



Dear Stockholders,

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

Message to the Stockholders

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

2018 Highlights

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

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

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

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

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



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

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

Key financial and economic indicators

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

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.

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



- Selling expenses in 2018 (including impairment losses on trade receivables) totaled R\$ 87.4 million, remaining stable in relation to 2017 and accounting for 9.4% of consolidated net revenue, below the 10.2% reached in 2017. Administrative expenses totaled R\$ 58.3 million in 2018, slightly lower than in 2017 (R\$ 58.7 million), accounting for 6.3% of consolidated net revenue, lower when compared to 2017 (6.8%). Selling and administrative expenses remained stable in relation to 2017 due to the cost reduction programs implemented.
- In 4Q18, the result was negative by R\$ 19.0 million, while the loss recorded for 4Q17 was R\$ 98.4, and R\$ 22.0 million for 3Q18. In the annual comparison, the Company recorded profit of R\$ 3.0 million in 2018, compared to a loss of R\$ 108.2 thousand in 2017. The result of 2018 was impacted by the revenue increase in the comparison with 2017 and the better performance in costs and expenses. This result was also better in the comparison with 2017, where there was the additional recognition of tax provisions, losses on the collection of non-recurring receivables and the failure to recognize deferred tax assets on income tax losses for the year.
- In 4Q18, adjusted EBITDA amounted to R\$ 43.3 million, with a 18.0% margin. In 2018, adjusted EBITDA totaled R\$ 178.3 million, an increase of 15.4% when compared to 2017, with a 19.1% margin, that is, 1.1 percentage points above that for 2017. The EBITDA for 2018 was negatively impacted by R\$ 5.6 million due to the truck drivers' strike in May. The EBITDA for 2018 reflects the return of cash generation to normal levels after the recession period. In the year 2018, the Company did not make additional sales of wood or forest, as occurred in the years 2016 and 2017.
- The Net Debt/EBITDA ratio was 3.88 times in December 2018, against 4.4 times at the end of 2017. This change was mainly due to the increase in EBITDA for 2018. Excluding from the net debt the exchange-rate change recorded as hedge accounting, the net debt/EBITDA ratio would be 2.96x.
- The cash position at the end of 2018 was R\$ 132.2 million, with 65% of the debts maturing in the long term.

BUSINESS OVERVIEW

The businesses of Celulose Irani S.A. comprise three segments and are organized in accordance with the markets in which the Company operates. The segments are independent in their operations, but



are integrated in a balanced way, seeking to optimize the use of planted pine forests, through multiple uses, paper recycling and vertical integration of the businesses.

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

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

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

Subsidiaries

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

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



1. OPERATING PERFORMANCE

1.1. Corrugated Cardboard Packaging Segment (PO)

Contribution in income 2018

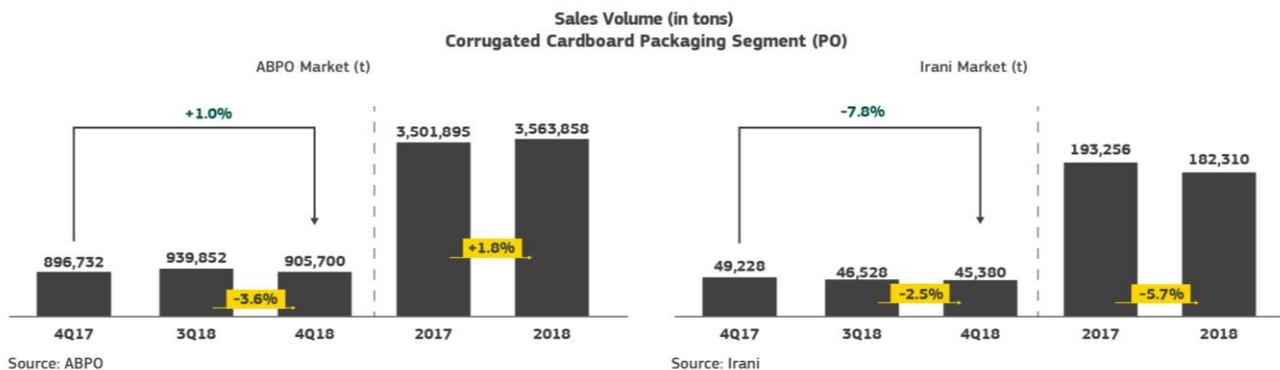


As shown in the charts below, the sales volume in metric tons of corrugated cardboard packaging in the ABPO Market increased by 1.0% in 4Q18 in comparison with 4Q17, and decreased by 7.8% in IRANI Market, totaling 45,380 metric tons. In the comparison with 3Q18, the ABPO Market presented a decrease of 3.6%, while the IRANI Market decreased by 2.5%. In 2018, the ABPO market increased by 1.8% and the IRANI market decreased by 5.7% in relation to 2017. The reduction in the sales volume in tons was caused by the end of a production shift in the SP Vila Maria Packaging unit occurred in the second semester of 2018.

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

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

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

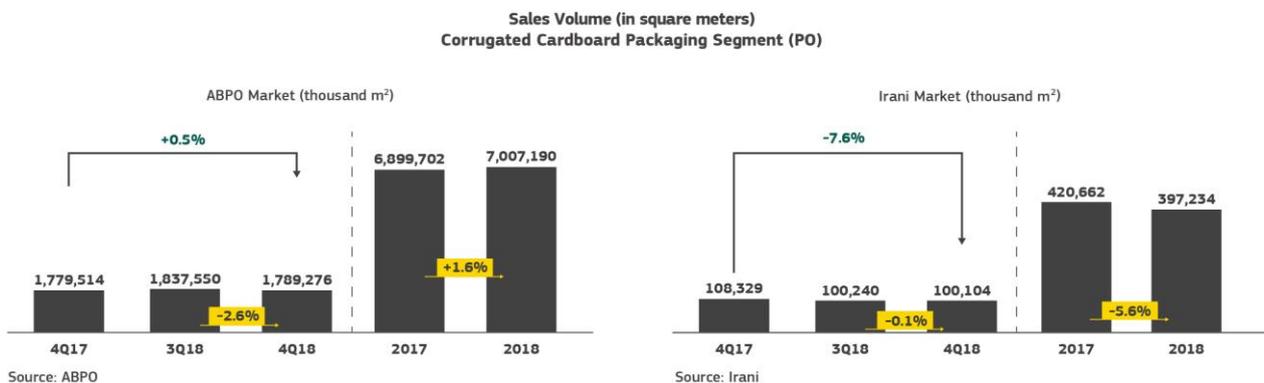




The volume of corrugated cardboard packaging sales in square meters (m²) remained stable in 4Q18 in the ABPO market compared to 4Q17, and decreased by 2.6% compared to 3Q18. In the comparison between 2018 and 2017, this volume increased by 1.6%. In the comparison between 4Q18 and 4Q17, the IRANI Market decreased by 7.6%. In relation to 3Q18, the IRANI Market remained stable. In 2018 Irani recorded a decrease of 5.6% compared to 2017. Thus, the reduction in the sales volume in square meters was caused by the end of a production shift in the SP Vila Maria plant occurred in the second semester of 2018.

IRANI's market share in square meters reached 5.6% in 4Q18, a decrease in relation to the 6.1% recorded for 4Q17, and an increase when compared to the 5.4% recorded for 3Q18. The sales volume in 2018 totaled 397,234 thousand m², with a market share of 5.7% in the year.

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

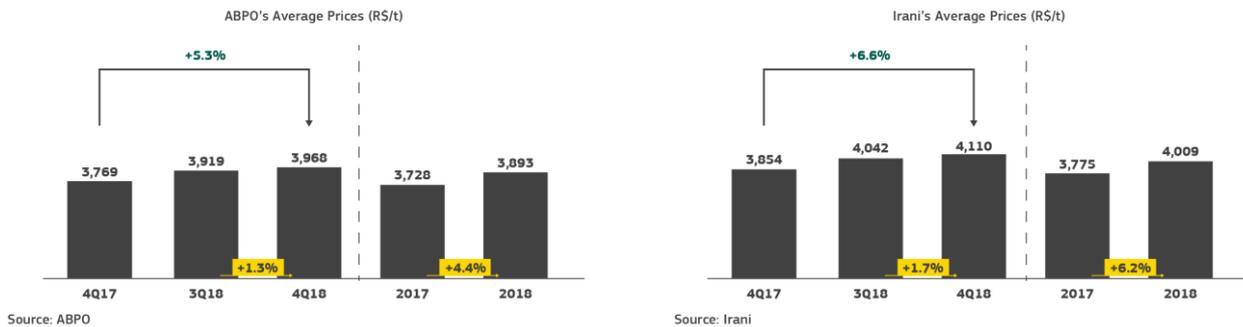


The production in the Indaiatuba SP Packaging Plant totaled 53,698 metric tons of boxes and 22,040 metric tons of sheets in 2017 (against 53,600 metric tons of boxes and 22,213 metric tons of sheets in 2017). The production in the Campina da Alegria SC Packaging Plant totaled 46,853 metric tons of boxes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

The average ABPO price per metric ton in 4Q18 was 5.3% higher than that of 4Q17, while the average IRANI (CIF) price recorded an increase of 6.6% in 4Q18. In the comparison with 3Q18, the ABPO



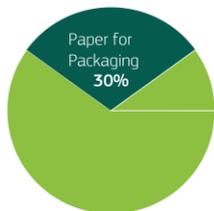
recorded an increase of 1.3%, while the IRANI market recorded an increase of 1.7%. During the year, prices in the ABPO market was 4.4% higher, while the IRANI market recorded an increase of 6.2%. The best price performance of the Irani Market is due to the strategy of improving the portfolios implemented as a result of the closing of a production shift in the SP Vila Maria plant.



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

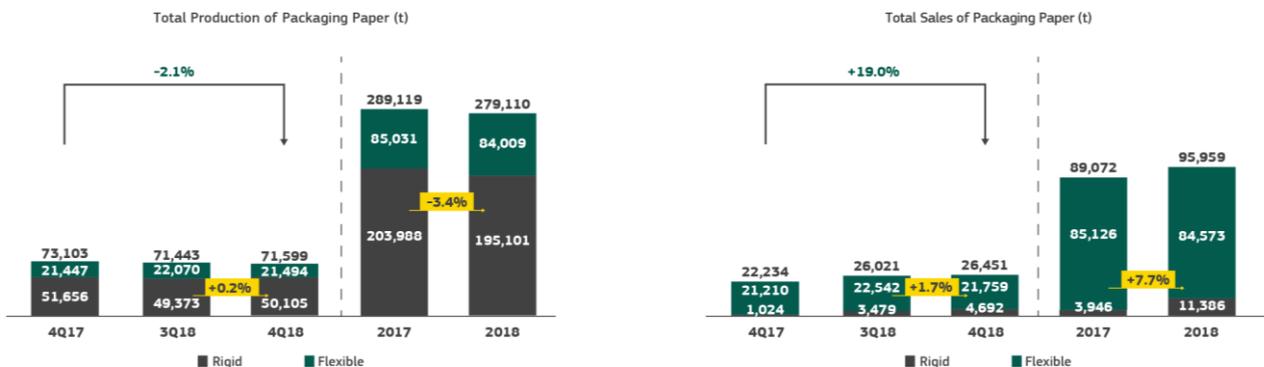
1.2 Packaging Paper Segment

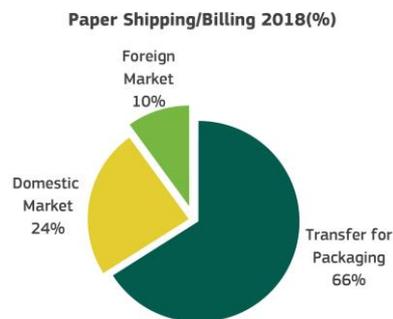
Contribution in income 2018



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

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





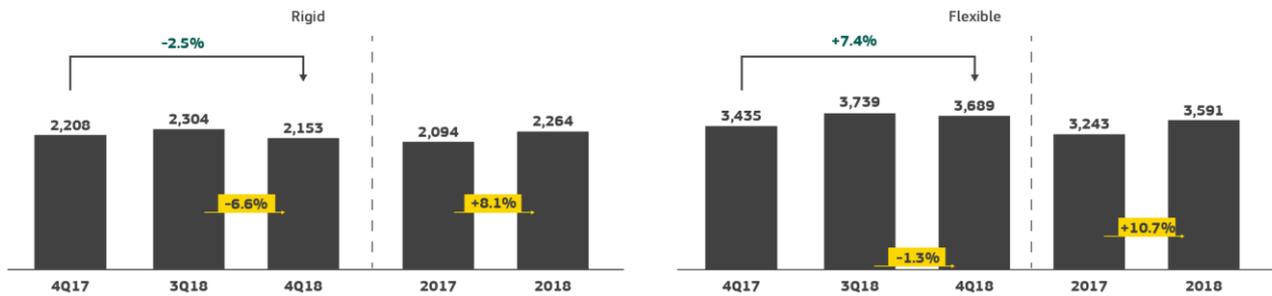
In 4Q18, internal transfers of hard packaging paper (PO segment) totaled 43,482 metric tons (48,942 metric tons in 4Q17 and 46,657 metric tons in 3Q18), allocated as follows: 17,378 metric tons to the SP Indaiatuba Packaging plant (17,857 metric tons in 4Q17 and 18,456 metric tons in 3Q18); 11,021 metric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

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

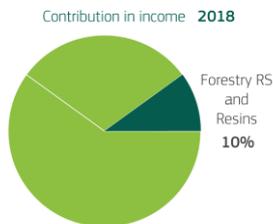
The hard packaging paper segment, whose sales volume is not significant (accounting for only 4,692 metric tons in 4Q18, as shown in the chart above) recorded a decrease in price of 2.5% and 6.6% when compared to the prices practiced in 4Q17 and 3Q18, respectively. In 2018, in the comparison with 2017,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



Average prices of Packaging Paper (R\$/t)

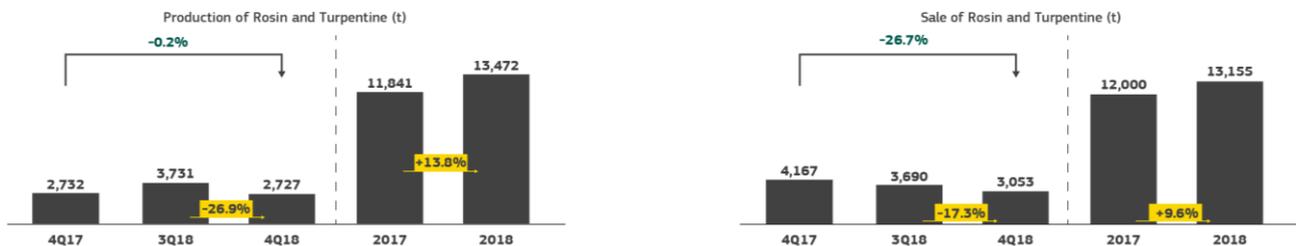


1.3 RS Forest and Resins Segment

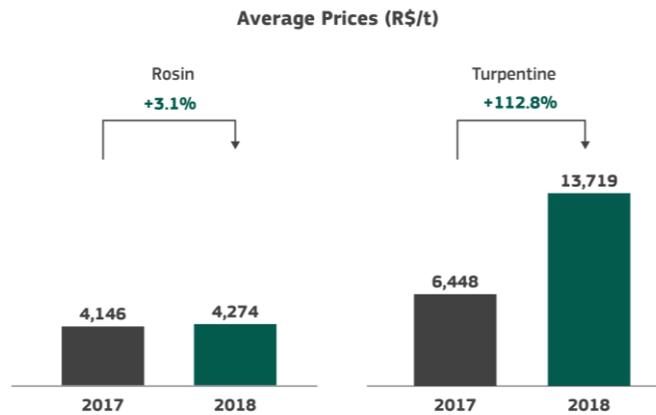


In 2018, the Forest segment of Rio Grande do Sul, through its subsidiary Habitasul Florestal S.A., produced and sold 110 thousand cubic meters of pine logs to the domestic market (96 thousand cubic meters in 2017) and supplied 3,391 metric tons of natural resins to the parent company Celulose Irani S.A.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

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



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



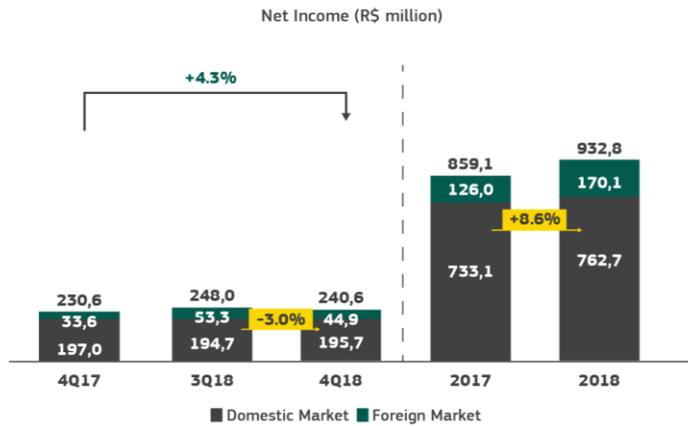
2. ECONOMIC AND FINANCIAL PERFORMANCE

2.1 Net Operating Revenue

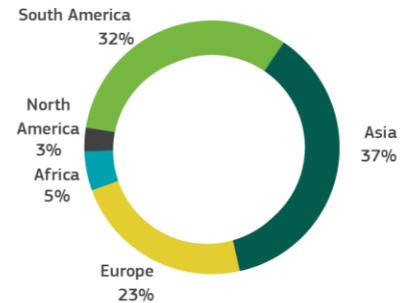
Net operating revenue for 4Q18 totaled R\$ 240,606 thousand, an increase of 4.3% in relation to 4Q17, and a decrease of 3.0% in relation to 3Q18. In the year to date, net operating revenue totaled R\$ 932,817 thousand, recording an increase of 8.6% in the comparison with the same period of previous year.

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

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

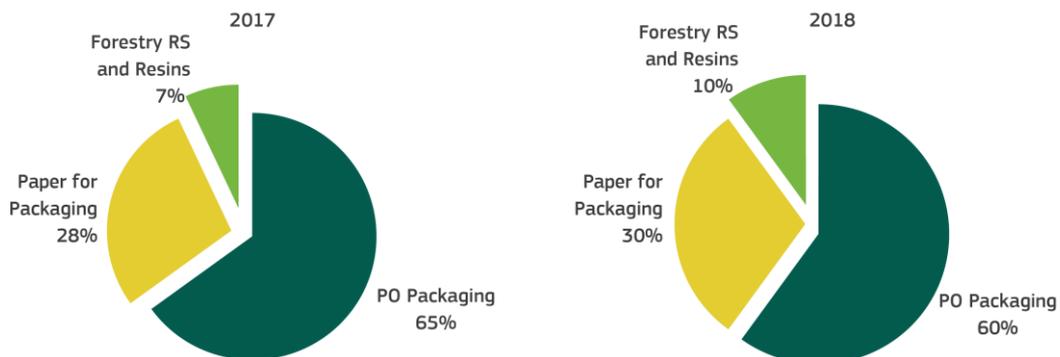


Net income - Foreign market per region 2018



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

Net income by segment



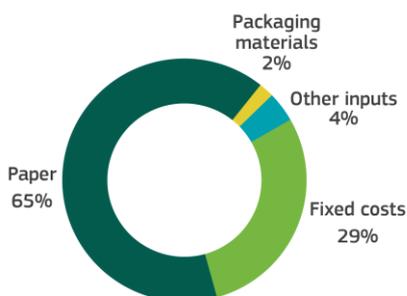
2.2 Cost of Sales

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

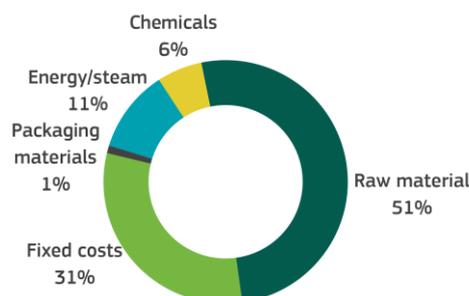
The analysis of cost by business segment in 2018 is shown below:



Corrugated Cardboard Packaging



Paper for Packaging*



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

2.3 Operating Income and Expenses

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

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

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

3. CASH PROVIDED BY OPERATING ACTIVITIES (ADJUSTED EBITDA)

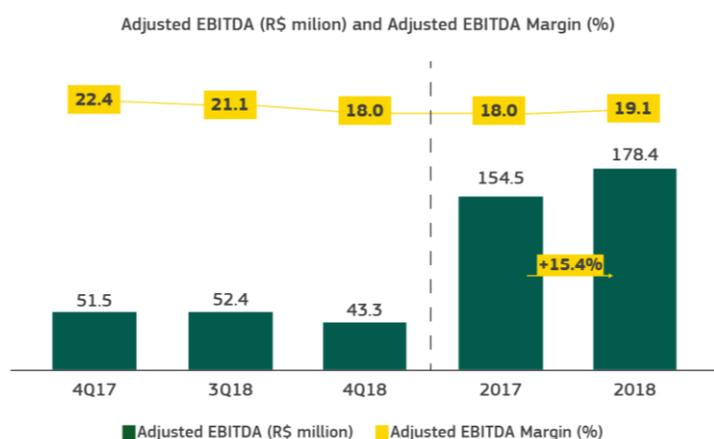
Consolidated (R\$ thousand)	4Q18	3Q18	4Q17	Var. 4Q18/3Q18	Var. 4Q18/4Q17	2018	2017	Var. 2018/2017
Operating Result before taxes and profit sharing	(18,424)	24,476	(82,727)	-175.3%	-77.7%	(15,623)	(100,571)	-
Depletion	4,981	2,215	35,415	124.9%	-85.9%	16,587	41,761	-60.3%
Depreciation and amortization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

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

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



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



4. FINANCE RESULT AND INDEBTEDNESS

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

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



Finance result is broken down as follows:

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

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

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

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

Finance result net of foreign exchange variation was as follows:

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

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



Foreign exchange rate

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

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

Source: Brazilian Central Bank

Indebtedness

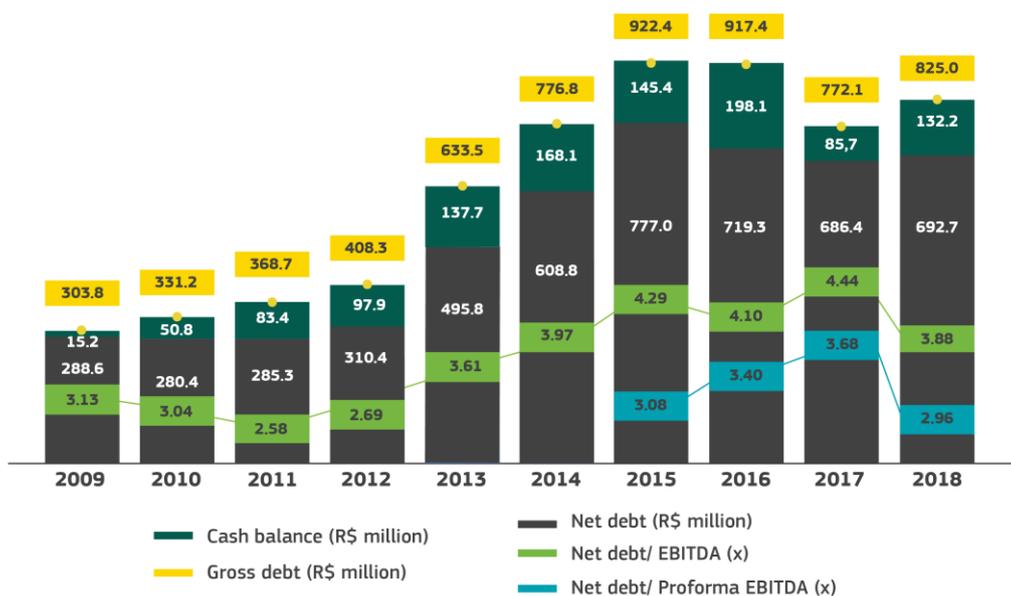
At December 31, 2018, consolidated gross indebtedness totaled R\$ 825.0 million, compared to R\$ 772.1 million at December 31, 2017. The change in this indicator was influenced by the new borrowings obtained and settlements made during the year, in addition to the impact of the US dollar on debts in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

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

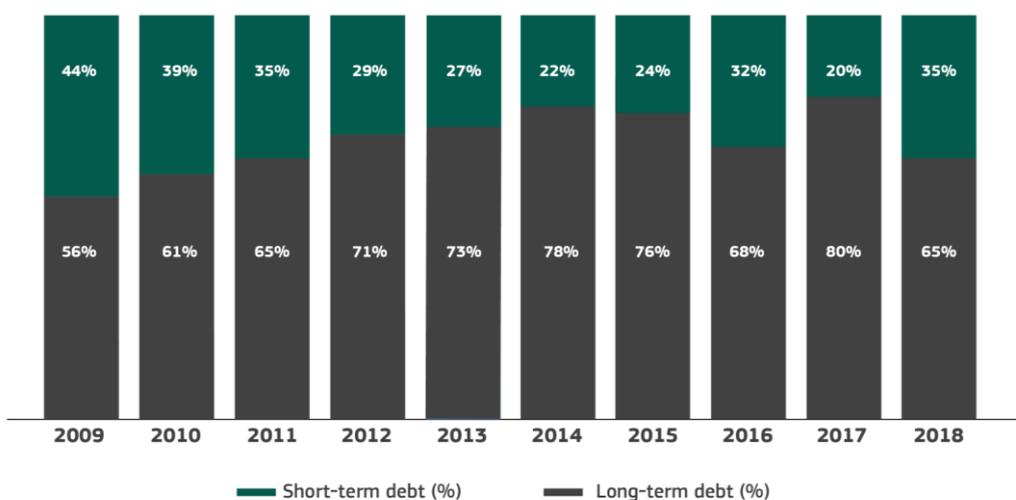
Consequently, consolidated net indebtedness at December 31, 2018 totaled R\$ 692.7 million, compared to R\$ 686.4 million at December 31, 2017. As a result, the net debt/EBITDA ratio changed from 4.44 times at the end of 2017 to 3.88 times at the end of 2018. Excluding from the net debt the exchange-rate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



Indebtedness and Net Debt/EBITDA



Profile of gross indebtedness



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

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



Changes in the fair value of biological assets

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

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

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

6. PROFIT (LOSS) BEFORE TAXES AND PROFIT SHARING

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

7. PROFIT/LOSS

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

8. INVESTMENTS

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



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

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

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

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

9. SHARE CAPITAL

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

10. SUSTAINABILITY

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



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

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

10.1 Awards and Recognitions

In 2018, the Company received the following awards:

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



- **14th AMCHAM RIO Brasil Environmental Award:** recognition of the American Chamber of Commerce of Rio de Janeiro to organizations with best practices in sustainability. Irani won this award in the solid waste category for the case “Production of coal briquettes from industrial waste.”
- **Certificate of Recognition of the City Council of Joaçaba/SC.**
- **Honorable Mention of the City Council of Vargem Bonita/SC.**

10.2 Environmental Performance Management

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

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

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

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

The FSC Chain of Custody Certification works as a product origin certificate. It shows that the raw material used by the Company is handled, extracted and processed in an eco-friendly, socially fair,



and economically viable manner. It has Forest Management Certification and Chain of Custody Certification, which enables the manufacturing of products with the FSC® seal. Certification has been a voluntary and independent market instrument for companies to provide consumers with reliable information on the source of the raw materials used in their products.

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

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

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

11 SOCIAL PERFORMANCE INDICATORS

11.1 People Development

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



development actions, R\$ 5,654 thousand in the profit sharing program (PPR), and R\$ 6,886 thousand in the SUPERA program.

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

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

12.2. Society

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



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

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

12 AUDIT SERVICES

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

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



13 PROSPECTS

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

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

ACKNOWLEDGMENTS

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

Porto Alegre, March 2019.

The Executive Office.