A free translation of the original in Portuguese)

To the. Stockholders of
CELULOSE IRANI S.A.

Capital Budget Proposal

In accordance with the provisions of Article 196 of Law 6,404/76, with the wording provided by Law 10,303, of October 31, 2001, the Management of Celulose Irani S.A. ("Company") hereby submits the Company's Capital Budget proposal.

The proposal for allocation of the profit attributed to the Company stockholders for the year ended December 31, 2016, disclosed in the financial statements, foresees that, after the adjustments referred to in Articles 193 and 202 of Law 6,404/76, profits of **R\$ 12,202** thousand will be retained and allocated to the Profit Retention Reserve, intended to support the Company's Investment Plan.

The Capital Budget for 2017, approved at the Board of Directors' meeting held on December 14, 2016, totals **R\$ 51,865** thousand, in addition to R\$ 11,245 thousand for working capital needs, distributed as follows:

2017 Capital Budget

R\$ thousand	Current	Strategic	Total
Packaging Segment (PO)	-	1,452	1,452
Packaging Paper Segment	-	266	266
Head Office	-	147	147
Current investment budget	50,000	-	50,000
Total investments for 2017	50,000	1,865	51,865
Working capital needs	11,245		11,245

Own resources (provided by the operating activity during the year) will be used in these investments.

Summary of sources and uses

R\$ thousand	Current	%	Strategic	%	Total	%
Financed resources	-	-	-	-	-	-
Own resources	50,000	100%	1,865	100%	51,865	100%
Total	50,000	100%	1,865	100%	51,865	100%

Having presented this proposal, Management remains at your disposal for any further clarification.

Porto Alegre, February 24, 2017.
The Management.



(A free translation of the original in Portuguese)

EXECUTIVE OFFICERS' STATEMENT

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

As Executive Officers of Celulose Irani S.A., a corporation headquartered at Rua General João Manoel, 157, 9th floor, room 903, in the city of Porto Alegre, state of Rio Grande do Sul, enrolled in the National Corporate Taxpayers Registry (CNPJ/MF) under No.92.791.243/0001-03, **WE DECLARE**, in compliance with the provisions established in paragraph 1, Article 25 of CVM Instruction 480, of December 7, 2009, that: (i) we reviewed, discussed and agreed with the opinion expressed in the independent auditor's report of the Company referring to the financial statements for the year ended December 31, 2016; and (ii) we reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2016.

Porto Alegre, February 24, 2017.

Pericles Pereira Druck - CEO

Odivan Carlos Cargnin - Administration, Finance and Investors Relations Officer

Sérgio Luiz Cotrim Ribas - Paper and Packaging Business Officer