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

NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2019.

(Amounts expressed in thousands of reais, unless otherwise indicated).

1. OPERATIONS

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

On June 30, 2019, the Company has negative net working capital in the amount of R$ 187,603 (current assets of R$ 315,098 and consolidated current liabilities of R$ 502,701), related mainly to short-term loans and financing. Management assessed the Company's settlement capacity of its short-term obligations and concluded as adequate on the capacity of going concern. The main aspects reviewed by the management team in this evaluation were: the already improved and expected improvement in cash generation for the next 12 months; the issuance of debentures in June of 2019 for settlement of certain current debt and improvement of cash according to note 33; the existing alternatives to assets sale, and also the existence of a natural hedge for its foreign currency obligations (according to the description in note 28).

Direct subsidiaries are related in Note 4.

Its direct parent company is Irani Participações S.A., a privately-held Brazilian corporation. Its ultimate parent company is D.P Representações e Participações Ltda., both companies belonging to the Habitasul Group.

The issuance of the Company's financial statements was authorized by the administrative board on August 05, 2019.

2. PRESENTATION OF FINANCIAL STATEMENTS

The interim financial statements included in the Quarterly Information Form - ITR, are prepared in accordance with Technical Pronouncement CPC 21 (R1) - Interim Financial Reporting and with IAS 34 - Interim Financial Reporting, issued by International Accounting Standards Board (IASB), and presented in accordance with the rules issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information - ITR, and highlight all relevant information concerning the financial statements, and only them, which are in compliance with those used by the Management in its management.

The interim financial statements were prepared based on the historical cost, except for biological assets measured at its fair values and hedge instruments measured at fair value.

3. MAIN ACCOUNTING PRACTICES

a) Functional currency and translation of foreign currencies

The individual and consolidated financial statements are being presented in Brazilian Real, functional and presentation 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 translation of balances in foreign currency into the functional currency are recognized in the statement of income, except when classified as cash flow hedge accounting and, therefore, deferred in shareholders' equity as cash flow hedge operations.

b) Cash and cash equivalents

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

c) Financial assets

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

c.1) Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is impaired. Interest revenue, foreign exchange gains and
impairment losses are directly recognized in the statement of operations. Any gain or loss on derecognition is recognized in income (loss).

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

These assets are subsequently measured at fair value. Net income, plus interest, is directly recognized in income (loss).

c.3) Impairment of financial assets.

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

d) Derecognition

The Company derecognizes a financial asset when contract rights to assets' cash flows expire, or when the Company transfers the contract right of receiving a financial asset to contract cash flows, in a transaction in which substantially all risks and benefits of owning the financial asset are transferred or in which the Company neither substantially transfers nor maintains all risks and benefits of owning the financial asset and neither retains control over the financial asset.

e) Offset

Financial assets or liabilities are offset, and the net value reported in the balance sheet only when the Company currently has legally enforceable right to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

f) Financial instruments

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

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

The Company carries out an evaluation of the purpose of the business in which a financial asset is held in the portfolio, since this better reflects the way in which the business is managed, and the information is provided to management. The information considered is comprised by: the policies and goals established for the portfolio and practical operation of these policies. They include the question of whether management's strategy focuses on obtaining contractual interest revenue, maintaining a certain interest rate profile, matching the duration of financial assets with the duration of related liabilities or expected cash outflows, or the realization of cash flows through the sale of assets; how the performance of

the portfolio is evaluated and reported to the management of the Company; - risks that affect the performance of the business model (and the financial assets held in that business model) and the manner in which those risks are managed; the sales rate, volume and timing of sales of financial assets in prior periods, the reasons for such sales and future sales expectations.

g) Evaluation whether the contractual cash flows represent solely payments of principal and interest

For this evaluation purposes, “principal” is defined as the fair value of the financial asset at initial recognition. “Interest” is defined as a consideration for cash at the time and for the credit risk associated to the outstanding principal value during a certain period and for other risks and base costs of loans (for example, liquidity risk and administrative costs), as well as for the profit margin.

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

The prepayment is consistent with the principal and interest payment criterion if the prepayment amount mostly represents the unpaid principal and interest amounts on the outstanding principal amount - which may include an additional reasonable compensation due to the early termination of the contract.

h) Inventories

They are stated at the lower amount between the average cost of production or acquisition, 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.

i) Investments

Investments in subsidiaries are valued in individual financial statements under the equity method.

According to the equity method, investments in subsidiaries are adjusted with the purposes of recognizing the Company’s participation in the profit or loss and the subsidiary’s other comprehensive income.

Unrealized transactions, balances and gains in transactions among companies are eliminated. Unrealized losses are also eliminated, unless the transaction shall

provide impairment evidence of the asset transferred. The accounting policies of the subsidiaries are changed when required to assure the consistency with the policies adopted by the Company.

j) Investment property

Investment properties are measured at cost.
Depreciation is recognized to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are annually reviewed, with the effect of any changes in estimate accounted for on a prospective basis.

Revenues from rented investment properties is recognized in the statement of profit and loss on the accrual basis.
Any gain or loss from the sale or write-off of an item recorded within investment properties is determined as the difference between the amounts received and the book value of the asset sold and recognized in the income (loss).

k) Property, plant and equipment and intangible assets

Property, plant and equipment are stated at deemed cost less accumulated depreciation and impairment losses, where applicable. In the case of qualifying assets, loan costs are capitalized as part of the costs of construction in progress. This property, plant and equipment in progress is classified in proper categories of property, plant and equipment when concluded and ready for intended use. Depreciation of these assets starts when they are ready for use and is calculated on the same basis as for other fixed assets.

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 evaluation of the estimated useful life of assets is reviewed annually and adjusted if necessary and may vary based on the stage of technological development of each unit.

The Company's intangible assets comprise goodwill, software licenses, brand and client portfolio.

Goodwill is represented by the positive difference between the amount paid and/or payable for the acquisition of a business and the investee's net fair value of assets and liabilities of subsidiary acquired. Goodwill arising from 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 income (loss) for the period, at the acquisition date. Goodwill is tested for impairment annually and carried at cost less accumulated impairment losses. Impairment losses recognized on goodwill are not reversed. Gain and losses for the sale of an entity include the book value of the goodwill related to the sold entity.

The goodwill is allocated to the Cash Generating Units for impairment testing. The allocation is made to the Cash Generating Units that are expected to benefit from the business combinations in which the goodwill arose.

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

Separately acquired trademarks and licenses are initially stated at historical cost. Trademarks and licenses acquired within a business combination are recognized at fair value on the acquisition date. The Company's trademarks do not have a defined useful life and, therefore, are not amortized.

The client portfolio acquired in a business combination is recognized at fair value at the acquisition date and is accounted for at fair value less accumulated amortization. Amortization is calculated using the straight-line method over the expected useful life of the client relationship.

l) Biological assets

The Company's biological assets are mainly represented by planted pine forests that are used to produce packaging paper, boxes and plates of corrugated cardboard, and for trading with 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 in the state of Rio Grande do Sul, where they are used to produce gum resin and sale of timber logs.

The biological assets are valued at fair value less sales expenses. The change during each period is recognized in the statement of income as a change in the fair value of biological assets. The evaluation of fair value of biological assets is based on certain assumptions, as explained on Note 14.

m) Evaluation of recoverable value of non-financial assets (impairment)

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

n) (Current and deferred) income tax and social contribution

A provision is recorded for current income tax and social contribution based on the taxable income determined according to the prevailing tax legislation, which differs from the profit reported in the statement of income, since it excludes revenues 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 prevailing

rates in the period. The Company calculates its taxes by applying the statutory rate of 34% on its taxable income, while the subsidiaries Habitasul Florestal S.A. and Iraflor - Comércio de Madeiras Ltda. adopt a presumed rate of 3.08%.

On temporary differences for tax purposes, tax losses, adjustments of deemed cost and changes in the fair value of biological assets are recorded deferred income tax and social contribution. Deferred tax liabilities are usually 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 present future taxable income in sufficient amount to use these deductible temporary differences. Deferred income tax and social contribution are recorded for subsidiaries that adopt the deemed income tax regime for the fair value of biological assets and the deemed cost for fixed assets.

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

o) Loans, financing

Loans are stated at their original amounts, less the related transaction costs, where applicable, and adjusted based on indices established in the contracts entered 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.

p) Cash flow hedge (Hedge Accounting)

The Company documents, early in the transaction, the relationship between the hedge instruments and the hedge-protected items, as well as the risk management objectives and the strategy for conducting hedge 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.

Changes in hedge amounts classified in “Equity valuation adjustments” in shareholders’ equity are stated in Note 20.

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

Amounts accumulated in shareholders’ equity are realized in the statement of income in the periods when the item protected by a hedge transaction affects the income (for instance, when the estimated sale which is hedged, occurs). The gain or loss relating to the effective portion of instruments hedging highly probable

transactions is recognized in the statement of income within "Financial expenses". The gain or loss relating to the ineffective portion is recognized in the statement of profit and loss for the period.

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

q) Lease

IFRS 16 introduced a single model of lease accounting in the balance sheet for lessees. A lessee recognizes an asset of right of use that represents its right to use the leased asset and a lease liability that represents its obligatic lease payments. Optional exemptions are available for short-term leases and low-value items. The lessor's accounting remained similar to the current standard, that is, lessors continued to classify leases as financial or operating leases. IFRS 16 replaced the current lease standards, including CPC 06 (IAS 17) Commercial Lease Operations and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Complementary Aspects of Commercial Lease Operations.

The company chose to adopt the changed retrospective approach initially on January 1st, 2019, without updating comparative information, as well as applied this rule to all previously signed agreements that were identified as leases according to CPC 06 (R1)/ IAS 17 and ICPC 03/ IFRIC 4. This approach has no impact on accumulated profits (shareholder's equity) at the data of initial adoption, once the total present value amount of right to use assets is equal to the total present value amount of lease liabilities.

q.1) Definition of Lease

Previously, the company used to determine if, at the beginning of a contract, it contained a lease under the ICPC 03/ IFRIC 4 – Complementary aspects of lease operations. The company now evaluates if a contract contains a leased based on the latest definition of a lease. According to CPC 06 (R2)/ IFRS 16, a contract is or contains a lease if it transfers the rights to control the use of an identified asset for a period in return for a consideration.

During the transition leading up to CPC 06 (R2)/ IFRS 16, the company chose to apply the practical expedient of maintaining the evaluation of which transactions are leases. The company applied CPC 06 (R2)/ IFRS 16 only to contracts that were not previously identified as leases. The contracts that were not identified as leases according to CPC 06 (R1)/ IAS 17 and ICPC 03/ IFRIC 4 were not reevaluated. Furthermore, the company also applied the new definition of leases according to CPC 06 (R2)/ IFRS 16 to contracts signed January 1st 2019 or later. At the start of a contract that contains a component of a lease or during its reevaluation, the company allocates the consideration of the contract to each component of the lease, and does not allocate the contract´s consideration of the basis of its individual prices. Nevertheless, for real estate leases in which the company is a

tenant, the company chose not to separate the components that are not part of the lease, and will consider all items as an only component of the lease.

q.2) As a tenant

The company leases real estate, production equipment and IT equipment. As a tenant, the company previously classified operational or financial leases based on its own evaluation if the leases substantially transferred all risks and property benefits. According to CPC 06 (R2)/ IFRS 16, the company recognizes all right to use assets and lease liabilities for most of its leases, which means these leases are accounted for in the balance sheet.

Nevertheless, the company chose not to recognize right to use assets and lease liabilities for some leases of low value assets (such as IT equipment). The company recognizes the payments related to these leases as expenses using the linear method over the course of the lease.

The company presents right to use assets that do not meet the definition of investment property as PPE, in the same line as it presents assets of the same nature that are its property. The right to use assets that meet the definition of investment property are presented in the line of investment property.

i) Transition

Previously, the company classified real estate leases as operational leases according to CPC 06 (R1)/ IAS 17. Some leases include a renewal option after the non-cancellation period. Some leases are adjusted based on inflationary data, such as the IGP – M or IPCA. During the transition, for leases classified as operational leases according to CPC 06 (R1)/ IAS 17, the company calculated the lease liabilities based on the present value of all remaining payments, discounted by the incremental loan rate of the company on January 1st, 2019. The company calculated the right to use assets based on the equivalent value to the lease liability, adjusted by the value of any advance payments or the accumulated lease.

The administration recognized the right to use assets and lease liabilities as they are demonstrated at the accompanying note number 31.

q.3) As a landlord

The company leases its properties for investment according to the accompanying note number 12. The company continues to classify these leases as operational leases, thus not having any impact in its quarterly numbers.

r) Provisions

A provision is recognized in the balance sheet when the Company has a present obligation (legal or constructive) because 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 enough 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.

s) 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 between the Company and the employees' representatives, which are reviewed on an annual basis.

t) Significant judgments, estimations and assumptions

In the preparation of the financial statements, accounting judgments, estimations and assumptions to record certain assets and liabilities and other transactions and in the record of revenues and expenses for the periods.

The accounting judgments, estimations and assumptions adopted by Management were based on the best information available on the date of financial statements, involving the experience with past events, projections about future events, in addition to the assistance of experts, where applicable.

Therefore, the financial statements contain a number of estimations, including, but not limited to, the determination of the useful lives of property, plant and equipment (Note 13), the realization of deferred tax assets (Note 10), the allowance for doubtful accounts (Note 6), the evaluation of fair value for biological assets (Note 14), the tax, social security, civil and labor provisions (Note 19), and the impairment of assets (Note 13).

The actual results of the balances formed with the use of judgments, estimates and accounting assumptions, upon their actual realization, may be different from those recognized in the financial statements.

The Company has ICMS incentives from the governments of the states of Santa Catarina and Minas Gerais. Supplementary Law 160 published in August 2017, and the Confaz Agreement 190 published in December 2017, which decided on the remission of tax credits, formed or not, arising from exemptions, incentives, and tax or financial tax benefits established in disagreement with the provisions of the Federal Constitution, Article 155, paragraph 2, item XII, subitem “g”, and the reinstatement of the respective exemptions, incentives, and tax or financial benefits.

Regarding the Confaz 190, the states of Santa Catarina and Minas Gerais, respectively, published Decrees No. 1.555/18 and 47.394/18, validating and restoring the tax incentives granted to the Company under the terms of Complementary Law No. 160/2017.

Although the Company has no tax incentive being judged by the Brazilian Supreme Court (STF), management has been monitoring, together with its legal advisors, the progress of this issue in the courts to assess possible impacts on its operations and consequent effects on the financial statements (Note 30).

u) Income statement

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

v) Revenue recognition

The model implemented by the Company refers to a model aimed at determining whether the specific accounting criteria have been met.

The new model comprises the following steps: i) identification of the contract with the client; ii) identification of the contractual performance obligations; iii) determination of the transaction price; iv) allocation of the transaction price to the contractual performance obligations; and v) recognition of revenue as the performance obligations are satisfied. Accordingly, revenue from contracts with customers should be recognized in the amount the Company expects to receive in exchange for the goods and financial services provided to the customers. The revenue is presented net of taxes, goods returned, rebates and discounts, and elimination of revenues among related parties.

w) Subvenções governamentais

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

x) Statement of added value ("DVA")

The Brazilian corporate law requires the presentation of the statement of value added, individual and consolidated, as part of the set of financial statements presented by the Company. Accordingly, in conformity with IFRS, this statement is presented as supplementary information, without prejudice 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 book records used to prepare the financial statements.

4. CONSOLIDATION OF FINANCIAL STATEMENTS

The consolidated financial statements include Celulose Irani S.A. and its subsidiaries as follows:

Participation in capital - %			
Subsidiaries - direct interest	Activity	06/30/19	12/31/18
Habitasul Florestal S.A.	Forestry production	100.00	100.00
HGE - Geração de Energia Sustentável S.A. *	Electricity Generation	100.00	100.00
Iraflor - Comércio de Madeiras LTDA	Trade of timber	99.99	99.99
Irani Geração de Energia Sustentável LTDA *	Electricity Generation	99.56	99.56

*wind projects for implementation under evaluation

The accounting practices of the subsidiaries are consistent with those adopted by the Company. The investments in subsidiaries, the equity income, as well as the balances of operations carried out and unrealized intercompany profit and/or loss were eliminated in the consolidated financial statements. The financial information of the subsidiaries, used for consolidation, was prepared at the same date as that of the parent company.

5. CASH AND CASH EQUIVALENTS

Balances of cash and cash equivalents are represented as follows:

	Parent company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Fixed fund	29	29	31	32
Banks	7,060	26,634	7,105	27,111
Interbank funds applied	22,144	104,115	23,410	105,076
	29,233	130,778	30,546	132,219

The financial investments with immediate liquidity earn a fixed income at the average of 67% of the Interbank Deposit Certificate (CDI) interest rate and mature in 90 days or less.

6. TRADE ACCOUNTS RECEIVABLE

	Parent company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Accounts receivable from:				
Clients - domestic Market	160,138	152,680	161,805	154,327
Clients - Foreign market	32,575	25,303	32,575	25,303
Clients - renegotiation	11,792	15,259	11,792	15,259
	204,505	193,242	206,172	194,889
Estimated losses with doubtful accounts	(24,092)	(24,016)	(24,092)	(24,016)
	180,413	169,226	182,080	170,873
Current Portion	179,048	167,058	180,715	168,705
Non-current Portion	1,365	2,168	1,365	2,168

As of December 31, 2018, balances of renegotiation of clients, as well as the provision for recognized losses were reclassified to Clients' account - renegotiation.

At June 30, 2019, consolidated trade accounts receivable included an overdue amount of R$ 23,402, related to clients with no history of default, for which no provision was recorded.

The aging analysis of trade accounts receivable is in the table below.

	Parent company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Falling due	157,726	151,741	158,678	152,785
Overdue up to 30 days	9,339	8,567	9,750	8,803
Overdue, 31–60 days	4,610	3,612	4,672	3,769
Overdue, 61–90 days	3,192	2,132	3,196	2,274
Overdue, 91–180 days	2,825	1,437	2,993	1,505
Overdue >180 days	26,813	25,753	26,883	25,753
	204,505	193,242	206,172	194,889

The average credit term on the sale of products is 51 days. The Company records an allowance for doubtful accounts for the relevant portion of accounts receivable overdue for more than 180 days. Provisions for impairment of accounts receivable are also recorded for notes falling due and overdue for less than 180 days in cases where the amounts are not considered realizable, based on the financial situation of each debtor and historical analyzes of losses obtained by the Company. Individual analyzes are performed for those clients who do not yet have overdue notes, considering their credit risks.

Changes in the provisions may be stated as follows:

	Parent company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Balance at the beginning of the period	(24,016)	(16,513)	(24,016)	(16,563)
Reclassification of Clients - Renegotiation	-	(14,074)	-	(14,074)
Provision for recognized losses	(76)	(1,613)	(76)	(1,613)
Trade accounts receivable written off during the period as non-collectible	-	8,184	-	8,234
Balance at end of the period	(24,092)	(24,016)	(24,092)	(24,016)

A portion of receivables, amounting to R$ 112,542, has been assigned as collateral for certain financing transactions, as disclosed in Note 15.

The credit quality of financial assets that were neither past due nor impaired at June 30, 2019 was assessed with reference to historical information on default rates, as follows:

Quality of accounts receivable

		Consolidated
Class of client	% History	Amounts receivable
a) Customers without history of delinquency	94.31	149,648
b) Clients with history of late payment up to 7 days	4.43	7,029
c) Customers with history of late payment of more than 7 days	1.26	2,001
		158,678

a) Timely clients with no history of delinquency.
b) Untimely clients with a history of delinquency of up to 7 days, with no history of default.
c) Untimely clients with a history of delinquency exceeding 7 days, with no history of default.

7. INVENTORIES

	Parent Company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Finished goods	40,695	31,626	40,739	31,626
Production Materials	21,872	18,792	21,999	18,792
Consumption materials	21,757	20,865	21,828	20,925
Other inventories	190	516	190	516
	84,514	71,799	84,756	71,859

In the 2Q19, the cost of inventories recognized in income (loss) was R$ 184,752 (R$ 156,520 in 2Q18) in the parent company and R$ 183,988 in the 2Q19 (R$ 156,332 in 2Q18) in consolidated. For the six-month period ending in June 30, 2019, the cost of inventories recognized in income (loss) was R$ 352,409 (R$318,939 for the six-month period ending in June 30, 2018) in the parent company and R$349,821 (R$317,049 for the six-month period ending in June 30, 2018) in consolidated.

The cost of inventories recognized in the income (loss) for the year does not include the net impairment.

A portion of inventories, amounting to R$ 23,421, has been assigned as collateral for certain financing transactions, as disclosed in Note 15.

8. RECOVERABLE TAXES

They are as follows:

	Parent Company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
ICMS	6,123	4,664	6,123	4,664
PIS/COFINS	2,736	2,541	2,736	2,541
IPI	199	105	199	105
Income tax	631	397	631	397
Social contribution	345	258	345	258
IRRF on interest earning bank deposits	1,231	821	1,231	821
Other	324	24	326	25
	11,589	8,810	11,591	8,811
Current portion	6,611	5,017	6,613	5,018
Non-current portion	4,978	3,793	4,978	3,793

ICMS credits are basically credits on the acquisition of property, plant and equipment generated in relation to purchases of property, plant and equipment items of the Company and are used in 48 monthly and consecutive installments, as provided for in legislation that address the matter.

9. OTHER ASSETS

	Parent company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Advances to suppliers	5,747	1,427	5,748	1,427
Employee credits	2,069	783	2,216	819
Prepaid expenses	827	1,696	827	1,696
Other receivables	6,437	7,602	6,468	7,630
	15,080	11,508	15,259	11,572
Current portion	12,316	8,808	12,468	8,845
Non-current portion	2,764	2,700	2,791	2,727

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

10. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

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

In 2019, the Company computed income tax and social contribution on exchange-rate changes on a cash basis and recorded a deferred tax liability related to unrealized exchange-rate change.

According to CVM instruction 371, for composition of deferred fiscal asset, one of the criteria that the company must meet is to present historic taxable profit in at least 3 of the last 5 fiscal years. The Company did not have profit in the last three fiscal years, and due to that, did not recognize income tax and deferred social contribution over temporary differences, fiscal loss and social contribution negative base for a gross value of R$ 53,140.

Deferred tax liabilities were recognized based on the fair value of biological assets and the deemed cost of fixed assets.

The initial tax impacts on the deemed cost of property, plant and equipment were recognized as a counter entry to shareholders' equity.

ASSETS	Parent company		Consolidated	
	06.30.19	12.31.18	06.30.19	12.31.18
Deferred income tax asset				
On temporary provisions	537	537	537	537
On tax loss	17,093	17,093	17,093	17,093
Cash flow hedge	35,498	41,171	35,498	41,171
Deferred social contribution assets				
On temporary provisions	192	192	192	192
On tax loss	6,155	6,155	6,155	6,155
Cash flow hedge	12,780	14,821	12,780	14,821
	72,255	79,969	72,255	79,969

LIABILITIES	Parent company		Consolidated	
	06.30.19	12.31.18	06.30.19	12.31.18
Deferred income tax liabilities				
Unrealized exchange-rate change on the cash basis	4,155	3,905	4,155	3,905
Fair value of the biological assets	25,379	24,964	26,997	26,629
Deemed cost of fixed assets	126,297	126,472	133,897	134,072
Government grant	408	520	408	520
Client portfolio	484	583	484	583
Amortization of tax goodwill	20,066	18,269	20,066	18,269
Deferred social contribution liabilities				
Unrealized exchange-rate change on the cash basis	1,496	1,406	1,496	1,406
Fair value of the biological assets	9,137	8,987	10,010	9,886
Deemed cost of fixed assets	45,467	45,531	48,203	48,266
Government grant	147	187	147	187
Client portfolio	174	210	174	210
Amortization of tax goodwill	7,224	6,577	7,224	6,577
	240,434	237,611	253,261	250,510
Deferred tax liabilities (net)	168,179	157,642	181,006	170,541

Based on budget forecasts approved by the Board of Directors, management expects these consolidated balances to be realized as follows:

Deferred tax asset Period	Parent Company and Consolidated 06/30/19
2019	13,971
2020	17,552
2021	16,909
2022	12,516
>2023	11,307
	72,255

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

Parent company and Consolidated assets	Opening balance on 01/01/2018	Recognized in income (loss)	Recognized in shareholders' equity	Offset with liabilities	Closing balance on December 31, 2018
Deferred tax assets regarding:					
Provision for profit sharing	(3,673)	3,673	-	-	-
Provision for sundry risks	(1,953)	1,224	-	-	(729)
Cash flow hedge	(40,116)	-	(15,876)	-	(55,992)
Total temporary differences	(45,742)	4,897	(15,876)	-	(56,721)
Tax losses	(23,248)	-	-	-	(23,248)
	(68,990)	4,897	(15,876)	-	(79,969)

Parent company and Consolidated assets	Opening balance on 01/01/2019	Recognized in income (loss)	Recognized in shareholders' equity	Offset with liabilities	- Closing balance 06/30/2019
Deferred tax assets regarding:					
Provision for sundry risks	(729)	-	-	-	(729)
Cash flow hedge	(55,992)	-	7,714	-	(48,278)
Total temporary differences	(56,721)	-	7,714	-	(49,007)
Tax losses	(23,248)	-	-	-	(23,248)
	(79,969)	-	7,714	-	(72,255)

Parent company liabilities	Opening balance 01/01/2018	Recognized in income (loss)	Closing balance 12/31/2018	Recognized in income (loss)	Closing balance 06/30/2019
Deferred tax liabilities regarding:					
Exchange-rate change recognized on a cash basi	5,614	(303)	5,311	340	5,651
Fair value of the biological assets	33,204	747	33,951	565	34,516
Deemed cost and review of useful life	169,325	2,678	172,003	(239)	171,764
Government grant	802	(95)	707	(152)	555
Client portfolio	1,062	(269)	793	(135)	658
Amortization of tax goodwill	19,958	4,888	24,846	2,444	27,290
	229,965	7,646	237,611	2,823	240,434

Consolidated liabilities	Opening balance 01/01/2018	Recognized in income (loss)	Closing balance 12/31/2018	Recognized in income (loss)	Closing balance 06/30/2019
Deferred tax liabilities regarding:					
Exchange-rate change recognized on a cash basi	5,614	(303)	5,311	340	5,651
Fair value of the biological assets	36,103	412	36,515	492	37,007
Deemed cost and review of useful life	179,659	2,679	182,338	(238)	182,100
Government grant	802	(95)	707	(152)	555
Client portfolio	1,062	(269)	793	(135)	658
Amortization of tax goodwill	19,958	4,888	24,846	2,444	27,290
	243,198	7,312	250,510	2,751	253,261

11. INVESTMENTS IN SUBSIDIARIES

	Habitasul Florestal	Iraflor Comércio de Madeiras	HGE Geração de Energia	Irani Geração de Energia	Total
December 31, 2017	133,606	78,498	556	249	212,909
Equity in net income of subsidiaries	(12,005)	16,494	(13)	-	4,476
Proposed dividends	-	(14,466)	-	-	(14,466)
Capital contribution	2,200	5,030	-	-	7,230
December 31, 2018	123,801	85,556	543	249	210,149
Equity in net income of subsidiaries	2,803	2,076	(1)	-	4,878
June 30, 2019	126,604	87,632	542	249	215,027
Current					
Assets	4,309	34,265	7	13	
Liabilities	(2,927)	(259)	-	-	
Current assets/liabilities, net	1,382	34,006	7	13	
Non-current					
Assets	137,941	54,104	535	237	
Liabilities	(12,719)	(473)	-	-	
Non-current assets/liabilities, net	125,222	53,631	535	237	
Shareholders' equity	126,604	87,637	542	250	
Net revenue	12,004	9,723	-	-	
Income/loss before income tax and social contribution	3,182	2,322	(1)	-	
Income tax and social contribution expense	(379)	(245)	-	-	
Income (loss) for the period	2,803	2,077	(1)	-	
Capital holdings in %	100.00	99.99	100.00	99.56	

12. INVESTMENT PROPERTY

Parent Company

	Land	Buildings	Total
December 31, 2018			
Opening balance	22,554	11,051	33,605
Addition	-	-	-
Write-off	(6,259)	(7,294)	(13,553)
Depreciation	-	(521)	(521)
Book balance, net	16,295	3,236	19,531
Cost	16,295	5,408	21,703
Accumulated depreciation	-	(2,172)	(2,172)
Book balance, net	16,295	3,236	19,531
June 30, 2019			
Opening balance	16,295	3,236	19,531
Addition	2,432	-	2,432
Write-off	(24)	-	(24)
Transfers	31	(31)	
Depreciation	-	(87)	(87)
Book balance, net	18,734	3,118	21,852
Cost	18,734	5,377	24,111
Accumulated depreciation	-	(2,259)	(2,259)
Book balance, net	18,734	3,118	21,852

Consolidated

December 31, 2018			
Opening balance	6,419	11,051	17,470
Addition	-	-	-
Write-off	(6,259)	(7,292)	(13,551)
Depreciation	-	(521)	(521)
Book balance, net	160	3,238	3,398
Cost	160	5,410	5,570
Accumulated depreciation	-	(2,172)	(2,172)
Book balance, net	160	3,238	3,398
June 30, 2019			
Opening balance	160	3,238	3,398
Addition	2,432	-	2,432
Write-off	(50)	-	(50)
Transfers	33	(33)	-
Depreciation	-	(87)	(87)
Book balance, net	2,575	3,118	5,693
Cost	2,575	5,377	7,952
Accumulated depreciation	-	(2,259)	(2,259)
Book balance, net	2,575	3,118	5,693

Land

Relates mainly to plots of land with a total area of 4,454,406 m2, held by the parent company for the future construction of wind farms in the state of Rio Grande do Sul,

and recognized at the cost of acquisition of R$ 16,159. The project for the implementation of wind farms is currently in the evaluation phase, through the subsidiary Irani Geração de Energia Sustentável Ltda.

Buildings

These refer to buildings located in the municipality of Rio Negrinho, state of Santa Catarina, with a constructed area of 25,271 m², and valued at R$ 3,118. These buildings are rented to companies within the region.

Revenues and expenses related to investment properties that are rented are recognizedin income (loss) as shown below:

	Parent Company and Consolidated	
	06/30/19	06/30/18
Rental revenues	100	465
Direct operating expenses that generated rental revenue	(328)	(225)

Investment properties are valued at the historical cost as of June 30, 2019. For disclosure purposes, the Company assessed on December 31, 2018, the fair value less cost to sell of these properties at R$ 35,082 (parent company) and R$ 17,207 (consolidated). The appraisals were conducted by independent experts, who used market inputs related to prices for transactions carried out with similar properties.

Part of the Company's investment properties has been pledged as collateral for financial transactions in the amount of R$ 12,425 as disclosed in Note 15.

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

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

During this period, the company received land in exchange for trade receivables credits from clients in a total amount of R$2,432, being that the receivable credits total was R$

2,709. The difference was recorded in the income (loss) as a financial discount in the amount of R$ 277.

13. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

a) Breakdown of property, plant and equipment

Parent Company

	Land	Buildings and constructions	Equipment and facilities	Vehicles and tractors	Other property, plant and equipment (*)	Construction in process	Property, plant and equipment in third-party properties	Total
December 31, 2018								
Opening balance	177,118	155,948	358,712	5,482	6,883	41,565	10,190	755,898
Acquisitions	21	79	14,360	1,659	345	25,329	-	41,793
Write-offs	(14)	(57)	(1,035)	(672)	(31)	(301)	(20)	(2,130)
Transfers	-	2,196	20,507	538	83	(23,382)	58	-
Depreciation	-	(5,353)	(39,422)	(1,782)	(1,869)	-	(642)	(49,068)
Third parties' construction in progress	-	-	-	-	-	(5,324)	-	(5,324)
PIS and COFINS credit	-	(94)	(1,375)	(18)	(47)	(891)	(2)	(2,427)
Book balance, net	177,125	152,719	351,747	5,207	5,364	36,996	9,584	738,742
Cost	177,125	216,033	884,153	14,171	22,948	36,996	16,097	1,367,523
Accumulated depreciation	-	(63,314)	(532,406)	(8,964)	(17,584)	-	(6,513)	(628,781)
Book balance, net	177,125	152,719	351,747	5,207	5,364	36,996	9,584	738,742
June 30, 2019								
Opening balance	177,125	152,719	351,747	5,207	5,364	36,996	9,584	738,742
Acquisitions	-	-	2,101	126	495	20,860	-	23,582
Write-offs	-	-	-	(195)	-	-	-	(195)
Transfers	-	-	1,575	-	75	(1,650)	-	-
Depreciation	-	(2,891)	(25,510)	(848)	(987)	-	(322)	(30,558)
Third parties' construction in progress	-	-	-	-	-	(3,329)	-	(3,329)
PIS and COFINS credit	-	44	361	5	17	140	1	568
Book balance, net	177,125	149,872	330,274	4,295	4,964	53,017	9,263	728,810
Cost	177,125	216,077	888,190	14,107	23,535	53,017	16,098	1,388,149
Accumulated depreciation	-	(66,205)	(557,916)	(9,812)	(18,571)	-	(6,835)	(659,339)
Book balance, net	177,125	149,872	330,274	4,295	4,964	53,017	9,263	728,810

Consolidated

	Land	Buildings and constructions	Equipment and facilities	Vehicles and tractors	Other property, plant and equipment (*)	Construction in process	Property, plant and equipment in third-party properties	Total
December 31, 2018								
Opening balance	245,417	157,248	358,831	5,755	7,194	41,583	10,190	826,218
Acquisitions	21	79	14,504	1,977	399	25,807	-	42,787
Write-offs	(14)	(57)	(1,035)	(672)	(46)	(641)	(20)	(2,485)
Transfers	-	2,196	20,507	550	71	(23,382)	58	-
Depreciation	-	(5,443)	(39,454)	(1,889)	(1,988)	-	(642)	(49,416)
Third parties' construction in progress	-	-	-	-	-	(5,324)	-	(5,324)
PIS and COFINS credit	-	(94)	(1,375)	(18)	(47)	(891)	(2)	(2,427)
Book balance, net	245,424	153,929	351,978	5,703	5,583	37,152	9,584	809,353
Cost	245,424	220,556	884,463	15,104	23,576	37,152	16,097	1,442,372
Accumulated depreciation	-	(66,627)	(532,485)	(9,401)	(17,993)	-	(6,513)	(633,019)
Book balance, net	245,424	153,929	351,978	5,703	5,583	37,152	9,584	809,353
June 30, 2019								
Opening balance	245,424	153,929	351,978	5,703	5,583	37,152	9,584	809,353
Acquisitions	25	-	2,105	126	495	20,859	-	23,610
Write-offs	-	(91)	(16)	(195)	(113)	-	-	(415)
Transfers	-	-	1,575	-	75	(1,650)	-	-
Depreciation	-	(2,971)	(25,542)	(928)	(1,018)	-	(322)	(30,781)
Third parties' construction in progress	-	-	-	-	-	(3,329)	-	(3,329)
PIS and COFINS credit	-	44	361	5	17	140	1	568
Book balance, net	245,449	150,911	330,461	4,711	5,039	53,172	9,263	799,006
Cost	245,449	220,509	888,488	15,040	24,050	53,172	16,098	1,462,806
Accumulated depreciation	-	(69,598)	(558,027)	(10,329)	(19,011)	-	(6,835)	(663,800)
Book balance, net	245,449	150,911	330,461	4,711	5,039	53,172	9,263	799,006

(*) Balance related to property, plant and equipment such as furniture and fixtures, IT equipment.

b) Composition of Intangible assets

Parent Company	Goodwill	Client portfolio	*Software*	Software under development	Total
December 31, 2018					
Opening balance	104,380	3,126	4,582	-	112,088
Acquisitions	-	-	317	20,227	20,544
Write-offs	-	-	(112)	-	(112)
Amortization	-	(792)	(1,517)	-	(2,309)
PIS and COFINS credit	-	-	(20)	-	(20)
Book balance, net	104,380	2,334	3,250	20,227	130,191
Cost	104,380	7,081	12,506	20,227	144,194
Accumulated amortization	-	(4,747)	(9,256)	-	(14,003)
Book balance, net	104,380	2,334	3,250	20,227	130,191
Em 30 de junho de 2019					
Opening Balance	104,380	2,334	3,250	20,227	130,191
Acquisitions	-	-	10	10,701	10,711
Write-offs	-	-	-	(404)	(404)
Transfers	-	-	19,823	(19,823)	-
Amortization	-	(400)	(1,595)	-	(1,995)
PIS and COFINS credit	-	-	8	-	8
Book balance, net	104,380	1,934	21,496	10,701	138,511
Cost	104,380	7,081	32,347	10,701	154,509
Accumulated amortization	-	(5,147)	(10,851)	-	(15,998)
Book balance, net	104,380	1,934	21,496	10,701	138,511

Consolidated	Goodwill	Client portfolio	*Software*	Software under development	Total
Em 31 de dezembro de 2018					
Opening balance	104,380	3,126	5,117	-	112,623
Acquisitions	-	-	317	20,227	20,544
Write-offs	-	-	(112)	-	(112)
Amortization	-	(792)	(1,517)	-	(2,309)
PIS and COFINS credit		-	(20)	-	(20)
Book balance, net	104,380	2,334	3,785	20,227	130,726
Cost	104,380	7,081	13,045	20,227	144,733
Accumulated amortization	-	(4,747)	(9,260)	-	(14,007)
Book balance, net	104,380	2,334	3,785	20,227	130,726
June 30, 2019					
Opening balance	104,380	2,334	3,785	20,227	130,726
Acquisitions	-	-	231	10,701	10,932
Write-offs	-	-	-	(404)	(404)
Transfers	-	-	19,823	(19,823)	-
Amortization	-	(400)	(1,595)	-	(1,995)
PIS and COFINS credit	-	-	8	-	8
Book balance, net	104,380	1,934	22,252	10,701	139,267
Cost	104,380	7,081	33,107	10,701	155,269
Accumulated amortization	-	(5,147)	(10,855)	-	(16,002)
Book balance, net	104,380	1,934	22,252	10,701	139,267

c) Depreciation/amortization method

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

	Rate %	
	06/30/19	12/31/18
Buildings and constructions *	2.50	2.50
Equipment and facilities **	6.78	6.78
Furniture, fixtures and IT equipment	5.71	5.71
Vehicles and tractors	20.00	20.00
Software	20.00	20.00
Client portfolio	11.11	11.11

* including weighted rates for property, plant and equipment in third-party properties
** include weighted financial lease rates

d) Other information

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

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

The breakdown of amortization of fixed assets in the 2Q19 and in 2Q18 is as follows:

	Parent company		Consolidated	
	06/30/19	06/30/18	06/30/19	06/30/18
Administrative	668	1,057	771	1,227
Productive	29,890	22,123	30,010	22,121
	30,558	23,180	30,781	23,348

The breakdown of amortization of intangible assets in the 2Q19 and in 2Q18 is as follows:

	Parent company		Consolidated	
	06/30/19	06/30/18	06/30/19	06/30/18
Administrative	692	1,086	692	1,086
Productive	1,303	192	1,303	192
	1,995	1,278	1,995	1,278

e) Impairment of property, plant and equipment

No indicators were identified that could reduce the realization value of the assets of the Company and its subsidiaries in the first semester of 2019.

f) Pledges Assets

The Company pledged certain fixed assets as collateral for financing transactions as explained in note 15. The amounts presented are based on specific appraisal reports on the date of contracting of operations or on subsequent evaluations, as provided for in the contract, as follows:

	06.30.19
Equipment and facilities	317,922
Buildings and constructions	115,522
Land	376,700
Total pledged assets	810,144

g) Client portfolio

The client portfolio acquired in the business combination was recognized in the initial moment, at the fair value of R$ 7,081, and had an amortization in the first semester of 2019 amounting to R$ 400 (R$ 396 in the first semester of 2019), this, presenting a net book balance of R$ 1,934. Amortization is calculated using the straight-line method over the expected useful life of the client relationship.

h) Goodwill

The goodwill generated in the business combination of São Roberto S.A. for the year 2013 is recognized at the amount of R$ 104,380 and is attributable to the expectation of future profitability.

Impairment tests for intangible assets:

At December 31, 2018, the Company assessed the impairment of the goodwill based on its value in use, using the discounted cash flow method. The recoverable value is based on the expected future profitability. These calculations use cash flow projections based on

financial budgets approved by Management, covering a five-year period and extrapolating to perpetuity in other periods, based on the estimated growth rates.

Cash flows were discounted to present value through the application of the rate determined by the Weighted Average Capital Cost (WACC), which was calculated using the Capital Asset Pricing Model (CAPM) method, also considering several components of financing, debt and equity used by the Company to finance its activities.

The main data used to calculate the discounted cash flow is as follows:

Assumption

Average sales prices of Packaging Paper and Corrugated Cardboard Packaging (% of annualgrowth rate)	4.0%
Gross margin (% on net revenue)	32.1%
Estimated growth rate	5.0%
Discount Rate (Wacc)	11.08%

The recoverable amount of the CGU for impairment testing did not demonstrate the need to recognize impairment for the period.

14. BIOLOGICAL ASSETS

The Company's biological assets mainly include the cultivation and planting of pine forests to supply raw material in the production of pulp used in the packaging paper production process, resin production and sales of wood logs to third parties. All the biological assets of the Company form a single group called "forests", which are measured together at fair value in quarterly periods. Because the harvesting of the forests planted is carried out based on the consumption of raw materials and sales of timber, and 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 is composed of the cost of forest formation and the difference of fair value on formation cost. Consequently, the balance of biological assets is recorded at fair value as follows:

	Parent Company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Cost of formation of biological assets	32,300	29,782	63,626	89,122
Fair value difference biological assets	16,544	14,248	122,924	97,478
	48,844	44,030	186,550	186,600

Of the total consolidated biological assets, R$ 102,498 (R$ 105,312 at December 31, 2018) relates to forests used as raw material for pulp and paper production. These forests are located close to the pulp and paper mill in Vargem Bonita, state of Santa Catarina, where they are consumed. Of this amount, R$ 72,963 (R$ 77,493 at December 31, 2018) relates to mature forests, which are more than six years old. The remaining amount refers to growing forests, which still require forestry treatments.

The harvesting of these forests is mainly due to the use of raw material to produce pulp and paper, and the forests are replanted once harvested, forming a renewal cycle that meets the production demand of the unit.

The consolidated biological assets used to produce resins and log sales represent R$ 83,602 (R$ 81,288 as of December 31, 2018), and are located on the coast of Rio Grande do Sul. The resin extraction is performed according to the capacity of the generation of this product by the existing forest, and the extraction of wood for sale of logs is due to the supply demand in the region.

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

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

(i) The methodology used to measure the fair value of biological assets - the Income Approach with depletion of the forest in one cycle - corresponds to the projection of expected future cash flows, discounted at the current rate for the regional market, in accordance with the projected productivity of the forests in the cutting cycles, which are determined based on the optimization of production, considering the price changes and the growth of the biological assets;

(ii) The discount rate used for cash flows was the Cost of Own Capital (Capital Asset Pricing Model - CAPM). The cost of equity is estimated by analyzing the return targeted by investors in forest assets;

(iii) The forests' projected production volumes are defined based on stratification,

according to the type of each species, inputs for production planning, as well as the age, productive potential and production cycle of the forests. This projected volume corresponds to the Average Annual Increase (IMA). Management alternatives are created to establish the ideal long-term production flow to maximize forest yields;

(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 and reported by a specialized company. Prices in R$/cubic meter are used, considering the required costs to place the assets in the condition of sale or consumption;

(v) Planting expenditures used are the formation costs of biological assets practiced by the Company;

(vi) The depletion of biological assets is calculated based on their average fair value of biological assets, multiplied by the volume harvested in the period;

(vii) The Company reviews the fair value of its biological assets every three months, considering that this time-frame is enough to have no shortfall in the balance of fair value of the biological assets recorded in its financial statements.

	Consolidated		
	06/30/19	12/31/18	Impact in the fair value of biological assets
Planted area (hectares)	18,329	18,274	If the assumption increases, the fair value also increases
Remuneration of own contributing assets -%	3.00%	3.00%	If the assumption increases, the fair value decreases
Discount rate - Own Forests RS - %	8.50%	8.50%	If the assumption increases, the fair value decreases
Discount rate - Own Forests RS - %	9.00%	9.00%	If the assumption increases, the fair value decreases
Discount rate - Partnerships - %	9.00%	9.00%	If the assumption increases, the fair value decreases
Net Average Sales Price (m³)	52.00	51.00	If the assumption increases, the fair value also increases
Average annual increase (IMA) - Santa Catarina Forests (*)	37.9	37.9	If the assumption increases, the fair value also increases
Average annual increase (IMA) - Rio Grande do Sul Forests (*)	21.2	21.2	If the assumption increases, the fair value also 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 m³ per hectare/year.

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

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

The main changes in the year are as follows:

	Parent Company	Consolidated
Balance at December 31, 2017	33,711	190,796
Planting	5,875	10,373
Acquisition of forest	3,387	3,387
Depletion		
Historical cost	(20)	(1,478)
Fair value	(31)	(15,110)
Transfer to capitalization in subsidiary Iraflor	(5,030)	-
Change in the fair value	6,138	(1,368)
Balance at December 31, 2018	44,030	186,600
Planting	2,166	4,837
Forest Acquisition	825	825
Depletion		
Historical cost	(473)	(1,392)
Fair value	(323)	(5,657)
Transfer for capitalization		
Change in the fair value	2,619	1,337
Balance at June 30, 2019	48,844	186,550

Depletion of biological assets in the first semester of both 2019 and 2018 were substantially recognized in the income (loss) for the year, after the allocation in inventories through forest harvesting and use in production process or sale to third parties.

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

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

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

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

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

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

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

b. Biological assets pledged as collateral

Part of the biological assets of the Company and its subsidiaries, totaling R$ 85,102, is pledged as collateral for financing transactions as explained in note 15. The pledged assets represent approximately 44% of the total biological assets, or the equivalent to 15.6 thousand hectares of land in use, and approximately 6.6 thousand hectares of planted forests

c. Production on third-party land

The Company still has some non-cancellable lease agreements for production of biological assets on third-party land, called partnerships. These agreements are

effective until all forests planted in these areas are harvested, over a cycle of up to 15 years. The amount of biological assets in third-party land is approximately 1,000 Ha and currently represents approximately 5% of the total area with the Company's biological assets.

15. LOANS AND FINANCING

a) Breakdown of book balances

		Parent company		Consolidated	
		06/30/2019	12/31/2018	06/30/2019	12/31/2018
Current	**Annual Charges %**				
Local currency					
Finame	Fixed at 3.65%, TJLP + 5.24%, Selic + 5.59%	1,281	2,492	1,281	2,492
Working capital	Fixed at 15.15%, CDI + 5.78% and 139% of CDI	134,932	99,798	134,967	99,834
Working Capital - Syndicated Loan	CDI + 5.00%	53,767	43,764	53,767	43,764
Financial lease	Fixed rate at 14.66%	1,171	1,360	1,171	1,360
BNDES	TJLP + 3.60%	10,889	10,616	10,889	10,616
Total local currency		202,040	158,030	202,075	158,066
Foreign currency					
Advance on Exchange Contract	Fixed between 5.37% and 6.10%	21,377	21,530	21,377	21,530
Bank of America - PPE	Libor + 8.00%	52,588	53,469	52,588	53,469
Banco Santander PPE	Libor + 6.95%	2,641	2,222	2,641	2,222
Banco Rabobank and Santander PPE	Libor + 6.95%	62,234	50,183	62,234	50,183
Banco LBBW - FINIMP	Euribor + 1.55%	1,505	1,533	1,505	1,533
Banco De Lage Landen	8.20% p.a.	371	375	371	375
Total foreign currency		140,716	129,312	140,716	129,312
Total current		342,756	287,342	342,791	287,378
Non-current					
Local currency					
Finame	Fixed at 3.65%, TJLP + 5.24%, Selic + 5.59%	1,997	2,575	1,997	2,575
Working capital	Fixed at 15.15%, CDI + 5.78% and 139% of CDI	102,928	140,418	102,966	140,474
Working Capital - Syndicated Loan	CDI + 5.00%	101,668	121,949	101,668	121,948
Financial lease	Fixed rate at 14.66%	619	1,094	619	1,094
BNDES	TJLP + 3.60%	17,118	22,554	17,118	22,554
Total local currency		224,330	288,590	224,368	288,645
Foreign currency					
Bank of America - PPE	Libor + 8.00%	64,962	91,747	64,962	91,747
Banco Santander PPE	Libor + 6.95%	4,855	5,902	4,855	5,902
Banco Rabobank and Santander PPE	Libor + 6.95%	123,497	149,967	123,497	149,967
Banco LBBW - FINIMP	Euribor + 1.55%	-	765	-	765
Banco De Lage Landen	8.20% p.a.	371	562	371	562
Total foreign currency		193,685	248,943	193,685	248,943
Total non-current		418,015	537,533	418,053	537,588
Total		760,771	824,875	760,844	824,966

	Parent company		Consolidated	
Long-term maturity dates:	06/30/2019	12/31/2018	06/30/2019	12/31/2018
2020	127,900	250,322	127,925	250,363
2021	185,128	182,908	185,141	182,922
2022	104,863	104,179	104,863	104,179
2023	117	117	117	117
>2024	7	7	7	7
	418,015	537,533	418,053	537,588

b) Schedule for amortization of funding costs

	Parent Company and Consolidated				
	2019	2020	2021	2022	Total
In domestic currency					
Working capital	(777)	(860)	(210)	(48)	(1,895)
Working Capital - CCE Syndicated Loan	(644)	(1,046)	(683)	(220)	(2,593)
Total local currency	(1,421)	(1,906)	(893)	(268)	(4,488)
In foreign currency					
Bank Of America NA - PPE	(284)	(195)	(31)	-	(510)
Banco Rabobank and Santander PPE	(399)	(638)	(409)	(129)	(1,575)
Total foreign currency	(683)	(833)	(440)	(129)	(2,085)
	(2,104)	(2,739)	(1,333)	(397)	(6,573)

c) Significant operations contracted for the period

The company signed amendments to contracts with Rabobank, Itaú BBA and Santander that postponed payments due on June 30, 2019 to September 30, 2019. The total value of the payments is R$ 26,258.

d) Guarantees

Collateral for the loans and financing include sureties of the parent companies and/or mortgages or lien on land, buildings, machinery and equipment, biological assets (forests), commercial pledges and lien of receivables, amounting to approximately R$ 227,009. Other operations have specific guarantees, as follows:

i) The shares the Company held in the subsidiary Habitasul Florestal S.A. were offered as collateral for the export prepayment loan obtained from Bank Credit Suisse and assumed by Bank of America on March 28, 2018.
ii) Lands and forests in the amount of R$ 164,700 were offered as collateral for the export prepayment loan contracted with Rabobank and Santander.
iii) Lands and forests in the amount of R$ 158,350 and fiduciary assignment of receivables in the amount of R$ 15,000 were offered the Working Capital loan – Syndicated Transaction contracted with the banks Itaú, Santander and Rabobank.
iv) For the financing contracted with the National Bank for Economic and Social Development (BNDES), an industrial property comprising the land, facilities and equipment, two commercial buildings and one residential building, in the total amount of R$ 121,436, were pledged as collateral.
v) For the working capital loan (CCE) contracted with Bank BTG Pactual, secured and fiduciary guarantees consisting of the Company's assets and rights amounting to R$ 57,036 were pledged.

vi) The Paper plant in the state of Santa Catarina - covering land, buildings and equipment, in the amount of R$ 289,800 was offered as a collateral for the extension of operations with banks Itaú BBA, Santander and Rabobank.

e) Restrictive financial covenants:

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

Financial ratios with annual verification:

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

a) Net debt/EBITDA ratio:

	Contract 2018	Calculate 2018	Contracte 2019	Contracte 2020	Contracte 2021
i) Banco Itaú BBA – CCE	4	3.88	3.5	3.5	3.5
ii) Banco Santander Brasil – PPE	4	3.88	3.5	3.5	3.5
iii) Capital de Giro – Operação	4	3.88	3.5	3.5	3.5
iv) Banco Rabobank – CCE	4	3.88	3.5	3.5	3.5
v) Banco Santander – CCE	4	3.88	3.5	3.5	3.5
vi) Banco Rabobank e Santander –	4	3.88	3.5	3.5	3.5
vii) Capital de Giro – Banco BTG	4.	3.88	4	3.5	-

b) EBITDA ratio on net financial expense:

	Contract 2018	Calculate 2018	Contracte 2019	Contracte 2020	Contract 2021
i) Banco Itaú BBA – CCE	1.75	1.85	2	2	2
ii) Banco Santander Brasil – PPE	1.75	1.85	2	2	2
iii) Capital de Giro – Operação	1.75	1.85	2	2	2
iv) Banco Rabobank – CCE	1.75	1.85	2	2	2
v) Banco Santander – CCE	1.75	1.85	2	2	2
vi) Banco Rabobank e Santander –	1.75	1.85	2	2	2
vii) Capital de Giro – Banco BTG	1.50	1.85	2	2	-

As of June 30, 2019, there was no need for calculation of financial ratios because the company calculates them annually. As of December 31, 2018, the company met all the financial ratios listed above.

Financial ratios with quarterly verification:

Bank of America - PPE

a) Net debt/EBITDA ratio:

	1Q18 to 3Q18	4Q18 to 3Q19	4Q19 to 3Q20	4Q20 to 2Q21
Contracted	5	4,5	4	3,5
Calculated	3.5 – 3.58 – 3.29	3.88 – 3.95 – 3.89	-	-

b) EBITDA ratio on net financial expense:

	1Q18	2Q18 to 3Q18	4Q18 to 2Q21
Contracted	1,5	1,75	2
Calculated	2.09	2.12 – 2.23	1.85 – 1.88 – 1.90

On December 31, 2018, March 31, 2019 and June 30, 2019, the Company obtained a waiver from the creditor for failing to comply with the ratio indicated in item “b”.

Caption:
TJLP - Long-term Interest Rate. CDI
- Interbank Deposit Certificate.
EBITDA - Operating income (loss) plus net financial expenses (revenues) and depreciation, depletion and amortization.
ROL - Net operating revenue.

f) Summary changes in loans and financing

Parent company		Changes in cash		Changes not involving cash				
	12/31/2017	Receipt/(Payment) of financing activities	Payment of interest / Dividends	Exchange-rate change and interest	Hedge accounting	Proposed dividends	Bank assigned account	12/31/2018
Loans, financing and debentures	**772,096**	(23,477)	(68,675)	98,237	46,694	-	-	**824,875**
Interest on own capital and dividends	**91**	-	(68)	-	-	3,746	-	**3,769**

Parent company		Changes in cash		Changes not involving cash				
	12/31/2018	Receipt/(Payment) of financing activities	Payment of interest / Dividends	Exchange-rate change and interest	Hedge accounting	Proposed dividends	Bank assigned account	06/30/2019
Loans, financing and debentures	**824,875**	(58,231)	(14,325)	34,202	(10,441)	-	-	**776,080**
Interest on own capital and dividends	**3,769**	-	-	-	-	-	-	**3,769**

Consolidated		Changes in cash		Changes not involving cash				
	12/31/2017	Receipt/(Payment) of financing activities	Payment of interest / Dividends	Exchange-rate change and interest	Hedge accounting	Proposed dividends	Bank assigned account	12/31/2018
Loans, financing and debentures	**772,096**	(23,386)	(68,675)	98,237	46,694	-	-	**824,966**
Interest on own capital and dividends	**91**	-	(68)	-	-	3,746	-	**3,769**

Consolidated		Changes in cash		Changes not involving cash				
	12/31/2018	Receipt/(Payment) of financing activities	Payment of interest / Dividends	Exchange-rate change and interest	Hedge accounting	Proposed dividends	Bank assigned account	06/30/2019
Loans, financing and debentures	**824,966**	(89,412)	(14,325)	62,304	(22,689)	-	-	**760,844**
Interest on own capital and dividends	**3,769**	-	(3,719)	-	-	-	-	**50**

16. SUPPLIERS

Payables to suppliers are as follows:

	Parent Company		Consolidated	
CURRENT	06/30/19	12/31/18	06/30/19	12/31/18
Internal	74,639	93,636	75,230	94,533
External	4,085	552	4,085	552
Related Parties	34,973	24,795	-	-
	113,697	118,983	79,315	95,085

17. RELATED PARTIES

Parent Company	Credits receivable		Accounts payable	
	06/30/19	12/31/18	06/30/19	12/31/18
Habitasul Florestal S.A.	-	-	2,348	1,056
Iraflor - Com. de Madeiras Ltda	-	-	32,871	23,752
Management remuneration	-	-	889	1,907
Management profit sharing	-	-	-	692
Habitasul Desenvolvimentos Imobiliários	-	-	18	17
Koch Metalúrgica S.A.	-	157	-	-
Irani Participações S/A	4,714	4,500	716	764
Total	4,714	4,657	36,842	28,188
Current portion	4,714	1,957	36,842	28,188
Non-current portion	-	2,700	-	-

Parent Company	Revenues		Expenses		Revenues		Expenses	
	3 month period ending in		3 month period ending in		6 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18	06/30/19	06/30/18	06/30/19	06/30/18
Habitasul Florestal S.A.	-	-	4,220	2,523	-	-	7,607	5,369
Iraflor - Com. de Madeiras Ltda	-	-	2,772	5,295	-	-	8,527	12,707
Druck, Mallmann, Oliveira & Advogados Associados	-	-	72	72	-	-	144	144
MCFD Administração de Imóveis Ltda	-	-	349	324	-	-	698	648
PFD Administradora de Imóveis Ltda			-	324			-	648
Irani Participações S/A	-	-	2,171	2,399	-	-	4,538	4,580
Habitasul Desenvolvimentos Imobiliários	-	-	49	44	-	-	98	88
Koch Metalúrgica S.A.	-	150	-	-	-	300	-	-
Management remuneration	-	-	2,350	2,212	-	-	4,632	4,363
Total	-	150	11,983	13,193	-	300	26,244	28,547

Consolidated	Credits receivable		Accounts payable	
	06/30/19	06/30/18	06/30/19	31.12.18
Habitasul Desenvolvimentos Imobiliários	-	-	18	17
Management remuneration	-	-	889	1,907
Koch Metalúrgica S.A.	-	157	-	-
Irani Participações S/A	4,714	4,500	716	764
Management profit sharing	-	-	-	692
Total	4,714	4,657	1,623	3,380
Current Portion	4,714	1,957	1,623	3,380
Non-current portion	-	2,700	-	-

Consolidated	Revenues		Expenses		Revenues		Expenses	
	3 month period ending in		3 month period ending in		6 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18	06/30/19	06/30/18	06/30/19	06/30/18
Irani Participações S/A	-	-	2,171	2,399	-	-	4,538	4,580
Druck, Mallmann, Oliveira & Advogados Associados	-	-	72	72	-	-	144	144
MCFD Administração de Imóveis Ltda	-	-	349	324	-	-	698	648
PFD Administradora de Imóveis Ltda	-	-	-	324	-	-	-	648
Management remuneration	-	-	2,363	2,225	-	-	4,658	4,389
Habitasul Desenvolvimentos Imobiliários	-	-	49	44	-	-	98	88
Koch Metalúrgica S.A.	-	150	-	-	-	300	-	-
Total	-	150	5,004	5,388	-	300	10,136	10,497

The debts with the subsidiaries Habitasul Florestal S.A. and Iraflor Comércio de Madeiras Ltda. are due to commercial operations and acquisition of raw material.

The debt with MCFD Administração de Imóveis Ltda. corresponds to the monthly rental value of the Packaging plant in Indaiatuba, state of São Paulo, signed on December 26, 2006 for a term of 20 years (renewable). The monthly amount paid to the related party is R$ 128, updated annually according to the same change in the General Market Price Index (IGPM), as measured by the Getúlio Vargas Foundation.

Directors' fee expenses with no social charges totaled, in the parent company, R$ 4,632 in the first semester of 2019 (R$ 4,363 in the first semester of 2018) and in consolidated, R$ 4,658 in the first semester of 2019 (R$ 4,389 in the first semester of 2018).

The total management remuneration, in the maximum amount of R$ 13,000, was approved at the Annual Shareholders' Meeting held on April 29, 2019.

The debt with Irani Participações S/A corresponds mainly to a guarantee remuneration agreement, whereby the Company remunerates sureties and guarantees granted by Irani Participações S/A in its favor to enable the contracting of loans and financing.

18. TAX INSTALLMENTS

This is a PIS and COFINS installment payment in which the Company made offsetting that originated the exclusion of ICMS from the basis of said contributions. The Company maintained a provision for contingencies in relation to the matter, and due to the delay and indecision regarding the modulation of the effects of the judgment in a general repercussion by the Brazilian Supreme Court (STF), it opted for its installment payment. The total tax amount paid in installments was R$ 25,219 (R$ 31,349, updated with fine and interest), which was paid in 60 months. The balance of this installment as of June 30, 2019 is R$ 26,732 (R$ 29,218 as of December 31, 2018), of which R$ 6,683 are classified in the short term (R$ 6,493 as of December 31, 2018) and R$ 20,049 are classified in the long term (R$ 22,275 as of December 31, 2018).

19. PROVISIONS FOR CIVIL, LABOR AND TAX RISKS

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

Breakdown of the balance of provisions:

	Parent Company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Civil provisions	1,690	1,635	1,690	1,635
Labor provisions	4,420	6,550	4,719	6,874
Tax provisions	15,774	14,797	15,774	14,797
Total	21,884	22,982	22,183	23,306

Changes in the balance of provision

Parent Company	12/31/18	Provision	Payments	Reversal	Restricted judicial deposits	06/30/19
Civil	1,635	63	-	(8)		1,690
Labor	6,550	347	(1,475)	-	(1,002)	4,420
Tax	14,797	977	-	-		15,774
	22,982	1,387	(1,475)	(8)	(1,002)	21,884

Consolidated	12/31/18	Provisão	Payments	Reversal	Restricted judicial deposits	06/30/19
Civil	1,635	63	-	(8)		1,690
Labor	6,874	358	(1,475)	(9)	(1,029)	4,719
Tax	14,797	977	-	-		15,774
	23,306	1,398	(1,475)	(17)	(1,029)	22,183

The consolidated provisions mainly refer to:

a) Civil lawsuits relate, among other issues, to indemnification claims due to Commercial Representation contractual terminations. As of June 30, 2019, the provision for possible convictions in these lawsuits totaled R$ 1,690.

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 experience and on the opinion of its legal counsel, the Company maintained a provision of R$ 4,719 at June 30, 2019, which is considered enough to cover potential losses arising from labor losses.

c) Tax provisions totaled R$ 15,774 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$ 820. The proceedings are in process at the administrative and judicial levels and pending judgment.

ii) Appropriation of Deemed ICMS Credit in the State of Minas Gerais, linked to the Protocol of Intentions for Investment in the Paper plant located in the Municipality of Santa Luzia, which was not started since the Company is awaiting authorization from the Environmental Bodies and for its strategic market reasons. The amount recognized up to June 30, 2019 totaled R$

7,230, and a related provision for tax risks was recorded, at the adjusted amount of R$ 9,837.

Contingencies

No accounting provisions were recorded for contingencies assessed by management, together with its legal advisors, as possible losses. As of June 30, 2019, the amounts of these possible contingencies of a labor, civil, environmental and tax nature were as follows:

	Consolidated	
	06/30/19	12/31/18
Labor contingencies	16,677	10,422
Civil liability contingencies	8,813	8,539
Tax contingencies	112,732	99,884
	138,222	118,845

Labor contingencies:

The labor lawsuits assessed by management and the legal counsel as involving possible risk of loss amounted to R$ 16,677 on June 30, 2019 and relate mainly to indemnity claims (hazardous duty premiums, health hazard premiums, overtime, salary premiums, damages and losses arising from occupational accidents). These lawsuits are currently at different procedural stages.

Civil contingencies:

The tax lawsuits classified by management and its legal counsel as involving risk of possible losses totaled R$ 8,813 on June 30, 2019 and relate mainly to indemnity claims that are currently at different procedural stages.

Tax Contingencies – Liabilities:

The tax lawsuits assessed by management and its legal counsel as involving possible losses totaled R$ 112,732 on June 30, 2019, and mainly include the following:

- Administrative and judicial proceedings relating to assessments received from the state government of Santa Catarina and of the State of São Paulo for allegedly undue ICMS tax credits recorded on the purchase of materials used in the manufacturing units located in that state, which amounted to R$ 44,104 on June 30, 2019. The Company is discussing said tax assessment notices in the administrative and judicial spheres.

- Administrative proceedings related to Tax Assessments for PIS and COFINS, arising from alleged undue tax credits, amounting to R$ 38,920 on June 30, 2019. The Company has challenged these assessments at the administrative level and awaits judgment of the Special Appeals filed.

- Administrative and judicial proceedings filed by the National Institute of Social Security (INSS), with respect to a Debt Assessment Notice referring to the payment of social security contribution on the gross revenue from sale of the production of agro-industrial companies, and the offset of debts against credits arising from the application of a higher Environmental Occupational Risk (RAT) rate at the Company's Administrative Units regarding the INSS tax assessment notice from write-off of debits and from these credit debits of the same type totaled R$ 12,598 as of June 30, 2019. The Company is discussing said tax assessment notices in the administrative and judicial spheres.

- Administrative Proceeding relating to federal taxes offset against deemed Excise Tax (IPI) credits on exports, amounting to R$ 6,028 on June 30, 2019. The Company is challenging this tax assessment at the judicial level.

- Proceedings relating to Tax Assessment Notices issued for the offset of Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) against credits from the same taxes, amounting to R$ 3,491 on June 30, 2019. The Company is discussing said tax assessment notices in the administrative and judicial spheres.

Tax Contingencies – Assets

The company is a party to a tax lawsuit that questions the recognition of the right to exclude ICMS from the calculation of PIS and COFINS tax, as well as the compensation of wrongly recognized values. The said lawsuits refer to values wrongly collected by Celulose Irani S.A. and by the incorporated company Indústria de Papel e Papelão São Roberto S.A. The said lawsuits have the following numbers: 2006.34.00.035946 (TRF1) and 5035712-95.2016.4.04.7100 (TRF4). Both the lawsuits wait the final decision and, based on preliminary analysis, prepared based on information available on June 30, 2019, according to judicial decisions proffered to date (both in the sense of determining the exclusion of outstanding ICMS on invoices). The company estimated the potential amount of updated credits in approximately R$ 150,000, corresponding to fiscal years that predate the lawsuits´ starting date by 5 years until the date of March 2017 (the Supreme Court´s decisions date). The said amount can be significantly altered because the final decision about the modulation request presented by the federal government in e leading case is still not complete, and because the uncertainty regarding a fixed model of calculating the exclusion of outstanding ICMS or ICMS to collect from the base of PIS/COFINS.

20. SHAREHOLDER´S EQUITY

a) Capital

On June 30, 2019 and December 31, 2018, the capital is R$ 161,895, comprised of 166,720,235 nominative common shares, with no par value, 153,909,975 are common and 12,810,260 are preferred shares. The holders of preferred shares are entitled to: dividends under the same conditions as those granted to holders of common shares; priority in the reimbursement of capital at the equity value, without premium, in the event of liquidation of the Company; and 100% Tag Along rights. The Company may issue preferred shares, with no par value and with no voting rights, up to the limit of two thirds of its total shares and may increase the existing types or classes of shares without the requirement of maintaining a fixed proportion between them.

b) Treasury Shares

		Parent company		Parent company	
		06/30/2019		12/31/2018	
		Amount.	Amount	Amount.	Amount
i) Repurchase Plan	Common	24,000	30	24,000	30
iii) Withdrawal right	Preferred	2,352,100	6,804	2,352,100	6,804
		2,376,100	6,834	2,376,100	6,834

i) Repurchase plan: its purpose was to maximize the value of the shares to shareholders, with a deadline of 365 days for the performance of the transaction, up to November 23, 2011.

ii) Right of withdrawal: the shares acquired were subject to changes in the advantages assigned to the Company's preferred shares, as resolved at the Annual and Extraordinary Shareholders' Meeting held on April 19, 2012. The holders of the dissenting preferred shares were entitled to withdraw from the Company by reimbursing the value of the shares based on the equity value recorded in the balance sheet for the year ended 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. All options were exercised from April 1, 2013 to April 30, 2013. The Company does not have any legal or non-formalized obligation (constructive obligation) of repurchasing or settling options in cash.

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

d) Profit reserves

The profit reserves comprise: i) legal reserve, ii) biological assets' reserve, iii) profit retention reserve, iv) tax incentive reserve.

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

ii) The biological assets reserve was recorded since the Company valued its biological assets at fair value in the opening balance sheet for initial adoption of IFRS. The creation of this statutory reserve was approved at the Special Shareholders' Meeting held on February 29, 2012, when the amount previously recognized in the unrealized profit reserve was transferred to this account.

iii) The profit retention reserve is composed of the balance of retained earnings after the offsetting of losses and the formation of the legal reserve, and the net amount of dividends distributed. The respective resources will be allocated to investments in fixed assets previously approved by the Board of Directors, or may be distributed in the future, as approved by the Annual Shareholders' Meeting. Certain agreements with creditors contain restrictive clauses relating to the distribution of dividends that exceed the minimum mandatory dividend.

iv) The tax incentive reserve was recorded by the portion of net income from previous years derived from government grants for investments, according to items ii. and iii. of Note 30 and is excluded from basis of mandatory dividend.

e) Equity valuation adjustments

It was recorded since the Company valued its fixed assets (land, machinery and buildings) at deemed cost in the opening balance sheet for initial adoption of IFRS. Its realization will take place as the related deemed cost is depreciated, at which time the related amounts will also be adjusted in the basis for calculating dividends. The balance on June 30, 2019, net of tax effects, represented a gain of R$ 183,124 (R$ 187,597 at December 31, 2018).

The financial instruments designated as cash flow hedges, net of tax effects, were also recorded in book value adjustments, and corresponded to a loss of R$ 93,716 on June 30, 2019 (R$ 108,691 at December 31, 2018).

Changes in equity valuation adjustments are as follows:

	Consolidated
December 31, 2017	118,672
Cash flow hedge	(30,818)
Realization - deemed cost	(8,948)
December 31, 2018	78,906
Cash flow hedge	14,975
Realization - deemed cost	(4,473)
June 30, 2019	89,408

21. LOSS PER SHARE

The basic and diluted loss per share is calculated by dividing the loss from continued and discontinued operations attributable to the Company's shareholders by the weighted average number of shares available during the year. The shares are not subject to the effects of potential dilution, such as debt convertible into shares. Consequently, diluted losses per share are equal to basic losses per share.

Basic and diluted profit/loss from continued operations:

	3 month period ending in 06/30/19		
	Common Shares	Preferred shares	Common & Preferred shares Total
Weighted average of the number of shares	153,885,975	10,458,160	164,344,135
Income for the attributable year to each type of shares	(11,958)	(813)	(12,771)
Basic and diluted loss per share - R$	(0.0777)	(0.0777)	

	3 month period ending in 06/30/18		
	Common Shares	Preferred shares	Common & Preferred shares Total
Weighted average of the number of shares	153,885,975	10,458,160	164,344,135
Loss for the attributable year to each type of shares	4,942	336	5,278
Profit per basic and diluted share – R$	0.0321	0.0321	

	6 month period ending in 06/30/19		
	Common Shares	Preferred shares	Common & Preferred shares Total
Weighted average of the number of shares	153,885,975	10,458,160	164,344,135
Net income/loss for the period attributable to each type of shares	(17,916)	(1,218)	(19,134)
Basic and diluted losses per share - R$	(0.1164)	(0.1164)	

	6 month period ending in 06/30/18		
	Common Shares	Preferred shares	Common & Preferred shares Total
Weighted average of the number of shares	153,885,975	10,458,160	164,344,135
Net loss for the attributable period to each type of shares	21	1	22
Profit per basic and diluted share – R$	0.0001	0.0001	

22. NET SALES

The Company's net sales are comprised by the following:

	Parent Company		Parent Company	
	6 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Gross sales of goods	310,371	272,323	606,777	553,714
Sales tax	(63,824)	(54,014)	(127,705)	(110,798)
Sales returns	(4,084)	(2,433)	(8,316)	(4,754)
Net sales	242,463	215,876	470,756	438,162

	Consolidated		Consolidated	
	6 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Gross sales of goods	313,070	275,578	612,327	560,455
Sales tax	(63,930)	(54,274)	(127,783)	(111,358)
Sales returns	(4,084)	(2,469)	(8,464)	(4,905)
Net sales	245,056	218,835	476,080	444,192

23. COSTS AND EXPENSES BY TYPE

Breakdown of expenses per type is shown as follows:

	Parent Company		Parent Company	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Fixed and variable costs (raw and consumption material)	(134,851)	(114,332)	(256,599)	(234,044)
Personnel expenses	(39,504)	(38,216)	(74,323)	(75,159)
Change in fair value - biological assets	346	2,660	2,619	4,238
Depreciation, amortization and depletion	(18,734)	(12,208)	(35,384)	(24,754)
Freight - Sales	(13,416)	(10,603)	(26,290)	(22,303)
Contracting services	(6,334)	(5,907)	(15,257)	(12,155)
Other sales expenses	(10,333)	(9,333)	(18,364)	(18,406)
Total costs and expenses by type	(222,826)	(187,939)	(423,598)	(382,583)
Portion of cost	(184,752)	(156,520)	(352,409)	(318,939)
Portion of expense	(38,420)	(34,079)	(73,808)	(67,882)
Change in fair value of biological assets	346	2,660	2,619	4,238
	-	-	-	-

	Consolidado		Consolidado	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Fixed and variable costs (raw and consumption material)	(127,875)	(107,452)	(241,236)	(217,662)
Personnel expenses	(42,828)	(40,615)	(79,837)	(80,111)
Change in fair value - biological assets	(1,270)	3,306	1,337	4,123
Depreciation, amortization and depletion	(21,263)	(16,482)	(41,860)	(34,313)
Freight - Sales	(13,846)	(10,603)	(26,720)	(22,303)
Contracting services	(7,036)	(6,172)	(16,568)	(12,765)
Other sales expenses	(10,333)	(9,333)	(19,115)	(18,406)
Total costs and expenses by type	(224,451)	(187,351)	(423,999)	(381,437)
Portion of cost	(183,988)	(156,332)	(349,821)	(317,049)
Portion of expense	(39,193)	(34,325)	(75,515)	(68,511)
Change in fair value of biological assets	(1,270)	3,306	1,337	4,123

24. OPERATING REVENUES AND EXPENSES

Revenues	Parent Company		Parent Company	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Revenue from claimed and disposed goods	189	508	410	568
Other operating revenues	545	329	983	746
	734	837	1,393	1,314

Expenses	Parent Company		Parent Company	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Costs of claimed and disposed goods	(212)	(208)	(219)	(346)
Exclusion of ICMS from contribution base of PIS and COFINS	-	-	-	(6,120)
Fine - exclusion of ICMS from the base of contributions of PIS and COFINS	-	- (1,188)	-	(2,295)
Reversion of provision for loss of receivable credits XKW Trading	-	500	-	500
Provision of government grants - State of MG	(338)	(423)	(752)	(833)
Other operating expenses	(947)	(59)	(1,381)	(213)
	(1,497)	(1,378)	(2,352)	(9,307)
Total	(763)	(541)	(959)	(7,993)

Revenues	Consolidated		Consolidated	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Revenue from claimed and disposed goods	189	508	431	568
Other operating revenues	546	537	990	962
	735	1,045	1,421	1,530

Expenses	Consolidated		Consolidated	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Costs of claimed and disposed goods	(212)	(209)	(219)	(347)
Exclusion of ICMS from contribution base of PIS and COFINS	-	-	-	(6,120)
Fine - exclusion of ICMS from the base of contributions of PIS and COFINS	-	(1,188)	-	(2,295)
Reversion of provision for loss of receivable credits XKW Trading	-	500	-	500
Provision of government grants - State of MG	(338)	(423)	(752)	(833)
Other operating expenses	(958)	(59)	(1,382)	(230)
	(1,508)	(1,379)	(2,353)	(9,325)
Total	(773)	(334)	(932)	(7,795)

25. FINANCIAL REVENUES AND EXPENSES

	Parent Company		Parent Company	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Financial revenues				
Yields from financial investments	228	1,173	1,139	1,884
Interest	702	334	917	658
Discounts obtained	116	154	340	231
	1,046	1,661	2,396	2,773
Exchange-rate change				
Foreign-exchange income	2,207	4,854	7,903	8,675
Foreign exchange costs	(9,416)	(4,035)	(26,347)	(7,088)
Net exchange rate change	(7,209)	819	(18,444)	1,587
Financial expenses				
Interest	(24,145)	(25,890)	(49,166)	(48,801)
Discounts granted	(441)	(117)	(567)	(302)
Negative goodwill/bank expenses	(262)	(7)	(452)	(7)
Liability interest on leases	(522)		(1,045)	
Other	(49)	(296)	(111)	(654)
	(25,419)	(26,310)	(51,341)	(49,764)
Net financial income (loss)	(31,582)	(23,830)	(67,389)	(45,404)

	Consolidated		Consolidated	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Financial revenues				
Yields from financial investments	238	1,181	1,158	1,902
Interest	701	334	918	658
Discounts obtained	118	155	342	232
	1,057	1,670	2,418	2,792
Exchange-rate change				
Foreign-exchange income	2,207	4,854	7,903	8,675
Foreign exchange costs	(9,416)	(4,035)	(26,347)	(7,088)
Net exchange rate change	(7,209)	819	(18,444)	1,587
Financial expenses				
Interest	(24,148)	(25,892)	(49,173)	(48,804)
Discounts granted	(441)	(117)	(567)	(301)
Negative goodwill/bank expenses	(262)	(7)	(453)	(8)
Liability interest on leases	(522)		(1,045)	
Other	(49)	(297)	(111)	(655)
	(25,422)	(26,313)	(51,349)	(49,768)
Net financial income (loss)	(31,574)	(23,824)	(67,375)	(45,389)

26. INCOME TAX AND SOCIAL CONTRIBUTION

	Parent Company		Parent Company	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Operating income/(loss) before tax effects	(11,752)	7,176	(16,312)	9,375
Basic rate	34%	34%	34%	34%
Tax debit (credit) at the basic rate	3,996	(2,440)	5,546	(3,188)
Unrecognized income tax and social contribution	(3,996)	-	(5,546)	-
Tax effect from permanent (additions) exclusions:				
Equity in net income of subsidiaries	325	1,227	1,659	2,448
Other permanent differences	(1,344)	(685)	(4,481)	(8,613)
	(1,019)	(1,898)	(2,822)	(9,353)
Current income tax and social contribution	-	-	-	-
Deferred income tax and social contribution	(1,019)	(1,898)	(2,822)	(9,353)
Effective rate - %	(8.7)	26.4	(17.3)	99.8

	Consolidated		Consolidated	
	3 month period ending in		6 month period ending in	
	06/30/19	06/30/18	06/30/19	06/30/18
Operating income/(loss) before tax effects	(11,742)	7,326	(16,226)	9,571
Basic rate	34%	34%	34%	34%
Tax debit (credit) at the basic rate	3,992	(2,491)	5,517	(3,254)
Unrecognized income tax and social contribution	(3,992)	-	(5,517)	-
Tax effect from permanent (additions) exclusions:				
Subsidiaries taxed by the presumed profit	(325)	(1,227)	(1,276)	(2,448)
Other permanent differences	(704)	1,670	(1,632)	(3,847)
	(1,029)	(2,048)	(2,908)	(9,549)
Current income tax and social contribution	(75)	(161)	(156)	(258)
Deferred income tax and social contribution	(954)	(1,887)	(2,752)	(9,291)
			-	
Effective rate - %	(8.8)	28.0	(17.9)	99.8

27. INSURANCE

Insurance coverage is determined according to the nature of the risks to the assets and is considered enough to cover possible losses arising from damages. On June 30, 2019, the Company had corporate insurance against fire, lightning, explosions, electrical damage and wind storm damage to plants, residential locations and offices, as well as general civil liability coverage and coverage of liabilities of officers and directors (D&O), with a total

amount of R$ 479,340. Group life insurance is also contracted for employees with a minimum coverage of 24 times the employee's salary or a maximum amount of R$ 500, as well as fleet insurance for vehicles with coverage at market value.

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

28. FINANCIAL INSTRUMENTS

Capital risk management

The Company's capital structure consists of its net debt (borrowings detailed in Note 15, less cash and bank balances), less cash and bank balances), as disclosed in Note 5, and shareholders' equity (which includes issued capital, reserves and retained earnings, as disclosed in Note 20).

The Company is not subject to any external capital requirements.

Company's Management periodically reviews its capital structure. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Company intends to maintain a capital structure from 50% to 70% of own capital and from 50% to 30% of third-party capital. On June 30, 2019, the capital structure comprised 29% of own capital and 71% of third-party capital, because of the exchange-rate change on foreign currency debt, which accounts for 43.96% of the Company's total debt, and the effects of the exchange-rate change on hedge accounting, which reduces shareholders' equity by R$ 141,994.

Indebtedness Level

The indebtedness index on June 30, 2019 and December 31, 2018 is as follows:

	Parent Company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Debt (a)	760,771	824,875	760,844	824,966
Cash and balance in banks	(29,233)	(130,778)	(30,546)	(132,219)
Net debt	731,538	694,097	730,298	692,747
Shareholders' equity (b)	305,001	309,160	305,009	309,168
Net Debt Ratio	2.40	2.25	2.39	2.24

(a) Debt is defined as short and long-term loans and financing, as detailed in note 15.

(b) Shareholders' equity includes the entire Company's capital and reserves, managed as capital.

Categories of financial instruments

	Parent Company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Financial assets				
Fair value through profit or loss				
Cash and balance in banks	29,233	130,778	30,546	132,219
Amortized cost				
Trade accounts receivable	180,413	169,226	182,080	170,873
Other accounts receivable	2,069	783	2,216	819
Financial liabilities				
Amortized cost				
Loans and financing	760,771	824,875	760,844	824,966
Suppliers	113,697	118,983	79,315	95,085
Advances from clients	9,293	1,395	9,437	1,399

Financial risk factors

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

Aiming to establish rules for financial management, the Company has maintained the Financial Management Policy since 2010. Such Policy regulates and establishes guidelines for the use of financial instruments.

The Company does not make any speculative investments in derivatives or any other financial assets.

Foreign exchange exposure risk

The Company has transactions in the foreign market that are exposed to fluctuations in the exchange rates of foreign currencies. As of June 30, 2019, and December 31, 2018, these operations presented a net liability exposure as the table below.

As most of the loans and financing in foreign currency are repayable in the long-term, the Company hedges the net foreign exchange exposure with the equivalent to 20 months of exports, based on the average of exports carried out in the six-month period of 2019 and to 22 months of exports based on the average exports carried out in 2018.

	Parent Company		Consolidated	
	06/30/19	12/31/18	06/30/19	12/31/18
Accounts receivable	32,575	25,303	32,575	25,303
Advances from clients	(8,562)	(565)	(8,562)	(565)
Suppliers	4,085	552	4,085	552
Loans and financing	(334,401)	(378,255)	(334,401)	(378,255)
Net exposure	(306,303)	(352,965)	(306,303)	(352,965)

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 income (loss) and shareholders' equity, as described below:

1 – Base scenario: for the definition of the base scenario, the U.S. dollar quotation used by the Company is based on future market projections of B3 for the next reporting date (September 30, 2019).

2 – Adverse scenario: 25% deterioration in the foreign exchange rate compared to that projected for September 30, 2019.

3 – Remote scenario: 50% deterioration in the foreign exchange rate compared to that projected for September 30, 2019.

Operation	Balance at 06/30/19		Base scenario Gain (Loss)		Adverse scenario Gain (Loss)		Remote scenario Gain (Loss)
	U$$	Rate	R$	Rate	R$	Rate	R$
Assets							
Accounts receivable and banks assigned account	8,500	3.79	(391)	4.73	7,655	5.68	15,700
Liabilities							
Suppliers and advances from clients	3,300	3.79	(152)	4.73	2,972	5.68	6,095
Loans and financing	(87,261)	3.79	4,010	4.73	(78,588)	5.68	(161,171)
Net effect			3,467		(67,961)		(139,376)

The Company maintains a natural cash flow hedge on exports amounting to US$ 81,637, which pursuant to the accounting practice is not considered for purposes of this sensitivity analysis.

This sensitivity analysis is intended to measure the impact of changes in foreign exchange market variables on each financial instrument of the Company. The balances at June 30, 2019 were used as a basis for the projection of the future balance. The effective behavior of the debt balances will respect their respective contracts. Moreover, the balances of accounts receivable and payable may fluctuate due to the normal activities of the Company and its subsidiaries. However, settling the transactions involving such estimates may result in sums different from those estimated, owing to the subjectivity contained in the procedure used to prepare these analyses. The Company maintains its loans and financing exposed to exchange-rate changes by making annual net payments that are equivalent to or below the receipts from its exports. Accordingly, the Company seeks to hedge its cash flow against foreign currency risks, and the effects of the scenarios above, if they materialize, are not expected to generate material impacts on its cash flow.

Interest rate risk

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

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

1 – Base scenario: for the definition of the base scenario, the CDI and SELIC rates used by the Company accompany the future market projections of B3 for the next reporting date (September 30, 2019). The TJLP is extracted from the BNDES. The rates on the date of analysis are used for LIBOR and EURIBOR.

2 – Adverse scenario: 25% adjustment of interest rates compared to the level projected for September 30, 2019.

3 – Remote scenario: 50% adjustment of interest rates compared to the level projected for September 30, 2019.

Operation	Index	Balance at 06.30.18	Base scenario Gain (loss) Rate % p.a.	R$	Adverse scenario Gain (loss) Rate % p.a.	R$	Remote scenario Gain (loss) Rate % p.a.	R$
Cash and cash equivalents								
CDB	CDI	23,423	6.07%	(51)	7.59%	182	9.11%	415
Funding								
Working capital	CDI	(392,662)	6.07%	1,436	7.59%	(5,170)	9.11%	(11,775)
BNDES	TJLP	(28,007)	5.95%	87	7.44%	(330)	8.93%	(746)
Finame	TJLP	(2,308)	5.95%	7	7.44%	(27)	8.93%	(61)
Finame	SELIC	(354)	6.07%	2	7.59%	(4)	9.11%	(10)
Financing in foreign currency	Libor 3M	(312,861)	2.30%	52	2.88%	(1,749)	3.45%	(3,551)
Financing in foreign currency	Euribor 6M	(1,505)	0.00%	-	0.00%	-	0.00%	-
Net Effect on Income				1,533		(7,098)		(15,728)

Fair value vs. book value

Fair value is the price received upon the sale of an asset or which would be paid by transfer of a liability of a non-forced transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair value:

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

- Loans and financing - considering the renegotiations of recent debts and the interest rates on loans contracted, and based on market information, we believe that the fair value of borrowings does not differ significantly from its book value.

Credit risks

The Company's credit sales are managed through a credit rating and credit granting policy. Doubtful loans are adequately covered by provision to cope with possible losses in the realization thereof.

Trade accounts receivable comprise many customers from different sectors and geographical areas. An ongoing credit assessment is performed on the financial condition of the accounts receivable and, where appropriate, a credit guarantee coverage is requested.

Renegotiations with clients are mostly backed by debt acknowledgment agreements, machinery, equipment, and properties pledged as collateral, in addition to individual sureties guaranteeing the amount of debt.

Liquidity risk

Management monitors the liquidity level based on the expected cash flow, which comprises cash, interest earning bank deposits, flows of accounts receivable and payable, and payment of loans and financing. The liquidity management policy involves projections of cash flows in currencies used and a reflection on the net assets required to reach 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 on June 30, 2019, and the details on the expected maturity dates for non-derivative, undiscounted financial assets, including accrued interest on these assets. Although the Company only presents the maturity analyzes of financial liabilities, information on non-derivative financial assets is required to understand the management of the Company's liquidity risk, since it is managed based on net assets and liabilities.

Parent company

	2019	2020	2021	2022	> 2023
Liabilities					
Suppliers	113,697	-	-	-	-
Loans and financing	216,801	295,922	196,011	107,403	126
Installments	3,677	6,587	6,587	6,587	3,294
	334,175	302,509	202,598	113,990	3,420

Consolidated

	2019	2020	2021	2022	> 2023
Liabilities					
Suppliers	79,315	-	-	-	-
Loans and financing	216,827	295,963	196,024	107,403	126
Installments	3,677	6,587	6,587	6,587	3,294
	299,819	302,550	202,611	113,990	3,420

The amounts included for post-fixed non-derivative financial liability instruments are subject to change if the change in post-fixed interest rates differs from these estimates at the end of the reporting period.

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

Derivative financial instruments

The Company did not hire any derivative financial instrument on June 30, 2019.

Cash flow hedge

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

Accordingly, the Company hedges the exchange-rate change risk of its future cash flows by contracting non-derivative financial liabilities, which are considered as natural hedge. The financial instruments contracted by the Company currently in force are an Export Prepayment with Bank of America NA, an Export Prepayment agreement with Rabobank and Santander and an Export Prepayment agreement with Banco Santander.

The hedged cash flows are the estimated exports up to 2021, and the amount recorded in shareholders' equity based on hedge accounting amounted to R$ 93,716 on June 30, 2019 (R$ 108,691 in December 2018).

Changes in cash flow hedge

	Parent company and Consolidated 06/30/19	Parent company and Consolidated 12/31/18
Opening balance	164,683	117,989
Changes in cash flow hedge	(2,939)	55,167
Reclassification to income (loss)	(19,750)	(8,473)
	141,994	164,683
Opening balance	(55,992)	(40,116)
Taxes on change in cash flow hedge	999	(18,757)
Taxes on reclassification to income (loss)	6,715	2,881
	(48,278)	(55,992)
Closing balance	93,716	108,691

The Company estimates the hedge effectiveness based on the U.S. dollar offset methodology, according to which the changes in the fair value of the hedge instrument

are compared with the changes in the fair value of the hedged item, which should range between 80% and 125%.

The balances of actual changes in operations designated as cash flow hedges are reclassified from shareholders' equity to income (loss) for the period in which the hedged exchange-rate change is effectively realized. Effective cash flow hedge results upon offsetting the change in hedged expenses are recorded in memorandum accounts of the hedged expenses, reducing or increasing the operating income (loss), and the ineffective income (loss) is recognized as financial revenue or expense for the period.

Ineffectiveness was not detected in the period.

29. OPERATING SEGMENTS

a) Criteria for identifying operating segments

The Company's operating structure is segmented based on the way Management runs the business. The Company's revenue is segmented according to defined products and operating segments.

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

Corrugated Cardboard Packaging Division: this division manufactures boxes and light and heavy corrugated cardboard sheets, and has three production plants: 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 with two production units: Paper plant in the municipality of Santa Luzia, in the State of Minas Gerais.

RS Forest and Resins Segment: through this segment, the Company grows pine for its own use, sells wood and extracts resin from pine that serves as raw material to produce tar and turpentine.

b) Consolidated information from operating segments

	Consolidated				
	3 month period ending in 06/30/19				
	PO Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	130,492	58,841	2,409	-	191,742
Foreign market	-	29,022	24,292	-	53,314
Total net sales	130,492	87,863	26,701	-	245,056
Change in fair value - biological assets	-	(1,834)	564	-	(1,270)
Cost of products sold	(109,112)	(55,517)	(19,121)	(238)	(183,988)
Gross income	21,380	30,512	8,144	(238)	59,798
Operating expenses	(17,067)	(7,582)	(3,325)	(11,992)	(39,966)
Operating income (loss) before financial income (loss)	4,313	22,930	4,819	(12,230)	19,832
Financial income (loss)	(12,439)	(15,994)	(3,141)	-	(31,574)
Operating net income	(8,126)	6,936	1,678	(12,230)	(11,742)
Depreciation and amortization	(4,831)	(12,319)	(355)	(534)	(18,039)

	Consolidated				
	6 month period ending in 06/30/19				
	PO Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	266,532	111,966	3,573	-	382,071
Foreign market	-	48,744	45,265	-	94,009
Third-party sales revenue	266,532	160,710	48,838	-	476,080
Revenues between segments	-	-	-	-	-
Total net sales	266,532	160,710	48,838	-	476,080
Change in fair value - biological assets	-	418	919	-	1,337
Cost of products sold	(219,744)	(96,782)	(32,754)	(541)	(349,821)
Gross income	46,788	64,346	17,003	(541)	127,596
Operating expenses	(32,138)	(13,442)	(6,473)	(24,394)	(76,447)
Operating income (loss) before financial income (loss)	14,650	50,904	10,530	(24,935)	51,149
Financial income (loss)	(26,381)	(34,665)	(6,329)	-	(67,375)
Operating net income	(11,731)	16,239	4,201	(24,935)	(16,226)
Depreciation and amortization	(9,724)	(23,511)	(719)	(857)	(34,811)

	Consolidated				
	3 month period ending in 06/30/18				
	PO Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	136,164	44,190	2,386	-	182,740
Foreign market	-	19,174	16,921	-	36,095
Third-party sales revenue	136,164	63,364	19,307	-	218,835
Revenues between segments	-	8,139	-	(8,139)	-
Total net sales	136,164	71,503	19,307	(8,139)	218,835
Change in fair value - biological assets	-	2,447	859	-	3,306
Cost of products sold	(120,748)	(30,615)	(12,841)	7,872	(156,332)
Gross income	15,416	43,335	7,325	(267)	65,809
Operating expenses	(17,059)	(4,902)	(1,809)	(10,889)	(34,659)
Operating income (loss) before financial income (loss)	(1,643)	38,433	5,516	(11,156)	31,150
Financial income (loss)	(11,796)	(11,424)	(604)	-	(23,824)
Operating net income	(13,439)	27,009	4,912	(11,156)	7,326
Depreciation and amortization	(3,481)	(8,171)	(276)	(365)	(12,293)

	Consolidated				
	6 month period ending in 06/30/18				
	PO Packaging	Packaging Paper	RS Forest and Resins	Corporate/ eliminations	Total
Net sales:					
Domestic market	277,625	90,032	4,710	-	372,367
Foreign market	-	35,998	35,827	-	71,825
Third-party sales revenue	277,625	126,030	40,537	-	444,192
Revenues between segments	-	10,416	-	(10,416)	-
Total net sales	277,625	136,446	40,537	(10,416)	444,192
Change in fair value - biological assets	-	6,757	(2,634)	-	4,123
Cost of products sold	(247,057)	(60,250)	(27,680)	17,938	(317,049)
Gross income	30,568	82,953	10,223	7,522	131,266
Operating expenses	(38,659)	(12,005)	(4,163)	(21,479)	(76,306)
Operating income (loss) before financial income (loss)	(8,091)	70,948	6,060	(13,957)	54,960
Financial income (loss)	(21,296)	(21,939)	(2,154)	-	(45,389)
Operating net income	(29,387)	49,009	3,906	(13,957)	9,571
Depreciation and amortization	(6,884)	(16,755)	(542)	(741)	(24,922)

The balance in the Corporate/eliminations column substantially involves expenses of the corporate support area, not apportioned to the other segments, while the eliminations refer to adjustments of operations between the remaining segments, which are carried out at usual market prices and conditions.

Financial income (loss) is allocated by operating segment, taking into consideration the specific allocation of each item of financial revenue and expense to the respective segment, and the allocation of common revenues and expenses 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

In 2Q19, net sales totaled R$ 245,056 (R$ 218,835 in the 2Q18) and net sales amounted to R$ 476,080 in the first semester of 2019 (R$ 444,192 in the first semester of 2018).

Net sales for the foreign market in 2Q19 totaled R$ 53,314 (R$ 36,095 in 2Q18) and net sales for the foreign market amounted to R$ 94,009 in the first semester of 2019 (R$ 71,825 in the first semester of 2018), distributed among several countries according to the table below:

Consolidated		
3 month period ending in 06/30/2019		
Country	Net exports	% in total net revenue
South Africa	10,410	4.25%
Germany	7,507	3.06%
Saudi Arabia	5,901	2.41%
Argentina	5,024	2.05%
Bolivia	3,022	1.23%
Canada	2,535	1.03%
Chile	2,315	0.94%
China	2,070	0.84%
Singapore	1,944	0.79%
Colombia	1,671	0.68%
Dubai	1,537	0.63%
Spain	1,436	0.59%
USA	1,387	0.57%
France	1,099	0.45%
India	1,021	0.42%
Israel	895	0.37%
Italy	807	0.33%
Japan	712	0.29%
Mexico	402	0.16%
Netherlands	373	0.15%
Pakistan	303	0.12%
Paraguay	206	0.08%
Peru	187	0.08%
Portugal	184	0.08%
Republic of Trinidad and Tobago	170	0.07%
Turkey	102	0.04%
Uruguay	94	0.04%
	53,314	21.75%

Consolidated		
3 month period ending in 06/30/18		
Country	Net exports	% in total net revenue
Saudi Arabia	4,493	2.05%
Argentina	3,673	1.68%
Germany	3,487	1.59%
Chile	2,451	1.12%
Portugal	2,117	0.97%
Japan	1,830	0.84%
Paraguay	1,732	0.79%
France	1,717	0.78%
South Africa	1,680	0.77%
Peru	1,648	0.75%
India	1,471	0.67%
Netherlands	1,448	0.66%
Mexico	1,439	0.66%
Turkey	1,385	0.63%
China	1,344	0.61%
Uruguay	1,070	0.49%
Bolívia	826	0.38%
Hong Kong	547	0.25%
Singapore	468	0.21%
Israel	407	0.19%
Spain	342	0.16%
United Kingdom	168	0.08%
Canada	96	0.04%
Pakistan	95	0.04%
Italy	85	0.04%
Colombia	76	0.03%
	36,095	16.48%

Consolidated		
6 month period ending in 06/30/19		
Country	Net exports	% in total net revenue
Argentina	17,214	3.62%
China	11,994	2.52%
Saudi Arabia	10,111	2.12%
Portugal	9,729	2.04%
Japan	6,023	1.27%
South Africa	4,199	0.88%
Chile	4,141	0.87%
India	4,124	0.87%
Paraguay	3,497	0.73%
Netherlands	3,175	0.67%
France	3,082	0.65%
Spain	2,963	0.62%
Peru	2,387	0.50%
Mexico	2,082	0.44%
Uruguay	2,002	0.42%
Turkey	1,866	0.39%
Bolivia	1,499	0.31%
Germany	1,245	0.26%
USA	721	0.15%
Colombia	445	0.09%
Canada	338	0.07%
Pakistan	303	0.06%
Israel	280	0.06%
Singapore	206	0.04%
Italy	187	0.04%
Dubai	102	0.02%
Republic of Trinidad and Tobago	94	0.02%
	94,009	19.73%

Consolidated		
6 month period ending in 06/30/18		
Country	Net exports	% in total net revenue
Germany	8,826	1.99%
Saudi Arabia	8,306	1.87%
Argentina	6,631	1.49%
France	6,585	1.48%
Chile	4,163	0.94%
Japan	3,904	0.88%
Netherlands	3,516	0.79%
Paraguay	3,436	0.77%
South Africa	3,381	0.76%
Portugal	3,243	0.73%
China	3,034	0.68%
Peru	2,709	0.61%
Turkey	2,570	0.58%
India	2,345	0.53%
Mexico	2,270	0.51%
Uruguay	1,551	0.35%
Hong Kong	1,131	0.25%
Bolivia	908	0.20%
Israel	751	0.17%
Singapore	468	0.11%
Spain	342	0.08%
Colombia	301	0.07%
Kuwait	264	0.06%
Canada	261	0.06%
United Kingdom	241	0.05%
Pakistan	177	0.04%
Italy	159	0.04%
Republic of Trinidad and Tobago	152	0.03%
Austria	117	0.03%
Egypt	83	0.02%
	71,825	16.17%

In 2Q19, Company's net sales in the domestic market totaled R$ 191,742 (R$ 182,740 in 2Q18). In the first semester of 2019, sales in the domestic market amounted to R$ 382,071 (R$ 372,367 in the first semester of 2018).

In the 2Q19, a single client accounted for 7.2% of net sales in the domestic market of the Corrugated Cardboard Packaging segment, equivalent to R$ 9,799. The Company's other sales in the domestic and foreign markets were spread over several clients, none of them accounting for more than 10% of net sales.

30. GOVERNMENT GRANT

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

i) ICMS/SC – Prodec: allows that 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, 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 obligations.

Regarding the incentive amounts, there will be charges at contractual rates of 4.0% per annum. For the purposes of calculating the present value of this benefit, the Company used the average rate of 11.44% as the funding cost for the financing facilities with characteristics like those required for the respective disbursements if it did not have the benefit.

The benefit is effective for 14 years (10 years of fruition and 4 years of grace period), from January 2009 to December 2022, or up to the limit of R$ 55,199 of deferred ICMS. Up to June 30, 2019, the Company had deferred ICMS liabilities of R$ 15,813 (R$ 14,181 net of government grant).

ii) ICMS/SC – Presumed Credit: The State of Santa Catarina grants as the principal benefit to the appropriation of deemed credit in the ICMS memorandum account, in the taxed shipments of industrialized products whose production used recyclable material corresponding to at least 40% of the cost of the raw material, realized by the Company in the State, so that the final tax burden related to its own operation is equivalent to 2.25% of its value (of the own operation), with the purpose of making the expansion of the industrial unit located in the municipality of Vargem Bonita, in the State of Santa Catarina, possible. The planned investment is approximately R$ 600,000, distributed over five years of the concession, which can be renewed for an equal period, and will be used to increase paper and packaging production capacity.

iii) ICMS/MG - Presumed Credit: The State of Minas Gerais grants as the main benefit ICMS deemed credit resulting in the effective payment of 2% of the value of the shipment operations for the products industrialized by the Company, with the purpose of allowing the expansion of the industrial plant located in the municipality of Santa Luzia, in the State of Minas Gerais. The total estimated investment is approximately R$ 220,000, and the amount to be invested will be used in the modernization and expansion of the production capacity of Paper Machine No. 7 (PM 7), and for the construction of a new corrugated cardboard production plant.

31. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Parent company and Consolidated

	Land	Buildings and constructions	Equipment and facilities	Total
Initial recognition on 01/01/2019	6,215	15,613	3,794	25,622
Accumulated depreciation	(440)	(942)	(566)	(1,948)
Book balance, net on 06/30/2019	5,775	14,671	3,228	23,674
Cost	6,215	15,613	3,794	25,622
Accumulated depreciation	(440)	(942)	(566)	(1,948)
Book balance, net on 06/30/2019	5,775	14,671	3,228	23,674

The calculation of the right to use assets is equal to the present value of the lease liability discounted using the rates of 12.06% and 14.43% p.a., calculated using the risk-free rate (NTN), the risk spread of the company, the corresponding risk of the country and the specific risk of the asset. The company calculated depreciation using the linear method according to the remaining period of the contracts with an average remaining period of 6.5 years.

The lease agreements have lease liabilities, as shown below:

Parent company and Consolidated

	Land	Buildings and constructions	Equipment and facilities	Total
Initial recognition on 01/01/2019	10,314	26,758	4,697	41,769
Lease installment	-	(1,572)	(696)	(2,268)
Initial recognition of interest to be incurred on 01/01/2019	(4,099)	(11,145)	(903)	(16,147)
Interest on lease	288	628	128	1,044
Book balance, net on 06/30/2019	6,503	14,669	3,226	24,398
Short term				3,830
Long term				20,568

The interest over lease are recorded as financial expenses and appropriated according to the time remaining in each contract.

The long-term payments are distributed as follows:

Long-term maturity dates:	Parent company and Consolidated
2020	5,941
2021	5,937
2022	4,810
2023	4,810
> 2024	12,053
	33,551

The impacts on the income statement according to the standard CPC 06 (R2)/ IFRS 06, were that the lease considerations that were previously recorded as lease expenses are now recorded on the lines of depreciation and financial expenses. Even though the new standard did not bring any modifications to the total amount that will be taken to the income statement throughout the life of the contract, it is correct to state that there is a time effect in the income, with a reduction of R$ 724 in the first semester of 2019.

In relation to taxes, there is a time effect on income tax and social contribution, once the recognized values are adjusted based on real income, which will realize once the lease contracts realize themselves. And for recoverable taxes PIS/COFINS, we continue to recognize at the income statement the credits based on the payments of the considerations.

For tax considerations, it is secured the neutrality, for income tax and social contribution, as well as for credits such as PIS/COFINS not having any influence in the calculation of these taxes.

32. TRANSACTIONS NOT AFFECTING CASH

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

During the six-month period of 2019, the company realized PIS and COFINS credits over items of PPE totaling R$ 575 and received receivable credits from clients in exchange for investment property land totaling R$ 2,432.

During the six-month period of 2018, the Company made payments for purchases of property, plant and equipment, intangible assets and biological assets in the amount of R$ 3,477, which were financed directly by suppliers, and made a capital contribution with planted forests in the subsidiary Iraflor Comércio de Madeira Ltda. in the amount of R$ 5,030.

33. SUBSEQUENT EVENTS

On June 24, 2019, the board of directors approved the third issuance of simple debentures, non-convertible in shares, of the unsecured type, to be exchanged for cash with secured guarantee, in a single series, for public distribution with restricted distribution efforts. It will be composed of 580,000 debentures, with a unit nominal value of R$ 1,000, totaling, at the issuance date, R$ 580,000,000.00, with the possibility of a partial distribution of debentures, given that there is placement of, at least, 500,000 debentures totaling the minimum amount of R$ 500,000,000.00 with a maturity of six years after the issuance date.

According to the relevant fact disclosed on July 31, 2019, the partial distribution of debentures was realized, thus, the issuance will be composed of 505,000 debentures, with a unit nominal value of R$ 1,000 totaling, on the date of issuance, the amount of R$ 505,000,000.00 with the subsequent cancellation of non-internalized or non-subscript debentures.

The debentures will be paid according to the accrued variation of the average daily DI – Interfinance deposits of a day, over extra-group, expressed in percentage per year in a base of 252 business days (DI rate) plus 4.5% p.a.

Interest will be paid semesterly, with no grace period, after the date of issuance, always at the 19th of July and January of each year, being the first payment on January 19, 2020 and the last on the maturity date of the debentures and the balance of the unit nominal value of the debentures will be amortized in three installments, according to the debentures issuance charter, always at the 19th of July of each year, being the first installment on July 19, 2023 and the last on the maturity date of the debentures, July 19, 2025.

The debentures have a “brA” at the National Brazil Scale by the S&P Global Ratings and have the “Green” certificate according to the (i) second opinion charter issued by the specialized consulting company “SITAWI Finanças do Bem” on July 19, 2019, based on the directory of the Green Bond Principles, (ii) annual report by the company, during the validity of the debentures, of the environmental benefits granted by the company’s activities; and (iii) mark at the “B3 S.A. – Brasil, Bolsa Balcão” – CETIP UTVM segment (“B3”) systems as a green bond, reinforcing the company´s commitment to social, economic and environmental issues.

The resources obtained with the issuance of debentures will be used to liquidate certain current debts of the company, recompose the company´s cash and execute investments to reach its social objective in the normal course of its business, reinforcing its capital structure.