The Forest Company

Consolidated Financial Statements
For the year ended
31 December 2014

Company Number: 47338

THE FOREST COMPANY LIMITED

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THE FOREST COMPANY LIMITED

GENERAL INFORMATION

Board of Directors
Rainer Häggblom (Non-executive Chairman)
Dr. Dermot Smurfit (Non-executive)
Susan Lloyd (Non-executive)
Dr. Panu Kallio (Non- executive)
Joseph Ryan (Non-executive)
John Harald Örneberg (Non-executive) (Resigned 4 June 2014)

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Valuers
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Guernsey Administrator to the Company and until 31 May 2014 Company Secretary to the Company
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Channel Islands Securities Exchange Listing Sponsor
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Sedol: B4TC8Z5
Ticker: FCO
FATCA GIIN: SNR7BX.9999.SL.831
Website: www.theforestcompany.se

THE FOREST COMPANY LIMITED

FINANCIAL HIGHLIGHTS

Financial results

- Revenue from sales was USD 17.49 million, a decrease of 19% from USD 21.63 million in 2013.
- Gross profit before depletion was USD 0.07 million, down from USD 3.36 million gross profit [1] in 2013.
- Net operating loss, after depletion of biological assets (harvesting), gains and losses on non-current assets, and operating expenses, was USD 17.36 million, down from a net loss of USD 25.17 million in 2013.
- Loss per share on continuing operations amounted to USD 45.43 cents based on the average number of shares in issue during the year (2013: USD 67.83 cents loss per share).
- A dividend of USD 25 cents per share (3% of the Adjusted NAV as at 31 December 2013) was paid on 31 October 2014 to shareholders at the record date of 1 May 2014.

Financial position

- Total net assets were USD 285.30 million as at 31 December 2014 compared to USD 334.66 million at 31 December 2013. The change was due primarily to foreign exchange movement (USD 43.96 million), loss after tax (USD 19.65 million) and dividend paid (USD 10.77 million).
- Interest bearing borrowings increased from USD 15.16 million at 31 December 2013 to USD 30.73 million at 31 December 2014, largely as a result of the Group drawing down on its line of credit with Metlife for acquisitions.
- The cash balance as at 31 December 2014 was USD 9.90 million, down from USD 31.73 million at 31 December 2013.
- During the year the Company issued 151,600 new shares increasing the number of shares in issue from 43,087,540 to 43,239,140. This is a result of the scrip dividend option.
- The NAV per share at 31 December 2014 was USD 6.60 (2013: USD 7.77) and the Adjusted NAV per share was USD 7.07 (2013: USD 8.32).

[1] Note: 2013 figures have been normalised to be comparable to 2014 as IFRS 11 impacted the accounting and disclosure of interests the Company holds in joint arrangements. The Company's investments in MS Timberland Holdings and Aimara, previously accounted for as joint arrangements using line by line proportionate consolidation, have been accounted for using the equity method as they have been classified as joint ventures.

THE FOREST COMPANY LIMITED
CHAIRMAN'S STATEMENT

The Forest Company in 2014
In 2014 the Company focused on business expansion. It acquired additional timber assets, growing its Paraná pine cluster in Southern Brazil. In its Minas Gerais cluster the Company sold wood to clients in the pulp and paper industry, diversifying its client base beyond the charcoal sector.

Furthermore, the Company continued to strengthen its position in the markets and regions where it operates. This includes establishing a leading role in industry associations in order to positively change the regional business environment.

The operating loss for the year, whilst disappointing, was a substantial improvement over the previous year. The charcoal business has continued to incur losses due to difficulties encountered with the kilns but the design, and construction, of a larger kiln has begun to improve efficiency and the Investment Manager expects that the operation will begin to break even before the end of 2015. In addition to the operating loss, the Group suffered a loss on foreign exchange translation of USD 43.96m due to the increasing strength of the US dollar against both the Brazilian and Colombian currencies, which has continued since the year end.

The Board continue to address the cash flow issues arising from the losses but are hopeful that the projected improvement in results will enhance the cash position. Alternative options are available to the Board should it be necessary to raise additional funds for working capital.

Dividend
The Company's mature plantation projects (Kaa, Frondosa and MSTH) generate positive cash flows. Based on such cash flows, in 2014 the Company paid a fifth dividend to shareholders of USD 25 cents per share. This corresponded to 3% of the 31 December 2013 Adjusted NAV. Whilst the total accumulated dividend is USD 46.2 million, no dividend has been recommended for the year ended 31 December 2014.

Timber product markets
Despite the sluggish Brazilian economy in 2014, the Brazilian pulp and paper sector performed particularly well. To a large extent, the weaker Brazilian real (versus the US dollar) has been the driver behind this sector's improved performance. Other export-oriented sectors such as the wood mechanical industry (MDF, particle boards, etc.) also saw a positive movement. The Company has benefited from this through increasing sawlog prices. In contrast, the domestic-oriented segments like the charcoal and pig iron sectors did not reap the benefits of a weaker local currency against the US dollar. For them, the year was more difficult, in particular due to decreasing demand.

Outlook for 2015 and beyond
While foreign exchange has had a positive effect on timber prices as discussed above, it has significantly hurt dollar-denominated values of local timber assets and it should be noted that the USD has continued to strengthen against the Brazilian and Colombian currencies after the year end. In local currency, however, the Company has generated double-digit returns since inception. The Company sees the potential to further grow the existing projects and to continue delivering these returns to its shareholders. Currency fluctuation is inevitable and it has negatively impacted the Company's NAV. The Company is working to mitigate such effect by capturing part of its export focused clients' increased margins in local currency by increasing wood prices. If successful, this should have a positive effect on the project valuations and the Company's NAV.

Changes in the leadership team of the Investment Manager
Johan Larsson has succeeded Harald Örneberg as Chief Executive of TCL, the Company's Investment Manager. Mr Örneberg has taken over as Chairman of TCL in place of Mr Dermot Smurfit, who remains a Director of the Company. The Board of the Company fully support these changes in the management of the Investment Manager.

Strategy
Our long-term strategy continues to be to;

1. Provide long-term stable real returns to our shareholders
2. Be the preferred supplier of wood raw materials to a broad customer base
3. Be a leading player in the forest industry regarding environmental and social conduct
4. Expand existing or develop new large-scale projects

Latin America experienced a slow growth during 2014 with the Brazilian economy almost showing zero growth. However, Colombia was an exception in the region with a GDP growth of 4.6% in 2014. Despite the overall slowdown, our client's sector is showing profitability and is growing.

The last year has been challenging in many ways for the Company. However, we believe the long-term fundamentals for delivering high returns are still strong in our markets. Further, we will also look for opportunities beyond our existing markets in order to continue to deliver long-term stable returns. We look forward to continuing to partner with our shareholders in order to continue developing The Forest Company.

Yours sincerely,

Rainer Häggblom
Chairman
21 April 2015

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT

Overview of main activities for the year

Acquisition of additional plantation

- In June 2014 the Company acquired 3,756 hectares of standing pine plantations in the State of Paraná at a bargain price and as a result the Company recognised an uplift in the 30 June 2014 NAV. This new asset neighbours the existing Kaa project. Combined they now comprise 5,778 hectares.

Diversification in client base

- In December 2014 the Company closed an initial six-month wood sales contract with Fibria Celulose, the largest producer of eucalyptus pulp in Brazil. The supply to Fibria will come from the Frondosa project, representing 14% of annual wood sales in Frondosa, which is located in a region where the main market is the charcoal sector. The ability of the Company to supply wood (from one of its Minas Gerais assets) to a client in another timber segment reduces its exposure to a single wood market. Charcoal, however, is still the primary market for wood in Minas Gerais.

Investment in Silvotecnia

- In December 2014 the Company increased its investment in Silvotecnia – the Colombian service provider in which it already held a 34% stake. It acquired an additional 25% stake, thereby becoming the majority owner. The profit of Silvotecnia in 2014 was USD 4.3 million, of which USD 1.4 million is reflected in the Company's financial statements.

FSC certification of charcoal operations

- In September 2014 the Company completed the standard FSC audit in its certified projects in Minas Gerais. Since the Company's charcoal operation, Biocarbono, is located in the properties certified by the FSC, it also needs to undergo an audit process. The FSC audit ensures that environmental, social and sustainable economic practices are met. Biocarbono was fully compliant with the FSC standards and therefore approved by the audit. Biocarbono was the first charcoal company in Brazil to pass such an audit process.

Changes to existing kilns and start-up of new charcoal production unit

- The Biocarbono project, the Company's charcoal operation, has had a slow start because the kilns that had been built initially did not perform as expected. In order to remedy the loss in Biocarbono, the Company shut down low-performing kilns and designed/constructed a new charcoal kiln. These kilns have increased efficiency and capacity of production. While operational improvements are evident, the project still generated a net loss and has required significant capital investments in this start-up phase.
- The market price for charcoal decreased significantly in Q4 2014 due to the overall slowdown of the Brazilian economy and the increased supply of illegal charcoal in the market. The latter was caused by a temporary easing of authorities monitoring activities of the pig-iron industry, the main consumer of charcoal. This has now been addressed by the authorities and at the end of Q1 2015 we have seen prices starting to recover.

NAV summary

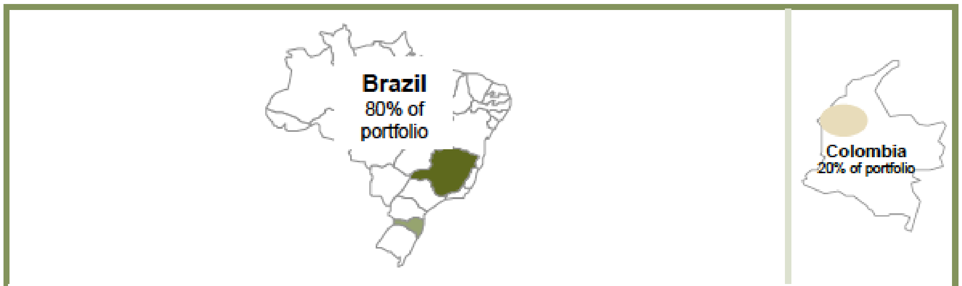
The NAV per share of the Company as at 31 December 2014 was USD 6.60 (2013: USD 7.77) and the Adjusted NAV per share was USD 7.07 (2013: USD 8.32). The total NAV was USD 285.3 million (2013: 334.7 million) a decrease of 14.7% and the Adjusted NAV was USD 305.7 million (2013: USD 358.4 million), a decrease of 14.7% over the year.

The decrease was primarily due to changes in the foreign exchange rate; the Brazilian real depreciated by 13% against the USD and the Colombian peso depreciated by 23% against the USD over the year. Foreign exchange alone caused a USD 44.0 million loss in NAV. Further weakening is noted in local currencies in the period after the year end.

It should be noted that in local currencies the projects continued to show positive NAV growth. All projects, with the exception of Biocarbono and Vichada, showed an increase in NAV in local currency. The Company anticipated a slower development in Biocarbono and Vichada, compared to the other projects; the former is a start-up charcoal operation outside the Company's core business and the latter is a greenfield trial planation. This year, however, the Company has seen much progress in these two projects; Biocarbono closed down low-performing production units and has invested in new charcoal kilns and Vichada saw great advances in its research and development program. For the other projects that have shown positive growth, this has been reflected in an increase in their NAVs, ranging from 2% to 96%. This has been a result of appreciation in both biological and land asset values. In local currency terms, the Company continues to foresee growth in its assets.

Summary of assets

The Company made its first investment in 2008 and since then has built a diversified timber portfolio comprised of five projects between Brazil and Colombia. The projects are detailed in the table below:



	Paraná		Minas Gerais		Antioquia
	Aimara	**Kaa**	**Ibiraçú**	**Frondosa**	**MS Timberland**
Specie	Eucalyptus	Pine	Eucalyptus	Eucalyptus	Pine
Type	Greenfield	Standing	Greenfield	Standing	Standing
Total area (ha)	2,820	5,778	11,478	31,882	10,678
Productive area (ha)	2,484	2,239	6,091	19,985	6,987
First harvest	2016	On-going	2016	On-going	On-going
End use	Pulpwood Sawlog	Pulpwood Sawlog	Charcoal Treated wood Pulpwood	Charcoal Treated wood Pulpwood	Sawlog Panel board

In 2008, the Company invested in Aimara and Ibiraçú. Both investments were eucalyptus greenfield projects in Brazil. The projects are located in different states – Paraná and Minas Gerais, respectively – and serve different end-markets.

In 2010, the Company invested in MS Timberland, its first project in Colombia. The Company sees Colombia, a net-importer of wood-based products, as an attractive market for forest investing.

In 2011, the Company invested in Kaa and Frondosa, two standing plantations in Brazil. Since then, the Company has acquired additional plantations, further expanding some of these assets.

The Company has grown its portfolio such that early greenfield projects (Aimara and Ibiraçú) are now balanced by investments in standing plantations (Kaa, Frondosa and MS Timberland). This combination is designed to produce a portfolio of high returns in the longer horizon coupled with immediate cash flow in the near-term. The Company seeks to further build its portfolio, aiming to diversify it by age class, species, sale strategy and end-market.

Perspective on Brazil

When the world was hit by the financial crisis in 2008, Brazil fared comparatively well: it was the last country to be drawn into the crisis and the first to recover from it. In fact, many believed the time had come for Brazil to finally take off. Brazil's positive macroeconomic indicators seemed to support this: GDP growth rate peaked at 7.5% in 2010 and the Brazilian real (one of the currencies that had increased in value the most since the crisis) hit a high of BRL 1.55 to the US dollar in 2011.

In 2014, however, the tides changed. While the US, and Europe (to a lesser extent), started to signal recovery, Brazil showed signs of deterioration (perhaps even recession). In 2014 the Brazilian economy grew near zero, the currency reached its lowest point in a decade and inflation hovered above the Central Bank's target. Notwithstanding the challenging macroeconomic environment, political developments also put Brazil's potential to question. In 2014, President Dilma Rousseff of the Worker's Party (PT), was re-elected to a second-term by the narrowest margin in recent Brazilian history. Her approval rating has since followed a downward trend. A massive corruption scandal tied to the incumbent's political party was uncovered at the state-owned oil giant Petrobras, Brazil's largest corporation, and has since shaken investors' confidence in the country's stability.

Indeed, some sectors were hit hard in 2014, particularly those heavily dependent on imports. Yet, the timber-related sector, which for the most part benefits from local currency devaluation, withstood the year with ease.

Of the timber-related sectors, the pulp and paper industry experienced the biggest gain. In Brazil the pulp and paper sector is the main consumer of wood. It is largely an export-oriented sector, having much to gain when the Brazilian real depreciates, for revenues are set in USD while costs are in local currency. That said, the 13% fall in the Brazilian currency in 2014 contributed to higher financial results for companies like Klabin, Fibria and Suzano. Evidence of this positive development is reflected in their stock prices, which have increased by 71.2%, 66.7% and 61.4% respectively, over the last 12 months, despite the overall low performance of the BOVESPA, the Brazilian stock market.[2] The sawmill and panel-board sector also tend to benefit from a depreciation of local currency. In the past, the sector has generally been domestically focused. Yet, it can afford to shift towards the export market when the Brazilian currency weakens vis-a-vis the USD, as was the case this year. The pig-iron sector also had a positive performance in 2014, especially towards the end of the year, albeit not fully reaping the benefits of a weaker local currency since part of its cost structure is linked to the USD.

The overall macro-economic condition of Brazil is unlikely to improve much in 2015. However, despite the challenging environment, the timber-related sectors, as mentioned above, are expected to continue to follow a positive trajectory. In the first two months of 2015, exports in the pulp sector have already increased by 7% compared with the same period in 2014. The same has been the case for the sawmill and panel-board sector, which has seen an increase of 8%, and the pig-iron industry that has seen a 17% increase in exports.[3] The tendency is such that these sectors become increasingly more competitive in the global market, given the current foreign exchange rate, and can thereby compensate for the slowdown in the economy with an increase in export volumes. Furthermore, confidence in the sector is reinforced by the evident expansion of the pulp and paper industry as the main players have recently announced or are in the process of building new pulp mills with a combined capacity of 6 million tons of pulp per annum. This includes Suzano in Maranhao, Klabin in Parana, Fibria and Eldorado in Mato Grosso do Sul. Even amid economic uncertainty, one can be confident that there is still opportunity for timber in Brazil – biological growth rates are some of the highest in the world, and there is still a large and growing market for timber production and consumption.

[2] Bloomberg
[3] Aliceweb/Ministry of Industry and Commerce

Perspective on Colombia
In recent years, Colombia has drawn the attention of international investors, many of which have started to see the country as the new rising star of Latin America. Colombia's attractiveness has been a result of the extraordinary changes that have occurred in the country over the last decade. Political stability, improved national security and sound macroeconomic indicators are evidence that Colombia today can offer an attractive business environment.

While Latin America felt a slowdown in 2014, Colombia was one of the few countries in the region to continue to show growth – GDP growth rate was 4.6%. GDP growth is expected to moderate in 2015 as a result of weakening global oil prices but is likely to pick up thereafter.

Even though GDP grew by only a single-digit, some sectors driving the consumption of timber and timber-related products have been growing at double-digit rates. Civil construction, for example, grew by 13% from September 2013 to September 2014. It is expected that the sector will continue to grow at this pace. This sector's growth is directly correlated to the consumption of sawn wood, and wood-based panel boards.

Overall domestic production cannot meet current consumption and future demand levels. This dynamic makes Colombia a net-importer of wood products such as pulp, paper and solid wood products. From 2012 to 2013 imports grew by 5%.

With the weakening of the Colombian peso, as seen in 2014, imports became more expensive. This has incentivised the local industry to expand its capacity. This, in turn, attracts more investments into the timber sector.

Apart from the favourable supply and demand dynamic, governmental developments have also enhanced the confidence in the timber sector. In 2014 president Juan Manuel Santos was re-elected to a second term. The government and the left-wing guerrilla group – the FARC – have been in peace talks for over two years trying to end five decades of conflict. Concluding peace negotiations is president Santos' primary political agenda. Indeed, progress has been made this year as the two sides agreed to negotiate a bilateral ceasefire.

With headways in the peace talk coupled with the government's efforts to invest in infrastructure, the timber sector will become even more attractive to investors – locally and internationally.

Financial summary
Below is a commentary on various aspects of the results for the year.

Income statement comments

- The loss for the year was USD 19.65 million, a 29% improvement compared to 2013. The results are still negative mainly due to high cost of sales, much of which was caused by difficulties with the charcoal kilns, an issue which has been addressed and which is improving.
- The harvesting decreased the value of our biological assets. However due to continued capital appreciation and an uplift in the acquisition concluded in June 2014, the unrealised gain on biological assets was USD 9.10 million.
- Our share of profit of our joint ventures, MS Timberland in Colombia in which the Company has a 90% stake, and Aimara in Brazil in which the Company has an 80% stake, was USD 0.97 million, a turnaround from a 2013 loss of USD 3.38 million. It is worth noting that the sales were nearly half of those in 2013 but with the same gross profit, due to improved assortment allocation at harvesting used in 2014.
- Administrative expenses decreased by 5% to USD 12.66 million due to a cost reduction program that will continue during 2015.
- Forestry operating expenses were USD 4.03 million, a decrease of 1% from 2013 even though the amount of hectares that we conducted activities in was higher in 2014 compared to 2013. This was also achieved through a cost reduction program. Further reductions are to be expected in 2015 as we move into phase two of the program.

Balance sheet comments

- Total non-current assets, the bulk of which are our biological assets and our land assets, were 4.5% lower at USD 315 million as at 31 December 2014 compared to USD 329 million at 31 December 2013. The land asset increased by 8% with land appreciation in Brazil and Colombia as well as the acquisition of the land neighbouring the existing Kaa project mentioned earlier. The biological asset value decreased because the wood volume was reduced following harvesting. Foreign exchange translation caused a further decline in asset values, as they are valued in local currency.

Cash flow comments

- The 2014 operating cash flows were negative USD 2.1 million, a 90% improvement from negative USD 20.31 million in 2013. The main reason for not achieving a positive operating cashflow was due to low production volumes in the charcoal operations. The Company has addressed these issues as previously explained.
- During 2014 the Company invested USD 25 million mainly in acquiring new plantations to the Kaa project but also in planting in Colombia and Frondosa. This gave a negative cash flow from investing activities.
- The company did not raise any new funds during 2014 but increased debt financing from Metlife and Rendimento.

Outlook and conclusion

The year has been challenging for the Company with a slowdown of the Brazilian economy which has especially impacted our clients serving the local market. Export oriented clients, like Klabin and Fibria, are on the other hand benefiting from the weak currency and showing record results. The Company's objectives for 2014 were to focus on four key factors 1. improving existing assets 2. growing those assets 3. adding new (substantially larger) investment to the portfolio 4. further strengthening the management team. We are happy to conclude that we have achieved all of those targets, except for adding new investment to the portfolio. However, there are some interesting investment opportunities in the pipeline.

The capital appreciation of our assets in local currency has been strong during 2014 and we have reduced our operating cash outflows compared to 2013. However, we have still not yet reached our objectives regarding operating cash flow and therefore, our main focus during 2015 will be on improving profit margins and operating cash flow in all our projects. Further, we will aim to diversify our client base, analyse opportunities in new markets, such as wood for energy, and consolidate existing projects by selling non-core assets.

In doing so we are confident that we will be able to improve the cash flows and further strengthen the capital appreciation of our assets.

Yours sincerely,

Johan Larsson
CEO
Timber Capital Limited
21 April 2015

THE FOREST COMPANY LIMITED
INVESTMENT POLICY

INVESTMENT OBJECTIVE
The Company's objective is to provide Shareholders with low risk and high-quality real long-term returns, via cash distributions and growth in net asset value, through sustainable investments in forest assets. These investments include investments in biological assets, timberland related assets and associated rural real estate activities.

INVESTMENT POLICY
The Directors adopted the following Investment Policy in April 2012, which governs the investments made by the Company:

Certification — the Company fully intends to have each of its forestry operations certified by the FSC, or, when relevant, another equally reputable forest management certification scheme. The Company will do this by implementing due diligence processes and requiring a forest audit based on international and regional standards to ensure that all assets acquired by the Company will be eligible to receive appropriate certification.

Minimum Investment Size — each project should be substantial enough to require at least a USD 5 million capital commitment from the Company in order to ensure cost efficient management of the investments.

Maximum Investment Size — the Company will seek to maintain a suitably diversified portfolio of investments so as to seek to manage the Company's economic exposure to any counterparty, single project or separate legal entity.

Duration of Investment — the duration of investments will vary according to end-markets, species and local requirements. The Company aims, when possible and appropriate, to structure investments over periods in excess of fifteen years and can seek early exits from a project as a whole or can seek to restructure the individual assets of a project for opportunistic reasons, portfolio rebalancing transactions or if changes in regulatory conditions so require. Early exits will be evaluated if doing so maximises shareholder returns.

Target Returns — the Company will only invest in a project when the Investment Manager believes that the project has the possibility to generate a minimum real IRR of 8% per annum over the duration of the investment (on an unleveraged basis).

Diversification of End-Markets — the Company will seek to invest in projects that serve different end markets and different value chains in order to reduce the Company's overall sensitivity to developments in the different value chains that consume the Company's wood fibre.

Species Diversification — there are no set species diversification limits. However, the Company aims to diversify its investments into different species in order to reduce its exposure to extreme weather, species specific diseases and price movements in specific end-markets.

Geographical Diversification — there are no set geographical diversification restrictions. However, the Company will have regard to the benefits of geographical diversification in relation to its investments and the management of its regulatory risk, currency risk, political risk, environmental policy risk and risk from adverse natural events.

Age Class Diversification — there are no set age class diversification limits. However, the Company will seek to invest in projects with different levels of maturity and times to harvest with the aim of smoothing cash flows.

Investment Structure — the investments in forest assets will, where possible, be conducted through SPVs via a structure of subsidiaries, set up for each respective project. The Company intends to enter into agreements in which it either holds a controlling stake in the investment vehicle, or it has a minority stake but has secured satisfactory protections to its minority stake. The Company may invest either in partnership with a major wood consuming industrial company, with an existing landowner or independently. The Company intends, where suitable, to enter into long-term wood sale agreements with leading companies as partners. However, long-term wood sale agreements will only represent one part of the overall sales.

Borrowings — the Company may not incur debt at the Company level without Board approval. The Company may, however, use overdraft and short-term borrowing facilities to satisfy short-term working capital needs, and the Board has approved the entering into by the Company of a short-term working capital facility. The Company may incur debt at the project level to the extent that the Investment Manager determines that a leveraged investment is in the best interests of the Company. However, the Board of the Company must approve the drawdown of any debt financing at the project level that will result in the total Group leverage (being debt/(debt + Adjusted NAV – as defined in the private placement memorandum)) exceeding 20% at the time of such drawdown.

Hedging Policy — the Company will keep the majority of its cash in USD. When the Company has anticipated expenses or capital outlays denominated in a currency other than USD, the Company may potentially enter into a foreign currency hedge to manage exposure to the currency of the outlay. The Company does not currently envisage using other types of futures contracts apart from currency hedges as noted above.

Application of the investment policy
The Company has outsourced the investment management function to TCL. Under the terms of the IMA, TCL must manage the assets of the Company in accordance with the above Investment Policy. Investment decisions are presented to, and approved by the Investment Committee of TCL.

Should a proposed investment at the time of investment be equal to, or exceed, 40% of the Company's then Adjusted NAV (as calculated from time-to-time), the Investment Committee of the Company will be required to give final approval of the investment, reviewing the proposed investment taking into account the commercial terms and attractiveness of the investment for the Company in light of the Company's investment policy.

THE FOREST COMPANY LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors present their report and audited consolidated financial statements for the year ended 31 December 2014.

Incorporation and status
The Forest Company Limited is a Guernsey incorporated Company with registered number 47338. The Company, which is governed by the Law, is limited by shares and is a Guernsey Registered Closed-ended Collective Investment Scheme governed by the Registered Collective Investment Scheme Rules, 2008 published by the Guernsey Financial Services Commission.

On 2 June 2011 the Company obtained a listing on the Channel Islands Stock Exchange which is now known as the Channel Islands Securities Exchange.

In order to provide a structure suitable for potential new investors, the Company set up a new holding company, in which it holds 100% of the shares. The new holding company, Tree Holdings, was incorporated in the Cayman Islands on 1 December 2014 as a segregated portfolio company. On 22 December 2014 the Company and Tree Holdings entered into a Sale and Purchase Agreement whereby the Company sold all of its investments to Tree Holdings in consideration for 100% of the newly issued portfolio shares of Tree Holdings.

Principal activities
As a Guernsey Registered Closed-ended Collective Investment Scheme, the Company has an infinite life and has been established to provide shareholders with both income and capital growth, combined with a low risk profile, through investing in new plantations, trees, timberland, timber related assets and associated rural real estate activities globally (but with primary focus on Latin America). The focus so far has been on Brazil and Colombia.

Review of the Company's activities
A review of the business together with the likely future developments is contained in the Investment Manager's Report and Chairman's Statement. The Directors are satisfied with the performance of both the Company and the Investment Manager during the year.

The process for the review of the Investment Manager is described on the Company's website in the compliance statement for AIC Code Principle 15.

Results and dividend
The results for the year are set out in the Consolidated Statement of Comprehensive Income on pages 38 and 39.

No dividend has been recommended for the year ended 31 December 2014.

An interim dividend of 3% (2013: 3%) of the Adjusted NAV as at 31 December 2013 (USD 25 cents per share) (2013: USD 29 cents per share) was paid on 31 October 2014 to shareholders at the record date of 1 May 2014. The Directors do not recommend any payment of a further dividend in respect of the year ended 31 December 2013.

Going concern and new fundraising
The financial position of the Group, its cash flows and liquidity position are described in the notes to the accompanying financial statements. In addition, in Note 31 there is a description of the Group's objectives and policies for managing its capital, its financial instruments and its exposure to credit and liquidity risk.

Under the terms of a line of credit agreement between Metropolitan Life Insurance Company and SP Timberland Holdings LLC and SP Timberland LLC, wholly owned subsidiaries of the Company, USD 5.5 million was drawn down on 28 May 2014 and USD 7.0 million was drawn down on 23 October 2014. USD 2.5 million remains available under this facility.

The Board has made enquiries and examined the Group's cash forecasts for the 18 month period to 30 June 2016, including restricted cash, borrowings, covenants and dividend payments under various scenarios and assumptions. Having previously acquired significant levels of mature plantations, the Company continues to develop markets for wood and wood products in order for sales to exceed the carefully managed on-going costs of the Group. The charcoal arm of the Company, Biocarbono, has made losses in 2014 and prior years. This has been the subject of management attention and a plan is in place to turn this part of the business into profit by the end of 2015. Sales outlets, additional to Biocarbono, for the wood generated by the Frondosa project have been actively sought and in December 2014 an initial six month wood sales contract was signed with Fibria Celulose, the largest producer of eucalyptus pulp in Brazil. Discussions over further such contracts are ongoing both with Fibria Celulose and other potential customers. The results of Biocarbono are susceptible to movements in the market prices of pig iron and the company is introducing further cost reducing incentives to mitigate unfavourable market conditions.

In addition to the above, the Group is actively marketing the sale of non-core farms in order to improve working capital cashflows and to provide potential funds for additional acquisitions of other forestry projects. Finally, a decision on whether to start harvesting the Aimara project in late 2015, rather than in 2016, is being considered. As a result of the foregoing, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue as a going concern. Accordingly, the Group continues to adopt the going concern basis in preparation of these financial statements.

Principal risks and uncertainties

The principal risks facing the Company relate to the Company's investment activities and the geographical areas in which it operates.

Risk:	**Forest ownership – physical risks**
Description:	The Company may experience the impact of physical risks associated with forest assets such as fire, insect infestation or extreme weather.
Mitigation/Approach:	The Company's plantations are managed, or insured as appropriate, in a manner to mitigate these risks wherever possible.

Risk:	**Forest ownership – market risks**
Description:	The forest industry is susceptible to product price fluctuations as the prevailing market prices for end products (such as sawlogs, pulpwood and charcoal) can fluctuate as a result of, among other things, changes in the supply and demand for wood and wood products.
Mitigation/Approach:	The Company's Investment Manager regularly reviews the movement in market prices and seeks to obtain the best value for the Company's products from existing and new customers.

Risk:	**Forest ownership – title risks**
Description:	Ensuring clear title to land held by the Company is an important objective of the Board.
Mitigation/Approach:	Legal counsels in the various jurisdictions provide the Board with legal opinions on the title to the land held. Where full title is not yet held by the Company, for example in the circumstance of geo referencing delays in Brazil, or where foreign ownership restricts full ownership of the underlying land, legal counsels ensure the Company has surface rights, or possession and the right to the value of the land, usually through a mortgage mechanism. The Board have reviewed legal opinions from Brazilian and Colombian counsel on the title of land held by the Company.

Risk:	**Currency exposure**
Description:	The Company is exposed to foreign exchange risk, in respect of BRL and COP, which may impact the value of the Company's assets in the reporting currency of the Company, USD. The underlying, non-USD source currencies, in which the Company records its transactions are Brazilian Real and Colombian Peso.
Mitigation/Approach:	Whilst the Company is able to utilise financial instruments to hedge against adverse currency movements, there is no guarantee that it will be possible to hedge against a particular change at an acceptable price, or that any attempt to hedge would be successful. The Company does not currently consider the currency hedging of foreign currency translation risk over the duration of the investments to be desirable or cost effective. Short term currency exposure may be hedged on an ad hoc basis.

Risk:	**Emerging market risk**
Description:	Changes to economic, political or other conditions in Brazil and Colombia may result in government intervention or restrictions on the ability of the Company to purchase and lease rural farm land or on the movement of capital out of these jurisdictions.
Mitigation/Approach:	The Company ensures that projects are legally structured to minimise risks wherever possible, and that the portfolio of projects provides a variety of investment structures and locations.

Risk:	**Tax Risk**
Description:	Changes to tax regimes governing the Group and its assets, or changes to the eligibility of the Group to certain tax regimes, may adversely affect the Company's financial performance.
Mitigation/Approach:	This risk is relevant to the Group's assets in Brazil where all of the Group's forestry operations, except for Biocarbono, have elected the Lucro Presumido tax regime. This tax regime allows eligible companies to pay a lower tax rate of 3.08% (excluding PIS/COFINS) on operating revenue at a presumed rate of profitability, as opposed to a higher tax rate of 34% on actual profits under the Lucro Real regime. The Lucro Presumido tax regime is currently only available to individual companies with annual revenue of less than BRL 78 million. The revenues of each Brazilian forestry project are managed to ensure they stay below the annual limit of BRL 78 million. In the event that revenues exceed BRL 78 million in any one calendar year, that project would be subject to Lucro Real the following year. If that occurs, forcing the changes in tax regime and eligibility, it may mean that current deferred tax provisions would not equal eventual taxes payable on the realisation of an asset and tax cash flows in valuations would be understated. The Directors, through their active management of the Company's dual purpose of investing in real estate and forestry, believe that both the land and biological assets of the Brazilian subsidiaries will remain eligible for the Lucro Presumido tax regime for the foreseeable future.

	(Tax risk continued) Forecast revenues are consistent with the criteria for Lucro Presumido. The sensitivity of the deferred tax provisions to a forced change in tax election for all the Group's projects in Brazil is discussed further in note 10. During 2013 the Group separated out the charcoal activity of Frondosa into a separate company, Biocarbono, and structure. The resulting separation introduced new tax compliance requirements for the Group and potential challenges to ensure operational and financial independence of this structure which the Group will actively manage in line with advice from the relevant advisers. Biocarbono has elected to be taxed under Lucro Real for the 31 December 2014 year end.

Risk:	**Valuation Risk**
Description:	The Company's IFRS NAV and Adjusted NAV contain unquoted investments.
Mitigation/Approach:	The Company has appointed Indufor Oy to independently assess and report the value of the forestry assets in compliance with IFRS, based upon relevant market data and upon their industry knowledge. The valuation process includes field visits to projects to verify and collect growth rates, costs and all data used in the valuation. The land is independently valued by Indufor based on sales comparison data sourced from the local market. The biological asset valuations are not based on sales comparison results, due to the lack of available market data. They are instead based on certain assumptions concerning discount rates, growth rates, prices, forecast woodflow, end-market and market capacity to absorb the woodflow, costs and future eligibility for current tax rates of the Company, and are sensitive to changes in these assumptions. In determining these assumptions Indufor considers that they are reasonable and that market participants would make similar assumptions. One of the key assumptions in the determination of the biological asset valuations is the discount rate. In the absence of other valuation benchmarks, Indufor uses the projected future cashflows of the planted biological asset and a discount rate in order to determine NPV. In compliance with IFRS, the NPV provides the Company and Shareholders with a value that they can expect to realise for the asset in the short term, regardless of whether or not it is the intention to realise this value in the short term. The Company intends to hold the majority of its forest assets until maturity when it fully expects to generate the projected future cashflows for the Company and its Shareholders. The Company believes that its valuation policy, and the method used by Indufor, is comparable with other market participants, as are the valuation inputs such as industry beta and biological asset growth models. The discount rate that has been used by Indufor to arrive at the NPV is the WACC of the Company. In the absence of material debt, this is the cost of equity of the project. Whilst Indufor and the Company have conducted research in order to ascertain that the discount rates used in the valuation of the Company's assets are in a similar range to those of other market participants, adjusted for specific equity and debt financing, there is no certainty that a potential purchaser would use the same implicit discount rate in their valuation of the Group's project assets for acquisition. Whilst detailed data on discount rates used in plantation transactions by market participants is not currently widely available in Brazil and Colombia, both the Company and Indufor will continue to seek out comparable discount rates in order to provide further assurance that the calculated NPV represents the short term realisable value.

	(Valuation Risk continued) In relation to the tax risk above, Indufor have based the post-tax cashflows used in the biological asset valuations on the continued availability of Lucro Presumido to the Group and to potential purchasers of the Company's project assets. Indufor have conducted research to support this assumption. However, it cannot be assumed that Lucro Presumido would be available to all potential purchasers. The Group's project Frondosa in Minas Gerais, Brazil has the highest annual revenue of the Group's projects. Revenues are managed to stay below the Lucro Presumido limit. The worst case scenario sensitivity of the biological asset valuations to a forced change in tax election for all the Group's projects in Brazil is discussed further in note 10.

Risk:	**End-market concentration risk**
Description:	Concentration on specific end-markets may expose the Company to higher inherent risks
Mitigation/Approach:	The Company seeks to invest in projects that serve different end markets and different value chains in order to reduce the Company's overall sensitivity to developments in the different value chains that consume the Company's wood fibre. At 31 December 2014, and reflecting on the stage at which the Group is at in its life-cycle; charcoal was the primary market of the Group with more than 70% of the forecast woodflow planned to go into charcoal production. To manage this concentration risk, the Group monitors developments relating to the charcoal market and is also currently investing in new kilns that will reduce production costs and increase efficiency. As the Group grows it will seek to diversify further its end markets in line with the stated investment policy. See note 10 for an analysis of the sensitivity of the biological assets to the profitability of the charcoal operations.

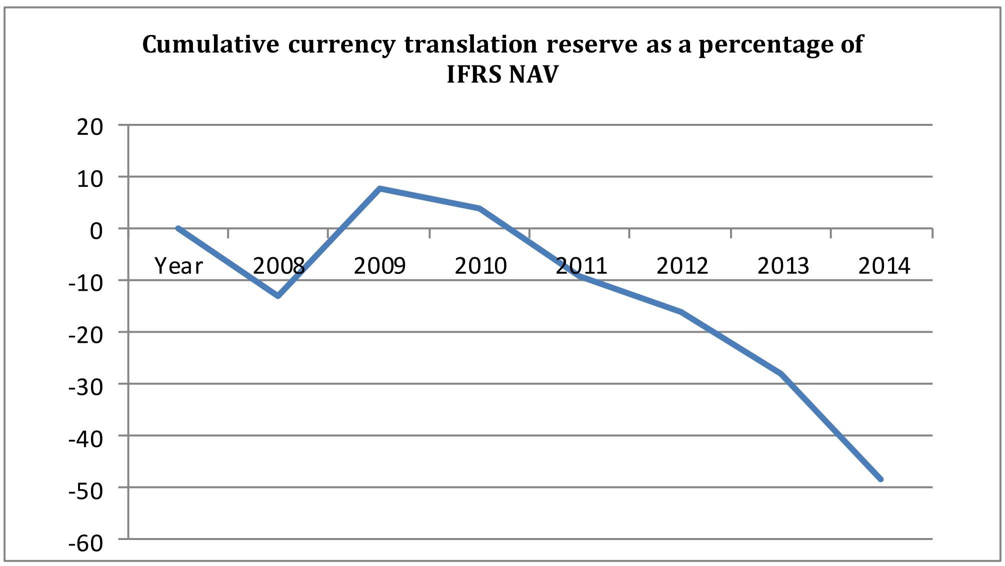
Risk:	**Working capital**
Description:	The Company invests a significant amount of cash in its operations, principally on fixed asset acquisitions, planting of trees and the maintenance of timber-related assets.
Mitigation/Approach:	The Company aims to fund its current operations principally through cashflow from operations. As a result of the operating losses incurred, mainly through the charcoal operations, plans have been created and actions are being taken to improve the charcoal business. Furthermore, as noted on page 16, the Group is actively marketing the sale of non-core farms in order to provide additional working capital requirements. Further capital may be raised through additional fund raising and by obtaining additional credit facilities.

The above risks are mitigated and managed by the Board through continual review to ensure that procedures are in place with the intention of minimising the impact of the above mentioned risks. The Board relies on periodic reports provided by the Investment Manager and Administrator regarding risks that the Company faces. When required, experts will be employed to gather information, including tax advisers, legal advisers and environmental advisers.

Details about the risks associated with the Group's financial instruments are given in Note 31 to the consolidated financial statements.

Foreign currency translation effects and exposure
Given the geographical diversification of the Group, unrealised currency gains and losses on translation of the Group's projects and non-US Dollar denominated subsidiaries have impacted the Group since its incorporation. The cumulative impact to the Group's NAV from incorporation to 31 December 2014 was USD 138.9 million with USD 44.0 million being incurred in 2014, mainly as a result of the continued devaluation of the Brazilian real. The Company does not currently consider the currency hedging of foreign currency translation risk over the duration of the investments to be desirable or cost effective.

Year (Reporting date, 31 December)	**Cumulative currency translation effects**	**IFRS NAV**	**Percentage of IFRS NAV**	**Adjusted NAV**	**Percentage of Adjusted NAV**
	USD'000	**USD'000**	**%**	**USD'000**	**%**
2008	(5,391)	41,839	(13%)	43,363	(12%)
2009	4,047	49,942	8%	51,690	8%
2010	7,613	185,507	4%	190,165	4%
2011	(29,616)	342,353	(9%)	360,304	(8%)
2012	(52,784)	334,177	(16%)	359,803	(15%)
2013	(94,857)	334,663	(28%)	358,447	(26%)
2014	(138,852)	285,303	(49%)	305,670	(45%)



At 31 December 2014 the Group's NAV breakdown in currency terms was as follows:

Currency	2014	2013
BRL	92%	81%
COP	17%	17%
USD	(9%)	2%

Directors and Directors' interests
The Directors of the Company who served during the year and as at 31 December 2014 are shown on page 3. Directors' interests and biographies of the Directors holding office at 31 December 2014 and at the date of signing these consolidated financial statements are shown on pages 29 and 30. John Harald Örneberg retired as a director on 4 June 2014.

Listing of Ordinary Shares
The Company's Ordinary Shares are listed on the Official List of the CISE under ISIN: GG00B4TC8Z57. The Company's details, including all CISE announcements and its Adjusted NAV, may be viewed at the CISE website at www.cisx.com.

Pareto Öhman has been appointed by the Company to organise off-market trading of the Company's shares. Pareto Öhman identifies and matches buyers and sellers of the Company's shares. They facilitate the provision of anti-money laundering documentation to the Administrator in order for the Company to be compliant with Guernsey legislation. Pareto Öhman also facilitates the transfer of funds from buyer to seller and informs the Administrator so that the share register can be updated.

Statement of Directors' Responsibilities in respect of the Consolidated Financial Statements
The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and regulations.

The Law requires the Directors to prepare consolidated financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union. Under the Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and,
- make an assessment of the Group and Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Fair, balanced and understandable
The Board has considered whether the Annual Report is fair, balanced and understandable, taking into account the commentary and tone and whether it includes the requisite information needed for shareholders to assess the Company's business model, performance and strategy. In addition the Board also questioned the Investment Manager on information included and excluded from the Annual Report, and considered whether the narrative at the front of the report is consistent with the financial statements. As a result of this work, each of the Board members considers that the Annual Report is fair, balanced and understandable and includes the requisite information needed for shareholders to assess the Company's business model, performance and strategy.

Disclosure of information to the auditor
The Directors confirm that they have complied with the above requirements in preparing the financial statements. They each also confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and they each have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given, and should be interpreted, in accordance with the provisions of section 249 of the Law.

Subsequent events
There are no subsequent events to report.

Corporate Governance

The Company is a member of the AIC. The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. Whilst the Company is not a premium UK listed company, and is not required to comply, it has voluntarily and fully adopted compliance with the AIC Code. The Board considers that reporting against the principles and recommendations of the AIC Code and the AIC Guide (which incorporates the UK Code) provides shareholders with full details of the Company's Corporate Governance compliance.

Pursuant to the GFSC Code, companies which report in line with the AIC code or the UK Code are deemed to meet the GFSC Code.

The AIC Code and the Company's compliance therewith can be viewed on the Company's website (www.theforestcompany.se)

The Company became fully compliant with the provisions of the AIC Guide and AIC Code during 2014.

The Directors have undertaken to operate the business in an honest and ethical manner and accordingly take a zero-tolerance approach to bribery and corruption. The key components of this approach are implemented as follows:

- the Board is committed to acting professionally, fairly and with integrity in all its business dealings and relationships;
- the Company's approach applies wherever the Company operates throughout the world and the Company will uphold all laws relevant to countering bribery and corruption in the relevant jurisdictions;
- the Company will implement and enforce effective procedures to counter bribery; and
- the Company requires all its service providers, joint venture operations and business partners to adopt equivalent or similar principles and undertakes an on-going assessment of bribery risks throughout its business, including seeking to ensure that such policies operated by relevant service providers meet best practice standards.

It is the policy of the Company and the Investment Manager that neither the Company, nor any subsidiaries, employees or Directors commit or are engaged in, with respect to any transaction or business, any Prohibited Investments, Corrupt Practices or Money Laundering.

Board responsibilities

The Board comprises five non-executive Directors. The Board has engaged external companies to undertake the investment management, administrative and company secretarial activities of the Company. Clear documented contractual arrangements are in place between these firms which define the areas where the Board has delegated responsibilities to them.

The Board has appointed Timber Capital Limited as the Investment Manager under the terms of the Investment Management Agreement. Timber Capital Limited is the sole manager of the assets of the Group in accordance with the investment policy established by the Board of the Company.

Heritage International Fund Managers Limited acts as Administrator and is responsible to the Board under the terms of the Administration Agreement. The Administrator is also responsible for ensuring compliance with the Rules and Regulations of Guernsey Law, CISEA listing requirements (in conjunction with HCS), money laundering regulation and observation of the Schedule of Matters Reserved for the Board and in this respect the Board receives detailed quarterly reports.

On 2 June 2014, the Board appointed Belasko Administration Limited to act as Company Secretary to the Company, and to the committees of the Board, with effect from 1 June 2014, under the terms of the Company Secretarial Agreement.

Board Committees

The Board has delegated specific duties to Committees of the Board which operate within written terms of reference. No persons other than the committee members are entitled to attend at committee meetings unless formally invited by the committee. Copies of terms of reference for the audit, management engagement and nomination and remuneration committees are available on the Company's website.

Audit Committee – see page 26 for the Audit Committee Report

The Audit Committee comprises Joseph Ryan (Chairman), Rainer Häggblom and Dr. Panu Kallio (appointed on 8 April 2014, in place of Susan Lloyd who resigned on the same day) and, pursuant to its terms of reference, meets at least twice a year. In practice, the Audit Committee meets five times or more each year.

The responsibilities of the Audit Committee are to ensure that the financial performance of the Company and its forecast cashflows are properly reported on and monitored, including reviews of the annual and interim financial statements, to receive and consider reports from the Auditor and report their findings to the Board, and to review internal control systems, procedures and accounting policies.

Management Engagement Committee
The Management Engagement Committee comprises Susan Lloyd, the Senior Independent Director who is the Committee's Chairman, Joseph Ryan and Dr. Panu Kallio. The Management Engagement Committee meets at least once a year.

The main functions of the Management Engagement Committee are as follows:
- to review annually the compliance by the Investment Manager with the Company's investment policy and with the Investment Management Agreement; and
- to review annually the performance of the Administrator, the CISE Listing Sponsor and any other key service providers to the Company (which does not extend to the Auditor or the Independent Valuer, which are matters for the Audit Committee and the Board respectively).

The Committee will obtain a schedule of any other service providers engaged by the Company during each year to ensure that a formal evaluation is undertaken when required and that costs are kept under control.

The Management Engagement Committee seeks to focus on compliance with applicable contractual arrangements rather than exhaustively to review the agreements themselves. It follows a consultative process and, where appropriate, the Committee may seek the views of parties having a relationship with the service provider in question in order to satisfy itself that the relationship is working and is cost efficient.

Following its detailed review of the major service providers in November 2013, the Management Engagement Committee carried out a further review of the performance of the Administrator, in the first quarter of 2014. As a result of this review it was decided to separate out the corporate secretarial role from the other roles of the Administrator and a search process was initiated for a new Corporate Secretary. Following interviews with three potential candidate organisations, Belasko was appointed and took over as Company Secretary on 1 June 2014.

The Management Engagement Committee is currently in the process of carrying out its annual review of the performance of all the major service providers, including TCL, as Investment Manager, for presentation at its meeting on 20 April 2015.

Investment Committee
The Investment Committee operates under written terms of reference to consider and review any proposed investment to be entered into by the Company whose value at the time of investment would equal, or exceed, 40% of the Company's then Adjusted NAV (All other investments are approved by the investment committee of the Investment Manager). The duties of the Committee are to review the proposed investment taking into account the commercial terms and its attractiveness for the Company in light of the Company's investment policy, in particular its provisions regarding diversification and portfolio balance.

The Investment Committee comprises Susan Lloyd and Rainer Häggblom, with Dr. Panu Kallio as their alternate, each being an independent director, and will meet as and when required. The Chairman of the Committee will be agreed at each meeting. The committee did not meet in 2014.

Nomination and Remuneration Committee
The Nomination Committee's title was changed during the year to Nomination and Remuneration Committee. In addition to being responsible for reviewing annually the appointment of the Directors, and arranging for a review of their performance, in compliance with the AIC principles and ensuring that the Board comprises an appropriate balance of skills, experience, length of service and knowledge of the Company, the Committee now reviews the remuneration of the Non-Executive Directors, seeking assistance from external specialists in order to do so. The Nomination and Remuneration Committee comprises Susan Lloyd, the Senior Independent Director who is the committee's Chairman, Rainer Häggblom, and Dr. Panu Kallio. The Nomination and Remuneration Committee shall meet at least once a year.

The main functions of the Nomination and Remuneration Committee are as follows:

- to be responsible for identifying and nominating, for the approval of the Board, candidates to fill board vacancies as and when they arise and for recommending Directors for re-appointment; and,
- to monitor the operation of the Board in exercising its duties, having due regard to the AIC Code of Corporate Governance.
- to monitor the levels of remuneration of the non-executive directors in order to ensure that they stay current with the market.

Remuneration Policy
As noted in the articles of the Company, Directors shall be paid out of the funds of the Company by way of fees such sums not exceeding in the aggregate USD 500,000 per annum as the Directors shall determine or as may otherwise be approved by the Company in general meeting. In respect of 2014, USD 413,000 (2013: USD 389,000) was paid to Directors for their services to the Company.

Independent auditor
Deloitte LLP have agreed to offer themselves for re-appointment as auditor of the Company and resolutions proposing their re-appointment and authorising the Directors to determine their remuneration will be presented at the Annual General Meeting.

Annual General Meeting
The Annual General Meeting of the Company will be held at 10.00 am on 1 June 2015 at Lefebvre Place, Lefebvre Street, St. Peter Port, Guernsey.

On behalf of the Board:

Joseph E Ryan FCA
Director
21 April 2015

THE FOREST COMPANY LIMITED
AUDIT COMMITTEE REPORT

Audit Committee
The Audit Committee comprised three Independent Non-Executive directors at 31 December 2014 - Joseph Ryan (Chairman), Rainer Häggblom and Panu Kallio. Panu Kallio replaced Susan Lloyd in April 2014 when she retired from the Audit Committee.

Joseph Ryan, chairman of the committee, is the designated financial expert. He is a Fellow of the Institute of Chartered Accountants in England and Wales and was a partner in the London office of PricewaterhouseCoopers for nearly 25 years until he retired.

See pages 29 to 30 for biographical details of the current Audit Committee members.

The Audit Committee met six times during the year and the Chairman of the Audit Committee reported to the Board on how the Committee discharged its responsibilities.

Roles and responsibilities
The committee has written terms of reference which clearly set out its duties and authority and include matters indicated by the AIC Code of Corporate Governance. These are reviewed annually and can be found on the company website at www.theforestcompany.se/investor/corporate-governance.

The main duties of the Audit Committee are:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the Group's quarterly accounts, cash flow forecasts and relevant sensitivities to those forecasts;
- reviewing the Group's internal financial controls and, unless expressly addressed by the Board itself, the Group's internal control and risk management systems;
- making recommendations to the Board for a resolution to be put to the shareholders, for their approval in general meeting, on the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements; and,
- developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and to make recommendations on the steps to be taken.

Audit Committee Agenda
The Audit Committee met on six occasions during the year and the Chief Financial Officer of the Investment Manager was in attendance either in person or by telephone at each meeting. The Auditor, Independent Valuer and the Tax Advisers were invited by the Audit Committee to attend meetings as and when appropriate.

At each meeting, the Committee considered the relevant quarterly, interim or annual reports on the Group's financial results, forecast cashflows and risk management issues, particularly those impacting the charcoal business.

During the course of the year, the Audit Committee gave specific consideration to the following matters;

- The 2013 Audited Annual Report and Accounts and the 30 June 2014 Interim Report;
- The 2014 Annual Report and Accounts, re-formatting it into a briefer and more succinct document whilst at the same time complying with the new reporting requirements of the AIC Code;
- Quarterly management accounts for the March and September 2014 quarters;
- Detailed cash flow forecasts and relevant sensitivities;
- The situation regarding the charcoal business, the business plan written by the Investment Manager setting out the actions being taken to make it profitable and the capital expenditure required in the development of new kilns which should improve production efficiency and increase the amount of charcoal produced;
- The actions being taken to reduce the concentration risk of selling wood to the charcoal subsidiary by seeking users in other industry sectors, eg pulp producers and energy providers;

- Auditor findings reports and the reasons why they were able to withdraw their emphasis of matter paragraphs which had appeared in the 2012 Annual Report and previous reports;
- The Independent Valuer's feedback and reports, as well as the report they obtained from an independent specialist on land values;
- The Tax Adviser's report, in particular the introduction of new taxes which will impact the subsidiary companies/joint venture in Colombia and the tax sensitivity notes comparing the two tax regimes in Brazil;
- The Group accounting policies, in particular the impact of adopting IFRS 11 on accounting for joint arrangements/joint ventures;
- Extent of compliance with AIC Code of Corporate Governance including the new requirement regarding oversight of the Annual Report and Accounts and whether it is fair, balanced and understandable. We decided that this final issue should be a matter for the Board as a whole;
- The Group's risk register, which has been redesigned into a more relevant and efficient format with the help of an external specialist;
- The terms of reference of the Audit Committee for approval by the Board; and
- Reappointment, remuneration and engagement letter of the external auditors.

In conjunction with the Board evaluation outlined in the AIC Code compliance section of the Company's website, the Committee evaluation concluded that it remained an effective Audit Committee.

External audit
Having determined during 2012 not to put the provision of the external audit out to tender, the Committee continued to review the effectiveness and independence of the external auditors. This was done by way of a questionnaire completed by the Audit Committee members as well as by the senior members of the Investment Manager's Finance Team. We remained satisfied that the auditors provide effective independent challenge to the Board and to the Investment Manager. Bearing in mind the provision of the AIC Code for FTSE 350 Companies to put their audit out to tender every ten years, and the impact this will have in non-FTSE 350 Companies on corporate governance best practice, the Audit Committee will continue to monitor the performance of the external auditors on an annual basis.

Deloitte confirmed to the Committee that they maintained appropriate internal safeguards to ensure their independence and objectivity. The Committee considered and approved Deloitte's assessment of their independence. It has recommended their reappointment to the Board which will seek the approval of shareholders.

During the year the Audit Committee discussed the planning, conduct and conclusions of the external audit as it proceeded. At the November Audit Committee meeting, the committee discussed and approved the auditor's Group audit plan in which they identified the Group's valuation of forest assets, taxation liabilities and going concern as the key areas of risk of mis-statement in the Group's financial statements. The Committee discussed these issues with the auditors and put into place, together with the Chief Financial Officer of the Investment Manager, a series of actions to help ensure that the concerns of the auditors were dealt with. In particular, this included reviewing the information publicly available from the annual reports of other Brazilian forestry companies on the factors specific to the Brazilian forestry industry impacting the calculation of the discount rate for the purpose of valuing the Group's Brazilian forestry assets.

The Audit Committee has had regular contact with the Investment Manager and the Auditor during the year end audit process. The Committee's discussions have been broad ranging, including the detailed consideration of the Company's going concern status; and have focused specifically on three areas of sensitivity, two of which have been fully discussed in notes 10 and 11 in the financial statements and the third is included in the accounting policy notes:

- Fair value of biological and land assets;
- Brazilian tax system and the impact on the fair value of biological assets and associated deferred tax provisions; and
- Notional land lease charge included in the valuation of biological assets

The Audit Committee held extensive discussions with, and received detailed reports from, the Investment Manager, Indufor and the Group's tax advisers to support the valuations and provisions within the financial statements.

In addition to the above, the Audit Committee holds a private session with the Audit Partner twice a year without representatives of the Investment Manager being present. Furthermore, Joseph Ryan meets with the Audit Partner, or discusses matters on the telephone with him, from time to time to provide an opportunity for transparent communication and to enable the discussion of any concerns that either party may have about the audit process or matters impacting the Group.

Independent Valuers

The independent valuers, Indufor, play a key role in determining the result of the Group so their work remains an important focus of the Audit Committee. We meet with them once or twice a year and discuss the results of their work with them in detail. During the year the Audit Committee raised with the Board the length of tenure of Indufor's appointment. We considered that ending their appointment after a three year period was not wise as the Board considers that it takes at least a year for a valuer to properly understand the Group's operations on a forest by forest basis and by the time their second annual valuation has taken place, the Board would be looking for another firm of valuers to replace them the following year. The Chairman of the Company took soundings from our major shareholders, and discussed current best practice on this topic with other companies in the forestry industry, and, as a result, Indufor's appointment has been extended to the end of December 2014, with a view to a new three year contract being agreed in 2015.

Visit to Brazil, and Training

During 2014 the Audit Committee members, together with the rest of the Board, visited some of the Group's operations in Brazil and met with the Chief Financial Officer of the Investment Manager as well as with other key members of the Investment Manager's staff. In addition to the practical understanding gained by visiting the Group's operations, the Audit Committee receives regular technical updates and specific personal training is available if required.

Internal audit

The Audit Committee considers at least once a year whether or not there is a need for an internal audit function. Currently, the Audit Committee does not consider there to be a need for an internal audit function, given that there are only a small number of employees in the Group and all outsourced functions are with parties/administrators who have their own internal controls and procedures.

On behalf of the Audit Committee

Joseph E Ryan FCA
Chairman of the Audit Committee

21 April 2015

THE FOREST COMPANY LIMITED

DIRECTORS

Rainer Häggblom
Independent Non-Executive Chairman

Age: 58

Appointed: August 2008

Experience:
Director of United Bankers Oyj, Dovre Oyj and Häggblom & Partners Ltd Oy. Formerly Chairman and CEO of Jaakko Pöyry Consulting Oy (later named Pöyry Forest Industry Consulting Oy) which he left in 2008 to establish his own independent advisory company Häggblom & Partners. Mr Häggblom graduated from the University of Helsinki and Aalto University.

Last re-elected to the Board: June 2012

Committee membership:
Audit Committee,
Investment Committee,
Management Engagement Committee

Remuneration:
USD 155,000

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
49,484*

Susan Lloyd
SID

Age: 73

Appointed: July 2007

Experience:
Director of VenCap 10 Euro Limited, Vencap 10 US Limited and Vencap 12 Limited. Ms Lloyd has 30 years experience in the private equity industry, initially as Managing Director of the European arm of Venture Economics and latterly as an independent placement agent for private equity funds. Previously she was Director of Investor Relations at Schroder Ventures. Ms Lloyd holds an honours degree in Physics from Oxford University and is a Sloan Fellow of the London Business School.

Last re-elected to the Board: June 2014

Committee membership:
Audit Committee (resigned 2014),
Investment Committee,
Management Engagement Committee (Chairman),
Nomination and Remuneration Committee (Chairman)

Remuneration:
USD 63,000

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
22,138

Dr. Dermot Smurfit
Non-Executive Director

Age: 70

Appointed: October 2007

Experience:
Director of Eurolink Motorway Services Ltd., ML Capital Limited, Powerflute Oy and Timber Capital Limited. Dr Smurfit has over 40 years experience in the paper and packaging sector. He was formerly chairman of FEFCO (the European body covering the corrugated box industry) and a director of CEPI (Confederation of European Paper Industries) and chairman of WCO (World Containerboard Organisation).
Dr Smurfit is a graduate of Oatlands College Dublin and Harvard Business School's Advanced Management programme. Dr Smurfit became an honorary Doctor of Business Administration for the International Management Centres in 1998.

Last re-elected to the Board: June 2014

Committee membership:
None

Remuneration:
USD 68,000

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
Chairman of the Investment Manager's Board

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
312,500

*Rainer Häggblom has an additional 12,090 (2013: 3,579) shares held in escrow as noted in the Directors' Report and Note 30 to the Consolidated Financial Statements.

THE FOREST COMPANY LIMITED

DIRECTORS (CONTINUED)

Dr. Panu Kallio
Independent Non-Executive Director

Age: 50

Appointed: June 2010

Experience:
Director of The foundation for European Forest Research, The Kaisa Kallio Foundation, The Latokartano Foundation and The Pellervo Economic Research Institute. Dr Kallio is Senior Vice President of OP-Pohjola Group, the largest financial services group in Finland, in charge of financial services for rural entrepreneurs and forest owners. He is also a member of the Central Committee of the International Confederation of Agricultural Credit as well as a permanent expert of the Board of the Development Fund of Agriculture and Forestry in Finland.

Last re-elected to the Board: June 2013

Committee membership:
Audit Committee (appointed 2014), Investment Committee (Alternate), Management Engagement Committee, Nomination and Remuneration Committee

Remuneration:
USD 58,000

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
2,746

Joseph Ryan
Independent Non-Executive Director

Age: 63

Appointed: July 2012

Experience:
Director of Muntons (Holdings) Plc and The Rugby Players Association. Mr Ryan has 35 years experience with PricewaterhouseCoopers and was a partner for nearly 25 years, both in the Audit and Corporate Finance Divisions, where he was involved with some of the world's largest M&A transactions. He has worked on transactions in over 30 countries and has gained extensive experience in UK, USA and International Accounting Standards. Mr Ryan is a qualified Chartered Accountant and has completed a number of Senior Executive Programmes at the London Business School.

Last re-elected to the Board: June 2013

Committee membership:
Audit Committee (Chairman), Management Engagement Committee

Remuneration:
USD 66,000

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
3,185

Attendance at meetings

	Board			Audit Committee		Management Engagement Committee		Nomination & Remuneration Committee	
2014 Meetings of The Forest Company	Board Meetings 3 held	Telephone board Meetings 4 held		Held	Attended	Held	Attended	Held	Attended
Rainer Häggblom	3	4		6	6	N/A	N/A	3	2
Dr. Dermot Smurfit	3	1		N/A	N/A	N/A	N/A	N/A	N/A
Susan Lloyd	3	3		3	1*	1	1	3	3
Dr. Panu Kallio	3	2		4	4**	1	1	3	3
Joseph Ryan	3	3		6	6	1	1	N/A	N/A
John Harald Örneberg (retired 4 June 2014)	2	0		N/A	N/A	N/A	N/A	N/A	N/A

An additional meeting of all board members with the Investment Manager present was held solely to discuss strategic matters.

* Resigned 8 April 2014
** Appointed 8 April 2014

THE FOREST COMPANY LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE FOREST COMPANY LIMITED

Opinion on financial statements of The Forest Company Limited	**In our opinion the financial statements:** • **give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of the Group's loss for the year then ended;** • **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and** • **have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.** The financial statements comprise the Consolidated Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Valuation of land assets	
The Group has purchased additional land including biological assets during the year at a bargain price and recognised an uplift in the valuation at year end of US$22.4m. The valuation of land assets of US$117.3m and US$6.6m, set out in Notes 3i, 10 and 11, is performed by an independent valuer engaged by management and valuations are based on market transactions of comparable assets. Given that there is no active market of similar assets and that transaction prices and asset details may not be readily available, we consider valuation of land assets to be a key risk.	We have evaluated supporting evidence for the land purchase and the details and circumstances of the transaction. We assessed the independence and competence of the external valuer. We have evaluated the independent valuations obtained by management. This included challenging the consistency of the valuation methodology applied and the accuracy and validity of source data against market information. We also reviewed independent land market research undertaken by a Brazilian real estate consultancy firm on land assets in Brazil, which had been commissioned by the valuer on behalf of the Group.

Valuation of biological assets

The biological asset valuations of US$163.3m, set out in Notes 3k and 10, are determined by an independent valuer using discounted cash flow models, which are subject to a number of inputs and assumptions such as growth rates, projected harvest yields, active market demand for realisation of assets, discount rates, notional land lease charges, application of direct and indirect taxes. Judgements over these inputs and assumptions could have a significant impact over the fair value estimates of the assets.

We have challenged each of the inputs, assumptions and judgements applied to the cash flows (including taxation) through comparison with market information and transactions for similar assets.

We have also assessed the independence and competence of the external valuers.

We have engaged with our internal specialists to determine a reasonable range of implicit discount rates in comparable forestry companies and compared this to the discount rate applied to the cash flow models. We have also evaluated the discount rate against the implicit discount rates in current market transactions.

We have considered Management's assessment of the projected trading performance of the Group's charcoal operations and the impact to the biological asset valuations. This is discussed further below under 'Valuation of carbonisation assets' risk.

We have recalculated the sensitivity of the biological asset valuations to changes in key inputs separately and when all other variables remain constant, and also the profitability of the Group's charcoal operation as noted below under 'Valuation of carbonisation assets' risk.

Valuation of carbonisation assets

The carbonisation asset valuation, set out in Notes 3l and 12, is determined by an independent valuer using a discounted cash flow model, which is subject to a number of inputs and assumptions such as charcoal and wood prices, production costs and yields. Charcoal is the primary destination for 65% of the Group's biological assets and therefore the biological asset valuations remain sensitive to the sustainability and profitability of the charcoal operations. The Group's carbonisation assets currently in use as at 31 December 2014 have a zero fair value due to the projected losses for the production of charcoal. Losses in the Group's charcoal operations, if they continue, will have a significant impact over the fair value estimates of the biological assets above.

We have evaluated Management's business plan for expanding and improving the efficiency of the Group's charcoal operations as well as the projected performance and consequential impact on the biological asset valuations. We challenged the inputs, assumptions and judgements applied in determining the potential future cash flows against market rates and historical performance, and the duration for the Group's charcoal operations to return to profitability.

Taxation

Accounting for tax across multi-jurisdictional structures can be complex, as set out in Note 8. Application of relevant tax laws in Brazil and Colombia require certain operations within the Group to be operationally and financially independent and should this not be the case, could have a material impact on the tax cashflows in the biological asset valuation projections and deferred tax balances of US$7.2m and, as a consequence, on the net asset value of the Group.	We have evaluated and challenged the conclusions of independent external tax advisers who assessed and considered the application of all relevant taxation laws currently enacted and impacting the Group's financial statements. We engaged with our internal tax specialists to review and challenge the conclusions of the independent external tax advisers report to obtain assurance over the critical tax assumptions and judgements made based on the tax laws enacted at the year end. This included consultation with the tax specialists at the component levels. We recalculated the current and deferred taxation balances based on the elected tax regimes for each of the Group's subsidiary companies.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 26 and 27.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be USD 5.7m, which is 2% of the Group's Net Asset Value, a key performance measure and a focus for shareholders investing for capital growth.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of USD 114,000 (2013: USD 128,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work performed on the Group's Brazilian and Colombian subsidiaries, which were subject to a full audit. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from USD 3.2m to USD 5.2m.

At the parent entity level we also tested the consolidation process. All of the Group has been subject to full scope audit procedures.

The group audit team held discussion with the component audit partners during the planning stages and throughout the audit process, discussed their risk assessment, and reviewed documentation of the findings from their work.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Deloitte LLP
Chartered Accountants
St. Peter Port, Guernsey
21 April 2015

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	31 Dec 2014 USD'000	31 Dec 2013* USD'000
ASSETS:			
Non-current assets			
Forest assets			
Land	**10**	117,286	108,979
Biological assets	**10**	119,994	129,554
Investment property	**11**	6,586	7,630
Property, plant and equipment	**12**	1,735	2,430
Investment in associates	**13**	-	2,298
Investment in joint ventures	**24**	56,886	66,707
Other non-current assets	**14**	12,123	11,883
Total non-current assets		314,610	329,481
Current assets			
Inventory	**16**	5,777	2,293
Trade and other receivables	**17**	7,092	6,495
Cash and cash equivalents			
Restricted	**18**	1,000	7,906
Unrestricted	**18**	8,903	23,822
Total current assets		22,772	40,516
TOTAL ASSETS		337,382	369,997
Non-current liabilities			
Interest bearing borrowings	**19**	(29,319)	(15,000)
Deferred tax liability	**20**	(7,283)	(7,481)
Other long term liability	**21**	(1,729)	(6,046)
Total non-current liabilities		(38,331)	(28,527)
Current liabilities			
Interest bearing borrowings	**19**	(1,411)	(161)
Trade and other payables	**22**	(11,561)	(5,808)
Provisions	**23**	(776)	(838)
Total current liabilities		(13,748)	(6,807)
TOTAL LIABILITIES		(52,079)	(35,334)
Net assets		285,303	334,663

The accompanying notes form an integral part of these consolidated financial statements.

*Comparative numbers have been adjusted following the adoption of IFRS 11 (see Note 2).

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014
(Continued)

	Notes	31 Dec 2014 USD'000	31 Dec 2013* USD'000
Equity			
Share capital	**26**	310,771	320,178
Revaluation reserve		99,721	77,694
Foreign currency translation reserve		(138,852)	(94,857)
Accumulated profit		12,060	31,648
Non-controlling interests		1,603	-
Equity attributable to holders of redeemable Ordinary and Class A Ordinary Shares		285,303	334,663
Number of redeemable Ordinary Shares in issue at year end	**26**	19,028,483	18,885,736
Number of redeemable Class A Ordinary Shares in issue at year end	**26**	24,210,655	24,201,802
		43,239,138	43,087,538
Net asset value per redeemable Ordinary and Class A Ordinary Share	**25**	$6.60	$7.77

The consolidated financial statements were approved by the Board of Directors on 21 April 2015 and signed on their behalf by:

Joseph E Ryan FCA
Director
21 April 2015

The accompanying notes form an integral part of these consolidated financial statements.

*Comparative numbers have been adjusted following the adoption of IFRS 11 (see Note 2).

THE FOREST COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Notes	2014	2013*
Continuing operations		**USD'000**	**USD'000**
Revenue	5	17,492	21,628
Cost of Sales	5	(17,418)	(18,266)
Gross profit		74	3,362
Depletion	5	(7,939)	(7,620)
		(7,865)	(4,258)
Unrealised gain on biological assets	10	9,099	24
Share of profit/(loss) of joint ventures	24	974	(3,385)
Share of income from associate	13	2,513	118
		4,721	(7,501)
Operating expenses			
Administrative expenses	6	12,659	13,370
Forestry operating expenses	7	4,034	4,302
Impairment of property, plant and equipment	12	5,389	-
Total operating expenses		22,082	17,672
Operating loss		(17,361)	(25,173)
Interest income on bank deposits		257	3,714
Interest expense - bank borrowings		(1,738)	(4,752)
Interest expense - other		-	(232)
Loss before tax		(18,842)	(26,443)
Taxation	8	(810)	(1,136)
Loss for the year from continuing operations		(19,652)	(27,579)
Discontinued operations			
Profit for the year from discontinued operations	15	-	3,709
Loss for the year		(19,652)	(23,870)
Loss attributable to:			
Holders of redeemable Ordinary Shares and Class A Ordinary Shares		(19,588)	(23,870)
Non-controlling interests		(64)	-
		(19,652)	(23,870)
Earnings per share - Basic and Diluted (US cents)			
From continuing operations	27	(45.43)	(67.83)
From discontinued operations	27	-	9.12
		(45.43)	(58.71)

The accompanying notes form an integral part of these consolidated financial statements.

*Comparative numbers have been adjusted following the adoption of IFRS 11 (see Note 2).

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 USD'000	2013* USD'000
Loss for the year		(19,652)	(23,870)
Other comprehensive loss net of income tax			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(43,959)	(42,073)
Deferred tax effect on other comprehensive income	**20**	(704)	(770)
		(44,663)	(42,843)
Items that will not be reclassified subsequently to profit or loss			
Revaluation of planted land	**10**	21,808	22,812
		21,808	22,812
Share of other comprehensive income of joint venture	**24**	923	923
Other comprehensive loss for the year		(21,932)	(19,108)
Total comprehensive loss for the year		(41,584)	(42,978)
Loss attributable to:			
Holders of redeemable Ordinary Shares and Class A Ordinary Shares		(41,556)	(42,978)
Non-controlling interests		(28)	-
		(41,584)	(42,978)

The accompanying notes form an integral part of these consolidated financial statements.

*Comparative numbers have been adjusted following the adoption of IFRS 11 (see Note 2).

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

2014	Notes	Share capital USD'000	Revaluation reserve USD'000	Currency translation reserve USD'000	Accumulated profit USD'000	Non-controlling interests USD'000	Total USD'000
As at 1 January 2014		320,178	77,694	(94,857)	31,648	-	334,663
Total comprehensive loss							
Loss for the year		-	-	-	(19,588)	(64)	(19,652)
Other comprehensive loss							
Currency translation loss		-	-	(43,995)	-	36	(43,959)
Share of other comprehensive income of joint venture		-	923	-	-	-	923
Revaluation of planted land	**10**	-	21,808	-	-	-	21,808
Deferred tax effect on other comprehensive income	**20**	-	(704)	-	-	-	(704)
Total comprehensive loss		-	22,027	(43,995)	(19,588)	(28)	(41,584)
Transactions with owners							
Shares issued		1,365	-	-	-	-	1,365
Issue costs		-	-	-	-	-	-
Dividends paid	**28**	(10,772)	-	-	-	-	(10,772)
Total transactions with owners		(9,407)	-	-	-	-	(9,407)
Non-controlling interests on acquisition		-	-	-	-	1,631	1,631
As at 31 December 2014		310,771	99,721	(138,852)	12,060	1,603	285,303

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2014

2013*	Notes	Share capital USD'000	Revaluation reserve USD'000	Currency translation reserve USD'000	Accumulated profit USD'000	Non-controlling interests USD'000	Total USD'000
As at 1 January 2013		276,714	54,729	(52,784)	55,518	-	334,177
Total comprehensive loss							
Loss for the year		-	-	-	(23,870)	-	(23,870)
Other comprehensive loss						-	
Currency translation loss		-	-	(42,073)	-	-	(42,073)
Share of other comprehensive income of joint venture		-	923	-	-	-	923
Revaluation of planted land	**10**	-	22,812	-	-	-	22,812
Deferred tax effect on other comprehensive income	**20**	-	(770)	-	-	-	(770)
Total comprehensive loss		-	22,965	(42,073)	(23,870)	-	(42,978)
Transactions with owners							
Shares issued		57,403	-	-	-	-	57,403
Issue costs		(1,546)	-	-	-	-	(1,546)
Dividends paid	**28**	(12,393)	-	-	-	-	(12,393)
Total transactions with owners		43,464	-	-	-	-	43,464
As at 31 December 2013		320,178	77,694	(94,857)	31,648	-	334,663

The accompanying notes form an integral part of these consolidated financial statements.

*Comparative numbers have been adjusted following the adoption of IFRS 11 (see Note 2).

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 USD'000	2013* USD'000
Cash flows from operating activities			
Loss for the year		(19,652)	(23,870)
Adjustments for:			
Original biological asset cost on sales	**5**	9,960	5,452
Depletion	**5**	7,939	7,620
Unrealised gain on biological assets		(9,099)	(24)
Share of (profit)/loss of joint venture		(974)	3,385
Share of income from associate		(2,513)	(118)
Realised gain on disposal of planted land		-	(14)
Impairment of property, plant and equipment		5,389	-
Depreciation		500	64
Taxation		810	1,136
(Increase)/decrease in inventory		(19)	321
Decrease/(Increase) in trade receivables		1,545	(4,107)
Increase/(Decrease) in trade payables		4,062	(10,158)
Cash used in operating activities		(2,052)	(20,313)
Tax paid		(923)	(1,127)
Net cash used in operating activities		(2,975)	(21,440)
Cash flows from investing activities			
Net cashflows received from joint venture		397	2,384
Net cashflows received from associate		57	14
Purchase of property, plant and equipment		(4,178)	(3,081)
Purchase of investment property		(74)	(62)
Purchase of forest assets		(16,131)	(4,986)
Release of escrow amounts owed on forest assets purchased in prior periods		(6,906)	-
Acquisition of subsidiary	**29**	4,640	-
Planted land and biological assets costs capitalised		(2,908)	(1,373)
Net cash used in investing activities		(25,103)	(7,104)
Cash flow from financing activities			
Proceeds from issue of shares		1,365	54,365
Issue costs paid		-	(1,546)
Proceeds from interest bearing borrowings		15,730	15,161
Repayment of interest bearing borrowings		(155)	(15,367)
Dividends paid	**28**	(9,479)	(9,355)
Net cash from financing activities		7,461	43,258
Net (decrease)/increase in cash and cash equivalents during the year		(20,617)	14,714
Cash and cash equivalents at the beginning of the year		31,728	18,283
Effects of changes in foreign currency		(1,208)	(1,269)
Cash and cash equivalents at the end of the year	**18**	9,903	31,728

Net cash from operating activities includes USD 257,000 (2013: USD 3,714,000) interest received on cash balances.

The accompanying notes form an integral part of these consolidated financial statements.

*Comparative numbers have been adjusted following the adoption of IFRS 11 (see Note 2).

1. General information

The Company is a Guernsey incorporated closed-ended investment company with an infinite life. The investment objective of the Company and its subsidiaries is to provide shareholders with capital growth combined with a low risk profile through investing in new plantations, trees, timberland and timber related assets and associated rural real estate activities globally. The Group's primary investment focus so far has been in Brazil and Colombia. The Group may pursue transactions on an opportunistic basis in other countries or regions of the world. In order to maintain flexibility, the Company's investment strategy has no predetermined geographical allocations.

In order to provide a Group structure suitable for potential new investors, the Company set up a new holding company, Tree Holdings, on 1 December 2014, in which it holds 100% of the shares. On 22 December 2014 the Company and Tree Holdings entered into a sale and purchase agreement whereby the Company sold all of its investments to Tree Holdings in consideration for 100% of the newly issued portfolio shares of Tree Holdings.

The assets of the Group are managed by Timber Capital Limited under the terms of the Investment Management Agreement.

The Investment Manager will use the experience and market knowledge of its investment professionals to select a portfolio of timber assets diversified by tree species, age class and level of maturity. The Company will in particular seek to invest in forestry assets that can be managed on an environmentally and socially sustainable basis.

The Company does not operate in an industry where significant or cyclical variations as a result of seasonal activity are experienced during the financial year.

2. Changes in accounting policies

IFRS not yet adopted:
At the date of approval of these consolidated financial statements, the following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but none of them had been endorsed by the EU or were yet effective.

- IFRS 9, "Financial Instruments" which is yet to be endorsed by the EU (effective 1 January 2018);
- IFRS 14, "Regulatory Deferral Accounts" (effective 1 January 2016);
- IFRS 15, "Revenue from Contracts with Customers" (effective 1 January 2017);
- IFRS 10 Amendment, "Consolidated Financial Statements" (effective 1 January 2016);
- IFRS 11 Amendment, "Joint Arrangements" (effective 1 January 2016);
- IAS 16 Amendment, "Property, Plant and Equipment" (effective 1 January 2016);
- IAS 28 Amendment, "Investment in Associates" (effective 1 January 2016);
- IAS 38 Amendment, "Intangible Assets" (effective 1 January 2016); and
- IAS 41 Amendment, "Agriculture" (effective 1 January 2016).

The Group has not early adopted any standards, amendments and interpretations to existing standards that have been published and will be mandatory for the Group's accounting periods beginning on or after 1 January 2015 or later periods.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the consolidated financial statements of the Group in future periods, except as follows:
- IFRS 9 will impact both the measurement and disclosures of Financial Instruments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2. Changes in accounting policies (continued)

Adoption of new and revised standards

During the year the Group adopted all new and revised IFRS and IAS that are relevant to its operations and those which were also endorsed by the European Union for accounting periods ending on 31 December 2014. The material impact of the adoption of the new accounting standards are as follows:

- IFRS 11 has impacted the accounting and disclosure of interests the Company holds in joint arrangements. The Company's investment in MS Timberland Holdings, previously accounted for as a joint arrangement using line by line proportionate consolidation, has been accounted for using the equity method as it has been classified as a joint venture as the terms of the agreement with Cotopaxi gives both parties rights to the net assets of the entity. The Company's investment in Aimara , previously accounted for as a joint arrangement using line by line proportionate consolidation, has been accounted for using the equity method as it has been classified as a joint venture as the terms of the agreement with Klabin gives both parties rights to the net assets of the entity.
- The change in accounting policy for the Company's joint ventures has been made in accordance with the transitional provisions included in IFRS 11 which require that the initial investment be measured as the aggregate of the carrying amounts of the assets and liabilities that were previously proportionally consolidated at the reporting date of 31 December 2012. Subsequently the initial investment shall be accounted for using the equity method in accordance with IAS 28.

3. Accounting policies

a) Basis of preparation

The consolidated financial statements of the Group have been prepared under the historical cost convention, except for the revaluation of investment properties, forest assets, planted land, buildings and carbonisation assets in accordance with IFRS as adopted by the European Union. The financial statements are presented in USD, the Company's functional and reporting currency.

Going concern

The financial position of the Group, its cash flows and liquidity position are described in the notes to the accompanying financial statements. In addition, in Note 31 there is a description of the Group's objectives and policies for managing its capital, its financial instruments and its exposure to credit and liquidity risk.

The Board has made enquiries and examined the Group's cash forecasts for the 18 month period to 30 June 2016, including restricted cash, borrowings, covenants and dividend payments under various scenarios and assumptions.

Having previously acquired significant levels of mature plantations, the Company continues to develop markets for wood and wood products in order for sales to exceed the carefully managed on-going costs of the Group. The charcoal arm of the Company, Biocarbono, has made losses in 2014 and prior years. This has been the subject of management attention and a plan is in place to turn this part of the business into profit by the end of 2015. The results of Biocarbono are susceptible to movements in the market prices of pig iron and the company is introducing further cost reducing incentives to mitigate unfavourable market conditions. Sales outlets, additional to Biocarbono, for the wood generated by Frondosa and its subsidiaries have been actively sought and have met with some success. See page 16 of the Directors' Report. Further to its current and forecast working capital, the Group has access to the balance of USD 2.5 million available through its Metlife line of credit (see Note 19) and is actively marketing the sale of non-core farms to enhance cashflows. Furthermore, a decision on whether to start harvesting the Aimara project in late 2015, rather than in 2016, is being considered. As a result of the foregoing the Board has a reasonable expectation that the Company and the Group have adequate resources to continue as a going concern. Accordingly, the Group continues to adopt the going concern basis in preparation of these financial statements.

3. Accounting policies (continued)

b) Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The consolidated financial statements also include a non-controlling interest in respect of that part of Silvotecnia not owned by its immediate parent, Antioquia.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

c) Revenue and other income
Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenues are accounted for on an accrual basis and are measured at the fair value of the consideration received net of discounts and other sales-related taxes. Revenue comprises:

i) Sales – harvested timber or standing trees
Where revenue is obtained by the sale of harvested timber or standing trees, it is recognised when the significant risks and returns have been transferred to the buyer. This is generally on unconditional exchange. The cost of sale relating to these includes the original cost paid when the biological assets were purchased, subsequent planting and maintenance costs and any variable costs relating to harvesting and selling.

ii) Sales – charcoal
Where revenue is obtained by the sale of charcoal, it is recognised when the significant risks and returns have been transferred to the buyer. This is generally on delivery of the charcoal. The cost of sale relating to charcoal sales includes the original cost paid when the biological assets were purchased and any variable costs relating to charcoal production.

iii) Lease income
Operating lease income is recognised over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.

d) Depletion
The Group's depletion charged to the income statement represents the prior years' unrealised gains on the biological assets sold or used in the production of charcoal sold during the year.

e) Expenses
All expenses are accounted for on an accrual basis and include fees and other expenses paid to the administrators, the Investment Manager and the Directors.

f) Segmental reporting
The Board is of the view that the Group is engaged in a single segment of business, being investment in timberland and timber related assets including charcoal production. The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board to assess the Company's performance and to allocate resources is the total return on the Company's net asset value, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the consolidated financial statements. The Group engaged in a single segment of business in the comparative period.

g) Foreign currency translation
The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in USD, which is the functional currency of the Company, and the presentational currency for the consolidated financial statements.

3. Accounting policies (continued)

g) Foreign currency translation (continued)

In preparing the financial statements for the individual companies, transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the reporting date.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences are classified as other comprehensive income and recognised in the Group's foreign currency translation reserve through the consolidated statement of other comprehensive income. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of. The exchange rates used in these financial statements relative to the USD are as follows:

	Jan - Dec 2014		**Jan - Dec 2013**	
Currency	***Closing rate***	***Average rate***	***Closing rate***	***Average rate***
Brazilian Reals (BRL)	2.6576	2.3552	2.3621	2.1612
Sterling (GBP)	0.642	n/a	0.604	n/a
Colombian Pesos (COP)	2,376.5	2,001.7	1,929.5	1,869.3

It should be noted that the USD has continued to strengthen against the Brazilian and Colombian currencies after the year end.

h) Investment property

Investment property comprises freehold land and land use rights that are held for capital appreciation and are yet to have any trees planted. It is stated at fair value based on valuations by professionally qualified valuers. Fair value is based on current prices for comparable assets in the same location. Any gain or loss arising from a change in fair value is recognised through the consolidated income statement.

Recognition of investment property

Title transfer of investment property, land and surface rights in the investment region can at times be lengthy. The Group recognises investment property once the Group has legal possession of the land and surface rights as well as all associated obligations. In Brazil, the Group has entered into a number of irrevocable agreements to purchase land parcels and land use rights. Once such an agreement has been entered into, the transfer of land or surface rights moves through several stages under Brazilian Law. The Group recognises land, surface rights and associated forest assets once the acquisition is enforceable through the promise of purchase and sale which grants possession and the completion of the acquisition is financially guaranteed by the fiduciary alienation of the land, thus giving the Group possession and assigning the Group all associated obligations. Where an irrevocable agreement to purchase land or surface use rights has been entered into, but the public deed has not yet been issued, the land purchase consideration is disclosed as a contingent liability and is not recognised as an asset or a liability.

De-recognition of investment property

Investment properties are de-recognised when they have been disposed of. Any gains or losses on disposal of an investment property are recognised in the consolidated income statement in the period of disposal. A disposal is recognised when the risks and rewards associated with the investment property are transferred to a third party with no significant conditions attached. Investment properties are also reclassified on establishment of plantations. Once a plantation has been established an investment property is transferred at its fair value to forest assets with any gains or losses to date of transfer recognised in the consolidated statement of comprehensive income.

3. Accounting policies (continued)

i) Investments in associates

The Group's investments in associates are accounted for using the equity method of accounting. Associates are entities in which the Group exercises significant influence and which are neither subsidiaries nor joint ventures. Under the equity method, investments in associates are initially carried in the statement of financial position at cost. Subsequently, the investments in associates are carried at cost plus post-acquisition changes in the Group's share of the reserves of the associates less dividends received from the associates. The statement of comprehensive income reflects the share of the results of operations of the associates attributable to the Group.

Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence, and the fair value of the retaining investment and proceeds from disposal, is recognised in profit or loss.

j) Joint ventures

Joint ventures are accounted for using the equity method, which involves recognition in the consolidated income statement of the Company's share of the net result of a joint venture for the year. Interest in a joint venture is carried in the statement of financial position of the Company at its share in the net assets of the joint venture together with goodwill paid, less any impairment loss. Should the share in the losses exceed the carrying amount of a joint venture, the carrying amount will be written down to nil and recognition of further losses will be discontinued, unless the Company has incurred legal or constructive obligations relating to the company in question. For details of joint ventures see Note 24.

k) Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds such net assets. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

l) Forest assets

Forest assets are stated at fair value and recognised once the Group has possession of the land or once plantations have been established on land acquired by the Group.

It is deemed that the plantations have been successfully established three months after the seedlings have been planted and have become established. Prior to that the biological assets are valued at purchase price plus associated costs, which equates to fair value, after deduction of the fair value of the land as detailed in (i) Land and surface rights below.

Following the three months marking the successful establishment, the biological asset is then valued based on discounted future cashflows.

The fair market valuations of the forestry assets are calculated by separating the following components:

i) Land and surface rights
ii) Buildings
iii) Biological assets

3. Accounting policies (continued)

l) Forest assets (continued)

The methodology for valuation is:

i) Land and surface rights

The valuers analyse data from the previous 12 months of sales of comparable land within the geographical area. This analysis takes place after the valuers visit the geographical areas. Additionally, the valuers consider the price of comparable properties which are being offered on the market at the year end. Any gain or loss arising from a change in fair market value is recognised through the consolidated statement of other comprehensive income (net of deferred tax) in the consolidated statement of changes in equity. A decrease arising as a result of a revaluation is recognised in operating expenses to the extent that it exceeds any amount previously credited to the revaluation reserve.

The independent valuers deem surface rights inferring all rights and obligations of possession of the land for the long term to hold the same value as that of the underlying land on the basis the Group holds options to acquire the remaining 51% of the freehold interest of such land at nominal cost (see Note 10). Land and surface rights are de-recognised when they have been disposed of. Any gains or losses on disposal of land/surface rights are recognised in the consolidated income statement in the period of disposal. A disposal is recognised when the risks and rewards associated with the land/surface rights are transferred to a third party and no significant conditions are attached.

When a revalued asset is disposed of, any revaluation surplus is transferred directly to accumulated profit through the statement of changes in equity.

ii) Buildings

The Group employs the services of local third party experts to ascertain the value of buildings in their condition at the time of the valuation, where these values are material to the overall valuation. In other cases the Group will value buildings and equipment based on asset purchase price less depreciation over the useful economic life of the asset. Any gain or loss arising from a change in fair market value is recognised through the consolidated statement of other comprehensive income. Buildings are de-recognised when they have been disposed of. Any gains or losses on disposal of buildings are recognised in the consolidated income statement in the period of disposal. A disposal is recognised when the risks and rewards associated with the buildings are transferred to a third party and no significant conditions are attached.

When a revalued asset is disposed of, any revaluation surplus is transferred directly to accumulated profit through the statement of changes in equity.

iii) Biological assets

The Group's standing forests are defined and reported as biological assets. The biological assets are evaluated and reported at fair value after deduction of estimated selling costs by an independent third party expert. Once the plantations have been successfully established, the fair value of the Group's standing forests is calculated as the present value of anticipated future cash flows from the assets after tax (see Note 10). The calculation is based on sustainable felling plans, contractual agreements confirming purchase and sale prices, market research conducted by the independent valuer into market sales prices, and assessments regarding growth, felling costs, overhead costs and silviculture costs, including costs for statutory replanting, wood flow, market capacity and prevailing tax systems. Environmental restrictions and other limitations are taken into account and the calculation is performed for a production cycle of up to two rotations for eucalyptus plantations and one rotation for pine plantations. The discount factor is based on a normal forest company's WACC after tax. A notional land lease charge is included where the Group owns the land on which the plantations are grown. This charge is calculated with reference to market rental yields, as assessed by the valuer, appropriate at the time of the valuation. The rent is paid only for productive land, so the land values are adjusted to take that into account. Fair value measurement stops when the assets have been harvested and transferred to inventory or when a contract for sale is complete and ownership is transferred to the buyer. Any gain or loss arising from a change in fair market value is recognised through the consolidated statement of comprehensive income. The same accounting treatment applies when biological assets are derecognised or impaired.

Where applicable, the resulting fair market value is compared for reasonableness, where possible, to recent sales of comparable types of forestry assets in the geographical area.

3. Accounting policies (continued)

m) Property, plant and equipment
The Group's property, plant and equipment consists of farm buildings and improvements (Property), carbonisation assets (Plant) and farm equipment, machinery and vehicles (Equipment).

Buildings and improvements are initially recognised at purchase price plus any directly attributable costs and depreciated over 20 years.

Subsequent costs are included in the carrying amount of buildings, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Equipment is recognised at purchase cost less accumulated depreciation and any recognised impairment losses. Depreciation is provided on a straight line basis over the asset's probable useful life, as follows; 10 years for machinery and equipment, furniture and fixtures; five years for transportation and computer equipment.

The carbonisation assets are initially measured at cost and subsequently carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses. Revaluations are made on a half-yearly basis to ensure that the carrying amount does not differ significantly from fair value. Where the carrying amount of the carbonisation assets is increased as a result of a revaluation, the increase is recognised in income to the extent the increase reverses a previously recognised impairment recorded through income, with the remainder of the increase recognised in other comprehensive income and accumulated in the revaluation reserve. Where the carrying amount of an asset is decreased, the decrease is recognised in other comprehensive income to the extent of any balance existing in revaluation surplus in respect of the asset, with the remainder of the decrease recognised in the income statement.

As there is no active market for the carbonisation assets, the Company derives the fair value of the carbonisation assets using an income approach. The income approach assesses the discounted future cashflows over the life expectancy of the carbonisation assets that are expected to be generated by the carbonisation assets.

The carbonisation assets are depreciated on a straight-line basis over their estimated remaining useful economic life. The estimated remaining useful economic life of the carbonisation assets at the balance sheet date was five years. The remaining useful economic life of the carbonisation assets is estimated half-yearly.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Any gains previously recognised as other comprehensive income will be transferred into the Group's accumulated profit on disposal of revalued property, plant and equipment.

n) Financial instruments
Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group offsets financial assets and financial liabilities if the Group has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

3. Accounting policies (continued)

n) Financial instruments (continued)

Financial assets

The Group's financial assets fall into the categories below, with the allocation to an extent depending on the purpose for which the asset was acquired. Although the Group may use derivative financial instruments to manage foreign exchange risk, it does not hedge account for these transactions.

The Group has not classified any of its financial assets as held to maturity.

Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise through deposits on new acquisitions and also incorporate other types of contractual monetary assets. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. The effect of discounting on these financial instruments is not considered to be material.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, such impairments directly reduce the carrying amount of the impaired asset and are recognised against the relevant income category in the consolidated statement of comprehensive income.

ii) Cash and cash equivalents

Cash and cash equivalents are carried at cost and comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

iii) De-recognition of financial assets

A financial asset (in whole or in part) is de-recognised either when the Group has transferred substantially all the risks and rewards of ownership; or when it no longer has control over the asset or a portion of the asset; or when the contractual right to receive cash flow from the asset has expired.

Financial liabilities

i) Financial liabilities at amortised cost

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method. The effect of discounting on these financial instruments is not considered to be material.

ii) De-recognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

o) Interest bearing borrowings

Borrowings are recognised at fair value less directly attributable transaction costs.

3. Accounting policies (continued)

p) Inventory
Inventory is carried at the lower of cost and net realisable value. Cost comprises the purchase price, costs directly attributable to the purchase and costs of the conversion of inventories. Cost of timber inventory comprises the fair value at last valuation prior to harvesting and subsequent transfer from biological assets. Cost of charcoal inventory or any charcoal work in progress at the balance sheet date comprises the cost of timber inventory above plus any direct production costs incurred.

q) Share issue expenses and placement costs
The preliminary expenses of the Company directly attributable to the equity transactions and costs and placement costs that would otherwise have been avoided are deducted from the share capital account.

r) Taxation
The Group's current income tax liabilities comprise those obligations to fiscal authorities relating to the current reporting year, which are unpaid at the year end date.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the reporting date and the tax system elected by the Company.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except for deferred income tax assets which are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credit or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted "in use" basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date and the tax system elected by the Company.

Income tax is charged or credited if it relates to items that are credited or charged to other comprehensive income. Otherwise income tax is recognised in the consolidated statement of comprehensive income.

s) Non-current assets held for sale
Assets and liabilities are classified as held for sale if the asset's carrying amount will be recovered principally through a sale transaction, rather than continuing use. The sale must be highly probable and expected to be completed within one year from the balance sheet date. Such assets and liabilities that meet these and other criteria are accounted for in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations will initially be carried at the lower of carrying amount and fair value less costs to sell. Subsequent to initial recognition, the assets and liabilities held for sale will be measured at the lower of carrying amount and fair value less costs to sell, with impairment losses recognised in the consolidated income statement. On de-recognition of assets and liabilities held for sale, any gain or loss will be recorded in the consolidated income statement.

t) Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor activities
Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Lessee activities
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

3. Accounting policies (continued)

u) Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation that can be reasonably estimated.

4. Critical accounting judgements made in applying the Group's accounting policies

Management makes judgements on estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

a) Fair value of the investment property, planted land, forest assets and carbonisation assets are based on the current market valuation provided by Indufor, the independent valuers. Indufor are required to make assumptions on establishing the current market valuations. The valuations have been made on the assumption that the owner sells the assets in the open market without a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the value of the assets and includes consideration of Biocarbono's profitability. The valuations are based on certain assumptions concerning discount rate, rotations/production cycle, growth rates, prices, forecast woodflow, market and market capacity to absorb the woodflow, costs and future eligibility for current tax rates of the Company, and are sensitive to changes in these assumptions (see sensitivity analysis in Note 10). In determining these assumptions Indufor are required to consider that they are reasonable and that potential purchasers of the Company's assets would make the same or similar assumptions by considering other current transactions in the market.
b) The Group is subject to income and capital gains taxes in Brazil and Colombia. Significant judgment is required in determining the taxation assumed in the biological asset valuation and the total provision for income and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment are uncertain, in particular the Brazilian projects are assumed to be taxed under a favourable tax regime of Lucro Presumido which requires management of annual revenues within a fixed limit. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. The valuation cashflows prepared by Indufor do not include the application of Colombian withholding tax.
c) The charcoal business has been loss making. The Investment Manager has prepared a business plan setting out actions to be taken, which are currently being instigated, to return it to profitability as well as the capital expenditure related to these actions. This involves improving the efficiency of the charcoal operations, a significant part of which will be aided by the design and construction of new, larger and more productive kilns which can be loaded and unloaded by machinery rather than manually. The majority of these new kilns had been built by the end of 2014 and have been brought into production by mid-April 2015.

Future sales
Further progress has been made in 2014 to establish customers for the woodflow with the majority being processed by the Group's charcoal operations. Management continue to work on establishing a customer base to meet the level of woodflow estimated and prices assumed in the valuations.

5. Revenue, Cost of sales and Depletion

2014	Standing trees	Charcoal	Service and consultancy	Elimination	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Sales	18,705	13,476	130	(14,819)	17,492
Cost of sales					
Original biological asset cost	(13,267)	(11,019)	-	14,326	(9,960)
Variable cost	-	(7,286)	(172)	-	(7,458)
	(13,267)	(18,305)	(172)	14,326	(17,418)
Gross profit	**5,438**	**(4,829)**	**(42)**	**(493)**	**74**
Depletion	(7,939)	-	-	-	(7,939)
	(2,501)	**(4,829)**	**(42)**	**(493)**	**(7,865)**

2013	Standing trees	Charcoal	Service and consultancy	Elimination	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Sales	5,700	15,928	-	-	21,628
Cost of sales					
Original biological asset cost	(2,913)	(2,539)	-	-	(5,452)
Variable cost	(166)	(12,648)	-	-	(12,814)
	(3,079)	(15,187)	-	-	(18,266)
Gross profit	**2,621**	**741**	-	-	**3,362**
Depletion	(2,708)	(4,912)	-	-	(7,620)
	(87)	**(4,171)**	**-**	**-**	**(4,258)**

Following the adoption of IFRS 11, revenue from the joint ventures harvested timber is included within share of profit/(loss) of joint ventures in the consolidated income statement (Note 24).

In October 2013, the Group separated out the charcoal activity of Frondosa into a separate company, Biocarbono. In respect of 2013 it has not been possible to split out the results of the charcoal operations from those of the Frondosa group and thus the activity reported under the charcoal heading in 2013 reflects both Frondosa group and Biocarbono together.

6. Administrative expenses

	2014	2013
	USD'000	USD'000
Investment Management fees	5,694	5,653
Legal and professional fees	3,312	3,172
Travel expenses	747	1,074
Audit fees	605	727
Administration fees	883	1,360
Consultancy fees	682	734
Directors fees and expenses	595	552
Bank charges	141	98
	12,659	**13,370**

7. Forestry operating expenses

	2014 USD'000	2013 USD'000
Project facilities	739	433
Payroll	1,259	1,010
Forestry services	767	466
Land leasing	-	602
Irrecoverable tax inputs	582	514
Insurance	453	587
Valuation fees	298	185
Other general expenses	(64)	505
	4,034	**4,302**

Project facilities expenses are expenses related to the facilities that have been put in place to manage the projects whilst forestry services expenses are the expenses that the Group incurs in relation with the running of the plantations.

8. Taxation

Guernsey taxation
The parent company has filed for and received tax exempt status from the tax authorities in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinances, 1989 and is charged an annual exemption fee of GBP 600. With effect from 1 January 2015, this annual fee will increase to £1,200. Guidance notes issued by the States of Guernsey indicate that the Company should not be subject to the EU Savings Tax Directive.

Cayman Islands taxation
Under the current laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other Cayman Islands taxes payable by the Company. The Company may be subject to foreign withholding taxes on certain interest, dividend and capital gains.

BVI taxation
Subsidiaries incorporated in the British Virgin Islands are tax exempt.

US taxation
All Corporate entities incorporated in Delaware are all Delaware LLCs and are regarded as "pass through" entities for US federal income tax purposes such that no US federal income tax should be levied on the LLC itself.

Brazilian taxation
Brazil has two primary tax regimes, namely Lucro Presumido and Lucro Real. All entities elect one of the regimes at the beginning of each accounting year (which, in general, matches the fiscal year) and the election applies for the entire year. The regimes determine how the tax basis is calculated for each fiscal year, and each is described below.

Lucro Presumido
The Lucro Presumido regime is limited to companies with annual revenue/sales of up to BRL 78 million (approximately USD 29 million); this was increased from BRL 48 million (approximately USD 18 million) to BRL 78 million with effect from 1 January 2014. It is electable for legal entities which are not obliged to be taxed under the Lucro Real regime. Under this regime, income tax and social contribution arise on presumed operational profit, calculated as a proportion of gross sales, and taxpayers must calculate tax on a quarterly basis.

The tax legislation determines the rates that must be applied over the gross sales in order to obtain the presumed operational profit. For trading goods entities, including the majority of the Group's SPVs, the rates are 8% for IRPJ and 12% for CSLL. The rates for lessors of property, plant and equipment are 32% for both IRPJ and CSLL.

8. Taxation (continued)

Brazilian taxation (continued)
When the presumed operational profit has been determined, all other financial income, capital gains and other non-operational revenues are added to it in order to obtain the total tax basis.

Brazilian legal entities are also subject to taxation by the social contribution of PIS and COFINS, charged on the gross operating revenues derived by the companies, on a monthly basis. Under Lucro Presumido, PIS and COFINS are due at the rate of 0.65% and 3%. Revenues derived from the sale of fixed assets are not subject to PIS and COFINS taxation.

Once the tax basis has been calculated, taxes owed will be derived by applying the following rates:
IRPJ: 15% levied on the tax base;
IRPJ Surtax: 10% levied on the tax base over BRL 60,000 per quarter;
CSLL: 9% levied on the tax base.
PIS/COFINS: 3.65% on the gross operating revenues
Effective tax rate: 6.73% of revenue

Lucro Real
Under Lucro Real, taxable income is defined by the net accounting profit, adjusted for non-deductible expenses, non-taxable revenues, or deferred taxation adjustments.

Taxpayers using Lucro Real may choose to calculate tax on a quarterly basis or on an annual basis. However, under both regimes, entities must report on their results annually and file an annual tax return.

Additionally, under Lucro Real the taxpayer must be in compliance with prepayments rules, which may compel it to anticipate tax payments of income tax and social contributions on a monthly basis.

At the end of the year, the prepayments made are then offset against the actual income tax and social contributions due for the year.

The rates to be applied to the tax base for determining IRPJ and CSLL owed in the Lucro Real regime are the same as for the Lucro Presumido regime.

Under Lucro Real, Brazilian legal entities are also obliged to pay PIS and COFINS on their gross operating revenues. However, under such regime, PIS and COFINS are due: (i) at the rates of 1.65% and 7.6%; (ii) on a non-cumulative basis, meaning that the company may register tax credits, at the same rates, on some operating expenses (such as inputs, fuel, energy, equipment, goods for resale etc) and offset such credits against PIS and COFINS payable on each month.

Based on that, taxation applicable under Lucro Real would comply:
IRPJ: 15% levied on tax base;
IRPJ Surtax: 10% levied on the tax base in excess of BRL 240,000 per annum (or BRL 60,000 per quarter or BRL20,000 per month);
CSLL: 9% levied on tax base.
PIS/COFINS: 9.25% on the gross operating revenues, with tax credits on some operational expenses (such as inputs, fuel, energy, equipment)
Effective tax rate: 34% of net profit + 9.25% on the gross operating revenues (less credits)

8. Taxation (continued)

Brazilian taxation (continued)
Lucro Real (continued)
Any tax losses can be utilised in future years up to a maximum of 30% of those losses in any one year and can be carried forward for up to five years.

For the year ended 31 December 2014, all of the Company's Brazilian subsidiaries elected to be taxed under the Lucro Presumido regime, except for Biocarbono, which has elected to be taxed under the Lucro Real regime. A sensitivity analysis on the effect on the forest assets of the two tax regimes is included in Note 10.

Similarly, for the year ending 31 December 2015 Biocarbono has elected to be taxed under the Lucro Real regime, whilst all other Brazilian subsidiaries have elected to be taxed under the Lucro Presumido regime.

No provision for Brazilian withholding tax has been made on the basis that there is currently no withholding tax on Brazilian dividends and it is the Company's intention to make profit distributions only from these subsidiaries. It is noted that a change in the Brazilian tax system could result in withholding taxes being applied to future dividends.

Colombian taxation
Law 1607 brought about significant changes to the Colombian corporate tax regime. Included within those changes was a reduction of the corporate income tax rate from 33% to 25% and the introduction of a new social income tax (the CREE tax) at 9% until 2015 and 8% thereafter.

The two taxes are levied on the higher of net taxable income which is equal to the sum of all revenues derived from the trade carried on in Colombia through the branch less excluded income (i.e. income outside the scope of corporate income tax) and allowable costs and expenses and the presumptive tax base equal to 3% of the taxpayers net assets in the previous tax year.

Taxpayers who make investments in qualifying new forest plantations are exempt from paying corporate income tax on income generated from that activity. However companies or branches claiming government subsidies are not able to claim an exemption from corporate income tax on income generated from those plantations. The majority of branches meet the conditions to be exempt from paying corporate income tax as they do not claim government subsidies.

Colombian tax law provides an exemption from the 33% imposed withholding tax on those dividend distributions from taxed profits to foreign shareholders and 25% to Colombian resident shareholders. However should the distribution extend beyond the annual profit net of taxation, the excess will be subject to withholding tax at 33%. The excess dividends subject to withholding tax however may be matched against excess profits in the previous two years or carried forward against the following five tax years. Any profits which have not been subjected to the corporate income tax will also incur withholding tax at 33% on dividend distributions to foreign shareholders and 25% to Colombian resident shareholders. The Group is taking appropriate advice to potentially restructure the way it holds its investments in Colombia in order to reduce potential tax costs associated with dividend payments made therefrom.

In 2014, two further taxes were introduced, a net wealth tax where net equity exceeds COP 1 billion (approximately USD 425,000) as well as a surtax for the CREE, due on CREE taxable profits in excess of 800 million (approximately USD 340,000). Although the first year of the surtax is described as being for the 2015 tax year, the amount is calculated by reference to the 2014 CREE tax base and due in advance alongside the 2014 CREE return.

Net wealth tax will apply from 1 January 2015 until 2017. Under current legislation it will cease to exist from 2018. The rate of tax is determined on a progressive scale based on the value of net equity and the year of tax. The rate ranges between 0.05% and 1.15%.

The CREE surtax is a temporary surcharge and is applicable from 1 January 2015 at a rate of 5%. This surcharge increases to 6% for 2016, 8% for 2017 and 9% for 2018. It is based on the prior year's tax base.

8. Taxation (continued)

Group taxation
The Group's tax charge for the year comprises:-

	2014 USD'000	2013 USD'000
Current tax		
Brazil	749	1,209
Colombia	67	23
	816	1,232
Deferred tax		
Brazil	(6)	(96)
Colombia	-	-
	(6)	(96)
	810	1,136

Factors affecting the tax charge are as follows;

	2014 USD'000	2013 USD'000
Loss before tax	(18,842)	(26,443)
Tax charge on Brazilian and Colombian subsidiaries	810	1,136
Factors affecting charge		
Credits due to change in tax regime	-	-
Credits due to prior year adjustments	-	-
Tax charge	810	1,136

Deferred tax on revaluation of planted land in the amount of USD 704,000 (2013: USD 770,000) has been charged to the revaluation reserve (see Note 20).

The provisions for deferred tax on biological and land assets in Brazil assume that the Lucro Presumido regime will continue to be available for the Company's Brazilian subsidiaries that have elected the Lucro Presumido regime and have been calculated on an "in use" basis.

9. Investment Management fee, Performance fee and Administration Fees

Investment management fee
The Investment Manager is paid an annual management fee equal to 1.5% of the Adjusted Net Asset Value (see Note 25) (calculated as per the Private Offering Memorandum of the Group payable quarterly in advance).

The management fee is calculated based upon the last preceding Adjusted Net Asset Value current at the date of payment. When an updated Net Asset Value is published then:

- where the Updated Adjusted NAV is higher than the Current Adjusted NAV the Investment Manager will be paid a further balancing payment in order to provide the Investment Manager with the same economic benefit as if the management fee had been calculated on the basis of the Updated Adjusted NAV; and

- where the Updated Adjusted NAV is lower than the Current Adjusted NAV succeeding payments of the management fee will be reduced to take account of any overpayment made in relation to the management fee.

For the year ended 31 December 2014, the Company incurred investment management fees of USD 5.694m (2013: USD 5.653m), all of which had been paid at the end of the year.

Performance fee
During the year the terms of the Investment Manager's Agreement were amended. Those changes affecting the calculation of any performance fee are detailed below.

Under the terms of the amended Investment Manager's Agreement dated 9 December 2014, the Investment Manager is entitled to receive a performance fee in respect of each three year Calculation Period (as defined below). This will be an amount equal to 20% of the amount (if any) by which the Group's Adjusted NAV per Share at the end of the Calculation Period exceeds the Master Hurdle Amount multiplied by the number of shares in issue at that time. Where the Company pays a dividend, the applicable dividend amount per share shall be increased by an annual compounding hurdle rate of 8% and deducted from the Master Hurdle Amount.

A "Calculation Period" is a three year period initially from 1 January 2014 to 31 December 2016 and thereafter each successive three year period starting on the first day following the last day of the preceding period. Any Performance fee payable to the Investment Manager shall be satisfied by cash or the allotment of new Ordinary Shares and/or Class A Ordinary Shares or any mixture of cash and shares as may be determined by the Investment Manager. Settlement shall be made annually in three equal amounts over a period of three years.

The Master Hurdle Amount has been set at USD 8.32 as of 1 January 2014 and is increased by an annual compounding rate of 8%. Where a performance fee becomes payable the Master Hurdle Amount shall be adjusted to be the Adjusted NAV per Share at the end of that Calculation Period and shall thereafter be increased by an annual compounding hurdle rate of 8%.

For the years ended 31 December 2014 and 2013, the Company did not accrue performance fees.

9. Investment Management, Performance and Administration Fees (continued)

Administration fees
Total Administration fees for the Group were as follows for the year ended 31 December 2014;

	2014 USD'000	2013 USD'000
Company	451	435
Subsidiaries - Brazil	319	837
Subsidiaries - Colombia	89	69
Subsidiaries - Other (Delaware and BVI)	24	19
	883	1,360

The Administrator has been appointed to provide day to day administration services to the Company, as set out in the amended administration agreement dated 2 June 2014. In consideration for its services, the Administrator receives fees as noted below:

i) administration and registrar services a fixed fee of USD 115,000 per annum;
ii) accounting services a fixed fee of USD 230,000 per annum; and
iii) compliance officer fee: USD 4,225 per annum and a money laundering reporting officer fee: of USD 1,700 per annum.

Prior to implementation of the revised agreement the Administrator received a variable scaled fee based on the Adjusted NAV.

During the year, the Company incurred administration fees of USD 419,000 (2013: USD 435,000) of which USD 88,000 (2013: USD 119,000) was outstanding at the year end.

The Administrator has also been appointed to provide bookkeeping and accounting services to certain subsidiaries of the Company as set out in service agreements with each of the subsidiaries concerned. In consideration for its services, the Administrator will receive administration fees on a time spent basis. The Group subsidiaries incurred administration fees of USD 24,000 (2013: USD 19,000) in relation to bookkeeping and accounting services of which USD Nil (2013: USD Nil) was outstanding at the reporting date.

With effect from 1 June 2014, Belasko Administration Limited, was appointed by the Board to carry out company secretarial duties. In 2014, their fees totalled USD 32,000 (2013: USD Nil).

The Brazilian subsidiaries were administered by Torres Accounting, SA Contabil and Leading Contabil from 1 March 2014 who will assume the on-going administration of these subsidiaries. The Group incurred administration fees of USD 319,000 (2013: USD 837,000) relating to the Brazilian subsidiaries, of which USD Nil (2013: USD Nil) was outstanding at the year end. The 2013 comparative fee included termination fees for the previous Brazilian administrator.

The Colombian subsidiaries are provided with administrative services by Celt Consultores. During the year, the Group incurred administration fees of USD 89,000 (2013: USD 69,000) relating to the Colombian subsidiaries, of which USD Nil (2013: USD Nil) was outstanding at the year end.

10. Forest assets

2014	Land* USD'000	Biological assets USD'000	Total USD'000
Cost:			
Opening balance	74,453	138,260	212,713
Land and plantations purchased	2,209	10,403	12,612
Land and biological assets costs capitalised	-	2,908	2,908
Biological assets harvested	-	(8,699)	(8,699)
Land sold	(1,128)	-	(1,128)
Closing balance	75,534	142,872	218,406
Fair value movements:			
Opening balance	80,759	114,965	195,724
Increase in fair value of biological assets	-	9,099	9,099
Biological assets harvested	-	(8,243)	(8,243)
Land sold	19	-	19
Surplus on revaluation of planted land	21,808	-	21,808
Closing balance	102,586	115,821	218,407
Accumulated effect of foreign exchange movement on translation	(60,834)	(138,699)	(199,533)
Fair value of forest assets	**117,286**	**119,994**	**237,280**

2013	Land* USD'000	Biological assets USD'000	Total USD'000
Cost:			
Opening balance	73,451	143,445	216,896
Land and biological assets costs capitalised	-	1,184	1,184
Biological assets harvested	-	(6,369)	(6,369)
Transferred from Investment Property	1,002	-	1,002
Closing balance	74,453	138,260	212,713
Fair value movements:			
Opening balance	57,380	119,069	176,449
Increase in fair value of biological assets	-	24	24
Biological assets harvested	-	(4,128)	(4,128)
Transferred from Investment Property	567	-	567
Surplus on revaluation of planted land	22,812	-	22,812
Closing balance	80,759	114,965	195,724
Accumulated effect of foreign exchange movement on translation	(46,233)	(123,671)	(169,904)
Fair value of forest assets	**108,979**	**129,554**	**238,533**

*Includes surface rights (Kaa and Frondosa projects) and owned land

10. Forest assets (continued)

The Group's forest assets were revalued at 31 December 2014 by independent professionally qualified valuers Indufor. The Group's biological assets consisted of Eucalyptus and Pinus plantations.

In the absence of other valuation benchmarks, Indufor uses the projected future cashflows of the planted biological asset and a market discount rate in order to determine NPV. The cash flows are calculated on the basis of the optimal woodflow over the production cycle and adjusted for market assumptions where applicable. This valuation approach is often referred to as the income approach.

The Company has pledged land and biological assets with a value of USD 154.81 million (2013: USD 139.90 million) as security for interest bearing loans (see Note 19).

During the year the Group derecognised a total USD 16.94 million (2013: USD 10.50 million) worth of biological assets which were sold either as standing trees or used in the production of charcoal.

Forest assets owned by Kaa
In 2011 the Company completed the Kaa transaction to acquire existing Pine plantations. The plantations are located in Paraná state, Brazil. The Company, through its subsidiary Kaa, owns: 100% of the capital of Donahoo, which owns the 99 year surface rights over 10 real estate properties which were transferred from the sellers to Chapter; 49% of the capital of Chapter; and the existing standing trees planted on the real estate properties. The Company has the option to purchase the remaining 51% of the capital of Chapter at a minimal cost.

In June 2014, the Company acquired additional pine plantations neighbouring one of its existing projects in the Brazilian state of Paraná with a total area of 3,758 ha, of which 1,074 ha are mature pine plantations available for harvest for a total cost of BRL 30.85 million (USD 12.61 million).

Forest assets owned by Frondosa
In 2011 the Company completed the Frondosa transaction to acquire existing eucalyptus plantations. The plantations are located in Minas Gerais state, Brazil. The Company, through its subsidiary Frondosa, owns: 100% of the capital of AB Florestal, Surubim and Millco, which own the biological assets and the 99 year surface rights over the real estate properties which are owned by Hadoque; 49% of the capital of Hadoque; and the existing standing trees planted on the real estate properties. The Company has the option to purchase the remaining 51% of the capital of Hadoque at a minimal cost.

The independent valuers deem surface rights inferring all rights and obligations of possession of the land for the long term to hold the same value as that of the underlying land on the basis the Group holds options to acquire the remaining 51% of the freehold interest of such land at nominal cost. This applies to both Kaa and Frondosa. As the surface rights to the land have been granted to the Company's subsidiaries, and no longer reside with the ownership of the land for a period of 99 years, the value of the underlying land is deemed to be immaterial for the duration of the surface rights. As such, no value has been attributed to the 51% shareholders of the land owning companies.

10. Forest assets (continued)

Valuation approach
The following are summaries for each valuation approach used by Indufor when valuing the forest assets:

A. Income approach
The income approach derives the market value defined through the production potential and future income of the forest asset as calculated using the DCF method.

The main assumptions used in this approach are project specific and will vary depending on the characteristics of each project. However the principal parameters are presented below:

- **Inflation:** Costs are estimated in real values, that is, without considering the impact of inflation effects. Similarly, revenues are estimated using current wood prices assuming no price increases and without considering the effects of inflation. Accordingly a real discount rate, adjusted for inflation, is applied. Inflationary effect is eliminated from the discount rate in order to estimate the final value of the discount rate in real terms.

- **Rotations:** Future cash flows are calculated until the final harvest meaning up to two rotations (from coppicing) for eucalyptus plantations and one rotation of pinus plantations.

- **Notional Land Lease costs**: Where the Group owns the land on which plantations are grown a notional land lease charge is applied as described in Note 3.j.(iii).

- **Taxes**: The assets are valued based on a post-tax basis, after deducting all cashflows relating to taxes.

  Brazil: On the basis that the valuation should reflect the tax situation of any prospective buyer of the assets, it has been assumed that Lucro Presumido applies and tax has been considered under this basis. It is assumed that the principal market participants have the Lucro Presumido tax election available to them.

  Colombia: The valuation only consider taxes payable at the applicable rate with the taxable income being adjusted for any tax exemptions, deductions and tax credit where applicable, and excludes withholding tax.

- **Post tax real discount rate: 5.70% to 5.77% (2013: 5.64% to 5.92%):** The valuer used the WACC methodology to determine the post-tax real discount rate and believes this to be consistent with what other market participants would use when valuing the biological assets.

- **Wood prices:** The valuer uses current local wood market prices, and verifies those independently. The valuation methodology, discounting real cashflows, assumes no real or nominal increases in wood prices.

- **Biocarbono:** Charcoal operations are valued based on the capacity and expected remaining life of the charcoal kilns that are operational at the time of the valuation.

10. Forest assets (continued)

A. Income approach (continued)

- **Future costs:** The valuer forecasts future costs based on assessed management regimes for the planted species and current local silvicultural activity prices. Forecast overheads are also assessed and included.
- **Market assumptions:** The valuer also evaluates the end-market and the market's ability to absorb the woodflow at the forecast point of cashflow.
- **Average annual wood growth:** The valuer independently determines the annual wood growth depending on local conditions and existing plantations. This is specific to the region and planted species.
- **Future cash flows:** The valuer discounted the future cashflows from the current standing timber. The valuer does not assume any further cashflows following the final harvest of current standing timber.
- **Costs of land assets:** In accordance with IFRS, a notional land lease charge has been applied to the biological assets standing on the Company's land assets.

B. Cost approach (for plantations less than three months old)

The fundamental assumption of this appraisal approach is that a potential buyer should not pay a value higher than the formation/substitution cost of an equivalent asset. For the first quarter after planting the cost based valuation is based on actual costs data provided by the local administrators to each project company.

Off-take agreements affecting valuations

The following off-take agreement terms have been considered in valuing part of the forest assets by the valuer:

Aimara project off-take

On 11 September 2008 a private instrument for formation of a SCP was executed between Aimara and Klabin. This led to a private instrument for the purchase and sale of standing trees being entered into by the two parties on 17 September 2008, pursuant to which Klabin is obliged to buy and the Company is obliged to sell all the future Eucalyptus production from the SCP's forests for the duration of the SCP agreement on the basis of an agreed pricing mechanism. The off-take Agreement is valid for as long as the SCP agreement remains in force.

The wood price that has been used on the Aimara valuation has been that determined by the pricing mechanism agreed under this off-take agreement. Management do not believe that the Aimara valuation would have been materially different had local market prices been used.

There are no other off-take agreements that have had an effect on the valuation of the biological assets.

Biological assets sensitivity analysis

The independent valuations of biological assets, in accordance with IFRS, are based on a number of valuation inputs and assumptions. The independent valuations of standing timber are sensitive to changes in these inputs, to varying degrees.

The analysis below is provided in order to illustrate the sensitivity of the biological asset valuations to changes in the discount rate, wood volume assumptions, estimated wood prices and forestry costs separately and when all the other variables remain constant. The analysis illustrates a range by which the valuations could vary if inputs and assumptions were to change and is not intended to imply the likelihood of change or that possible changes in value would be restricted to this range. For example, the discount rate might change by more than the 1% indicated below, as might wood prices. The analysis is based on biological asset values including those held under joint ventures. In total this is USD 163.256 million, of which USD 119,994 million is reflected in the Consolidated Statement of Financial Position and USD 43.262 million held in joint ventures (see Note 24.).

10. Forest assets (continued)

Biological assets sensitivity analysis (continued)

31 December 2014

Variable	Total biological asset value sensitivity USD'000	Biological asset value USD'000	Sensitivity of biological asset value to change in variable as a percentage
Discount rate			
1% decrease in discount rate	9,665	172,921	5.92%
1% increase in discount rate	(8,778)	154,478	-5.38%
Forecast wood volume			
1% decrease	(2,264)	160,992	-1.39%
1% increase	2,265	165,521	1.39%
Wood prices			
1% decrease	(2,264)	160,992	-1.39%
1% increase	2,265	165,521	1.39%
Forestry costs			
1% decrease	147	163,403	0.09%
1% increase	(143)	163,113	-0.09%

31 December 2013

Variable	Total biological asset value sensitivity USD'000	Biological asset value USD'000	Sensitivity of biological asset value to change in variable as a percentage
Discount rate			
1% decrease in discount rate	11,043	190,321	6.16%
1% increase in discount rate	(10,014)	169,264	-5.59%
Forecast wood volume			
1% decrease	(2,512)	176,766	-1.40%
1% increase	2,515	181,793	1.34%
Wood prices			
1% decrease	(2,509)	176,769	-1.40%
1% increase	2,515	181,793	1.34%
Forestry costs			
1% decrease	178	179,456	0.11%
1% increase	(171)	179,107	-0.29%

For example, a decrease in the forecast wood volume of 1% would result in a decrease of the biological asset value of USD 2.26 million (2013: USD 2.51 million) to USD 160.99 million (2013: USD 176.77 million), and an increase in the forecast wood volume of 1% would result in an increase in the biological asset value of USD 2.27 million (2013: USD 2.52 million) to USD 165.52 million (2013: USD 181.80 million), when all the other variables are held constant.

10. Forest assets (continued)

Brazilian tax sensitivity analysis

Changes to tax regimes governing the Group and its assets, or changes to the eligibility of the Group to certain tax regimes, may adversely affect the Company's financial performance. This risk is relevant to the Group's assets in Brazil where the Lucro Presumido regime has been elected by all of the Group's forestry operations. This tax regime allows eligible companies to pay a lower tax rate of 3.08% on operating revenue at a presumed rate of profitability, as opposed to a higher tax rate of 34% on actual profits under the Lucro Real regime. The Lucro Presumido regime is currently only available to companies with annual revenue of less than BRL 78 million. Whilst the revenues are managed to ensure the annual revenue stays below BRL 78 million, should the revenue of one of the Group's Brazilian projects exceed BRL 78 million in any one calendar year, that project would be subject to Lucro Real the following year.

The Directors are confident that they have the systems and controls in place to ensure that the turnover level of BRL 78 million is not exceeded but if that were to occur, there would be two consequences:

Firstly, it may mean that current deferred tax provisions on land and biological assets would not equal eventual taxes payable on the realisation of an asset and the deferred tax provisions would need to increase going forward.

Secondly, it would mean that the independent valuations of the biological assets, which are computed on a post-tax cashflow basis, would be updated going forward to consider the tax cashflows under Lucro Real.

For the Brazilian biological assets, forecast revenues are consistent with the criteria for Lucro Presumido. In 2013, the Group separated out the charcoal activity of Frondosa into a separate company, Biocarbono, which has elected to be taxed under the Lucro Real tax regime in 2014. Each of the Group's Brazilian projects (including Aimara joint venture) are treated separately for tax purposes in Brazil. In the event that all of the Group's Brazilian projects were forced to elect for Lucro Real instead of Lucro Presumido, the deferred tax liability and biological asset valuation would be affected, on a worst case basis, as detailed below.

Brazilian tax sensitivity analysis, all Group Brazilian projects

31 December 2014	Lucro Presumido USD'000	Lucro Real USD'000	Change in value under Lucro Real USD'000	Percentage change in valuation under Lucro Real
Biological asset value sensitivity to tax election	133,549	114,197	(19,352)	-14.49%
Biological asset deferred tax provision sensitivity to tax election	(4,070)	(21,022)	(16,952)	416.52%
Total biological asset value and deferred tax sensitivity to tax election	129,479	93,175	(36,304)	-28.04%
NAV sensitivity to tax election on biological asset and deferred tax	285,303	248,999	(36,304)	-12.72%
Land value deferred tax provision sensitivity to tax election	(3,677)	(26,205)	(22,529)	612.78%
Total land, forest asset value and deferred tax sensitivity to tax election	247,450	188,616	(58,833)	-23.78%
NAV sensitivity to tax election	285,303	226,470	(58,833)	-20.62%

10. Forest assets (continued)

Brazilian tax sensitivity analysis (continued)

Brazilian tax sensitivity analysis, all Group Brazilian projects

31 December 2013	Lucro Presumido USD'000	Lucro Real USD'000	Change in value under Lucro Real USD'000	Percentage change in valuation under Lucro Real
Biological asset value sensitivity to tax election	142,380	120,715	(21,665)	-15.22%
Biological asset deferred tax provision sensitivity to tax election	(4,385)	(22,826)	(18,441)	420.51%
Total biological asset value and deferred tax sensitivity to tax election	137,995	97,888	(40,106)	-29.06%
NAV sensitivity to tax election on biological asset and deferred tax	334,663	294,557	(40,106)	-11.98%
Land value deferred tax provision sensitivity to tax election	(3,461)	(21,996)	(18,535)	535.59%
Total land, forest asset value and deferred tax sensitivity to tax election	246,893	188,252	(58,641)	-23.75%
NAV sensitivity to tax election	334,663	276,022	(58,641)	-17.52%

The above data has been compiled with the input of the independent Valuer and independent Tax Advisor.

The Directors, through their active management of the Company's dual purpose of investing in real estate and forestry, believe that both the land and biological assets of the Brazilian subsidiaries will remain eligible for the Lucro Presumido regime. In the event that there is a change in the dual corporate purpose the land assets held by the Brazilian projects would be subject to an additional deferred tax provision of USD 22.5 million as detailed above (2013: USD 18.5 million).

Planted land price sensitivity analysis
The following paragraph details the sensitivity of the Group's reported planted land value to a 1% increase or decrease in the per hectare values of land. A 1% increase or decrease has been used in order to illustrate the effect that each 1% movement in the value per hectare will have on the Group's comprehensive income and is not intended to imply the likelihood of change or that possible changes in value would be restricted to this range.

At 31 December 2014, if the per hectare values of land were to increase or decrease by 1%, with all other variables held constant, the planted land values would have increased or decreased by USD 1.31 million (2013: USD 1.24 million) respectively.

Forest assets foreign currency exchange rate sensitivity analysis
The Group's forest assets are held in currencies other than USD and therefore expose the Group to sensitivity as the value of the assets denominated in other currencies will fluctuate due to changes in exchange rate on translation. As at 31 December 2014, the Group forest assets were denominated in BRL and COP.

10. Forest assets (continued)

Forest assets foreign currency exchange rate sensitivity analysis (continued)
If the USD strengthened or weakened by 15% against the BRL and all other variables held constant, the Group's forest asset values for the year would have been USD 31.61 million lower or USD 42.77 million higher (2013: USD 23.63 million lower or USD 28.88 million higher) respectively as a result of the translation of BRL denominated forest asset values.

If the USD strengthened or weakened by 15% against the COP and all other variables held constant, the Group's forest asset values for the year would have been USD 5.81 million lower or USD 7.86 million higher (2013: USD 4.96 million lower or USD 6.06 million higher) respectively as a result of the translation of COP denominated forest asset values.

Biological assets sensitivity to charcoal operations profitability
At 31 December 2014, the Group's forestry projects which produce wood primarily for its charcoal production subsidiary had biological assets valued at USD 106.6 million (2013: USD 125.4 million). The Group's charcoal production subsidiary made losses during 2014. This has been the subject of management attention and a plan is in place to turn this part of the business into profit by the end of 2015.

The biological asset valuations referred to above have not been adjusted for the losses incurred in the charcoal producing subsidiary as the Directors consider that the pig iron/charcoal market is expected to improve in the short term and, combined with the impact of greater efficiency from the newly designed kilns, the subsidiary is expected to be profitable in the medium term. The biological asset valuations referred to above are therefore sensitive to the results of the charcoal operations as there is not deemed to be another readily accessible market for the majority of the Group's biological assets.

If the valuations were adjusted and the charcoal producing subsidiary were to produce additional profits or losses of BRL 5 per m^3 of wood sales, the impact of this would increase or decrease the above mentioned biological asset valuations by USD 10.0 million (2013: USD 15.8 million).

Fair value of forest assets
All forest assets held by the Company during the year are classified under Level 3 of the fair value hierarchy under IFRS 13. There have been no transfers in and out of this total.

11. Investment property

	2014 USD'000	2013 USD'000
Cost:		
Opening balance	6,546	7,486
Additions	465	62
Transfer to forest assets	-	(1,002)
Closing balance	7,011	6,546
Fair value movements:		
Opening balance	(150)	417
Transfer to forest assets	-	(567)
Closing balance	(150)	(150)
Accumulated effect of foreign exchange movement on translation	(275)	1,234
Fair value of investment properties	**6,586**	**7,630**

11. Investment property (continued)

The Group's investment properties, which consist of unplanted land, were valued at 31 December 2014 by professionally qualified valuers, Indufor.

The method used to develop the land appraisal is the direct comparative method. The direct comparative method defines the value through comparing the characteristics of comparable market data to the characteristics inherent in the element appraised. This method assumes that the data available allows a sample formation of sales or purchases of properties similar to the property being appraised and capable of completing all the existing variables in the regional estate market. The independent valuers deem surface rights inferring all rights and obligations of possession of the land for the long term to hold the same value as that of the underlying land on the basis the Group holds options to acquire the remaining 51% of the freehold interest of such land at nominal cost.

The Group has entered into a number of irrevocable agreements to purchase land parcels in Brazil. Once such an agreement has been entered into, the acquisition moves through several stages under Brazilian law. The Company recognises land and associated forest assets once the acquisition is enforceable through the promise of purchase and sale which grants possession and the completion of the acquisition is financially guaranteed by the fiduciary alienation of the land, thus giving the Company possession and assigning the Company all associated obligations. Where an irrevocable agreement to purchase land has been entered into, but the public deed has not yet been issued, the land is noted as a contingent liability (see Note 33).

Investment property price sensitivity analysis
The following paragraph details the sensitivity of the Group's reported unplanted land (investment property) value to a 1% increase or decrease in the per hectare values of land. A 1% increase or decrease has been used in order to illustrate the effect that each 1% movement in the value per hectare will have on the Group's comprehensive income and is not intended to imply the likelihood of change or that possible changes in value would be restricted to this range.

At 31 December 2014, if the per hectare values of land were to increase or decrease by 1%, with all other variables held constant, the NAV would have increased or decreased by USD 66,000 (2013: USD 76,000).

Investment property foreign currency exchange rate sensitivity analysis
The Group's investment property is also exposed to foreign exchange rate fluctuation in the same manner as the forest assets above. As at 31 December 2014, the Group forest assets were denominated in BRL and COP.

If the USD strengthened or weakened by 15% against the BRL and all other variables held constant, the Group's Investment property values for the year would have been USD Nil lower or USD Nil higher (2013: USD Nil lower or USD Nil higher) as a result of the translation of BRL denominated Investment property values.

If the USD strengthened or weakened by 15% against the COP and all other variables held constant, the Group's forest asset values for the year would have been USD 860,000 lower or USD 1,164,000 higher (2013: USD 693,000 lower or USD 848,000 higher) respectively as a result of the translation of COP denominated forest asset values.

Fair value of investment property
All investment property held by the Company during the year is classified under Level 3 of the fair value hierarchy under IFRS 13. There have been no transfers in and out of this total.

12. Property, plant and equipment

2014	**Carbonisation assets USD'000**	**Equipment USD'000**	**Total USD'000**
Cost:			
Opening balance as at 1 January	5,957	510	6,467
Additions	2,319	2,732	5,051
Closing balance as at 31 December	8,276	3,242	11,518
Depreciation/Fair Value:			
Opening balance as at 1 January	(3,056)	(74)	(3,130)
Depreciation	-	(500)	(500)
Valuation loss charged to income statement	(3,386)	-	(3,386)
Impairment loss charged to income statement	(1,776)	-	(1,776)
Closing balance as at 31 December	(8,218)	(574)	(8,792)
	58	2,668	2,726
Effect of foreign exchange movements	(58)	(933)	(991)
Carrying value as at 31 December 2014	**-**	**1,735**	**1,735**

2013	**Carbonisation assets USD'000**	**Equipment USD'000**	**Total USD'000**
Cost:			
Opening balance as at 1 January	3,313	73	3,386
Additions	2,644	437	3,081
Closing balance as at 31 December	5,957	510	6,467
Depreciation / Fair Value:			
Opening balance as at 1 January	(3,056)	(14)	(3,070)
Depreciation	-	(64)	(64)
Disposals	-	4	4
Closing balance as at 31 December	(3,056)	(74)	(3,130)
	2,901	436	3,337
Effect of foreign exchange movements	(822)	(85)	(907)
Carrying value as at 31 December 2013	**2,079**	**351**	**2,430**

As part of the Frondosa acquisition the Group acquired carbonisation assets which are being used to produce charcoal for the pig iron industry. In 2013, the Group separated out its charcoal activity into a separate company, Biocarbono.

12. Property, plant and equipment (continued)

As there is no active market for the carbonisation assets the fair value has been derived using an income approach over a five year useful life. The income approach assesses the discounted future cashflows that will be generated by the plant. This valuation will be carried out half-yearly and revaluation gains and losses will be reflected in other comprehensive income.

The valuation loss charged to the consolidated income statement relates to carbonisation assets previously held at cost as per the valuation policy.

The following summarises the main assumptions used by Indufor when valuing the carbonisation assets as at 31 December 2014.

Post tax real discount rate: 7.70% (Based on the WACC for Brazil of 5.70% plus a risk premium of 2% (2013: 7.64% (Based on the WACC for Brazil of 5.64% plus a risk premium of 2%)). The risk premium is to reflect the higher risk in charcoal production as compared to forestry.
Charcoal price: The valuer uses the current local market prices, and verifies those independently. The valuation methodology, discounting real cashflows, assumes no real or nominal increases in prices.
Wood Cost: The valuer uses the current local market prices, and verifies those independently. The valuation methodology, discounting real cashflows, assumes no real or nominal increases in wood prices.
Plant capacity: 82% utilisation of the current carbonisation capacity for year for 2015 and 100% for further years.
Cost based valuations of kilns less than 6 months old: Charcoal kilns less than 6 months old are valued on a cost basis. After 6 months, the kilns are valued by the valuers based on discounted operational future cashflows. This method ensures that the valuation takes into consideration any start-up issues that may occur during the first 6 months of operation and expectation that operation is profitable.

Fluctuations in the price of wood and charcoal resulted in no value being attributable to the carbonisation assets in use at the reporting date. Management believes that these fluctuations are short term and they continue to monitor market conditions.

13. Investment in associates

	2014 USD'000	2013 USD'000
Opening balance	2,298	2,194
Additions	-	-
Share of income from associate	2,513	118
Dividends received	(57)	(14)
Value of initial investment on acquisition	(4,754)	-
Closing balance	-	2,298

In 2012 the Company entered into a share purchase agreement to purchase 3,700,071 shares of capital stock of Silvotecnia, a forestry industry service provider, as part of its Colombian operations. At the same time the Company entered into a subscription agreement to subscribe to 3,017,500 of newly issued shares, giving the Company a 33.56% interest in Silvotecnia. The share purchase agreement also gave the Company the option to purchase a further 28.5% of Silvotecnia's issued share capital, 4,963,787 shares, for USD 2.55 million on 15 December 2014. The Company took up this option. Prior to this, on 15 October 2014, Silvotecnia purchased back 13.5% of its own shares. These two events give the Company effective control of 67.5% of Silvotecnia's shares and as such it is no longer an associate investment and is consolidated from 15 December 2014 (see Note 29).

The share of income from associate includes the fair value movement during the year (see Note 29).

14. Other non-current assets

	2014 USD'000	2013 USD'000
Pig iron mill receivable	8,179	11,883
Goodwill	3,914	-
Other	30	-
	12,123	11,883

Goodwill arose on the acquisition of additional shares of Silvotecnia (see Note 29).

15. Discontinued operations

In November 2013 the sale of the pig iron mill assets held by a subsidiary of Frondosa was completed for BRL 35 million, realising a profit on disposal of USD 2.11 million (BRL 5 million). These assets were purchased as part of the Frondosa acquisition in 2011 and had been leased to the previous owners. Prior to disposal all liabilities and receivables were paid and collected with the lease also ending on the completion date. Receipts for this sale will be spread over 60 months starting from February 2014. As the proceeds will be adjusted annually for inflation the Directors do not believe that the net present value of the sale proceeds will be materially different to the agreed sale proceeds. Therefore in calculating the profit on disposal the sale proceeds were not discounted.

The results of the discontinued operations included in the loss for the year are set out below.

	2014 USD'000	2013 USD'000
Lease income	-	1,581
Other net income	-	188
Profit before tax of non-current assets held for sale	-	1,769
Tax	-	(168)
	-	1,601
Gain on disposal of assets	-	2,108
Profit after tax of discontinued operations	-	3,709

	2014 USD'000	2013 USD'000
Net cash inflows from operating activities	-	2,067
Net cash inflows from financing activities	-	(2,072)
Net cash outflows	-	(5)

15. Discontinued operations (continued)

The gain on disposal for the year ended 31 December 2013 has been calculated as follows;

	USD'000	BRL'000
Sale proceeds	16,195	35,000
Carrying value of pig iron mill assets at 31 December 2012	(14,839)	(30,443)
Effect of foreign exchange	752	-
Realised gain	2,108	4,557
Receipts to be received as follows		
Between 2 and 5 years	11,854	28,000
Within 1 year	2,963	7,000
Effect of foreign exchange	1,378	-
	16,195	35,000

As at 31 December 2014

	USD'000	BRL'000
Receipts to be received as follows		
Between 2 and 5 years (Note 14)	8,179	21,736
Within 1 year (Note 17)	2,640	7,015
	10,819	28,751

16. Inventory

The table below summarises the Group's inventories valued at lower of cost and net realisable value.

	2014	2013
	USD'000	USD'000
Seedlings and consumables	48	29
Work in progress	5,464	2,264
Finished products	265	-
	5,777	2,293

The Group's work in progress consists of biological assets that at the year end date were going through charcoal production. The Group's finished products consists of charcoal.

17. Trade and other receivables

	2014 USD'000	2013 USD'000
Trade receivables	1,165	235
Advances to suppliers	243	316
Prepayments	160	32
Receivable on pig iron mill (Note 15)	2,640	2,963
Other receivables	2,884	2,949
	7,092	6,495

There are no material past due or impaired receivable balances outstanding at the year end.

18. Cash and cash equivalents

Cash and cash equivalents comprises cash held by the Group and short-term bank deposits available on demand. The carrying amounts of these assets approximate their fair value. The table below provides a breakdown of cash and cash equivalents that are considered to be restricted and unrestricted as at 31 December 2014.

	2014 USD'000	2013 USD'000
Restricted		
Amounts held in escrow accounts in respect of assets purchased	1,000	7,906
Unrestricted	8,903	23,822
	9,903	31,728

19. Interest bearing borrowings

2014 Lender	Project	Current USD'000	Non-current USD'000	Total USD'000
Metlife term loan	Frondosa	-	15,000	15,000
Metlife credit facility	Frondosa	-	12,500	12,500
Banco Rendimento SA	Biocarbono	1,411	1,819	3,230
		1,411	29,319	30,730

2013 Lender	Project	Current USD'000	Non-current USD'000	Total USD'000
Metlife	Frondosa	-	15,000	15,000
Other	Antioquia	161	-	161
		161	15,000	15,161

19. Interest bearing borrowings (continued)

On 11 April 2013, the Company, through SP Timberland Holdings LLC and SP Timberland LLC, agreed the terms of a loan for USD 15 million from Metlife with an additional line of credit of the same amount.

The term loan was drawn down on 27 November 2013 and utilised to repay the remaining balance on a Redimento facility in Fondrosa. The fixed interest rate on the term loan is based upon 585 bps above the 10 year US Treasury rate, subject to a minimum 7.75%. As at 31 December 2014 the principal amount owing to Metlife in respect of the term loan is USD 15 million (2013: USD 15 million).

On 28 May 2014, USD 5.5 million of the line of credit was drawn down and a further USD 7 million drawn down on 23 October 2014. The interest rate applicable to the line of credit is 585 bps above the 6-month LIBOR with no interest rate floor. As at 31 December 2014 the principal amount owing to Metlife in respect of the line of credit was USD 12.5 million (2013: Nil). Amounts drawn down on the line of credit facility mature 5 years after the date of drawdown.

During the year four loans totalling USD 3.23 million (2013: Nil) were arranged and drawn down from Banco Rendimento through the Company's carbonisation entity, Biocarbono. These loans attract interest at rates between 3.50% and 10.56%.

The total interest incurred on these borrowings was USD 1.4 million (2013: USD 4.52 million). No early settlement penalties were incurred in 2014 (2013: USD 0.23 million).

The Company has pledged land and biological assets with a value of USD 154.81 million (2013: USD 139.90 million) as security for the Metlife loan (see Note 10). The Rendimento loans are secured on cash in Aimara and trade receivables in Biocarbono.

20. Deferred tax

	2014 USD'000	2013 USD'000
Opening balance	(7,481)	(8,005)
(Charged)/ credited to income statement on fair value adjustments on forest assets	(1)	194
Charged to other comprehensive income on revaluation adjustments	(704)	(770)
Exchange rate differences	903	1,100
Closing balance	(7,283)	(7,481)

Deferred tax liabilities arise in relation to unrealised fair value adjustments on both forest assets and investment property and have been recognised on an "in use" basis. Unrealised fair value adjustments on planted land and their corresponding deferred tax liability are reflected in other comprehensive income (see Note 10 for sensitivity analysis).

21. Other long term liabilities

	2014 USD'000	2013 USD'000
Amounts owing on purchase of forest assets	1,495	5,217
Deferred income on land sold	-	829
Other	234	-
	1,729	6,046

The amounts owing on forest assets consist of amounts owed by the Group on forest assets purchased in prior years.

22. Trade and other payables

	2014 USD'000	2013 USD'000
Trade payables	4,730	3,727
Amounts due on purchases	3,484	733
Taxes payable	2,507	127
Accruals	840	1,221
	11,561	5,808

Trade and other payables include amounts outstanding for trade purchases and on-going costs. The credit period taken for trade purchases ranges from 30 to 180 days. The carrying amount of trade payables approximates to their fair value. Included in amounts due on purchases is USD 2.55 million in respect of the purchase of additional Silvotecnia shares (see Notes 29 and 34).

23. Provisions

	2014 USD'000	2013 USD'000
At 1 January	838	690
Provision made during the year	36	260
Effect of foreign exchange	(98)	(112)
	776	838

The Company, through Ibiraçú, has entered into three law suits in Brazil in order to expedite and guarantee the transfer of full title of two properties relating to a farm purchased in 2008. The Company, through its Ibiraçú subsidiary, has planted the properties after receiving all necessary permissions and has possession of the land, and rights to the biological assets on the land.

The provision above represents management's best estimate of the costs that Ibiraçú will need to incur in order for full title of the two properties to be transferred to Ibiraçú. It is management's expectation that the provision will be utilised within the next financial year.

24. Joint ventures

The Company has two joint ventures.

MSTH
The Company has a joint venture with Cotopaxi, an Ecuadorian wood based panel producer, through MSTH, 90% of which is owned by the Company. MSTH owns 100% of the shares of El Guasimo, a former subsidiary of Cementos, one of the largest cement producers in Colombia.

Although the Company owns 90% of MSTH it is not fully consolidated due to the fact that decisions are made in conjunction with Cotopaxi and the Company does not therefore have control of the joint venture.

Aimara
The Company (via its subsidiary, Aimara) has an 80% interest in a joint venture, with Klabin owning the remaining 20%. The purpose of the joint venture is to acquire or lease land to be planted with new plantation forest and managed accordingly. The joint venture's principal place of business is in the state of Paraná, Brazil.

Although the Company owns 80% of the joint operation it is not fully consolidated due to the fact that decisions are made in conjunction with the other partner in the joint venture and the Company does not therefore have control of the joint venture.

Following the adoption of IFRS 11: 'Joint Arrangements' for the current period, MSTH and Aimara are no longer eligible for line by line consolidation but are accounted for using the equity method as they are classified as joint ventures on the basis that the Company only has rights to the net assets of each of the arrangements.

The following is a breakdown of the Group's portion of assets and liabilities of the joint ventures that have been aggregated in calculating the initial investment value at 31 December 2012:

	MSTH USD'000	Aimara USD'000	Total USD'000
ASSETS			
Non-current assets			
Forest assets	56,178	18,822	75,000
Property, plant and equipment	629	-	629
Deferred tax assets	366	-	366
	57,173	18,822	75,995
Current assets			
Trade and other receivables	1,871	373	2,244
Cash and cash equivalents			
Restricted	-	4,235	4,235
Unrestricted	175	999	1,174
Inventories	30	-	30
	2,076	5,607	7,683
LIABILITIES			
Non-current liabilities			
Deferred tax liability	1,637	580	2,217
Other non-current liabilities	475	-	475
	2,112	580	2,692
Current liabilities			
Trade and other payables	1,795	293	2,088
Net Assets	**55,342**	**23,556**	**78,898**

24. Joint ventures (continued)

The comparative numbers shown in these consolidated financial statements have been adjusted accordingly with no impact on previously reported net assets or losses of the Group.

The following summarises the Group's portion of the joint ventures' net assets and summary income statement:

	MSTH 31 Dec 2014 USD'000	Aimara 31 Dec 2014 USD'000	Total 31 Dec 2014 USD'000
Non-current assets			
Forest assets			
Land	9,924	3,489	13,413
Biological assets	30,107	13,155	43,262
Other non-current assets	814	-	814
	40,845	16,644	57,489
Current assets			
Cash and cash equivalents	387	947	1,334
Other current assets	1,874	378	2,252
	2,261	1,325	3,586
Non-current liabilities			
Deferred tax	1,978	498	2,476
Other non-current liabilities	264	-	264
	2,242	498	2,740
Current liabilities			
Interest bearing borrowings	297	-	297
Other current liabilities	848	304	1,152
	1,145	304	1,449
Net Assets	**39,719**	**17,167**	**56,886**

24. Joint ventures (continued)

	MSTH 31 Dec 2013 USD'000	Aimara 31 Dec 2013 USD'000	Total 31 Dec 2013 USD'000
Non-current assets			
Forest assets			
Land	12,219	3,380	15,599
Biological assets	36,891	12,833	49,724
Other non-current assets	1,172	-	1,172
	50,282	16,213	66,495
Current assets			
Cash and cash equivalents	1,394	1,622	3,016
Other current assets	1,410	367	1,777
	2,804	1,989	4,793
Non-current liabilities			
Deferred tax	2,183	496	2,679
Other non-current liabilities	260	-	260
	2,443	496	2,939
Current liabilities			
Interest bearing borrowings	720	-	720
Other current liabilities	637	285	922
	1,357	285	1,642
Net Assets	**49,286**	**17,421**	**66,707**

24. Joint ventures (continued)

	MSTH 31 Dec 2014 USD'000	Aimara 31 Dec 2014 USD'000	Total 31 Dec 2014 USD'000
Revenue - from harvested timber	3,672	-	3,672
Cost of sales	(1,535)	-	(1,535)
Gross profit	2,137	-	2,137
Depletion	(2,206)	-	(2,206)
	(69)	-	(69)
Unrealised gain on biological assets	1,895	1,778	3,673
	1,826	1,778	3,604
Operating expenses	(1,775)	(495)	(2,270)
Interest income on bank deposits	79	183	262
Profit on disposal of assets	18	-	18
Unrealised loss on planted land	(107)	-	(107)
Profit before tax	41	1,466	1,507
Taxation charge	(431)	(102)	(533)
(Loss)/profit for the year	(390)	1,364	974
Other comprehensive income	389	534	923
Total comprehensive (loss)/income	**(1)**	**1,898**	**1,897**

	MSTH 31 Dec 2013 USD'000	Aimara 31 Dec 2013 USD'000	Total 31 Dec 2013 USD'000
Revenue - from harvested timber	7,573	31	7,604
Cost of sales	(5,489)	-	(5,489)
Gross profit	2,084	31	2,115
Depletion	(2,016)	-	(2,016)
	68	31	99
Unrealised gain/(loss) on biological assets	1,121	(922)	199
	1,189	(891)	298
Operating expenses	(1,317)	(714)	(2,031)
Interest (expense)/income on bank deposits	(151)	187	36
Profit on disposal of assets	14	-	14
Unrealised loss on planted land	(301)	-	(301)
Loss before tax	(566)	(1,418)	(1,984)
Taxation charge	(1,358)	(43)	(1,401)
Loss for the year	(1,924)	(1,461)	(3,385)
Other comprehensive income	341	582	923
Total comprehensive Loss	**(1,583)**	**(879)**	**(2,462)**

25. Net asset value

In accordance with the terms of the Company's Private Placement Memorandum the Group's Adjusted NAV is published semi-annually and used in the calculation of fees payable to the Investment Manager and Administrator and for the purposes of reporting to the Shareholders.

The definition of IFRS NAV and Adjusted NAV are shown in the Glossary.

Reconciliations of the Group's IFRS NAV to the Adjusted NAV as at 31 December 2014 are as follows:

	31 Dec 2014		**31 Dec 2013**	
	USD *per share*	**USD'000** *total*	**USD** *per share*	**USD'000** *total*
IFRS NAV attributable to holders of redeemable Ordinary and Class A Ordinary shares	6.60	285,303	7.77	334,663
Adjustment for deferred tax duplication	0.14	5,882	0.15	6,522
Adjustment for notional land lease charge	0.27	11,797	0.29	12,576
Adjustment for unamortised organisation expenses	0.06	2,688	0.11	4,686
Adjusted NAV attributable to redeemable Ordinary and Class A Ordinary shareholders	7.07	305,670	8.32	358,447

26. Share Capital

As at 31 December 2014 the authorised share capital of the Company was USD 20,000,002 (2013: USD 20,000,002) divided into 100,000,000 (2013: 100,000,000) redeemable Ordinary Shares of USD 0.10 each, 100,000,000 (2013: 100,000,000) redeemable Class A Ordinary Shares of USD 0.10 each and two (2013: two) non-redeemable Management Shares of USD 1.00 each.

The Management Shares do not carry any rights to dividends and, in a winding-up, rank only for a return of the amount of the paid up capital on such shares after a return of capital on all other shares in the Company.

The holders of the Ordinary Shares and Class A Ordinary Shares which are both classified as equity shall have the following rights:

(i) Dividends
Holders of Ordinary Shares and Class A Ordinary Shares are entitled on a *pari passu* basis to receive, and participate in, any dividends or other distributions resolved to be distributed in respect of any accounting period or other income or right to participate therein.

(ii) Winding up
On a winding up, the holders of Ordinary Shares and Class A Ordinary Shares shall be entitled, on a *pari passu* basis, to the surplus assets remaining after payment of (i) all the creditors of the Company and (ii) the holders of Management Shares in accordance with the Company's Articles of Association.

(iii) Voting
The holders of Ordinary Shares and Class A Ordinary Shares shall have the right to receive notice of and to attend and vote at general meetings of the Company and each holder of Ordinary Shares and Class A Ordinary Shares being present in person or by proxy or by a duly authorised representative (if a corporation) at a meeting shall upon a show of hands have one vote and upon a poll each such holder present in person or by proxy or by a duly authorised representative (if a corporation) shall have one vote in respect of each Ordinary Share or Class A Ordinary Share (as the case may be) held by him.

The Class A Ordinary Shares rank *pari passu* in all respects (particularly in relation to redemption, entitlement to dividends and the return of capital on a winding up of the Company) with the Ordinary Shares and are subject to the same rights, obligations and entitlements but will not be traded on any share exchange.

During the year ended 31 December 2014, the Company issued 151,600 new shares with 143,187 of these new shares being issued as a result of the scrip dividend issue on 31 October 2014. The shares issued increased the number of shares from 43,087,540 to 43,239,140. Total amounts generated from the share issues were USD 1.37 million, of which USD 1.29 million was as a result of the scrip dividend issue (see Note 28).

26. Share Capital (continued)

Transactions in the shares of the Company for the year ended 31 December 2014 were as follows:

2014	**Management Shares of USD 1 each**	**Redeemable Ordinary Shares of USD 0.10 each**	**Redeemable Class A Ordinary Shares of USD 0.10 each**	**Total Shares in issue**
At 1 January 2014	2	18,885,736	24,201,802	43,087,540
Shares issued 31 October 2014	-	142,747	8,853	151,600
As at 31 December 2014	2	19,028,483	24,210,655	43,239,140

2013	**Management Shares of USD 1 each**	**Redeemable Ordinary Shares of USD 0.10 each**	**Redeemable Class A Ordinary Shares of USD 0.10 each**	**Total Shares in issue**
At 1 January 2013	2	12,933,193	24,191,383	37,124,578
Shares issued 26 February 2013	-	206,475	-	206,475
Shares issued 23 May 2013	-	5,404,020	-	5,404,020
Shares issued 31 October 2013	-	342,048	10,419	352,467
As at 31 December 2013	2	18,885,736	24,201,802	43,087,540

On 10 April 2014 the Company declared an interim dividend to shareholders as detailed in Note 28. As a result of the New Shares elected to be taken up by shareholders an additional 134,334 Ordinary Shares and 8,853 Class A Ordinary Shares were issued on 31 October 2014. The remaining 8,413 Ordinary Shares are Bonus Award Shares allotted to Mr. Rainer Häggblom, the Chairman of the Board, in accordance with the terms of the bonus award deed dated 9 July 2012. The Bonus Award Shares are held in escrow pending the satisfaction of the vesting condition of the bonus award deed. As of 31 December 2014, all of the Bonus Award Shares remain in escrow. These shares attract scrip dividends and including these the number held in escrow at 31 December 2014 is 12,090 (2013: 3,579).

Reconciliation in the movement in share capital is shown below:

	2014 USD'000	**2013 USD'000**
Balance at beginning of year	320,178	276,714
Issue of shares	1,365	57,403
Transaction costs on issue of shares	-	(1,546)
Dividends during the year	(10,772)	(12,393)
Balance at end of year	310,771	320,178

27. Basic and diluted Earnings Per Ordinary and Class A Ordinary Share

Basic and diluted earnings per share is based on the following data:

	2014	2013
Loss for the year	**USD'000**	**USD'000**
From continuing operations	(19,588)	(27,579)
From discontinued operations	-	3,709
	(19,588)	(23,870)
Average number of issued shares ('000s)	43,113	40,661
Basic and diluted loss per share	**US cents**	**US cents**
From continuing operations	(45.43)	(67.83)
From discontinued operations	-	9.12
	(45.43)	(58.71)

28. Dividends

On 10 April 2014 the Company declared USD 10.77 million (2013: USD 12.39 million) as a dividend to shareholders. Shareholders eligible to receive the interim dividend had been offered the option to elect to receive the dividend payment in cash or to have their dividend entitlement applied in paying up new fully paid shares of the Company (either Ordinary Shares or Class A Ordinary Shares). Such new shares were allotted at a price of USD 9.04 per share (being the ex-dividend adjusted net asset value per share on 30 June 2014). As a result 134,334 Ordinary Shares and 8,853 Class A Ordinary Shares were issued on 31 October 2014 and USD 9.48 million was paid in cash on the same date.

Under the Law, companies can pay dividends in excess of accounting profit for the period provided that they satisfy the solvency test prescribed under the Law. The solvency test considers whether a company is able to pay its debts when they become due, and whether the value of a company's assets is greater than its liabilities. The Company passed the solvency test for the dividends declared and paid during 2014 and 2013.

29. Subsidiaries

Details of the Company's subsidiaries as at 31 December 2014 are as follows:

Name	Place of incorporation and operation	Ownership interest %	Voting power held %
Tree Holdings SPC Limited	Cayman Islands	100	100
Kaa Project			
PA Timberland Holdings Limited	British Virgin Islands	100	100
PA Timberland Holdings LLC	Delaware USA	100	100
PA Timberland LLC	Delaware USA	100	100
Kaa Empreendimentos Imobiliários e Participações Ltda#	Brazil	100	100
Aimara Project			
PR Timberland Holdings Limited	British Virgin Islands	100	100
PR Timberland Holdings LLC	Delaware USA	100	100
PR Timberland LLC	Delaware USA	100	100
Aimara Empreendimentos Imobiliários e Participações Ltda#	Brazil	100	100
Ibiracu Project			
MG Timberland Holdings Limited	British Virgin Islands	100	100
MG Timberland Holdings LLC	Delaware USA	100	100
MG Timberland LLC	Delaware USA	100	100
Ibiraçú Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda#	Brazil	100	100
Biocarbono Project			
SC Timberland Holdings Limited	British Virgin Islands	100	100
SC Timberland Holdings LLC	Delaware USA	100	100
SC Timberland LLC	Delaware USA	100	100
Biocarbono Holdings LLC	Delaware USA	100	100
Biocarbono Produção e Comércio de Carvão Ltda#	Brazil	100	100
Frondosa Project			
SP Timberland Holdings Limited	British Virgin Islands	100	100
SP Timberland Holdings LLC	Delaware USA	100	100
SP Timberland LLC	Delaware USA	100	100
Frondosa Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda#	Brazil	100	100
Surubim Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda#	Brazil	100	100
AB Florestal Participações Ltda#	Brazil	100	100
Hadoque Propriedades Rurais e Participações Ltda#	Brazil	100	100
MillCo Participações Ltda#	Brazil	100	100
Paiva Florestal Participações Ltda#	Brazil	100	100
DM Timberland Wood Holdings Limited	British Virgin Islands	100	100
MS Timberland Project			
MS Timberland Holdings Limited*	British Virgin Islands	90	90
Reforestadora El Guasimo#	Colombia	90	90

29. Subsidiaries (continued)

Name	Place of incorporation and operation	Ownership interest %	Voting power held %
MS Timberland Project (continued)			
Antioquia Wood Holdings Limited	British Virgin Islands	100	100
Silvotecnia S.A.	Colombia	58.4	67.5
Vichada Timberland Holdings Limited*	British Virgin Islands	100	100
La Esperenza Timberland Holdings Limited*	British Virgin Islands	100	100
Potosi Timberland Holdings Limited*	British Virgin Islands	100	100
La Diana Timberland Holdings Limited*	British Virgin Islands	100	100
Las Ventas Timberland Holdings Limited*	British Virgin Islands	100	100
Santa Ana Florestal Limited*	British Virgin Islands	100	100
Canaguay Wood Holdings Limited*	British Virgin Islands	100	100
La Esperenza Wood Holdings Limited*	British Virgin Islands	100	100
La Libertad Wood Holdings Limited*	British Virgin Islands	100	100
La Paz Wood Holdings Limited*	British Virgin Islands	100	100
Paraiso Wood Holdings Limited*	British Virgin Islands	100	100
El Amparo Wood Holdings Limited*	British Virgin Islands	100	100
El Gavan Wood Holdings Limited*	British Virgin Islands	100	100
El Morichal Wood Holdings Limited*	British Virgin Islands	100	100

*Operates in Colombia through a local branch.
#Operational entities

The following became subsidiary entities of the Company in 2014:

Tree Holdings
In order to provide a structure suitable for potential new investors, the Company set up a new holding company, in which it holds 100% of the shares. The new holding company, Tree Holdings, was incorporated in the Cayman Islands on 1 December 2014 as a segregated portfolio company, registration number CO-294205. The share capital of the company is USD 50,000 divided into 4,999,999 portfolio shares of a par value of USD 0.01 each and one founder share of USD 0.01. On 22 December 2014 the Company and Tree Holdings entered into a sale and purchase agreement whereby the Company sold all of its investments to Tree Holdings in consideration for 100% of the newly issued portfolio shares of Tree Holdings.

This transaction has no impact on the consolidated accounts of the Company as the additional balances generated in the Company and Tree Holdings are eliminated on consolidation.

Silvotecnia
On 8 May 2012 Antioquia entered into a share purchase contract with Ecos Forestry Fund Inc. and acquired 33.6% of the ordinary shares of Silvotecnia.

On 15 October 2014, Silvotecnia bought back a number of its own shares; this increased Antioquia's voting rights to 39.0%.

The original 2012 share purchase contract also gave Antioquia the option to purchase an additional 4,963,787 ordinary shares, equating to 28.5% of the total issued and outstanding shares of Silvotecnia. The consideration for the additional shares was USD 2,547,914. Antioquia proceeded with the option to purchase and completed the transaction on 15 December 2014.

29. Subsidiaries (continued)

Silvotecnia (continued)
Post acquisition, Antioquia's share of the voting rights in Silvotecnia amounted to 67.5%. As a result, as of 15 December 2014, Antioquia is deemed to have control of Silvotecnia as described by IFRS 10 and the Group included Silvotecnia in its consolidated results for the period 15 to 31 December 2014. Up to 15 December 2014, Silvotecnia was accounted for as an associate (see Note 13).

Silvotecnia is a joint stock company incorporated in Colombia, based in the Department of Antioquia, with operations in many regions of Colombia. It comprises forestry services, forestry management, consulting and environmental management business units. Prior to acquisition of a controlling interest, it already managed the day-to-day operations of the Company's investments in Colombia.

The consideration for the shares is to be paid in cash of USD 2,547,914 and this has been taken as its fair value. Goodwill of USD 3.9 million has been calculated as shown below.

	USD'000
Consideration transferred	2,548
Value of assets already held	4,754
Non-controlling interest	1,631
Total	**8,933**
Less	
Net value of assets	**5,019**
Goodwill	**3,914**

Assets of USD 8,001,229 and liabilities of USD 2,982,535 were recognised on the acquisition date. The fair value of the assets acquired and the liabilities assumed, on acquisition, are shown by category below:

	USD'000
Tangible assets	1,224
Trade receivables	853
Cash and cash equivalents	4,640
Other receivables	1,284
Total assets	**8,001**
Tax liabilities	(2,136)
Other liabilities	(846)
Total liabilities	**(2,982)**
Net assets acquired	**5,019**
Non-controlling interest	(1,631)
Group interest in net assets acquired	**3,388**

Non-controlling interest in Silvotecnia is 32.5% which, on the acquisition date and based on the net assets recognised, was measured as USD 1.631m. There are no separately recognised acquisition-related costs.

30. Related Party Transactions and Directors' Remuneration

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Mr. John Harald Örneberg, a Director of the Company until his retirement on 4 June 2014, is also a director and shareholder of the Investment Manager. As at 31 December 2014 Mr. Örneberg held 1,058,870 (2013: 1,054,306) redeemable Ordinary Shares in the Company. All fees paid to the Investment Manager are disclosed in Note 9. Mr. Örneberg waived his director's fees for the period he was a Director of the Company during the year.

Dr. Dermot Smurfit, a Director of the Company, is also a director of the Investment Manager. As at 31 December 2014 Dr. Smurfit held 312,500 (2013: 312,500) redeemable Ordinary Shares in the Company. All fees paid to the Investment Manager are disclosed in Note 9.

Ms. Susan Lloyd, a Director of the Company, as at 31 December 2014 held 22,138 (2013: 16,980) redeemable Ordinary Shares in the Company.

Mr. Rainer Häggblom, a Director of the Company, as at 31 December 2014 held 49,484 (2013: 44,921) redeemable Ordinary Shares in the Company. During the year he was issued Bonus Award Shares as detailed in Note 26.

Dr. Panu Kallio, a Director of the Company, as at 31 December 2014 held 2,746 (2013: 2,673) redeemable Ordinary Shares in the Company.

Mr. Joseph Ryan, a Director of the Company, as at 31 December 2014 held 3,185 (2013: 3,100) redeemable Ordinary Shares in the Company.

Directors' fees for the year ended 31 December 2014 were as follows;

	2014	**2013**
	USD'000	**USD'000**
Rainer Häggblom (Chairman)	155	151
Susan Lloyd (non-executive)	63	55
Dr. Dermot Smurfit (non-executive)	68	64
Dr. Panu Kallio (non-executive)	58	55
Joseph Ryan (non-executive)	66	63
Harald Örneberg (non-executive)	-	-
	410	388
Expenses	185	164
	595	552

As at 31 December 2014 USD Nil (2013: USD Nil) Directors' fees were outstanding.

Included in the Chairman's fee is an accrued amount of USD 70,000 (2013: USD 70,000) relating to an incentive plan which was put into place on 9 July 2012 so that part of the Chairman's compensation is structured as a multi-year retention package. The package has an effective monetary value of USD 70,000 per annum and will be paid in either cash or shares at the Board's discretion. The Chairman's additional incentive package remains within the maximum annual expenditure on Directors' fees as set out in the articles of the Company. During the year 8,413 Bonus Award Shares (2013: 3,463 Bonus Award Shares) were allotted to the Chairman in accordance with the terms of the incentive plan. The Bonus Award Shares are held in escrow pending the satisfaction of the Vesting Condition of the Bonus Award Deed. As of 31 December 2014, all of these shares remain in escrow. These shares attract scrip dividends and including these the number held in escrow at 31 December 2014 is 12,090 (2013: 3,579).

30. Related Party Transactions and Directors' Remuneration (continued)

From 1 February 2009 Mr. Johan Larsson, a principal of the Investment Manager (from 4 March 2015 Chief Executive Officer of the Investment Manager), has been employed by Aimara with his associated costs of employment being reimbursed by the Investment Manager. During the year the Group incurred USD 31,000 (2013: USD 34,000) in relation to Mr. Larsson's employment in Brazil, of which USD 16,000 had been reimbursed at the reporting date (2013: USD Nil). The Investment Manager has further agreed to indemnify the Group against all liabilities, costs, expenses, damages and losses suffered or incurred by the Group arising out of or in connection with the contract of employment.

The two Management Shares were issued on incorporation and are registered in the names of HG Nominees 1 Limited and HG Nominees 2 Limited. Both shares are held for and on behalf of the Lennox Trust, of which Mr. John Harald Örneberg is a beneficiary.

During the year USD 10,000 (2013: USD 41,000) was paid to Vision Hunters Ltd Oy, a partially owned subsidiary of Häggblom & Partners Ltd Oy, of which Mr. Rainer Haggblom is the Chairman and Founder, for consultancy services provided to the Company relating to forestry discount rate research.

31. Financial instruments & associated risks

Capital risk management

The Group manages its capital to ensure that it is able to continue as a going concern while maximising the return to shareholders through investing in the equity of its subsidiaries. The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital and accumulated profit as disclosed on the consolidated statement of financial position. The Group will seek to maintain a suitably diversified portfolio of investments so as to manage the Group's economic exposure to any counterparty, single project or separate legal entity.

The investment objective of the Group is to seek long term capital appreciation together with a dividend policy pursuant to which the Company will aim to pay an aggregate annual dividend equal to between 3% and 5% of the Adjusted NAV, but with a target of 5% of the Adjusted NAV. The Company intends to invest in trees, timberland and timber related assets with an emphasis on investments in high organic growth plantation countries in Latin America although the Company may also pursue transactions on an opportunistic basis. In order to maintain flexibility, the Company's investment strategy has no predetermined geographical allocations.

Gearing

The Group monitors capital on the basis of the gearing ratio. Group gearing calculated as total debt divided by Adjusted NAV plus total debt was 9.13% as at 31 December 2014 (2013: 4.31%).

Externally imposed capital requirements

There are no external capital requirements imposed on the Group.

Financial risk management objectives

The Group's investing activities expose it to various types of risk that are associated with the financial instruments in which it invests. The most important types of financial risk to which the Group is exposed are market risk, liquidity risk and credit risk. Market risk includes price risk, foreign currency risk and interest rate risk. The nature and extent of the financial instruments outstanding at the year-end date and the risk management policies employed by the Group are discussed below.

31. Financial instruments & associated risks (continued)

Categories of financial instruments
At the year end date the Group's financial instruments were made up of the following categories;

	2014 USD'000	2013 USD'000
Financial assets		
Loans and receivables		
Trade and other receivables	15,301	18,378
Cash and cash equivalents	9,903	31,728
Investment in associate	-	2,298
Financial liabilities		
Loans and payables		
Trade and other payables	11,561	5,808
Interest bearing borrowings	30,730	15,161
Other long term liabilities	1,729	6,046

At the reporting date there were no loans and receivables designated at fair value through profit or loss. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

The Investment Manager and the Administrator provide advice to the Group and Company respectively which allows it to monitor and manage financial risks relating to its operations through internal risk reports which analyse exposures by degree and magnitude of risks. The Investment Manager and the Administrator report to the Board on a quarterly basis.

Market risk
Price risk
Price risk arises from uncertainty about future prices of financial investments held. It represents the potential loss the Group might suffer through holding market positions in the face of price movements. At 31 December 2014 the Group's exposure to price risk relating to financial instruments was limited as these consisted mainly of cash and cash equivalents and interest bearing borrowings which are less likely to experience fluctuations in price.

However, there is also a further price risk due to the forest assets, investment property and property, plant and equipment held at fair value owned by the Group. The Group's forest assets are susceptible to price fluctuations as the prevailing market prices for end products can fluctuate as a result of, among other things, changes in supply and demand for wood and/or charcoal - see Note 10 for sensitivity analysis. The Board actively monitors the appropriateness of all the assets held.

Foreign currency risk
The Group holds assets denominated in currencies other than the USD, the reporting currency of the Group. The Group is therefore exposed to currency risk, as the value of the assets denominated in other currencies will fluctuate due to changes in exchange rates. As at 31 December 2014 the Company's assets denominated in other currencies were principally held in BRL and COP with other balances in GBP - see Note 10 for sensitivity analysis.

The policy adopted by the Investment Manager is to leave the investment in the underlying Brazilian and Colombian assets unhedged for foreign exchange risk. The investments that have been made are long term with a time horizon that is not suited to efficient hedging. There is an inherent mismatch between the short term nature of the hedges and the long term nature of the Group's underlying assets. As hedges are marked to market and cause short term gains or losses, whilst the assets consist of long term cashflows, this could potentially cause the Group severe losses.

31. Financial instruments & associated risks (continued)

Market risk (continued)

Foreign currency risk (continued)

The closing financial asset and liability positions denominated in currencies other than USD as at 31 December 2014 were as follows:

2014	BRL USD'000	COP USD'000	GBP USD'000	Total USD'000
Investment in joint ventures	1,016	819	-	1,835
Trade and other receivables	4,615	2,191	-	6,806
Cash and cash equivalents	4,060	4,481	-	8,541
Trade and other payables	(4,920)	(5,353)	(533)	(10,806)
Interest bearing borrowings	(3,230)	-	-	(3,230)
Other long-term liabilities	(1,495)	-	-	(1,495)
Net exposure	46	2,138	(533)	1,651

2013	BRL USD'000	COP USD'000	GBP USD'000	Total USD'000
Investment in joint ventures	1,698	1,447	-	3,145
Investment in associate	-	2,298	-	2,298
Trade and other receivables	6,267	5	-	6,272
Cash and cash equivalents	14,622	100	-	14,722
Trade and other payables	(481)	(62)	(459)	(1,002)
Interest bearing borrowings	-	(161)	-	(161)
Other long-term liabilities	(5,217)	-	-	(5,217)
Net exposure	16,889	3,627	(459)	20,057

The sensitivity analyses below have been determined based on the exposure to the BRL exchange rate at the reporting date. The bulk of the currency risk that the Group's financial instruments are exposed to relates to its underlying financial instruments in Brazil; exposure to other currencies on financial instruments is minimal. Any impact on movements in currency rates for these currencies is therefore considered immaterial and hence no sensitivity analysis has been provided. At the reporting date the Group's currency risk exposure relating to its financial instruments in Colombia was considered immaterial, hence no sensitivity analysis has been provided for COP.

For BRL denominated financial assets and liabilities, the analysis is prepared assuming the amount of the asset outstanding at the reporting date was outstanding for the whole year. A 15% increase or decrease represents management's assessment of a reasonably possible change in foreign exchange rates.

If the USD strengthened by 15% against the BRL and all other variables held constant, the Group's comprehensive income for the year would have been USD 7,000 higher (2013: USD 2.59 million higher) as a result of foreign exchange losses on translation of BRL denominated financial assets and liabilities.

If the USD weakened by 15% against the BRL and all other variables held constant, the Group's comprehensive income for the year would have been USD 7,000 lower (2013: USD 2.13 million lower) as a result of foreign exchange gains on translation of BRL denominated financial assets and liabilities.

31. Financial instruments & associated risks (continued)

Market risk (continued)

Foreign currency risk (continued)

As the Group's investments are held in Brazil and Colombia, any currency movements between the underlying currencies and the reporting currency will have an impact on the Group's results. Although management has not directly mitigated the foreign exchange risk by hedging the exposure, they expect that in the long term the foreign exchange exposure may be reduced by the appreciation in the value of the investment property at the Group level.

A sensitivity analysis of the Group's exposure to fluctuations in exchange rate due to Forest assets and Investment property valuations is included in Notes 10 and 11.

Interest rate risk

The majority of the Group's financial assets and liabilities are held in cash and borrowings which are interest bearing; as a result, the Group is subject to risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the reporting date (see Note 19). For floating rate financial assets and liabilities, the analysis is prepared assuming the amount of asset outstanding at the reporting date was outstanding for the whole year. A 1% increase or decrease has been used in order to illustrate the effect that each 1% movement in the interest rates will have on the Group's comprehensive income.

If interest rates receivable had been 1% lower and all other variables were held constant, the Group's:

- Loss for the year ended 31 December 2014 would have increased by USD 104,196 (2013: USD 214,339). This is due to the Group's exposure to interest rate fluctuations on its variable rate financial assets;

If interest rates receivable had been 1% higher and all other variables were held constant, the Group's:

- Loss for the year ended 31 December 2014 would have decreased by USD 104,196 (2013: USD 214,339). This is due to the Group's exposure to interest rate fluctuations on its variable rate financial assets.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group.

Financial assets mainly consist of cash and cash equivalents as well as a financial receivable at fair value through profit or loss. The Group's risk on liquid funds is minimised because the majority of the funds have been spread over seven institutions with high credit ratings.

31. Financial instruments & associated risks (continued)

Credit risk (continued)
The table below shows the cash balances at the reporting date and the credit rating for each counterparty. The analysis is based on cash balances including those held under joint ventures:

Counterparty	Location	Rating	2014 USD'000	2013 USD'000
Banco Itau	Brazil	BBB+	2,115	13,735
Royal Bank of Scotland International	United Kingdom	A	1,733	2,116
JP Morgan S.A.	Brazil	A+	204	715
Banco Rendimento S.A.	Brazil	BBB+	1,665	1,474
EFG Bank	Switzerland	A	808	15,093
Banco Colombia	Colombia	BBB	4,601	1,213
Other			109	398
			11,235	34,744

The Group monitors its risk by reviewing the credit quality of the institutions with which it holds cash balances.

The Group has entered into off-take agreements with Klabin and Cotopaxi which exposes it to credit risk. The Directors believe that the terms of the off-take agreement with Klabin minimise the risk in that any wood sales to Klabin would be paid for in advance. The Company consider the credit exposure to Cotopaxi to be minimal in light of their position as minority interest and valued partner in the Colombian investment.

Concentration risk
Major clients
The Group's revenue as at 31 December 2014 was not reliant on any major customer, but as the Group moves to harvesting plantations, revenues from some projects may be subject to off-take agreements resulting in each project's revenue being reliant on a concentrated customer base.

Primary market
During 2014, and 2013, carbonisation was the primary market of the Group's Frondosa and Ibiracu projects and the plantations from these two projects make up the majority of the Group's biological assets, thus exposing the Group to a concentration risk in respect of end markets for its timber. To manage this risk, the Group monitors developments relating to the charcoal market and is managing processes to reduce production costs and increase efficiency. See Note 10 for an analysis of the sensitivity of the biological assets to the profitability of the carbonisation operations. In 2014 management has additionally sought to find other outlets for its wood products and continues to diversify its customer base in 2015.

31. Financial instruments & associated risks (continued)

Liquidity risk
Ultimate responsibility for liquidity risk management rests with the Board of Directors.

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price.

The Group prepares budgets and cash flow forecasts under various scenarios to assess the liquidity risk and ensure that it maintains sufficient cash reserves to meet its obligations. The Group also maintains sufficient cash reserves to meet its current investment commitments.

Financial liabilities consist of trade and other payables which are all due within one year.

The following table details the Group's expected maturity for its loans and receivables including those held under joint ventures:

31 December 2014	**Weighted average interest rate**	**Less than 1 year USD'000**	**1-5 years USD'000**	**5+ years USD'000**	**Total USD'000**
Assets					
Non-interest bearing	-	15,301	-	-	15,301
Fixed interest rate instruments	1.03%	4,265	-	-	4,265
Variable interest rate instruments	0.54%	6,972	-	-	6,972
Liabilities					
Non-interest bearing	-	(11,561)	(1,729)	-	(13,290)
Fixed interest rate instruments	7.49%	-	(27,500)	-	(27,500)
Variable interest rate instruments	8.49%	(1,411)	(1,819)	-	(3,230)
		13,566	(31,048)	-	(17,482)

31 December 2013	**Weighted average interest rate**	**Less than 1 year USD'000**	**1-5 years USD'000**	**5+ years USD'000**	**Total USD'000**
Assets					
Non-interest bearing	-	22,386	-	-	22,386
Fixed interest rate instruments	0.92%	12,989	-	-	12,989
Variable interest rate instruments	0.17%	21,755	-	-	21,755
Liabilities					
Non-interest bearing	-	(6,713)	(6,046)	-	(12,759)
Fixed interest rate instruments	8.59%	-	(15,000)	-	(15,000)
Variable interest rate instruments	0.50%	(881)	(260)	-	(1,141)
		49,536	(21,306)	-	28,230

32. Operating segments

The information in this note has been prepared using the definition of an operating segment in IFRS 8: Operating Segments. The Group determines and presents the information that is provided internally to the Board, which has been identified as the chief operating decision maker. The Board reviews the Group's internal reporting in order to enable them to assess performance and allocate resources and has determined the operating segments based on these reports.

As an investment company, the Group's primary focus is on the performance of its investment portfolio. Whilst there are a number of individual investments included in this portfolio, performance is reviewed for the portfolio as a whole on the basis of its fair value.

For the year ended 31 December 2014, the Directors believe that the Company and the Group was engaged in a single segment of business of holding investments in timberland and timber related assets (carbonisation), operating from Guernsey, Colombia and Brazil. The information reviewed by the Board includes summarised financial information for each investment in the portfolio.

	Segment Income		**Segment profit**	
	2014	**2013**	**2014**	**2013**
Segment revenues and results	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Sales of product	17,492	21,628	(7,865)	(4,258)
Interest income	257	3,714	257	3,714
Unrealised gain on Forest assets	9,099	24	9,099	24
Total for continuing operations	26,848	25,366	1,491	(520)
Administration costs			(22,082)	(17,672)
Interest expense			(1,738)	(4,984)
Share of income of associate			2,513	118
Share of profit/(loss) of joint venture			974	(3,385)
Loss before tax from continuing operations			(18,842)	(26,443)

32. Operating segments (continued)

	As at 2014 USD'000	As at 2013 USD'000
Segment assets		
Forest assets	237,280	238,533
Investment property	6,586	7,630
Property, plant and equipment	1,735	2,430
Investment in associate	-	2,298
Investment in joint venture	56,886	66,707
Other non-current assets	12,123	11,883
	314,610	329,481
Other assets	22,772	40,516
Total segment and consolidated assets	337,382	369,997
Segment liabilities		
Interest bearing borrowings	30,730	15,161
Deferred tax liability	7,283	7,481
Other long term liabilities	1,729	6,046
Trade and other payables	11,561	5,808
Provisions	776	838
Total segment and consolidated liabilities	52,079	35,334

	Income		Non-current assets	
Geographical segments	2014 USD'000	2013 USD'000	2014 USD'000	2013 USD'000
Guernsey	4	19	-	-
Brazil	27,679	24,647	263,467	270,241
Colombia	139	8,752	51,143	59,240
Total	27,822	33,418	314,610	329,481

Income has been derived mainly from sales of wood and charcoal.

The geographical segments analysis is based on income and non-current assets including those held under joint ventures.

33. Contingent liabilities

The Company, via its Ibiraçú subsidiary entered into an irrevocable agreement to purchase a farm but the public deed has not yet been issued in respect of this one farm. The contingent liability for this farm is USD 1.80 million (31 December 2013: USD 2.02 million) at the reporting date, being the purchase price yet to be paid.

In addition, the Company, through Ibiraçú, entered into three law suits in Brazil in order to expedite and guarantee the transfer of full title of two properties relating to a farm purchased in 2008. The Company, through its Ibiracu subsidiary, has planted the properties after receiving all necessary permissions and has possession of the land, and rights to the biological assets on the land. The timing of resolution is not certain, but is expected within the next year. Whilst the sale is under legal challenge, the Board understand, through legal advice, that the likelihood of any material loss is remote. The Company has received legal advice on these matters and the Board does not expect that material costs will arise in resolving the issue.

33. Contingent liabilities (continued)

The Company continues to hold guarantees and funds in escrow relating to assets purchased in 2011, and believes that these guarantees and funds deposited in escrow are sufficient in the event that risks arise which have not previously been highlighted during the due diligence process (see Note 18).

Quantification of the liabilities has not been undertaken as the Company believes the risk to be remote.

34. Subsequent events

The payment of USD 2.55 million for the additional shares acquired in Silvotecnia, on 15 December 2014, was settled on 27 February 2015 as contractually agreed (see Note 29).

It should be noted that the USD has continued to strengthen against the Brazilian and Colombian currencies after the year end.

GLOSSARY

AB Florestal: AB Florestal Participacoes Ltda.

Administrator: Heritage International Fund Managers Limited.

AGM: Annual General Meeting.

AIC: Association of Investment Companies.

AIC Code: The AIC's Code of Corporate Governance by way of reference to the AIC Code.

AIC Guide: The AIC's Corporate Governance Guide for Investment Companies.

Aimara: Aimara Empreendimentos Imobiliários e Participações Ltda.

Annual Report: Report of the activities of the Company.

Antioquia: Antioquia Wood Holdings Limited

Auditor: Deloitte LLP.

Biocarbon: Solid material produced from biomass through carbonisation; also known as charcoal.

Biocarbono: Biocarbono Produção e Comércio de Carvão Ltda

Board: Directors of the Company.

Board Meeting: Meeting of the Directors of the Company.

Bonus Award Shares: shares allocated to the Chariman in accordance with the terms of the bonus award deed dated 9 July 2012

BRL: Brazilian Real.

CDI: Brazlian interbank interest rate

Cementos: Cementos Argos S.A

Chapter: Chapter Participacoes S.A

Charcoal: see Biocarbon.

CISE: Channel Islands Security Exchange (previously known as the Channel Islands Stock Exchange, CISX).

CISEA: Channel Islands Security Exchange Authority.

Class A Ordinary Shares: A redeemable Ordinary Share of USD 0.10 in the capital of the Company and designated a Class A Ordinary Share.

COFINS: Contribuição para o Financiamento da Seguridade Social; a social contribution tax in Brazil based on gross revenue.

Company: The Forest Company Limited.

Company Secretary: Belasko Administration Limited.

COP: Colombian Peso.

Corrupt Practice: The offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.

Cotopaxi: Aglomerados Cotopaxi S.A.

CREE: Colombian social income tax.

CSLL: Contribuição Social sobre o Lucro Líquido das Pessoas Jurídicas; a social contribution tax in Brazil based on net profit.

Current Adjusted NAV: the last preceding Adjusted Net Asset Value current at the date of payment

DCF: Discounted Cash Flow.

Deferred tax: tax payable or recoverable in a future period.

Depletion: The Fair Value of biological assets harvested.

Donahoo: Donahoo Participacoes S.A

El Guasimo: Reforestadora El Guasimo

EU: The European Union.

Eucalyptus: Trees of the Genus *Eucalyptus.*

Fair Value: Defined in IFRS 13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FRC: Financial Reporting Council.

Frondosa: Frondosa Empreendimentos Imobiliários , Atividades Florestais e Participações Ltda

FSC: The Forest Stewardship Council; an independent, non-profit organisation established in 1993 to respond to global environmental concerns especially as they pertain to deforestation. The FSC is an internationally recognised forest management certification body.

FSC Certification: Obtained by organisations that comply with the Principles and Criteria set forth by the FSC. This is done through an independent annual audit carried out by accredited auditing bodies.

GBP: Great British Pound.

GFSC: Guernsey Financial Services Commission.

GFSC Code: Code of Corporate Governance issued by the Guernsey Financial Services Commission.

Group: The Forest Company Limited and its subsidiaries and other investments.

Hadoque: Hadoque Propriedades Rurais e Participacoes Ltda

HCS: Heritage Corporate Services Limited, the Listing Sponsor.

IAS: International Accounting Standard

IASB: International Accounting Standards Board.

Indufor: Indufor Oy, appointed to independently assess and report the value of forestry assets in accordance with IFRS.

Initial Hurdle Amount: the Adjusted Net Asset Value per share on the funding date as increased by an annual compounding hurdle rate of 8%

Investment Manager: Timber Capital Limited (TCL).

IFRS: International Financial Reporting Standards.

IMA: Investment Management Agreement.

IRPJ: Corporate Income Tax in Brazil

IRR: Internal Rate of Return.

Klabin: Klabin SA

KPI: Key Performance Indicator.

Law: The provisions of the Companies (Guernsey) Law, 2008, (as amended).

LLC: Limited Liability Company.

LLP: Limited Liability Partnership.

Lucro Real: Actual Profit Tax Regime in Brazil.

Lucro Presumido: Presumed Profit Tax Regime in Brazil.

Management Shares: Non-redeemable ordinary share of USD 1.00 each in the capital of the Company and designated as a Management Share.

Master Hurdle Amount: The Master Hurdle Amount is calculated in line with Note 9.

MDC: Volume based unit of charcoal; approximately 200kg.

Metlife: Metropolitan Life Insurance Company.

Millco: Millco Participacoes Ltda

Money Laundering: The generic term used to describe the process by which the original ownership and control of the proceeds of illegal conduct is disguised to make such proceeds appear to have been dervived from a legitimate source.

MSTH: MS Timberland Holdings Ltd

NAV: Net Asset Value.

The Company prepares two NAVs –

1. **IFRS NAV** – the value of all of the assets of the Group less the liabilities to creditors of the Group determined in accordance with the valuation policy. The valuation is determined in accordance with IFRS.

2. **Adjusted NAV** – the IFRS NAV adjusted, as below, for the purposes of reporting to the Shareholders and for use in the calculation of fees payable to the Investment Manager and Administrator. The Adjusted NAV, and corresponding Adjusted NAV per share, is currently calculated as the respective amounts calculated under IFRS, adjusted as follows:

1. to reflect the future tax liability of the Company's investments without duplication. Whereas under IFRS the future tax payments are deducted from future cash flows in the calculation of the fair value of biological assets and are again deducted from the NAV by way of a deferred tax liability accrual; for the purposes of the adjusted measures the deferred tax liability accrual on biological assets is not included as a result of an "in use" basis of realisation being assumed;

2. to remove a notional land lease charge over acquired planted land. Whereas these notional land lease charges are included in the determination of the fair value of forest assets under IFRS, for the purposes of the Adjusted NAV, these costs are not included in the determination of the fair value of forest assets, as they are non-cash costs; and,

3. to reflect the capitalisation of costs associated with the Company's share capital issuances and original organisation costs. Whereas under IFRS these costs are deducted from equity in the first accounting period, for the purposes of the adjusted measures, these costs are capitalised and amortised over a five-year period.

A reconciliation of the Group's NAV per share in accordance with these financial statements and the Group's Adjusted NAV per share is disclosed in note 25.

NAV per Share: Net Asset Value per Ordinary Share.

New Adjusted Hurdle Amount : the Initial Hurdle Amount as adjusted for any new share issues or dividends paid by the Company.

New Shares: Shares issued following shareholders electing to receive the declared dividend in fully paid shares of the Company (either Ordinary Shares or Class A Ordinary Shares)

Notional Land Lease (NLL) charge: A charge included in the computation of the value of biological assets where the Group owns the land on which the plantations are grown. It is based on market reference data at the time of valuation.

NPV: Net Present Value.

Ordinary Share: A redeemable Ordinary Share of USD 0.10 in the capital of the Company and designated as an Ordinary Share.

Optimus: Optimus Group Limited

Pig iron: Crude iron as first obtained from a smelting furnace.

Pine: Trees of the Genus *Pinus*.

PIS: Programa de Integração Social; a social integration programme tax in Brazil.

Prohibited Investments: Investments with, or on behalf of, terrorists, terrorist organisations or narcotics traffickers, but also include transactions with, or on behalf of, those persons or entities that are included on any relevant lists maintained by the United Nations Security Council or its committees pursuant to any resolution issued under Chapter VII of the United Nations Charter.

Redimento: Banco Redimento S.A.

SCP: Sociedade em Conta de Participações

SID: Senior Independent Director

Silvotecnia: Silvotecnia S.A.

SPV: Special Purpose Vehicles which hold the Company's investment portfolio of underlying forestry assets.

Surubim: Surubim Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda

TCL: Timber Capital Limited (also see 'Investment Manager').

Tree Holdings: Tree Holdings SPC Limited.

UK: The United Kingdom of Great Britain and Northern Ireland.

UK Code: The UK Corporate Governance Code issued by the FRC.

Updated Adjusted NAV: an updated Net Asset Value

USD: United States Dollar.

WACC: Weighted Average Cost of Capital.