The Forest Company

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

COMPANY NUMBER 47338

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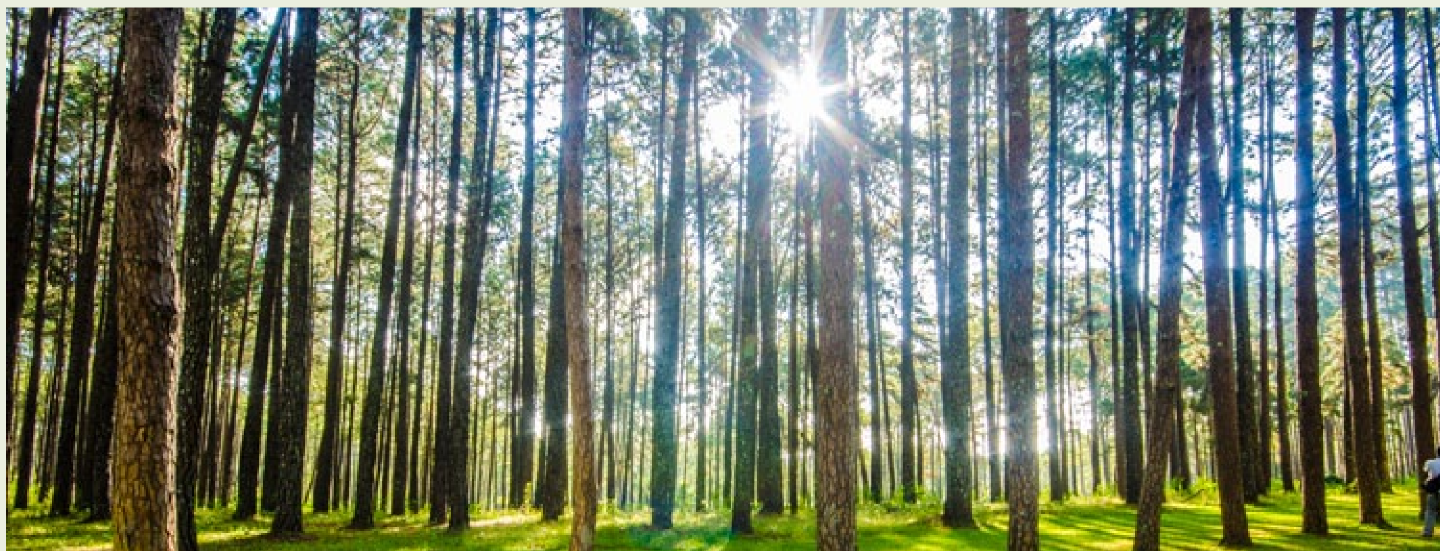

BOARD OF DIRECTORS

Rainer Häggblom
Chairman

Dr. Dermot Smurfit
Non-executive

Susan Lloyd
Non-executive and Senior Independent

John Harald Örneberg
Non-executive

Dr. Panu Kallio
Non-executive

Joseph Ryan
Non-executive

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Highlights

2013 was a year of continuing positive progress for The Forest Company Limited ("The Forest Company" or the "Group" or the "Company"), with sales revenue increasing steadily. While this underscores the Company's advances in the 'second stage' of the forestry business, namely wood sales and expansion down the value chain into charcoal sales, it is also worth highlighting the Company's on-going achievements in the first phase (planting and growing).

In 2013 the Company completed forest inventories in the Minas Gerais cluster that confirmed average mean annual increments ("MAI" or growth) higher than that projected in 2008 when the Company started these two greenfield projects. Moreover, to advance beyond this success, the Company implemented new forestry management regimes devised to further increase the MAI of plantations in all projects.

Having achieved continued success in the 'planting and growing stage', the Company then focused on carrying that through to the 'second stage', directing much of its efforts to boost sales in its mature projects in both Brazil and Colombia. The increase in sales revenue of 38 per cent over the year was partly due to increasing wood sales in both countries, and partly a result of the Company's pronounced effort in scaling up its charcoal operations during the year, resulting in an increase in production from 21,000 MDC to 27,000 MDC of charcoal (volume based unit of charcoal) per month. The Company continues to strengthen its position in the wood and charcoal sales market by increasing volumes sold to existing clients as well as establishing new contracts with prospective buyers. Losses were incurred in the charcoal operation due to poor weather and operational issues but these are being resolved through the design and build of new, larger and more efficient kilns. Charcoal sales prices increased 11% during 2013 but wood prices remained stable.

The company sold its pig iron mill, which was held under a subsidiary of the Brazilian SPV, Frondosa Ltda, to MJR Participações Ltda. for BRL 35 million on 4 November 2013. The payment will be received in instalments.

Whilst The Forest Company held the pig iron mill, the asset was generating a monthly lease income. Taking into consideration the price at which the Company acquired the asset in November 2011, and all the lease payments received over the past two years, the transaction will have generated for The Forest Company a gain of BRL 12.2 million, corresponding to a gross IRR of 9.6% per annum.

The Company's ability to expand smoothly from solely the growing phase to the wood sales stage demonstrates its achievement in building a balanced portfolio, where a combination of greenfield and standing-wood projects have delivered, and are expected to continue to deliver, high and sustainable woodflow.

Financial highlights

- Revenue from sales was USD 29.23 million, an increase of 38 per cent from USD 21.21 million in 2012.
- Gross profit was USD 5.47 million, a decrease of 38 per cent from USD 8.77 million in 2012.
- Net operating loss, after depletion of biological assets (harvesting), gains and losses on non-current assets, and operating expenses, was USD 23.92 million, down from a net loss of USD 26.18 million in 2012.

— Loss per share on continuing operations amounted to USD 67.83 cents based on the average number of shares in issue (2012: USD 87.73 cents loss per share).

— A dividend of USD 29 cents per share (3 per cent of the Adjusted Net Asset Value as at 31 December 2012) was paid on 31 October 2013 to shareholders at the record date of 20 September 2013.

Financial position

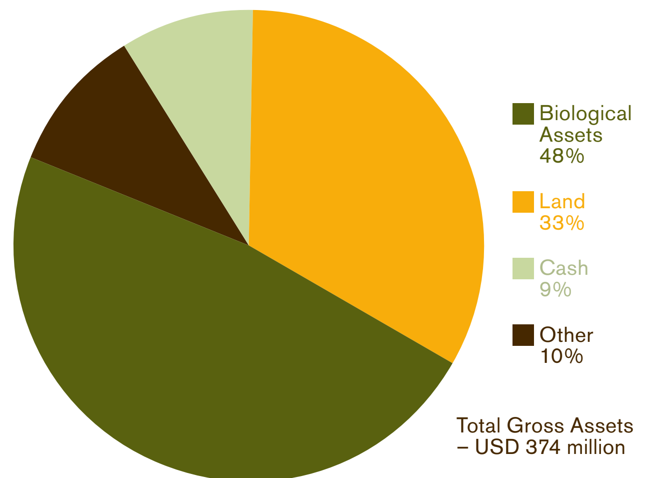
— Total non-current assets were 5 per cent lower at USD 329.27 million as at 31 December 2013 compared to USD 347.07 million at 31 December 2012. The change was due primarily to foreign exchange movement but also to a reduction in wood volume following harvesting.

— Interest bearing borrowings reduced from USD 17.93 million at 31 December 2012 to USD 16.14 million at 31 December 2013, partly as a result of the Group replacing the loan used to finance the Frondosa project.

— The cash balance as at 31 December 2013 was USD 34.74 million, up from USD 23.69 million at 31 December 2012.

— During the year the Company issued 5,962,962 new shares increasing the number of shares in issue from 37,124,578 to 43,087,540. Total proceeds raised from the share issues were USD 57.40 million, of which USD 3.04 million was as a result of the scrip dividend issue.

THE FOREST COMPANY GROSS ASSETS BREAKDOWN AT 31 DECEMBER 2013



Post period events

— On 26 February 2013, the Company received the first payment from the sale of the pig iron mill.

— On 8 April 2014, the Directors declared an interim dividend of 3% of the Adjusted Net Asset Value per share as at 31 December 2013 (USD 25 cents per share), payable on 31 October 2014 to shareholders at the record date of 1 May 2014.

Chairman's statement

FOR THE YEAR ENDED 31 DECEMBER 2013

In 2013 The Forest Company further strengthened management practices and consolidated existing investments. Our knowledge of and expansion into local markets deepened in tandem with our sales growth and relationships. 2013 saw much progress, on several fronts, compared with prior years.

The Forest Company portfolio and balance sheet

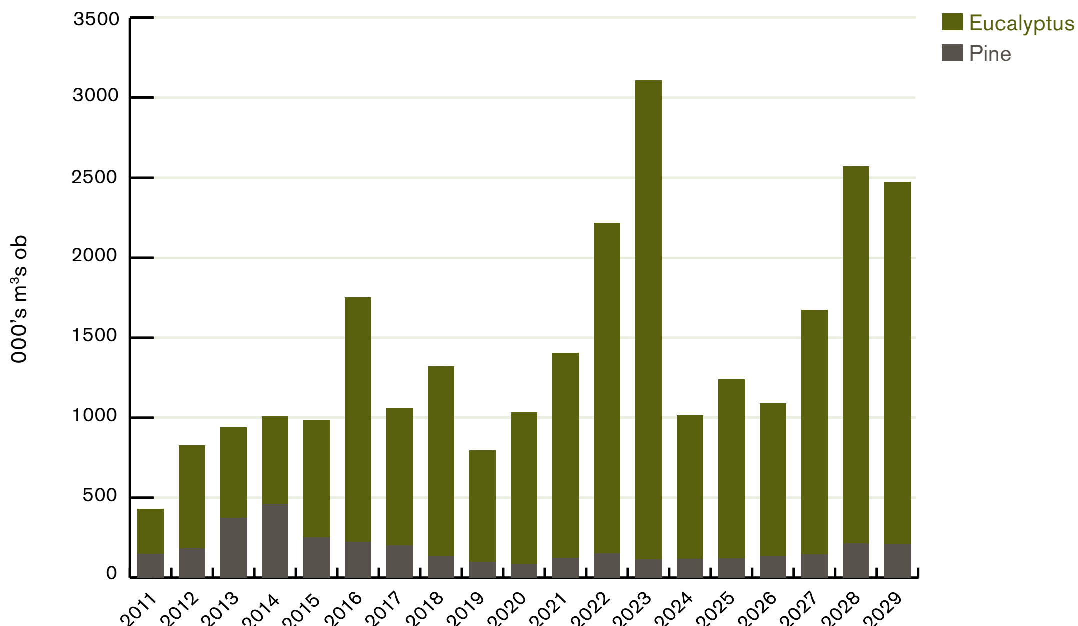
The Forest Company has a variety of projects in selected and concentrated locations with various end markets. This provides exposure to the growth areas we foresee, whilst maintaining a degree of diversification for both currency exposure and end market exposure. We continue to develop further down the value chain in order to provide a sustainable supply of the products the market requires.

During the year the Company and Manager have worked on new forestry management regimes to increase further the productivity of our plantations and also to tailor our wood fibres to their final use, to the extent that this is possible. We see this advanced tailoring and the provision of efficient raw materials for our clients as the next step in the development of our relationship with customers. We have also continued to develop our charcoal business and have now designed new larger kilns to help improve efficiency.

Valuations are carried out by an independent valuer based on a valuation policy adopted by the Company. The valuation process includes field visits to all projects to verify and collect growth rates, costs and all data used in the valuation.

Underlying projects continue to show solid returns in local currency. The current greenfield projects are forecast to start generating cash in 2016.

THE FOREST COMPANY'S PROJECTED WOOD FLOW BY SPECIES, 2014 TO 2029



Dividend

In 2013 The Forest Company paid a fourth dividend to shareholders of 3 per cent of the prior year's Adjusted Net Asset Value as at 31 December 2012 (USD 29 cents per share).

I am pleased to advise that the Company will be paying a dividend in October 2014, amounting to 3% of the 31 December 2013 Adjusted NAV. As in prior years, a scrip dividend alternative will be available to shareholders.

Timber product markets

In 2013 the timber market performed well. Local prices increased, particularly towards the end of the year, as a weaker local currency made local timber products more competitive in the global export market. Local currency depreciation was predominantly a result of tapering in the United States. While a weaker currency had a positive effect on timber prices, the currency effect also hurt dollar-denominated values of local timber assets.

Outlook for 2014 and beyond

The outlook for timber from plantations in the coming years is positive. Demand for wood products is expected to grow. Recovery in the US housing sector will further increase demand for timber and the large wood deficit in Asia-Pacific will continue to drive wood products demand from our exporting domestic clients. At the same time, timber supply from native forests will become increasingly restricted, which will contribute to a greater demand for timber from sustainably managed plantations. In the short-term, we expect the recent increase in timber prices to be sustained. On the other hand, NAV will be volatile, as an uncertain global market will cause currency instability and interest rate increases.

We still see Latin America as the most favourable region for timber investment. Biological growth in Latin America is by far the highest in the world. Latin America uniquely offers the capacity for a diversified timber portfolio within the region's boundaries. In the coming years, expansion of the timber-related industries – particularly the pulp and paper sector – is most likely to occur in Latin America. While land prices in some Latin American countries have already increased significantly (which can be a hindrance to new entrants or existing players trying to expand their local portfolio), it is still possible to find attractive timber transactions.

Brazil is an example of this where, despite increases in the value of land over the years, deal flow is still extensive and appealing.

At current exchange rates and valuations, 2014 is an opportune time for The Forest Company to take advantage of this deal flow and engage in new investments. We aim to build clusters that allow us to gain economies of scale, maximising efficiencies and synergies. We currently have several potential proprietary transactions in our investment pipeline. The Company plans to raise additional funding in order to be able to take advantage of the attractive opportunities that are presenting themselves as it gains increasing recognition as a high quality and knowledgeable investor.

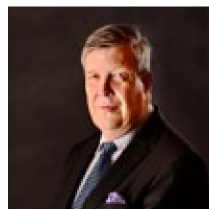
TFC Strategy

Our strategy is 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 and
4. expand existing or new projects.

As Chairman of The Forest Company, I continually seek out, and welcome, investor views and feedback on our performance and that of Timber Capital Limited as Investment Manager. Whilst our number one aim is to provide investment returns to our shareholders, we also attach great importance to environmental and social aspects in all our operations. This makes The Forest Company a unique opportunity that combines social responsibility and long-term stable real returns. We look forward to partnering with our stakeholders in order to drive The Forest Company forwards and upwards.

Yours sincerely,



Rainer Häggblom
Chairman
9 April 2014

Investment manager's report

FOR THE YEAR ENDED 31 DECEMBER 2013

I am pleased to present you with a summary of The Forest Company's activities for the year ended 31 December 2013.

Overview of activities for the year

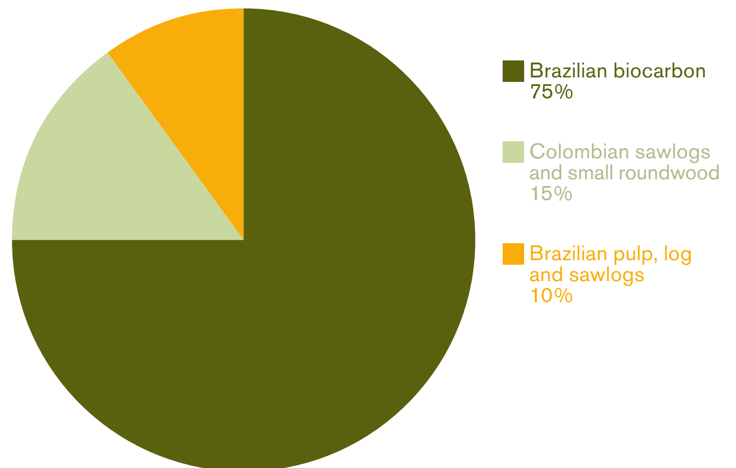
During 2013 the Company, with the assistance of the Investment Manager:

- sold the pig iron mill in the Frondosa project for BRL 35 million (USD 16.19 million);
- signed a USD 15 million loan and USD 15 million revolving credit facility with MetLife Timberland Finance Group;
- completed the process to have all its Brazilian projects – with the exception of Kaa – under a single FSC certification (Timber Capital do Brasil FSC Group);
- increased sales of eucalyptus and pine in both Brazil and Colombia, and increased charcoal production capacity and sales in Brazil;
- spun-off the charcoal operations in the Frondosa project into a new subsidiary named Biocarbono;
- initiated clonal trials in Minas Gerais, in order to identify different types of eucalyptus clones better-suited for that region;
- successfully completed two private placements, raising gross proceeds of USD 54.3 million;

Summary of assets

Total non-current assets at 31 December 2013 were USD 329.2 million. Below you will find a breakdown of The Forest Company's non-current assets analysed by product market.

THE FOREST COMPANY NON-CURRENT ASSET BY END USE



The Investment Manager, along with the Company, manages the investments through a structure that provides functional oversight across all assets as well as local focus and knowledge. Timber Capital Limited, as Investment Manager, has offices in Bermuda and in São Paulo, Brazil with staff constantly present at the projects in both Brazil and Colombia. Each project also has local management responsible for execution and control.

NAV summary

The Adjusted NAV per share of The Forest Company as at 31 December 2013 was USD 8.32 (USD 8.61 per share including the dividend paid on 31 October 2013), and the total Adjusted NAV was USD 358.44 million (2012: USD 9.69 per share and total Adjusted NAV of USD 359.8 million). This represents a decrease of 14. per cent on the Adjusted NAV per share over the year cum dividend. The IFRS NAV per share as at 31 December 2013 was USD 7.77 and the total IFRS NAV was USD 334.66 million (2012: USD 9.00 per share and total IFRS NAV of USD 334.18 million).

Although the NAV has decreased in US dollar terms to USD 8.32 per share, it should be noted that in underlying currencies the Group's projects continued to maintain positive growth in local currencies. Furthermore at constant exchange rates the Adjusted NAV per share would have been USD 9.47 per share compared to 9.69 at 31 December 2012 (USD 9.76 per share including the dividend paid on 31 October 2013).

The decrease was primarily due to three factors: (1) foreign currency translation into USD, (2) dividends from harvesting and (3) changes in the discount rate used by the independent valuer that occurred over the year. Increases in wood prices and expansion of planted area through new planting increased biological asset values. The independent valuations are based on certain inputs as of 31 December 2013 and do not reflect trend, or expectation. It is prudent and correct for the independent valuer to base their valuations on these factors, even if a reversion is likely.

The IFRS NAV is also reduced as a result of accounting for a notional land lease accrual to reflect market rent costs in each location in which the Company operates. The Company, in compliance with IFRS, accrues for a notional land lease charge where biological assets are grown on owned land as opposed to leased land. This accrual impacts the IFRS NAV only, not the Adjusted NAV.

Environmental and social report

Timber Capital manages the Group's operations according to high environmental and social standards. The Forest Company only invests in forest assets that can be certified according to the Forest Stewardship Council (FSC), or another internationally recognised forest management certification body. The Company will ensure this by conducting due diligence on the asset prior to acquisition and by requiring an independent auditor to verify that the asset will indeed be eligible to receive the necessary certifications.

The FSC is an independent, non-profit organisation established in 1993 to respond to global environmental concerns especially as they pertain to deforestation. The Company became a member of the FSC in 2008 after recommendations from, among others, Klabin – one of the leaders in sustainability in Brazil. Companies wanting to obtain FSC certification have to show that they comply with the Principles and Criteria set forth by the organisation. This is done through an independent annual audit carried out by accredited auditing bodies.

In compliance with the FSC certification, The Forest Company monitors the social and environmental impact of each of its projects. In aiming to create a positive social impact, the Company fosters strong community relations and ensures workers' rights are met. To that effect, this year the Company is carrying out three different social projects in Colombia and Brazil, seeking to engage local communities in work related to the forest sector. These projects aim to bring about economic benefits to these local communities. Furthermore, in order to ensure workers' rights are met, investments and integrated service providers are frequently monitored for labour compliance. Onsite labour audits certify that all employees have protective clothing and safety equipment, that they are given the appropriate training, and receive fair salaries and social benefits. In addition, in terms of generating a strong environmental impact, the Company complies with local laws of setting aside a percentage of the land for legal reserves and permanent preservation. The Company also promotes biodiversity, monitoring the development of the flora and fauna in its properties and creating ecological corridors for the conservation of those species.

The Company and the Manager keep up to date copies of the Environmental and Social policies and procedures for each portfolio company at its regional or corporate offices.

Corporate social responsibility

Corporate social responsibility is an important part of The Forest Company's philosophy, especially as the forestry business entails activities that have an inevitable social and environmental impact on the community. The Forest Company seeks to ensure that every social and environmental effect of its business produces a positive outcome both in the short and long term.

While the greater impact will only be seen in the long run, some of the positive effects that The Forest Company is creating can already be measured. The Company created significant job opportunities in the rural areas of Brazil and Colombia. In its operations in Brazil the Company provides 66 indirect jobs and 54 direct jobs, with the lowest wages standing 85 per cent above the minimum wage. In Colombia the Company provides 190 indirect jobs. The total indirect hires across the Company in 2013 was over 380 seasonally.

While informal employment still occurs in many rural areas both in Brazil and in Colombia, the Company ensures that all the jobs it promotes are formalised. This way, people have access to pension and health systems, education grants and professional risk protection. Only by complying with standard labour laws will it be possible to create changes to living standards that will carry through in the longer run.

As part of the Company's social management plan, the planting operators engaged by the Company are contractually obliged to employ local people for all silviculture activities on the Company's plantations, such as planting and maintenance. The people are hired through service providers to carry out activities such as weeding, fertilisation, irrigation, planting and soil preparation. All the people employed receive training and education in silviculture operations and health and safety practices. Further, the Company is working to foster environmental education in the regions where it operates by supporting environmental events and projects, as well as granting access to the Company's biological preservation areas for schools and environmental experts. Furthermore, the Company is supporting local schools interested in learning more about the forest plantation business. Local schools are invited to visit one of the Company's plantations in Brazil on organised school visits during which the Company's foresters explain forest operations and the Company's environmental work is presented to the students.

The Investment Manager believes that through the Company's efforts in aiding the local communities, from providing job opportunities to promoting local education, the Company will have a significant positive social impact in the region and will be able to grow the business in a sustainable way.

Evaluating new investments

Extensive environmental and social due diligence is carried out on all new investments. This includes, but is not limited to, a variety of issues;

— historical land use changes to identify any previous illegal clearing of native vegetation using satellite images;

— history of land ownership;

— ensuring proposed investments can be managed openly, effectively and accountably and with the highest conduct with regard to sustainable forest management; and

— assessment of the positive economic impact of the investment on the local economy, for example in terms of direct and indirect employment.

Assessment is carried out in the light of the FSC's Principles and Criteria regarding sustainable forestry and whether a proposed investment is likely to comply. The Principles and Criteria address three aspects of sustainability: economic, environmental and social.

Background and business of The Forest Company

The Forest Company was formed in 2007 and funded in 2008. The Company invested in the Aimara and Ibiracu projects first, adding the Colombian project in Antioquia late in 2010 and following with investments in the Kaa and Frondosa projects in the second half of 2011.

The Forest Company focuses on forestry investments in high biological growth regions in Latin America such as Brazil and Colombia. The Company's sustainably grown forest resources are converted into a range of products, including sawlogs and pulpwood for the forest industry and charcoal for the pig iron industry. All of the Company's sales are concentrated in the respective domestic markets.

The Group seeks to invest in socially and environmentally responsible forestry projects that are or will be certified by the FSC or other internationally recognised forest management certification programmes. The Group does not acquire or harvest native forests.

Markets and portfolio
Global wood products market summary

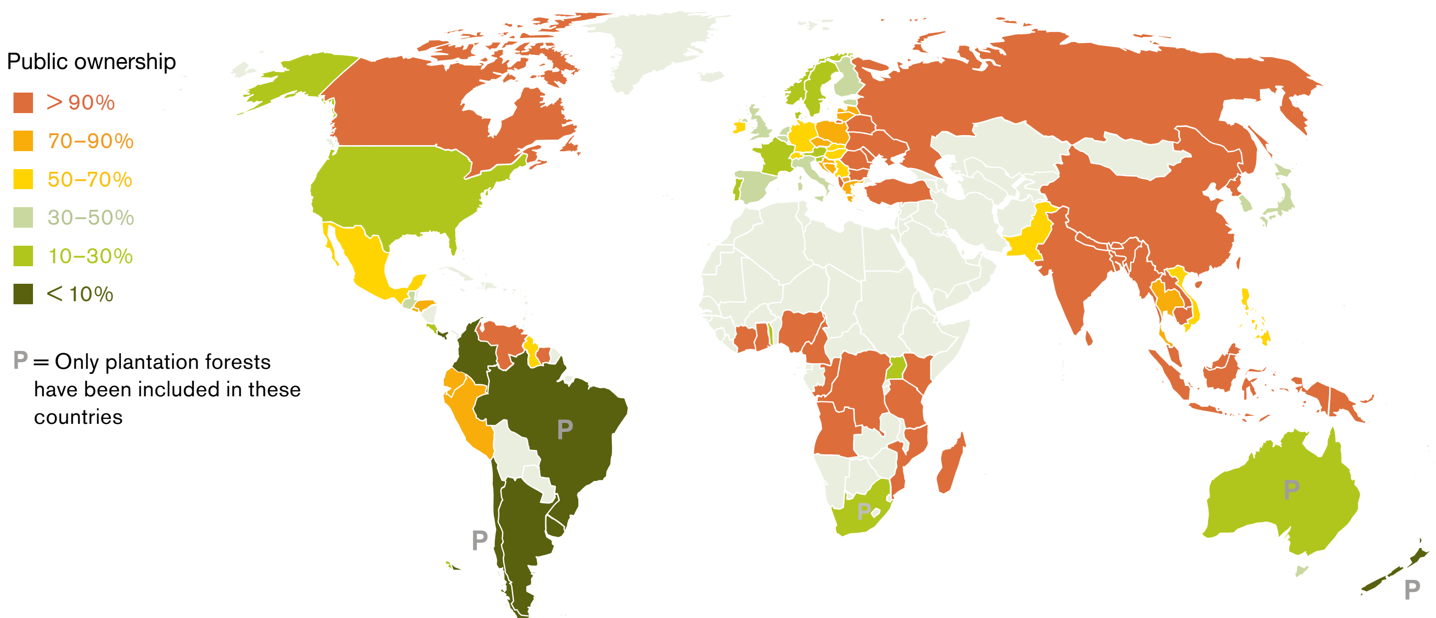
Just over 4 billion hectares of forest land can be found globally. Canada, the United States, Russia and Brazil account for more than 50 per cent of this total. Forests can be classified according to the climatic conditions in which they grow, for example boreal forests, temperate forests, and tropical forests, or according to the degree of human disturbance or current management, for example primary forest, modified natural forest, semi-natural forest or plantations.

Global ownership of forest land is characterised by strong regional differences (see Figure-1), which usually reflect their specific social and political histories. In Western Europe about two thirds of the total forest resource is privately owned. However in most of the Eastern European countries the situation is the opposite, despite large scale restitution of state-owned forests having taken place in this region over the past two decades. A particular challenge when attempting to acquire forest assets in Europe is the fragmented ownership of forest land. This can make it difficult to build up an operation large enough to be commercially viable. In many countries where the private ownership of forest land is restricted it remains possible to control wood supplies through concessions. This situation is commonly found in Canada, Russia, Asia and Africa.

Latin America is characterised by high levels of private forest land ownership. In contrast to Europe, where individuals or families own most of the privately held forest land, the ownership of Latin American commercial forest land is dominated by large corporations, particularly in Brazil and in Chile. These are commonly large vertically-integrated pulp and paper companies.

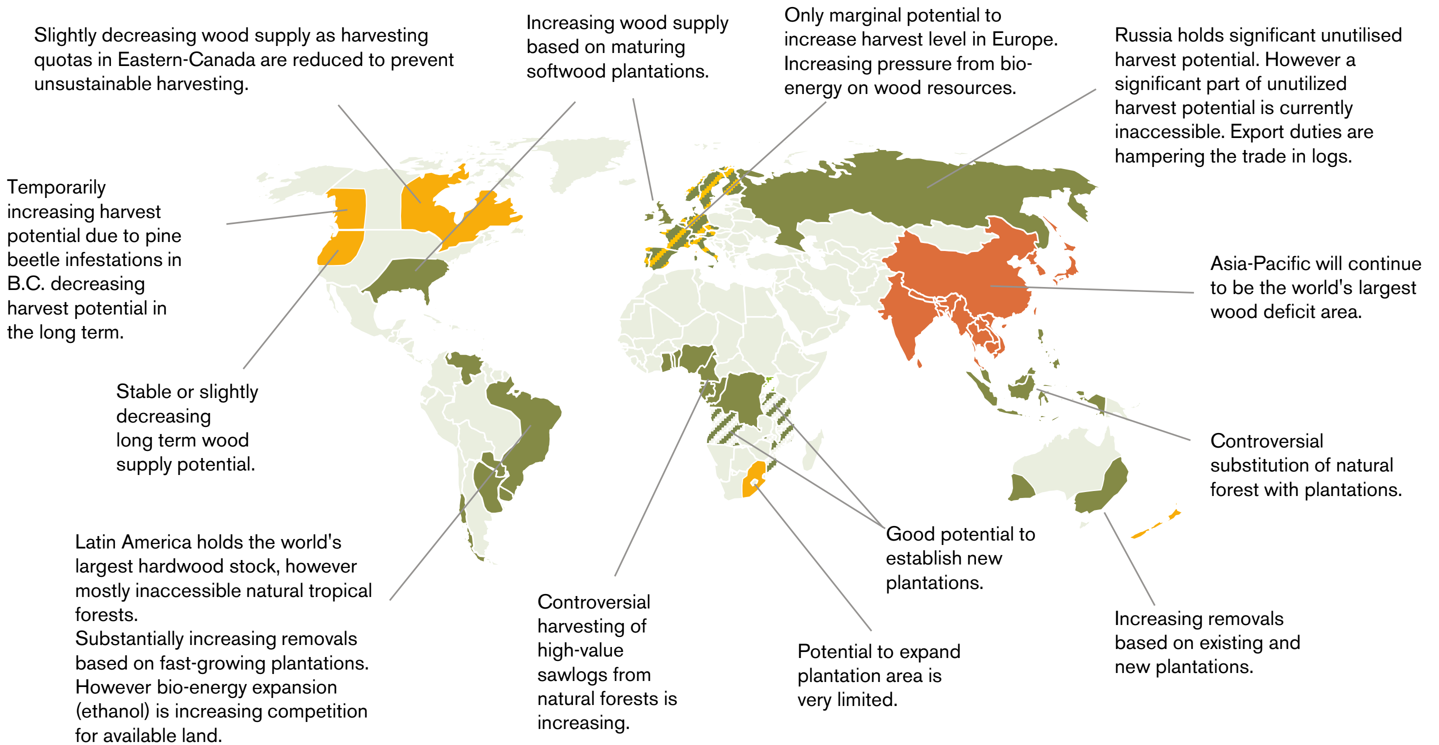
Out of the total global forest cover, the plantation forest area is estimated at 140 million hectares. Some 30 million hectares of this has been planted for protective purposes, for example to stabilise mountain slopes in China. The other 110 million hectares are productive plantations, which, compared to the overall global forest cover, play an important role in meeting industrial wood demand. In 2005 plantations were the basis for 35 per cent of the global industrial roundwood supply. The greater productivity of plantations has resulted in them accounting for a disproportionately high share of wood supply when considering the relatively small share they represent in the overall forest resource.

FIG. 1 PUBLIC OWNERSHIP OF FORESTLAND



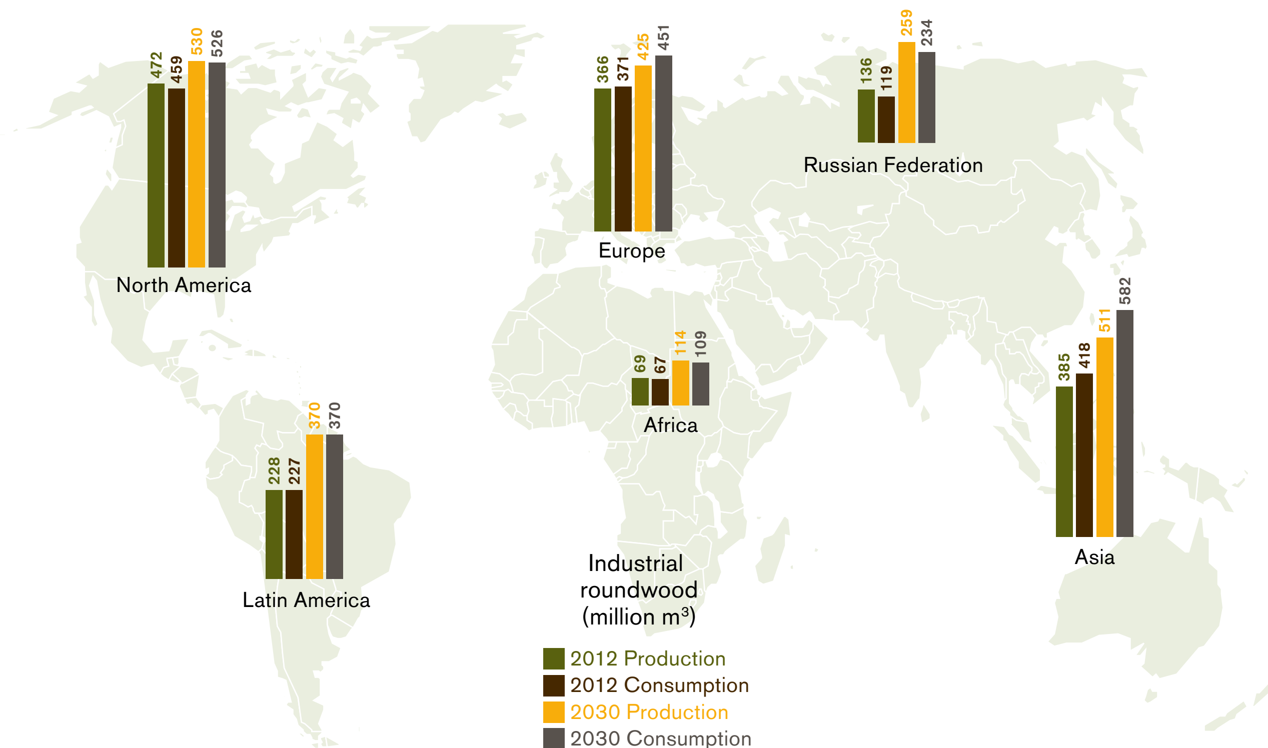
Source: Pöyry

FIG. 2 GLOBAL OVERVIEW OF POTENTIAL PLANTATION ESTABLISHMENT AND WOOD MOBILISATION



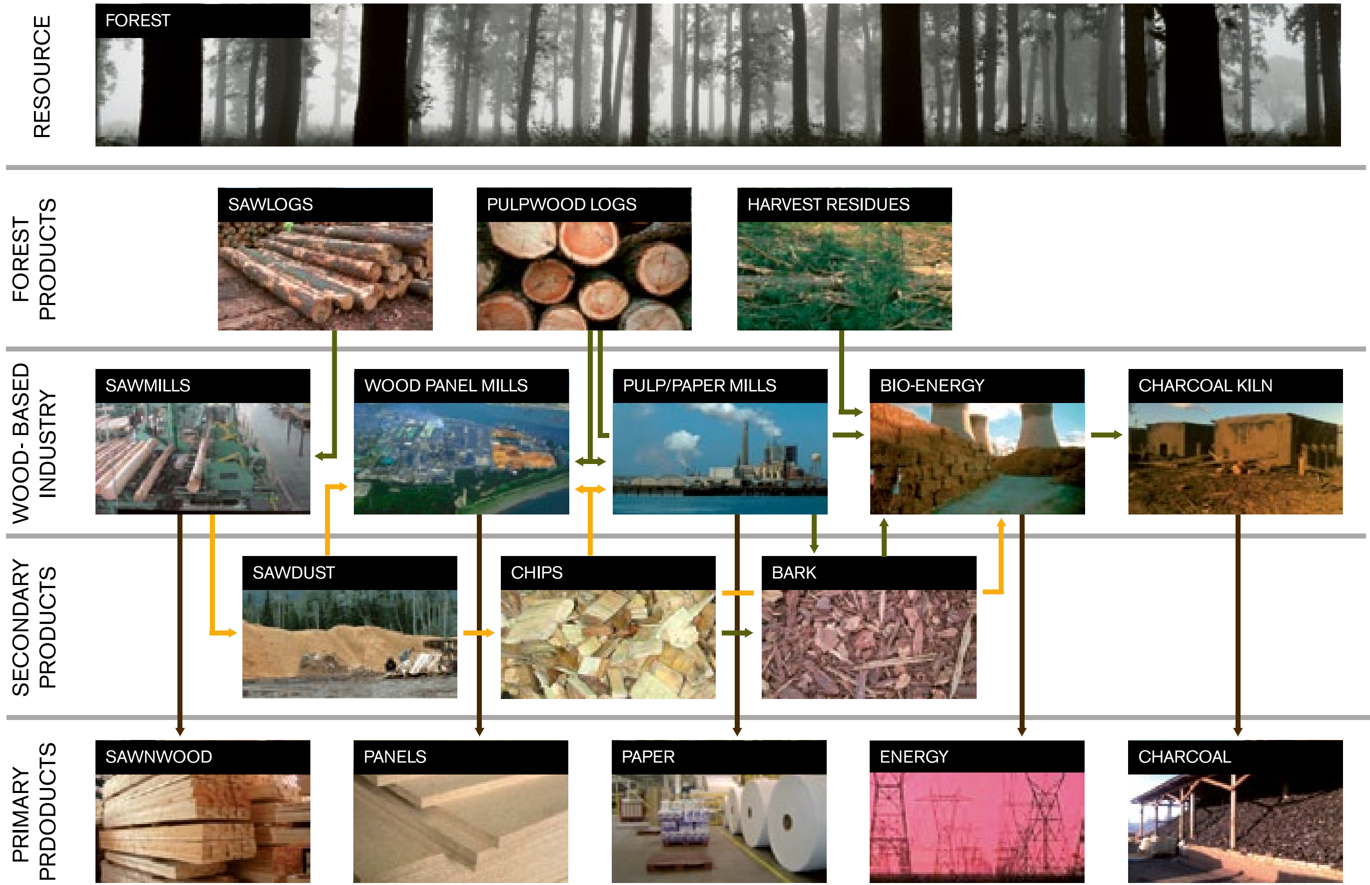
Source : Pöyry

FIG. 3 GLOBAL INDUSTRIAL ROUNDWOOD PRODUCTION AND CONSUMPTION



Source : Pöyry, FAO, UNECE

FIG. 4 WOODFLOW IN THE FOREST INDUSTRY



Source: Pöyry

Plantations will become increasingly important in order to meet future wood demand, and are expected to contribute 44 per cent of global wood supply by 2020. In order to reach this level of production the total global plantation area will have to increase to almost 200 million hectares. Latin America will be a key region for future expansion of plantation area (see Figure-2).

In 2012 some 1.6 billion m³ of industrial roundwood were produced from the world's forest resources. This is expected to grow to some 2.2 billion m³ by 2030, an annual growth rate of 1.6 per cent. Latin America contributed approximately 14 per cent of global roundwood production in 2012, and will see the largest growth in absolute production levels by 2030, followed by Asia and Russia (see Figure-3).

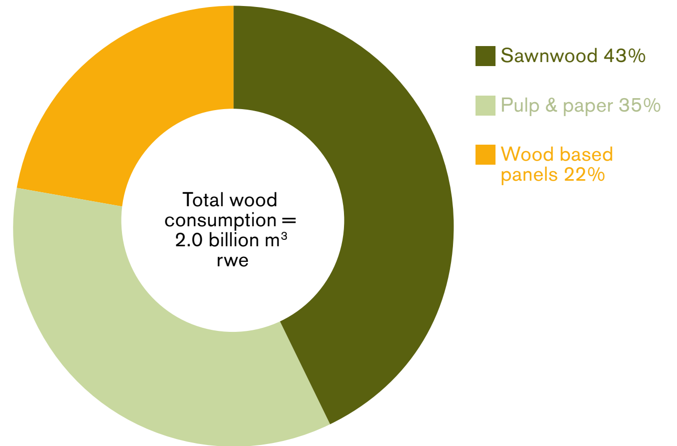
The forest industry consists of several sectors with co-depending wood flows which can be viewed in Figure-4. The main sector is the sawmilling sector producing different grades of sawnwood. Out of the roundwood consumption in a sawmill, roughly 50 per cent becomes co-products such as bark, chips and sawdust. Some of the co-products are then utilised by the sawmill itself for its internal energy consumption. The relatively low cost of the remaining co-products makes them an attractive resource to the bioenergy, wood-based panel (WBP) and pulp & paper sectors in their production. Of these three sectors, the paying capability[1] has historically been largest in the pulp & paper sector, assuring them the majority and best quality of the pulpwood. The paying capability is, however, believed to increase for the bioenergy and WBP sectors and hence increase competition for the pulpwood.

1) Wood-paying capability is defined as the residual amount remaining after one deducts all direct and indirect production costs (excluding wood raw material costs), plus the minimum expected profit margin, from the price at which a wood-consuming industry sells its end product (e.g. sawnwood, wood-based panels, wood pellets, etc). This residual is an indication of the maximum price that the consumer can pay for its wood raw material.

In Figure 5 the wood consumption by sector can be viewed as roundwood equivalents[1] (rwe) including the co-products from the sawmills utilised by the other sectors. The total amount of rwe utilised in the forest industry will hence be larger than the amount of roundwood harvested due to the inclusion of the co-products. The use of biomass for energy purposes on an industrial scale is still in a developing phase globally, and any current, reliable, and consistent sources do not exist. The use of wood in the industrial biomass energy sector is therefore left out of the comparison in Figure 5.

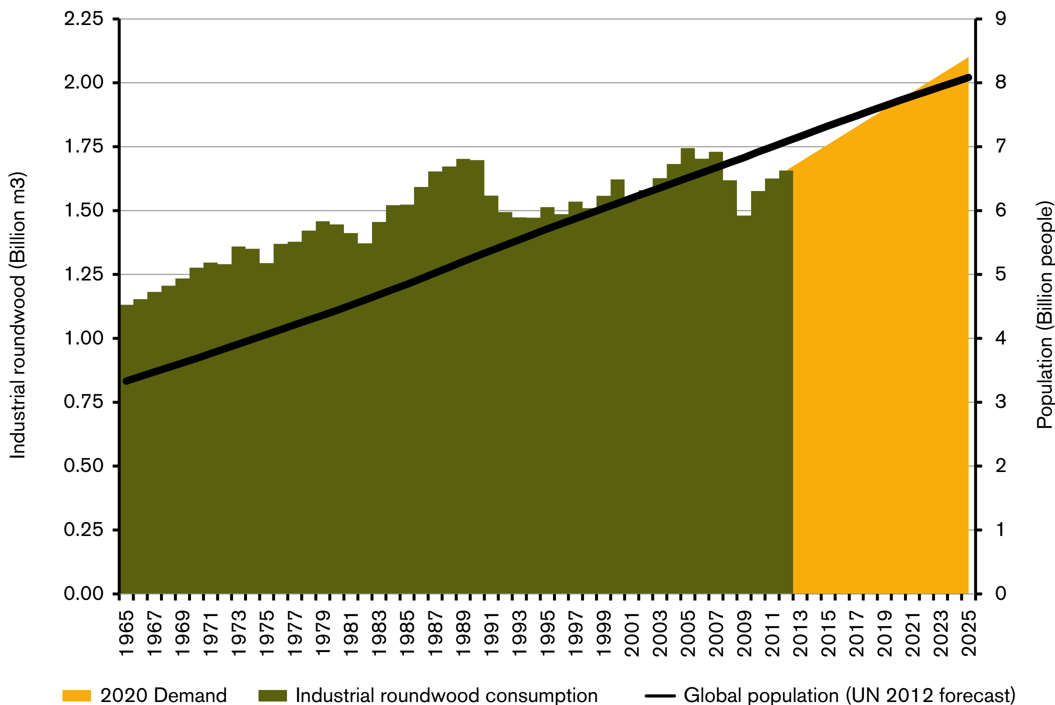
One of the underlying factors driving demand for forest products is population growth. Historically total roundwood demand has correlated closely with increasing population (see Figure-6). According to the UN the world's population in mid-2013[2] was some 7.2 billion. This is expected to increase by almost one billion people within the next twelve years, reaching 8.1 billion in 2025, and to further increase to 9.6 billion by 2050.

FIG. 5 GLOBAL WOOD CONSUMPTION BY INDUSTRY SECTOR (2011)



Source: FAO and Pöyry

FIG. 6 GLOBAL INDUSTRIAL ROUNDWOOD PRODUCTION AND POPULATION GROWTH



Source: UN, Pöyry

1) *Includes co-products measured as the amount of corresponding roundwood they make up.*

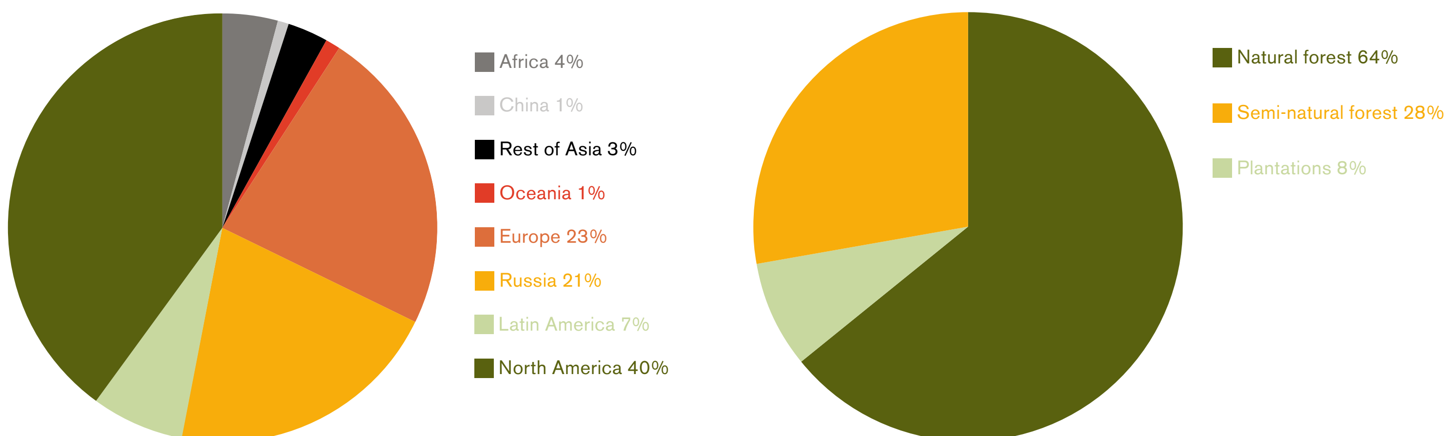
2) *World Population Prospects : The 2012 Revision, UN 2013*

The most practical way for a forest owner to demonstrate that their operation is sustainable, responsible, and conforms to acceptable standards, is to apply for forest certification. There are several schemes under which forests may be certified, with Forest Stewardship Council (FSC) being the most common internationally, and Programme for the Endorsement of Forest Certification schemes (PEFC), Canada's National Standard for Sustainable Forest Management (SFM), Sustainable Forest Initiative (SFI) and American Tree Farm System (ATFS) all being well-known on a more regional level.

the use of certified materials in their products as part of their sustainability and responsible procurement credentials. For example the Brazilian Olympic Organizing Committee announced that all forest products that will be acquired by the Committee will be FSC-certified. This includes building materials as well as furniture, communication materials and stationery.

Increasing efforts to control the illegal trade in wood products, with the adoption of EU Illegal Timber Regulation (ITR) legislation in Europe, and the Lacey Act amendments

FIG. 7 GLOBAL FSC CERTIFIED AREA BY REGION (LEFT) AND FOREST TYPE (RIGHT)



Source: FSC, Pöyry

The area of certified forests worldwide has grown strongly since the 1990s and by May 2013 had reached 417 million hectares. The FSC certified area totalled 186.6 million hectares at the end of 2013. It is estimated that the area of certified forests accounts for some 28.3 per cent of global roundwood production[2]. Most of the certified area is found in the northern hemisphere, with Europe (incl. Russia) and North America representing over 89 per cent of the total (see Figure-7). Despite the northern hemisphere's dominance, Brazil was the country with the 5th most certified forest area in the world by the end of 2013, with 7.45 million hectares of certified forests[3].

There are several motivators behind the demand for certified products. For many companies it is important to demonstrate

in the United States, are also a driver. Forest certification is a very strong tool in demonstrating compliance with these regulations.

Lastly, the trend in green building initiatives continues to grow, with a steady shift from voluntary programmes to integration into formal building codes. Whilst still small in comparison to total construction activity, recent high profile projects such as the London 2012 Olympic Games which used certified green buildings are raising awareness of these standards and their adoption is expected to become more widespread. Indeed McGraw-Hill Construction's recent "World Green Building Trends" report indicated that 51 per cent of respondents planned for more than 60 per cent of their work to be green by 2015.

2) *UNECE Forest Products Annual Market Review 2012-13*

3) *FSC Facts and figures December 2013*

This is a significant increase on the 28 per cent that said the same for their work in 2013 and double the 13 per cent in 2008. Wood is highly regarded as a green building material and this trend should result in an accelerating demand for various solid wood products from certified origins.

For most plantation owners having FSC certification is unlikely to result in a price premium for their timber but it is becoming an ever-increasing pre-requisite to prove the responsible nature of their product and operations, and to operate in global timber markets.

Brazilian wood products market

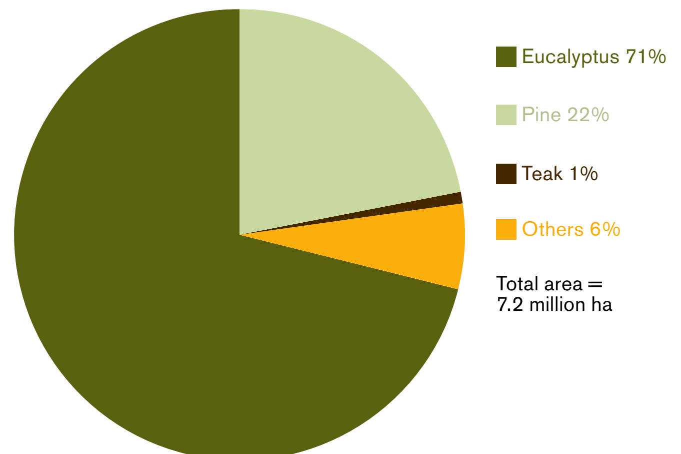
Brazil is the fifth largest country in the world and by virtue of its large population and vast natural resources is Latin America's leading economic power. Its economy is characterised by large and well-developed agricultural, mining, manufacturing and service sectors. Strong economic performance and fiscal responsibility have resulted in Brazil becoming a significant player in global markets and an attractive destination for foreign investors. GDP growth increased to 2.5 per cent in 2013 compared with the downturn in 2012 (0.9 per cent). GDP growth for 2014 is expected to be 2.2 per cent. Inflationary pressures are likely to remain until the effects of a tighter monetary policy are felt (headline inflation of 5.0 per cent is expected for 2014). The unemployment rate in Brazil remains at record low levels[4].

The Brazilian Real has been considered by many as over-valued during the most recent years and an obstacle to investment. The Brazilian currency has, however, depreciated during the last 2 years amid an emerging market sell-off driven by US Federal Reserve speculation.

At the height of the emerging market economic boom after the 2008/9 financial crisis, the Real reached levels of near BRL 1.50 to the USD. By the end of 2013 it was at BRL 2.3 to the USD, having depreciated by 28 per cent in the last 2 years.

With a planted area of 7.2 million hectares (see Figure-8), Brazil has one of the largest industrial plantation resources in the world. The established area grew rapidly, with approximately 4 per cent annual growth (average of 240,000 hectares per annum) between 2005 and 2010. New plantation establishment stagnated between 2010 and 2011, with an increase of less than 0.5 per cent.

FIG. 8 PLANTATION AREA BY SPECIES IN BRAZIL (2013)



Source: ABRAF - Brazilian Association of Forest Plantation Producers (Statistical yearbook 2013)

4) *Source: OECD Brazil economic forecast Nov 2013.*

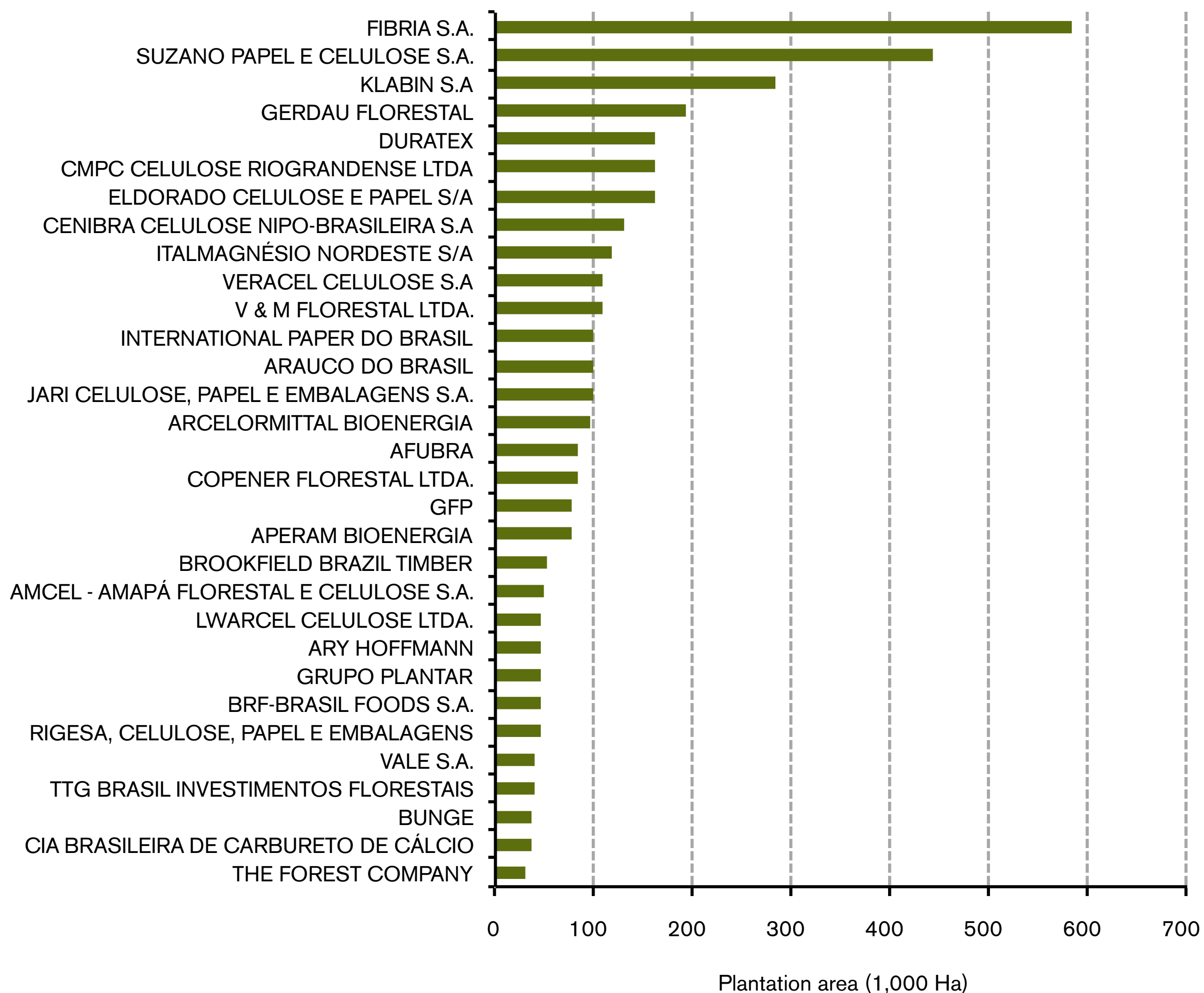
The main reasons for reduced growth in net planted area was considered to be related to legislation limiting the possibilities for foreign investors to purchase land, bureaucracy in the environmental licensing process and the impact of economic conditions in the EU and the US on market demand. Plantation development has however again increased by 2.6 per cent between 2011 and 2012.

Vertically integrated companies with their own plantation resources and processing facilities are very common within the Brazilian forest industry. Even though several very large forest owners are present, the top 10 players in Brazil (see Figure-9) still only account for roughly 30 per cent of the total plantation area.

Recent developments in the forest industry include an additional 1.5 million adt pulp line was put into operation by Eldorado Papel e Celulose in Mato Grosso at the end of 2012. Empresas CMPC has obtained approval for the expansion of the company's Guaíba mill in the Brazilian state of Rio Grande do Sul. This new pulp line at Guaíba is to increase the mill's annual production capacity by 1.3 million adt. It is expected to come on stream in the first quarter of 2015.

Despite the integrated nature of Brazilian forest product companies, there is a growing trend amongst them to outsource fibre supply to small growers. This reduces the capital outlay required to develop a wood resource for new processing facilities and lowers the profile of such companies as dominant landowners within certain localities.

FIG. 9: MAJOR PLANTATION OWNERS IN BRAZIL



Source: Pöyry

Often the outgrower schemes offered by the company finance any establishment costs for the farmer in exchange for a guaranteed share of the harvest. There is also growing interest in exploring the sale of certain plantation assets, along with "buy-back" agreements for the fibre. Such developments will present interesting opportunities for forest investors in the country.

The ability of large organisations to fund extensive research into areas such as tree improvement and silviculture has resulted in Brazil becoming the global benchmark in terms of plantation productivity, with average yields for eucalyptus increasing from 12 m³s ob/ha/yr in the 1970s to almost 41 m³s ob/ha/yr currently. The best clones on the best sites even produce as much as 70 m³s ob/ha/yr, and in the future it is believed that it is possible to reach as much as 100 m³s ob/ha/yr with the help of GMO trees (see Figure-10).

Commercial utilisation of genetically modified trees ('GMO trees') has however not yet occurred due to restrictions set by forest certification bodies and approval process required by government. It is unlikely this will be achieved before 2015. After approval, GMO trees will likely still take a number of years before full commercial deployment.

Wood consumption

With its high yields and large plantation resource Brazil is a leading producer and consumer of industrial roundwood, with current consumption exceeding 180 million m³ per annum (see Figure-11). The largest consumer of roundwood in Brazil is the pulp industry with 64 million m³s ob in 2012.

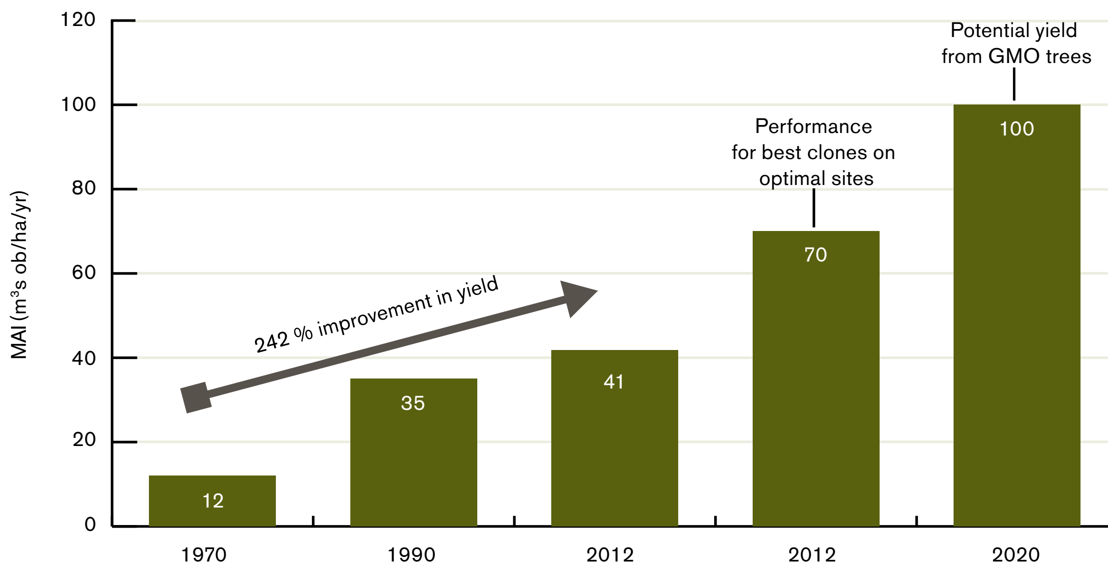
Brazil is a highly cost competitive producer of pulp, by virtue of its ability to produce wood fibre at low cost, and efficient and modern production facilities. During 2012 Brazil was the 3rd largest producer of pulp in the world after the US and Canada.

The producers of pulp and paper in Brazil use solely wood fibre from planted forests in their production. The main consumer of wood from native species is the charcoal industry and to some extent sawnwood industry.

The energy sector's consumption of roundwood is the second highest in Brazil (44.7 million m³s ob in 2012). The consumption is mainly of firewood and supports not only household consumption but also industrial users in the southern region.

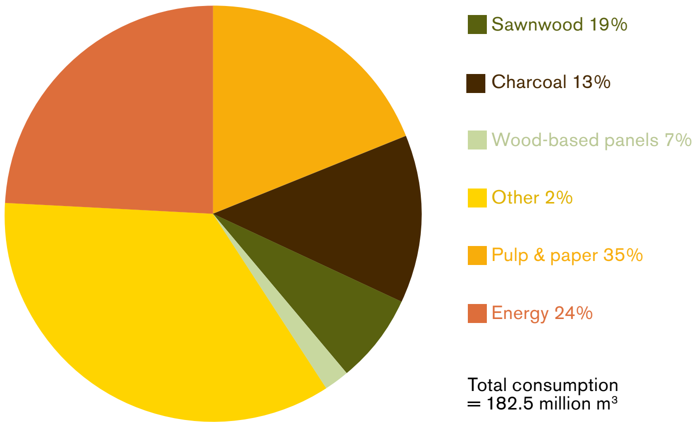
The consumption of roundwood from the sawmilling sector is moderate when compared with the pulp & paper industry (34.7 million m³s ob), and predominantly consists of pine processed in many smaller sawmills, although some larger players do exist in the sector.

FIG. 10 DEVELOPMENT OF PLANTATION PRODUCTIVITY IN BRAZIL



Source: Pöyry and ABRAF

FIG. 11 INDUSTRIAL ROUNDWOOD CONSUMPTION BY SECTOR – BRAZIL (2012)



Source: ABRAF - Brazilian Association of Forest Plantation Producers

The Forest Company projects in Parana State, Brazil

THE AIMARA PROJECT	
Location	Paraná, Brazil
Year of investment	2008
Ownership	80%
Species	Pine & Eucalyptus
End use	Pulpwood/sawlogs
Total area	2,820 ha

THE KAA PROJECT	
Location	Paraná, Brazil
Year of investment	2011
Ownership	100%
Species	Pine
End use	Pulpwood/Sawlogs
Total area	2,020 ha

Aimara project description

The Aimara project is located in the north of Paraná, a state in the southern region of Brazil. The average annual precipitation of approximately 1,400mm makes it a favourable area for planting throughout the year. The landscape in the region is characterised by gentle valleys and rivers, which limits the available land for planting to approximately 50 per cent.

Aimara was The Forest Company's first investment. It is a greenfield project in partnership with Klabin, Brazil's leading manufacturer of packaging paper. At the onset of the project, The Forest Company contributed USD 20 million and Klabin contributed harvesting rights over existing standing pine plantations valued at USD 5 million. The Forest Company and Klabin also entered into a 28-year off-take agreement, where Klabin will purchase all the harvested wood produced from Aimara. The off-take agreement is secured by a fixed pricing mechanism. The project is planted with fast-growing eucalyptus, which will be ready for harvest in 2016. To date Aimara has distributed a total of USD 14.7 million in dividends.

Aimara highlights for the year

The Company completed another forest inventory, which confirmed an average MAI of 52 m^3/ha/year – a growth rate slightly lower than 2012 inventory and higher than what was assumed before the project was initiated in 2008. In addition, Aimara was included under the Timber Capital do Brasil FSC group certification scheme, which has been validated by the Forest Stewardship Council (FSC).

Kaa project description

Kaa is the second asset the Company acquired in Paraná. Different from Aimara, it was not a greenfield project, but a standing pine plantation with a total area of 2,012 hectares, of which 1,165 hectares were mature and available for harvest. The plantations are located approximately 100 km north of Curitiba, the state capital of Paraná. The area is a traditional pine growing area, with a significant cluster of saw and veneer mills and a range of service providers active in the forest industry, such as harvesting contractors, planting operators and forest consulting companies.

To date Kaa has distributed USD 2.5 million of dividend.

Kaa highlights for the period

Kaa continued to harvest and sell wood to several local sawmills. Total wood volume sales increased from 72,967 m^3 in 2012 to 234,000 m^3 in 2013 due to increased demand from exporting customers. Inventory adjustments during the period due to harvesting losses and measurement differences decreased future harvests assumed by the independent valuer by 20%, resulting in an estimated BRL 2.5 million decrease in biological asset value.

The Forest Company projects in Minas Gerais state, Brazil

THE IBIRACU PROJECT	
Location	Minas Gerais, Brazil
Year of investment	2008
Ownership	100%
Species	Eucalyptus
End use	Charcoal/Biocarbon for pig iron production
Total area	11,478 ha

THE FRONDOSA AND BIOCARBONO PROJECTS	
Location	Minas Gerais, Brazil
Year of investment	2011
Ownership	100%
Species	Eucalyptus
End use	Charcoal/Biocarbon for pig iron production
Total area	32,157 ha

Brazilian charcoal market

A major wood-consumer in Brazil is the charcoal industry. Charcoal is mainly being used as a reduction agent in the pig iron production process. Brazil's annual production of pig iron exceeded 35 million tonnes up until the economic crisis in 2008. However, subsequent to the crisis, global demand for pig iron slumped, and Brazilian production fell by 28 per cent in 2009. Volumes have since recovered to 33 million tonnes in 2012 (see Figure-12).

The state of Minas Gerais is the biggest producer of steel and iron in the country accounting for around 60 per cent of national production. The production of charcoal in Minas Gerais has increased by 13 per cent since 2011 to 20.4 million m^3.

Historically, large quantities of wood from native forests have been utilised to produce charcoal. However there has been increasing awareness of the sustainability issues associated with such practices and in 2009 the Legislative Assembly of Minas Gerais approved legislation that regulates the consumption of charcoal from native forests. Phased in gradually over a period of several years, use of charcoal by the industrial sector from natural forests will be limited to 5 per cent by 2018.

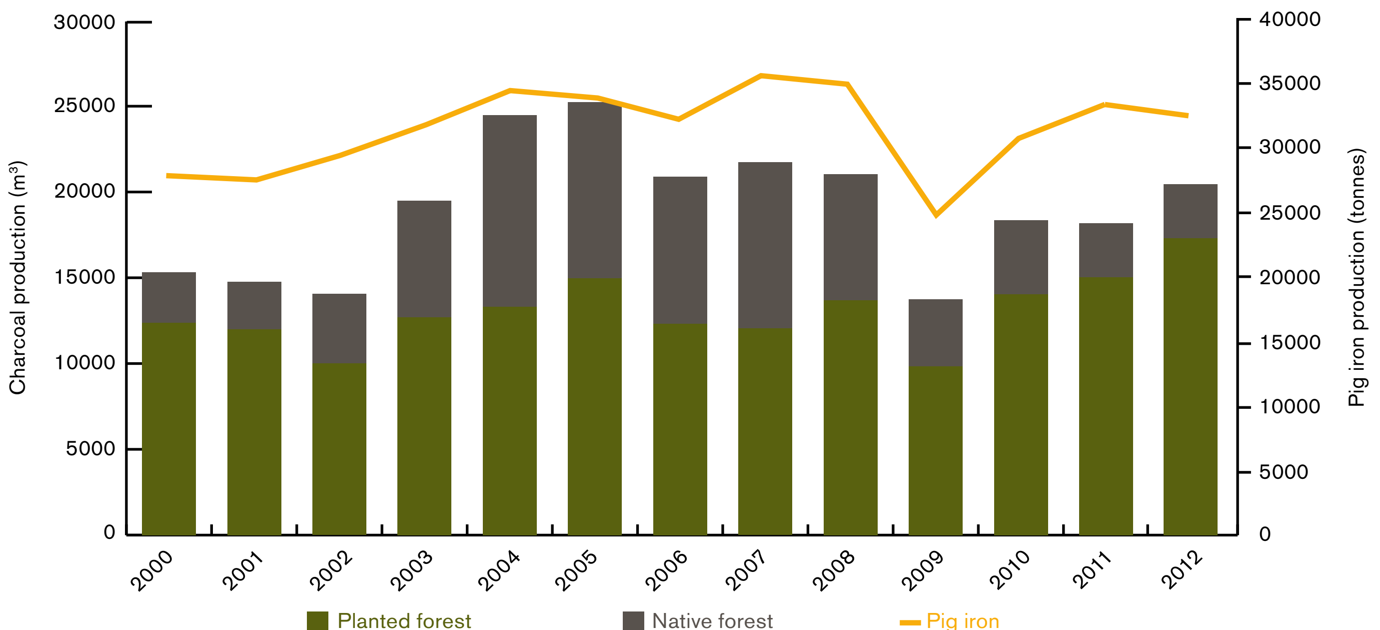
In Minas Gerais, the production of charcoal from native species decreased from 46 per cent in 2004 to 14 per cent in 2012. Additional plantation development is expected in this state to support the demand for charcoal production from plantations.

Nationally, there has been a 36 per cent increase in volume in the production of charcoal from plantations between 2011 and 2012.

In 2012 charcoal production accounted for 13 per cent of the plantation-based wood harvest in Brazil, and the new legislation is expected to see this number increase further.

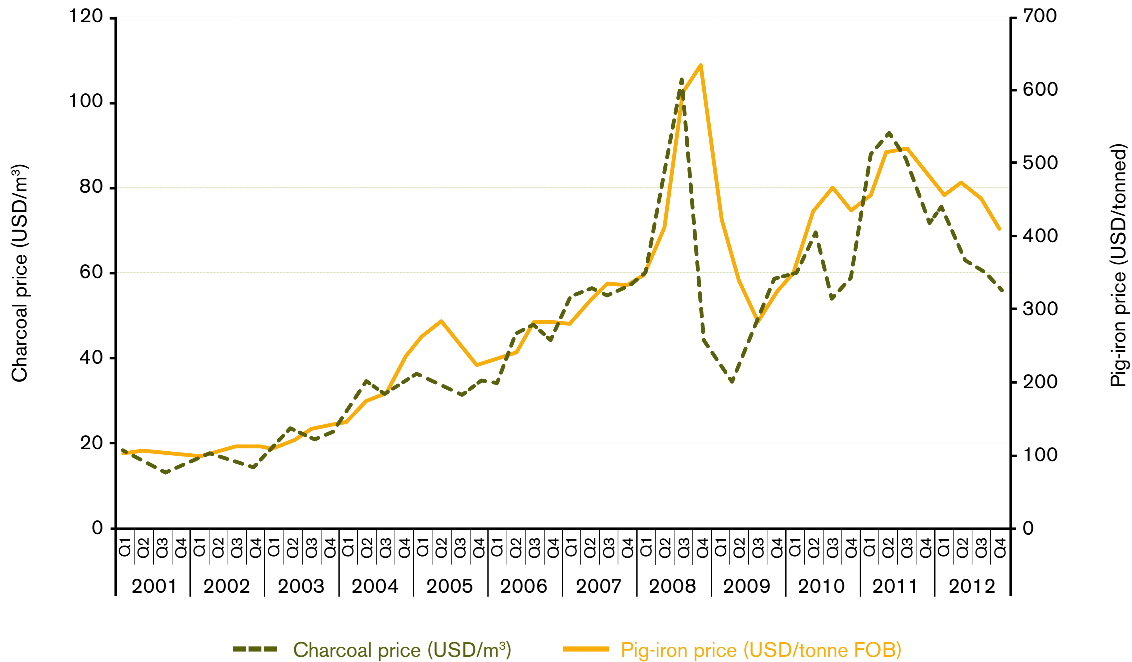
Given the close link between demand for pig iron and demand for charcoal demand, it is not surprising to see this relationship reflected in pricing. The debt crisis in the Eurozone and a sharper than expected slowdown in China saw pig iron prices decline again during 2012 (see Figure-13). Export price levels reported near the end of 2013 have remained around the USD 390 per tonne mark.

FIG. 12 HISTORICAL CHARCOAL PRODUCTION IN MINAS GERAIS AND BRAZILIAN PIG IRON PRODUCTION (2000-2012)



Source: Associação Mineira de Silvicultura (AMS) 2012 annual statistics

FIG. 13 HISTORICAL PRICE DEVELOPMENT OF CHARCOAL IN MINAS GERAIS



Source: Associação Mineira de Silvicultura (AMS) and Metals Consulting International

Ibiraçú project description

The Ibiraçú project is located in Minas Gerais, a state in the southern region of Brazil. The region is characterised by high altitude, fertile soil and, like Paraná, relatively high rainfall (1,450 mm annually). It is rugged with numerous gullies, which limit the average available land for forest plantations to approximately 55 per cent of the areas of the properties in the project, which is a typical area ratio for Minas Gerais state. The limited availability of area for forest plantations is to a large extent a result of the restrictions of the Brazilian Forest Code that requires landowners to leave a buffer zone around valleys, rivers and gorges.

The Ibiraçú project is a greenfield project, planted with different clones of eucalyptus. The Company bought the land from several local farmers, who previously used the land for cattle grazing. All of the properties in the project are located in close proximity to each other and are managed as one unit of timberland.

The project is planted with fast-growing eucalyptus, which will be ready for harvest in 2016.

Ibiraçú highlights for the year

Ibiraçú was included under the Timber Capital do Brasil FSC group certification, which has been validated by the Forest Stewardship Council (FSC).

The Company completed planting in Ibiraçú.

Frondosa and Biocarbono projects description

The Frondosa project is located in the northeast of Minas Gerais. The project is located close to, and is managed in conjunction with, the Ibiraçú project.

Frondosa is The Forest Company's largest investment to date. It is a standing eucalyptus project, which the Company acquired in 2011 from a family in the local pig iron business. As part of the transaction, the Company acquired 32,157 hectares of land, charcoal kilns and a pig iron mill. In 2011 the Company drew down on a credit facility for a total amount of BRL 50 million to part finance the acquisition of the asset. The Company created a charcoal business,

initially outsourcing the charcoal production to third-party companies, and immediately entered into an industrial facility lease agreement with the seller to lease back the pig iron mill for a period of two years which ended in November 2013.

Frondosa and Biocarbono highlights for the year

The Forest Company sold the pig iron mill in the Frondosa project, making a profit on the sale and establishing a long-term charcoal agreement with the purchaser.

The Company spun-off the charcoal division in the Frondosa project. Biocarbono is the company that emerged from the spin off – now another company within The Forest Company group. Frondosa and Biocarbono are independent entities, with the first having its core business in silviculture and the latter in harvesting operations and charcoal production.

Frondosa

The wood being harvested in Frondosa currently has two different uses: wood for charcoal (which is converted into pig iron) or wood for treatment (which is typically converted into electricity poles or fence poles). 98% of the wood coming from Frondosa is sold to Biocarbono at prevailing market prices to produce charcoal. Biocarbono, in turn, supplies charcoal to four different pig iron mills in the region including Siderpam, the pig iron mill formerly belonging to Frondosa. The remaining 2% of the Frondosa wood sales goes into wood for treatment; in this segment Frondosa serves two clients.

Biocarbono

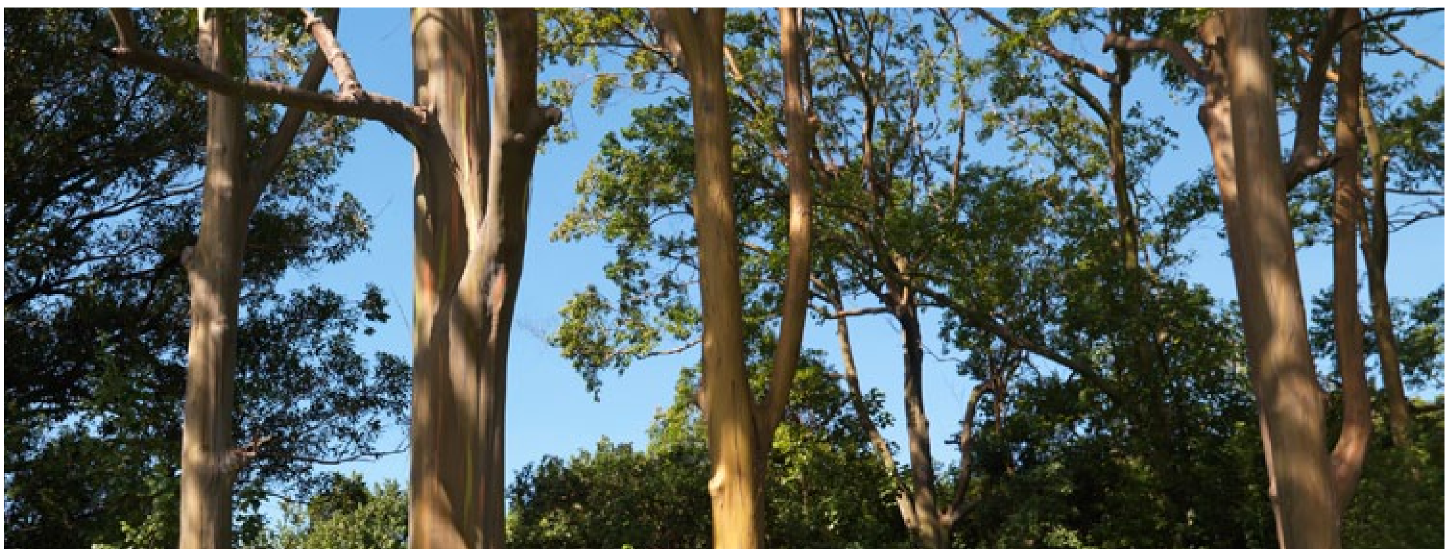
In 2012 the Company produced an average of 17,329 MDC of charcoal per month. In 2013 the Company achieved a monthly average of 22,830 MDC, an increase of 31.7% over the previous year. This increase was, in part, a result of increased efficiency in the operations.

While the Company saw significant improvement in its charcoal operations from 2012 to 2013, losses were incurred due to poor weather and operational issues with the operations – see Note 5 for the charcoal trading account. In 2013 the Company started to remodel its charcoal production unit, replacing brick circular igloo-like kilns with more efficient rectangular kilns. This shift allows for the full mechanisation of the carbonisation chain, which entails mechanical loading and unloading of kilns. At the year end the Company was in the middle of this transition process, and aims to continue its efforts to further enhance efficiencies and capacity by expanding its operations with new rectangular kilns in 2014. Further the Company intends to employ most of the labour force directly during 2014.

Frondosa was included under the Timber Capital do Brasil FSC group certification scheme, which has been validated by the Forest Stewardship Council (FSC).

The Company fully repaid the remaining portion of the BRL 50 million loan, used to part finance Frondosa upon acquisition, with a new loan acquired from MetLife Timberland Finance Group.

Frondosa established the first research trial in order to evaluate new eucalyptus clones, better adapted to the project's site conditions.



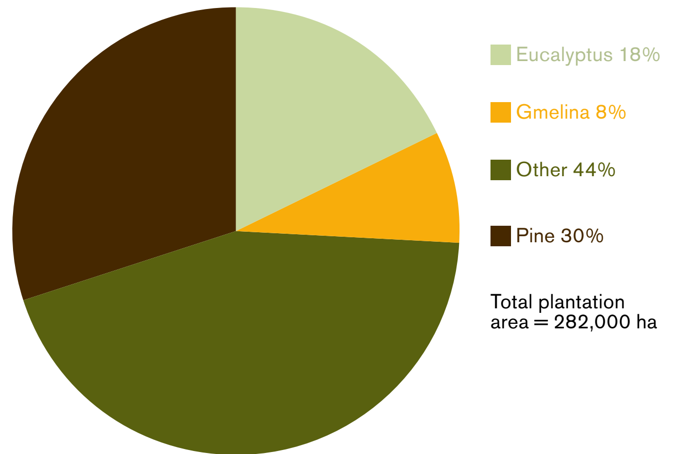
Colombian forestry market

Colombia is a constitutional republic with a large and ethnically diverse population. The country has a very varied topography, with coastal plains bordering both the Pacific and Atlantic oceans, the highlands of the Andes mountains, and the open savannah in the south. It is rich in natural resources and has great agricultural potential, although this potential has been poorly developed to date. There are substantial areas of land in Colombia which would provide very good growth and yield potential for plantation species such as eucalyptus or pine. An estimated 5 million hectares is suitable for afforestation without any restrictions (e.g. forest reserves, riparian areas, steep slopes, areas with mining priorities, and areas with degraded soils) and which do not require any special licensing for the establishment of plantations.

The current plantation area is estimated at 282,000 hectares, which consists primarily of pine, gmelina, teak and eucalyptus (see Figure-14). It is, however, believed that a large portion (circa 30,000 hectares) of these might be in such a poor condition that they should not be considered as commercial plantations.

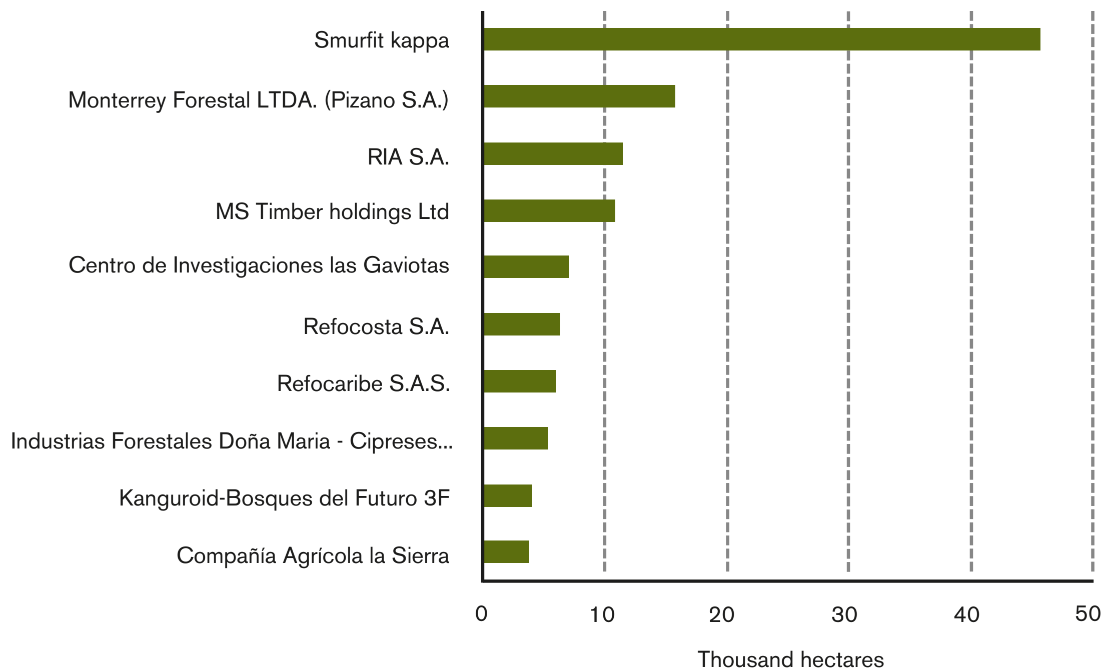
As in Brazil, vertical integration is common within the Colombian forest sector and many of the wood processing companies manage their own plantations. Compared to Brazil, where the largest plantation owners have several hundred thousands of hectares, the plantation owners in Colombia are relatively small. For example Smurfit Kappa, the dominant player in the Colombian forest sector (see Figure-15), has only 45,000 hectares of eucalyptus. The 15 largest plantation owners in the country account for more than 40 per cent of the total plantation area, and any further owners would currently have less than 2,000 hectares each.

FIG. 14 AREA OF REGISTERED PLANTATIONS BY SPECIES



Source: Pöyry and ICA register

FIG. 15 MAJOR PLANTATION OWNERS IN COLOMBIA



Source: Pöyry

PLANTATION AND MARKET OUTLOOK

As part of their National Forestry Development Plan (NFDP) from 2000, the Colombian government has a long term goal to expand the domestic forest industry by increasing the amount of forest plantations to reach 1.5 million hectares by 2025. The latest update to their NFDP was issued in 2011 where they outlined an interim goal to reach 600,000 hectares by 2014.

To back up their ambitious goal, the Colombian government is highly supportive of new investments, both through offering very favourable tax structures, as well as direct subsidies for the establishment of new plantations. The financial subsidies are termed Forest Incentive Certificates (CIF), and cover 50 per cent of a pre-determined cost for establishing and maintaining plantations up to the age of five years. For 2013 the budgeted funding for the subsidies amounted to USD 47 million.

Forest shareholders will find a favourable land market in the eastern parts of the country, where competition for land and associated prices are low (circa USD 500/ha), although it will also mean that any new plantations in those regions would be further away from the wood markets which are more concentrated in the western parts of the country. For the areas preselected by the Ministry of Agriculture as suitable for new plantation development, about one third are located in the eastern plains and two thirds are located in the more industrialised western areas in the Andes mountain region and the Caribbean coast.

During several decades Colombia has been troubled by an internal conflict between guerrillas and government forces. In the most recent times the government have increased their effort and put extra pressure on the guerrillas. Currently there are discussions about ceasefire and peace talks between the most dominant guerrilla group, FARC, and the government of Colombia. The long-lasting conflict has led to large abandoned areas, and in 2011 a programme for land restitution, extending to some 4.7 million hectares, was initialised. The restitution of such sizeable areas might show some opportunities for prospective land shareholders in the future through an increase of available land on the market. However, such opportunities will require very careful evaluation to ensure that legal and secure land tenure is obtained.

WOOD CONSUMPTION

The industrial wood harvest in Colombia was approximately 3.8 million m^3s ob in 2012, an increase of 8 per cent from 2010 levels. Compared with other countries globally, Colombia has a competitive cost structure for sourcing of roundwood.

However, the country relies on a large supply of imports to satisfy its wood pulp and wood-based panels demand. This points to an opportunity to increase domestic wood production and processing. With the expectation of a steadily growing GDP, the domestic demand for paper, wood-based panels and sawnwood is also expected to continue to increase.

Colombia has a relatively diverse wood-processing sector. The sawmilling industry is the largest consumer of roundwood, although it comprises mainly of small companies. The one exception is Industrias Forestales Doña Maria, which has a production capacity of 100,000 m^3/annum. The second largest sector is the pulp & paper industry, which consists of about 10 companies, the largest by far being Smurfit Kappa. Collectively this industry represents 3.5 per cent of the total Colombian industrial production.

The wood-based panel sector is dominated by Tablemac and Pizano. During 2012 Tablemac started up a new 132,000 m^3 /annum MDF line at its site in Barbosa, making it the largest wood-based panel producer in Colombia. The company has also started to establish new plantations (1,000 ha in 2012) to improve its fibre supply situation.

Further investments into the wood-based panel sector are expected, which will increase the need for further expansion of the industrial plantation resource in the country.

The Forest Company project in Colombia

MS Timberland project description

The MS Timberland project is located in the Andean region of Colombia, spread across three departments – Antioquia, Caldas and Tolima. Pine is traditionally grown in this area, which is the most developed forestry region in Colombia.

The MS Timberland project was The Forest Company's first investment in Colombia. It is a standing pine project in partnership with Cotopaxi, an Ecuadorian wood-based panel manufacturer. The Forest Company holds a 90 per cent stake and Cotopaxi owns the remaining 10 per cent. The project is planted with two pine species - *P. patula* and *P. maximinoii*. The harvested wood is sold to local sawmills and panel board manufacturers.

MS Timberland highlights for the year

The Company planted 280 hectares of *P. maximinoii* in the regions of Antioquia and Caldas.

The Company continues to sell wood products, both with bark and de-barked, to a number of companies in the region including 38 sawmills and two large panel board manufacturers. The Company sold a total of 122,351 m^3s ob of wood in 2013 (an increase of 30% compared with 2012) at an average of 10,196 m^3s ob per month. The bulk of wood sales came from sawlog, which represented approximately 53% of total wood sales in Colombia. The Company also sold a significant amount of pulpwood (42% of total wood sales) and some immunisation wood and post logs.

The Company went through the annual FSC audit in some farms of MS Timberland and had satisfactory results.

The Company continued to build roads to facilitate harvesting and replanting on a sustainable basis. This year alone the Company built 15 km of road, reaching a total of 231 km of constructed roads.

The Company is leasing with a buy option, an office space in the city of Medellín in a centrally located area of new real-estate developments.

MS TIMBERLAND PROJECT	
Location	Antioquia region, Colombia
Year of investment	2010
Ownership	90%
Species	Pine
End use	Saw logs / wood based panels
Total area	10,852 ha

The Company is conducting a study to assess the opportunity of developing a real-estate project in Caldas and a small-scale hydro electrical power project in Antioquia.

Outlook and conclusion

The Forest Company achieved several intermediary goals throughout the year; it successfully sold non-core assets, increased revenue, and strengthened management (solidifying team, organisation and operations). The strategy for 2014 will be to focus on four key factors: (1) improving existing assets, (2) growing those assets, (3) adding new (substantially larger) investments to the portfolio and (4) further strengthening the management team.

The Company's principles of social and environmental responsibility will continue to be the guiding values behind its approach. In doing so, The Forest Company is confident that it will be able to deliver steady and sustainable returns to its shareholders, and potentially more higher-yielding investments with the new projects the Company plans to include in the portfolio in the coming year.

Yours sincerely,

Harald Örneberg
CEO and Founder
Timber Capital Limited
9 April 2014

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 on 24 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 cent 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 special purpose vehicles ("SPV"s) 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 in which 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 Net Asset Value – as defined in the private placement memorandum)) exceeding 20 per cent 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 Timber Capital Limited ("TCL"). Under the terms of the Investment Management Agreement ("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 per cent of the Company's then Adjusted Net Asset Value (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.

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors present herewith their report and audited consolidated financial statements for the year ended 31 December 2013.

Incorporation and status

The Forest Company Limited (the "Company") is a Guernsey incorporated Company with registered number 47338. The Company, which is governed by the provisions of the Companies (Guernsey) Law, 2008, (as amended) (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 ("GFSC").

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

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 below under the report of the Management Engagement Committee on page 44.

Results and dividend

The results for the year are set out in the Consolidated Statement of Comprehensive Income on pages 56 and 57.

An interim dividend of 3 per cent (2012: 3 per cent) of the Adjusted Net Asset Value as at 31 December 2012 (USD 29 cents per share) (2012: USD 33.36 cents per share) was paid on 31 October 2013 to shareholders at the record date of 1 May 2013. The Directors do not recommend any payment of a further dividend in respect of the year ended 31 December 2012.

On 8 April 2014, the Directors declared an interim dividend of 3% of the Adjusted Net Asset Value per share as at 31 December 2013 (USD 25 cents per share), payable on 31 October 2014 to shareholders at the record date of 1 May 2014.

Going concern, new fundraising and sale of pig iron mill

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 32 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.

In November 2013 the sale of the pig iron mill assets held by Frondosa was completed for BRL 35 million (USD 16.19 million). Payment for this sale will be received over 60 months commencing in February 2014 and will be adjusted annually for inflation. The Group has also entered into an agreement with the new owners of the pig iron mill to supply them with charcoal each month on an ongoing basis.

During the year the Company closed its sixth and seventh private placements raising a further USD 54.36 million bringing the total equity raised since inception to USD 367.4 million.

The Company also agreed the terms of a loan for USD 15 million from the Metropolitan Life Insurance Company ("Metlife") with an additional line of credit of the same amount.

The term loan was drawn down on 27 November 2013 and utilised to pay off the remaining balance of the higher interest bearing Redimento bank loan.

The Board has made enquiries and examined the Group's cash forecasts for the 18 month period to 30 June 2015, including restricted cash, borrowings and covenants 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 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 OF FOREST OWNERSHIP

The Company may experience the impact of physical risks associated with forest assets such as fire, insect infestation or extreme weather. The Company's plantations are managed, or insured as appropriate, in a manner to mitigate these risks wherever possible.

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.

Ensuring clear title to land held by the Company is an important objective of the Board. 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 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 as at 31 December 2013.

CURRENCY EXPOSURE

The Company is exposed to foreign exchange risk which may impact the value of the Company's assets in the reporting currency of the Company, USD. 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.

EMERGING MARKET RISK

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. In order to mitigate these risks, 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.

TAX RISK

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 all of the Group's forestry operations have elected the Lucro Presumido tax regime. 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 tax regime is currently only available to companies with annual revenue of less than BRL 78 million.

The revenues of each Brazilian 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.

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.

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 the year 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.

VALUATION RISK

The Company's Net Asset Value and Adjusted Net Asset Value contain unquoted investments. The Company has appointed Indufor Oy ("Indufor") 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 Net Present Value ("NPV"). In compliance with International Financial Reporting Standards ("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 beta and biological asset growth models.

The discount rate that has been used by Indufor to arrive at the NPV is the Weighted Average Cost of Capital ("WACC"). In the absence of 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 that 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.

In relation to the tax risk above, Indufor have based the post-tax cashflows used in the 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.

As outlined above, 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.

END-MARKET CONCENTRATION RISK

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 2013, and reflecting on the stage at which the Group is 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.

WORKING CAPITAL

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. The Company aims to fund its current operations principally through cashflow from operations. Future working capital requirements may need to be funded through raising further capital and additional credit facilities.

Details about the risks associated with the Group's financial instruments are given in Note 32 to the consolidated financial statements.

Adjusted Net Asset Value ("NAV")

The Adjusted NAV is 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, and then adjusted 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 26.

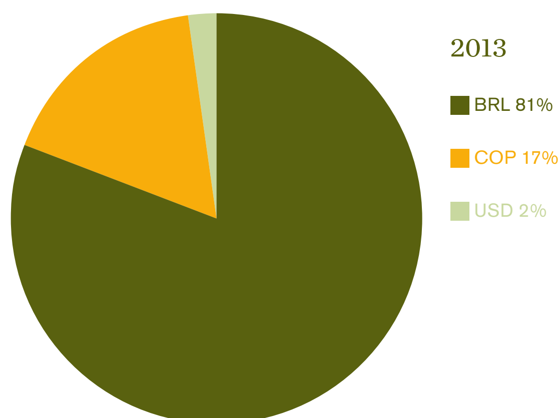
Foreign currency translation effects and exposure

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.

REPORTING DATE	CUMULATIVE CURRENCY TRANSLATION EFFECTS	IFRS NAV	% OF IFRS NAV	ADJUSTED NAV	% OF ADJUSTED NAV
	USD '000	USD '000		USD '000	
31 December 2008	(5,391)	41,839	(13%)	43,363	(12%)
31 December 2009	4,047	49,942	8%	51,690	8%
31 December 2010	7,613	185,507	4%	190,165	4%
31 December 2011	(29,616)	342,353	(9%)	360,304	(8%)
31 December 2012	(52,784)	334,177	(16%)	359,803	(15%)
31 December 2013	(94,857)	334,663	(28%)	358,447	(26%)

The cumulative impact to the Group's NAV from incorporation to 31 December 2013, was USD 94.86 million with USD 42.07 million being incurred in 2013, 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.

At 31 December the Group's net asset value breakdown in currency terms was as follows;



Directors

The Directors of the Company who served during the year and as at 31 December 2013 are shown on page 4. Biographies of the Directors holding office at 31 December 2013 and at the date of signing these consolidated financial statements are shown from page 48 to 51.

Directors' interests

The interests of the Directors in the share capital of the Company as at the date of the Annual Report are as follows:

NUMBER OF ORDINARY SHARES		
	2013	**2012**
Rainer Häggblom	44,921	43,459
Dr. Dermot Smurfit	312,500	312,500
Susan Lloyd	16,980	16,428
John Harald Örneberg	1,054,306	1,054,306
Dr. Panu Kallio	2,673	2,500
Joseph Ryan	3,100	-

In addition to the above, Rainer Häggblom has an additional 3,463 shares which were allotted in accordance with the terms of the Bonus Award Deed and are held in escrow pending the satisfaction of the Vesting Conditions.

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 Financial Statements

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and regulations.

Guernsey company 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 company 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 Companies (Guernsey) Law, 2008. 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.

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 Companies (Guernsey) Law, 2008.

Subsequent events

On 8 April 2014, the Directors declared an interim dividend of 3% of the Adjusted Net Asset Value per share as at 31 December 2013 (USD 25 cents per share), payable on 31 October 2014 to shareholders at the record date of 1 May 2014.

Corporate Governance

The Company is required to comply with the GFSC Finance Sector Code of Corporate Governance ("Guernsey Code") and has provided an assurance statement to the GFSC confirming that the Directors have considered the effectiveness of their corporate governance practices and are satisfied with their degree of compliance with the principles set out in the Guernsey Code in the context of the nature, scale and complexity of the company's business.

The Company is a member of the Association of Investment Companies (the "AIC"). The Board has considered the principles and recommendations of the AIC's Code of Corporate Governance revised in February 2013 (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide").

As the Company is not a premium UK listed company it is not required to comply with the AIC Code but it does so in respect of most matters. The Board has decided to defer a decision on whether to voluntarily adopt the AIC code to ascertain the level of financial reporting disclosures given by similar companies. The Company will consider adoption in full for the 2014 financial statements.

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 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".

"Prohibited Investments" are generally defined as 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. A "Corrupt Practice" is the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party. "Money Laundering" is generally defined as any financial transaction which generates an asset or a value as the result of an illegal act, but can include taking any action with property, of any form, which is either wholly or in part the proceeds of a crime that will disguise the fact that property is the proceeds of a crime or obscure the beneficial ownership of said property. It is the responsibility of all employees, directors and consultants to prevent either the Company or the Investment Manager from being used for money laundering, the financing of terrorist activity, fraud, or other corrupt or illegal purposes, practices and prohibited transactions to the best of their knowledge.

The Board consists solely of non-executive Directors and is chaired by Rainer Häggblom. At each annual general meeting all of the Directors who held office at the two preceding Annual General Meetings and who did not retire thereat are required to retire from office of Director as required by the Articles of Incorporation. Additionally, Harald Örneberg and Dermot Smurfit, who are not considered independent, being Directors of the Investment Manager, are subject to annual re-election by shareholders. All other Directors are considered by the Board to be independent of the Investment Manager and therefore a majority of Directors are considered to be independent.

The Nomination Committee, which comprises only of independent Directors, takes the lead in any discussions relating to the appointment or re-appointment of Directors.

In accordance with the Company's articles, Directors must stand down or offer themselves for re-election every three years. Accordingly, at the forthcoming Annual General Meeting, Susan Lloyd will be retiring by rotation and is offering herself for re-election. Dermot Smurfit and John Harald Örneberg, who retire annually as they are not considered independent, will also be retiring with Dermot Smurfit offering himself for re-election. John Harald Örneberg will not be offering himself for re-election.

The European Union Alternative Investment Fund Manager Directive ("AIFMD") came into effect in July 2013 with a 12 month implementation period. The implications for Timber Capital Limited ("TCL") (a Bermudian company) and The Forest Company (a Guernsey company) are not yet clear. Although both are non-EU domiciled companies, they continue to remain up to date with current guidance such that if necessary they can comply with the new directive when it is formally introduced into the UK and any similar directives are introduced in Guernsey.

BOARD RESPONSIBILITIES

The Board comprises six non-executive Directors. None of the Directors has a contract of service with the Company. The Company has no executive directors. However, the Board has engaged external companies to undertake the investment management, administrative and custodial 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 Directors have adopted a Schedule of Matters Reserved for the Board, which sets out the major areas in which the Board must take decisions relating to the management of the Company and which are not suitable for delegation either to a committee or to any of its service providers. The Schedule of Matters details the Board's duties, which cover the following areas of responsibility:

— the nature of the Company's business;

— statutory obligations;

— capital raising with delegation where necessary;

— strategic matters and financial reporting;

— accountability to shareholders;

— appointment of the Independent Valuer;

— risk assessment and management, including reporting, compliance, monitoring, governance and control; and,

— other matters having material effects on the Company.

A copy of the Schedule of Matters is made available to the Directors at each Board Meeting.

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. Under the Investment Management Agreement, Timber Capital Limited acts as Investment Manager to the Group to make investments in accordance with the Investment Policy, to review and monitor investments and advise the Company in relation to strategic management of the investment portfolio. The Board evaluates the performance with regards to the investment policy, noting the portfolio concentration with regards to end markets and geographical diversification, and decides in conjunction with the Investment Manager on a strategy to achieve the policy where desirable.

The Board has approved and adopted comprehensive Financial Reporting Procedures, written by the Investment Manager and updated each year, which set out the administrative procedures to be followed by the Group.

Heritage International Fund Managers Limited (the "Administrator") acts as Administrator and Company Secretary 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, CISE listing requirements, money laundering regulation and observation of the Schedule of Matters Reserved for the Board and in this respect the Board receives detailed quarterly reports.

The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that it complies with applicable rules and regulations of Guernsey Law, the GFSC and the CISE. Each Board and Committee follows a formal agenda prepared by the Company Secretary in consultation with the Chairman of the respective committee. Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance in respect of legal action against its Directors on an ongoing basis and the Company has maintained appropriate cover throughout the period.

The Directors, led by the Audit Committee, are responsible for ensuring appropriate risk management policies and procedures are in place and for overseeing the effectiveness of the internal controls and risk management of the Company and the Investment Manager. These controls are designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made and which is issued for publication is reliable and that the assets of the Company are safeguarded.

The Board meets formally on a quarterly basis to review the performance of the Company and its investments. The Board appoints service providers to the Company. The Management Engagement Committee reviews the performance of these service providers (with the exception of the Auditor and the Independent Valuer, which are matters for the Audit Committee and the Board respectively).

There may be a requirement to hold Board meetings outside the scheduled quarterly meetings in order to review and consider investment opportunities and/or formal execution of documents.

The Board has not deemed it necessary to appoint a remuneration committee as it is comprised wholly of non-executive Directors. The whole Board considers these matters.

BOARD EVALUATION

An evaluation of the performance of the Board and of the Committees, as well as individual Directors and the Chairman, is carried out annually by the Nomination

Committee, covering the following areas: Board and Committee composition and independence, meeting process, information, knowledge, skills, risk.

In December 2013, an independent consultant was appointed to carry out an extensive review, requiring completion of a questionnaire by each of the Directors, supplemented by one-on-one interviews with both Directors and service providers. The results of this exercise were considered by the Nomination Committee and presented to the Board at its meeting on 8 April 2014. The Board is considering its response to the results.

CHAIRMAN

The Chairman of the Board is Rainer Häggblom. A biography for him follows in the next section. In the annual consideration of the independence of the Chairman, the Board has taken note of Principle 1 of the AIC Code relating to independence, and has determined that Mr. Häggblom is an Independent Director. Susan Lloyd is the Senior Independent Director of the Company.

BOARD MEETINGS, COMMITTEE MEETINGS AND DIRECTORS' ATTENDANCE

The number of scheduled meetings of the full Board and the standing committees attended by each Director for the year ended 31 December 2013 is set out in the table below.

Board meetings were held in a number of locations throughout the year, including Guernsey, Miami, Amsterdam and Zurich. In addition, there were seven further meetings of the Board, or a duly appointed committee of the Board, which were held to deal with various matters between the scheduled Board meetings. Attendance at these further meetings, some of which were held by telephone, is not included in the table.

A further informal meeting of all Board members with the Investment Manager present was held solely to discuss strategic matters.

RELATIONS WITH SHAREHOLDERS

The Board is ultimately responsible for all external communication by the Company and has adopted an Information Policy that sets out arrangements to ensure the prompt, accurate, courteous, transparent and explicit communication with all shareholders and the CISE.

The Board regularly reviews the Company's share register at its formal meetings to monitor the shareholder profile. The Board welcomes correspondence from shareholders, which may be addressed to the Company's registered office. Additionally, shareholders may attend the Annual General Meeting ("AGM"), where they will have the opportunity to put questions to the Board.

Company information and the latest Company announcements are also available to the shareholders through the Company's website (www.theforestcompany.se). The website also contains the AIC Code of Corporate Governance and the terms of reference of each of the committees of the Board.

Additionally the Company communicates with shareholders through interim financial statements. The Company issues announcements, sent to shareholders, for all significant developments with the Company's projects and the Company in general. The Company and Investment Manager maintain an active dialogue on an ad hoc basis with shareholders as appropriate.

	BOARD		AUDIT COMMITTEE		MANAGEMENT ENGAGEMENT COMMITTEE		NOMINATION COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Rainer Häggblom	4	4	5	5	n/a	n/a	1	1
Dr. Dermot Smurfit	4	4	n/a	n/a	n/a	n/a	n/a	n/a
Susan Lloyd	4	4	5	5	2	2	1	1
John Harald Örneberg	4	4	n/a	n/a	n/a	n/a	n/a	n/a
Dr. Panu Kallio	4	4	n/a	n/a	2	2	1	1
Joseph Ryan	4	4	5	5	2	2	n/a	n/a

AUDIT COMMITTEE

See page 46 for the Audit Committee Report. The Audit Committee comprises Joseph Ryan (Chairman), Rainer Häggblom and Susan Lloyd and, pursuant to its terms of reference, meets at least twice a year. In practice, the Audit Committee meets five times 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.

The full Terms of Reference of the Audit Committee are published on the Company's website.

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;
- 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); and
- to review annually compliance with the relevant sections of the Financial Reporting Procedures of the Company.

The full Terms of Reference of the Management Engagement Committee are published on the Company's website.

The Committee obtains 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, 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 review in November 2013, the Management Engagement Committee concluded that the performance of Timber Capital Limited, as Investment Manager, Heritage International Fund Managers Limited, as Administrator, and Heritage Corporate Services Limited, as CISE Sponsor, was satisfactory and in accordance with the respective terms of engagement. The Committee also concluded that, following its review of the relevant sections of the Financial Reporting Procedures, the procedures were appropriate for the Company in scope and content and accordingly recommended the Financial Reporting Procedures to the Board for adoption.

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 per cent 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 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 2013.

NOMINATION COMMITTEE

The Nomination Committee is responsible for reviewing annually the appointment and performance of the Directors, in compliance with the AIC principles, to ensure that the Board comprises an appropriate balance of skills, experience, length of service and knowledge of the Company. The Nomination Committee comprises Susan Lloyd, the Senior Independent Director who is the Committee's Chairman, Rainer Häggblom, and Panu Kallio. The Nomination Committee shall meet at least once a year.

The main functions of the Nomination 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.

The full Terms of Reference of the Nomination Committee are published on the Company's website.

The Board does not believe that it is appropriate to have a maximum term of appointment for Directors as it considers that it is important to maintain a balance of length of service amongst Directors. However, Directors who have served for more than nine years since first election shall be subject to annual re-election by shareholders.

Independent auditor

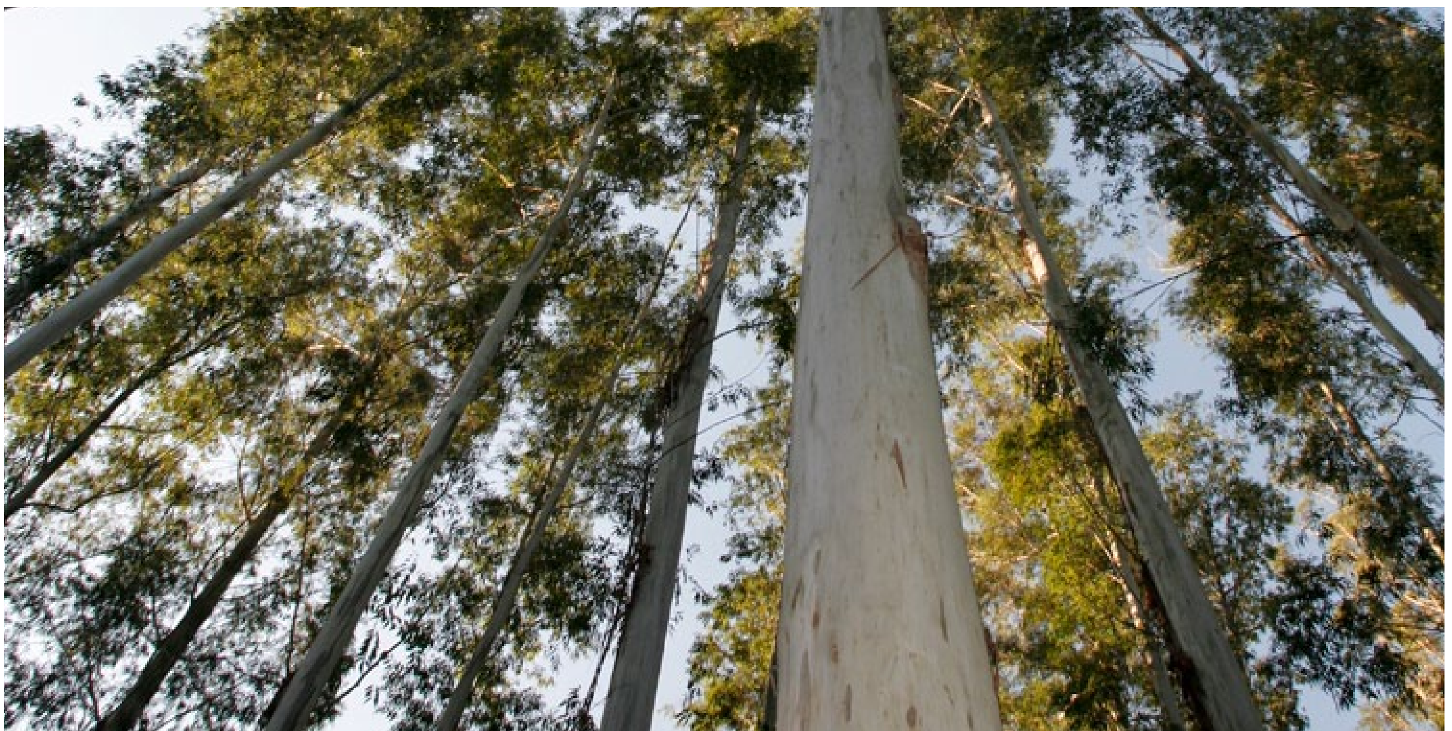
Deloitte LLP have agreed to offer themselves for re-appointment as auditor of the Company and resolutions proposing their re-appointment and authorising the Directors to determine their remuneration will be presented at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at 10 am on 4 June 2014 at Lefebvre Place, Lefebvre Street, St. Peter Port, Guernsey.

On behalf of the board:

Joseph E Ryan FCA
Director
9 April 2014



Audit Committee Report

Members

The members of the Audit Committee, all of whom are independent non-executive directors, are Joseph Ryan (Chairman), Susan Lloyd and Rainer Häggblom.

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 48 to 51 for biographical details of the current Audit Committee members.

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 Audit Committee is responsible for:

— 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 and cash flow 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 make recommendations on the steps to be taken.

Meetings

The Audit Committee shall meet not less than twice a year and at such other times as the Audit Committee Chairman shall require. The Audit Committee actually met on five occasions during the year and the Chief Financial Officer of the Investment Manager was in attendance at three of those meetings. They were in attendance by telephone at the two meetings they could not physically attend. The Auditor, Independent Valuer and third parties 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.

Specifically, the committee considered the following matters during the course of the year;

— The 2012 Audited Annual Report and accounts and the 30 June 2013 Interim Report;

— Detailed cash flow forecasts

— Auditor findings reports and emphasis of matter paragraphs for the aforementioned reports;

— The independent valuer's feedback and reports;

— The tax adviser's report;

— The Group accounting policies;

— Consideration and agreement of the terms of reference of the Audit Committee for approval by the Board;

— Extent of compliance with AIC Code of Corporate Governance; and,

— Reappointment, remuneration and engagement letter of the external auditors.

External audit

Having determined during the previous year 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 and remained satisfied that the auditors provide effective independent challenge to the Board and to the Investment Manager. The committee will continue to monitor the performance of the external auditors on an annual basis and will consider their independence and objectivity, taking account of appropriate guidelines.

The external auditors are required to rotate the audit partner responsible for the Group audit every five years and the previous five year period ended after the 2012 year end audit was completed. A new lead audit partner took over the role with effect from the 2013 interim review and continued in role for the 2013 year end audit. In October he went to Brazil and visited many of the Group's projects.

During the year the 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, and taxation liabilities as the key areas of risk of mis-statement in the Group's financial statements.

The committee discussed these issues with the auditors at the November meeting 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 obtaining reports from two independent specialists 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 consideration of the Company's going concern status, but 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; and

— Brazilian tax system and the impact on the fair value of biological assets and associated deferred tax provisions.

— Notional land lease charge included in the valuation of biological assets

The outcome of these discussions has been that the Auditor has removed their references to the tax matters and the fair value of biological and land assets in their report. In addition paragraph k (iii) in Note 3, Accounting policies, has been expanded to include reference to the Group's accounting policy for the notional land lease charge.

Training

The committee receives regular technical updates and specific personal training is available if required. During the year Joseph Ryan accompanied the new audit partner to Brazil where they visited several of the Group's forest assets and met the Investment Manager's newly appointed Chief Financial Officer.

Internal audit

The Audit Committee shall consider 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.

Audit Committee Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor.

On behalf of the Audit Committee

Joseph E Ryan FCA
Chairman of the Audit Committee
9 April 2014

Directors

Rainer Häggblom

CHAIRMAN AND
NON-EXECUTIVE DIRECTOR

Rainer Häggblom (aged 57) has participated in strategy and investment planning and M&A assignments covering more than 50 countries and for a wide variety of companies in the forestry sector and forestry related industries. Mr. Häggblom joined the Jaakko Pöyry Group at the start of his career. He was then appointed Vice President of Corporate Investment Planning followed by Chief Operating Officer of the Consulting Division and was then President and subsequently Chairman and CEO of Jaakko Pöyry Consulting Oy which later changed its name to Pöyry Forest Industry Consulting Oy. In 2008, he left Pöyry in order to establish his own independent advisory company Häggblom & Partners.

Mr. Häggblom has participated in a number of international conferences, and published numerous articles on forestry and forest industry issues. He has also chaired several international forestry, pulp and paper and business management conferences. Mr. Häggblom graduated from the University of Helsinki and Aalto University.

Dr. Dermot Smurfit

NON-EXECUTIVE DIRECTOR OF THE COMPANY AND
CHAIRMAN OF THE INVESTMENT MANAGER

Dr. Dermot Smurfit (aged 69) has over 40 years of experience in the paper and packaging sector being formerly the joint deputy chairman of Jefferson Smurfit Group PLC. Dr. Smurfit is the chairman of Powerflute Oyj, a semi-chemical paper mill making product for the corrugated box industry, which is based in Finland and is listed on AIM. Dr. Smurfit is also the chairman of Eurolink Motorway Services Ltd, a toll road operator in Ireland and ex-chairman of Cosmo Specialty Products Inc, a manufacturer of dissolving pulp products based in Washington State USA. He is also the former non-executive chairman on the board of Peach Holdings Inc., a U.S. specialty finance company which was listed on AIM and was subsequently acquired by a subsidiary of DLJ Merchant Banking and the former chairman of Anker PLC, an electronic point-of-sale company which was listed on AIM and subsequently sold to a competitor. He is the former chairman of Pankaboard, a privately owned Finnish manufacturer of paper board products as well as a former non-executive director of Ace Limited, a Swiss based multiline insurance company quoted on the NYSE. He was formerly chairman of FEFCO (the European body coving 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 Program. Dr. Smurfit became an honorary Doctor of Business Administration for the International Management Centres in 1998.

Susan Lloyd

NON-EXECUTIVE DIRECTOR
AND SENIOR INDEPENDENT DIRECTOR

Susan Lloyd (aged 72) has 30 years' experience in the private equity industry, initially as Managing Director of the European arm of Venture Economics, which at the time was the leading U.S. provider of information on the venture capital industry, and latterly as an independent placement agent for private equity funds, assisting in the placing of more than 10 funds with total committed capital in excess of GBP 1.5 billion. Previously, she was Director of Investor Relations at Schroder Ventures where she was directly involved in raising GBP 2.5 billion for 13 buyout and venture funds and was part of the team that listed Schroder Ventures International Investment Trust plc (now SVG Capital plc) on the London Stock Exchange. Ms Lloyd is also a previous member of the Board of the European Venture Capital Association (EVCA). Since moving to Guernsey in 1999, Ms Lloyd has served as non-executive director of a number of Channel Island-based funds and companies.

Ms Lloyd holds an honours degree in Physics from Oxford University and is a Sloan Fellow of the London Business School.

John Harald Örneberg

NON-EXECUTIVE DIRECTOR OF THE COMPANY,
DIRECTOR AND CEO OF THE INVESTMENT MANAGER

John Harald Örneberg (aged 51) has been a principal and a shareholder of the Investment Manager since founding the firm in June 2007. Prior to forming the Investment Manager, Mr. Örneberg was the Founder and CEO of ORN Capital. Mr. Örneberg was previously the manager of the ORN Event Fund and the ORN Multi-Strategy Fund. Prior to forming ORN Capital, Mr. Örneberg served as Vice President in the Merger Arbitrage group of Salomon Smith Barney. Prior to that, he was an investment manager at Industri Kapital (originally Enskilda Ventures, a division of SEB). Prior to that, Mr. Örneberg worked in the Mergers and Acquisitions group of Enskilda Securities, also a division of SEB. Prior to that, Mr. Örneberg was a Financial Analyst in the investment banking division at Salomon Brothers.

Mr. Örneberg holds an MBA from The Amos Tuck School of Business at Dartmouth College and a B.Sc. in Monetary Economics from the London School of Economics. Mr. Örneberg has extensive experience in the Swedish forest industry, where he has managed forestry assets for the past 20 years.

Dr. Panu Kallio

NON-EXECUTIVE DIRECTOR

Dr. Panu Kallio (aged 49) 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. Prior to that, Dr. Kallio was a research director at the Pellervo Economic Research Institute. The institute conducts applied economic research on general economics, agricultural and food economics, and forestry. Dr. Kallio gained a strong understanding of European and global agricultural and food sectors through his responsibility for all food and agricultural research, in addition to the operative and financing aspects of the research work.

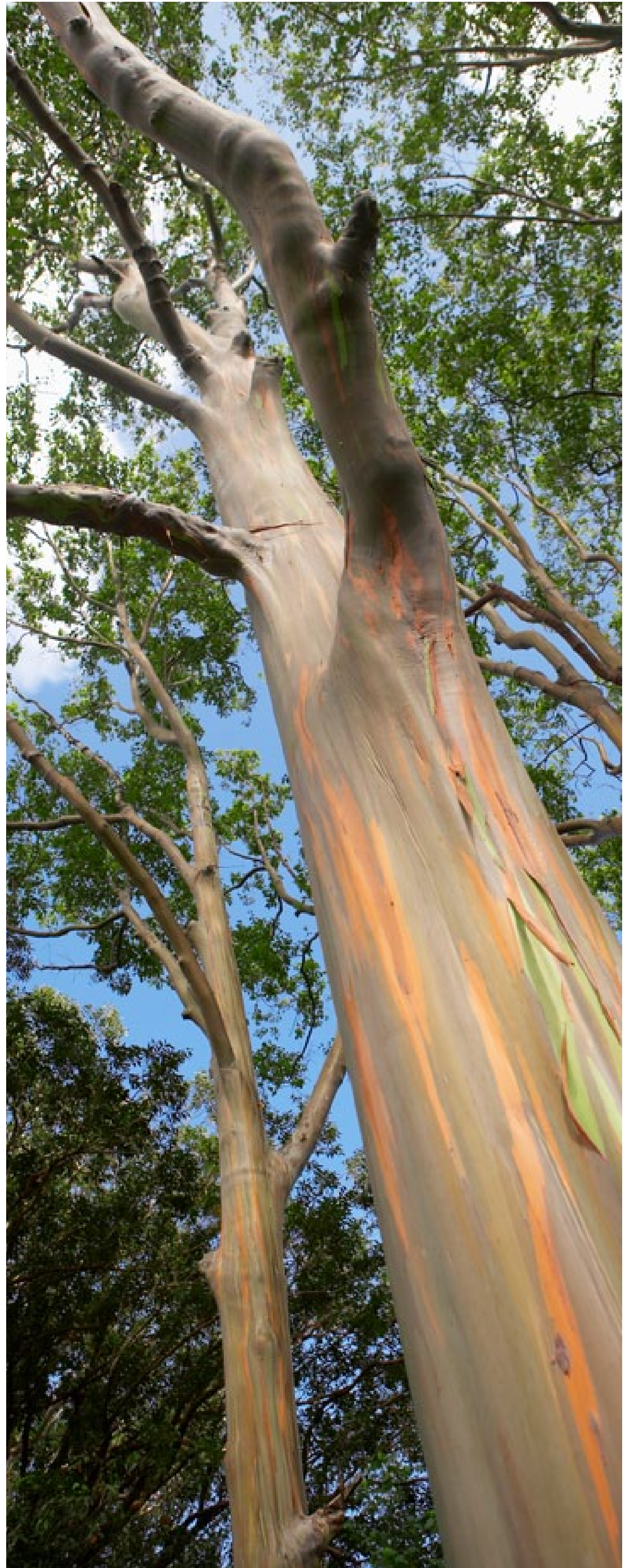
Dr. Kallio remains a director of the Pellervo Economic Research Institute, the Foundation for European Forest Research and the Kaisa Kallio Foundation. He is also a member of the Central Committee of the International Confederation of Agricultural Credit as well as a permanent expert of the Board of the Development Fund of Agriculture and Forestry in Finland. His prior directorships include the Taxpayers' Association of Finland and he has lectured at the University of Helsinki on international trade and game theory.

Joseph Ryan

NON-EXECUTIVE DIRECTOR

Joseph Ryan (aged 62) has thirty five years' experience as a Chartered Accountant 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 with clients such as Hewlett Packard, General Electric, Microsoft, Tesco, Technicolor, Smith & Nephew and Tetra Laval. He has worked on transactions in over 30 countries and has gained extensive experience in UK, USA and International Accounting Standards. During his career with PricewaterhouseCoopers, Joseph was the partner in charge of an audit division for six years and the partner in charge of the Corporate Finance (Transaction Services) Division for Corporate deals for seven years, where he gained a broad range of general management experience in addition to his detailed financial knowledge. Before retiring from the firm, he helped to develop the deals services across its European practice. He is a non-executive director of Muntons plc and a non–executive director/member of the audit committees of several sports related organisations such as Badminton England, Commonwealth Games England and UK Sport.

Mr. Ryan is a qualified Chartered Accountant and has completed the Senior Executive Programme and the Continuing Executive Programme at London Business School in addition to attending several industry related programmes specifically designed by London Business School for partners in PricewaterhouseCoopers.



In addition to their directorships of the Company, the Directors currently hold the following directorships;

Rainer Häggblom — Dovre Oyj, Häggblom & Partners Ltd Oy, Linnunmaa Oy, Prime Energy Power Ltd

Dr. Dermot Smurfit — Birimi Limited, Cosmo Speciality Fibres Inc, Eurolink Motorway Services Ltd, ML Capital Limited, Powerflute Oy, Timber Capital Limited

Susan Lloyd — VenCap 10 Euro Limited, VenCap 10 US Limited, VenCap 12 Limited

John Harald Örneberg — Timber Capital Limited, Varpland H.F

Dr. Panu Kallio — The Kaisa Kallio Foundation, The Pellervo Economic Research Institute, The Foundation for European Forest Research, The Latokartano Foundation

Joseph Ryan — Muntons Plc , Badminton England Commonwealth Games England

Independent Auditor's Report

TO THE MEMBERS OF THE FOREST COMPANY LIMITED

We have audited the consolidated financial statements of The Forest Company Limited (the "Company") for the year ended 31 December 2013 which 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 35 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 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.

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.

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 and Company'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 of inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

— give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of its loss for the year then ended;

— have been properly prepared in accordance with IFRSs as adopted by the European Union; and

— have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

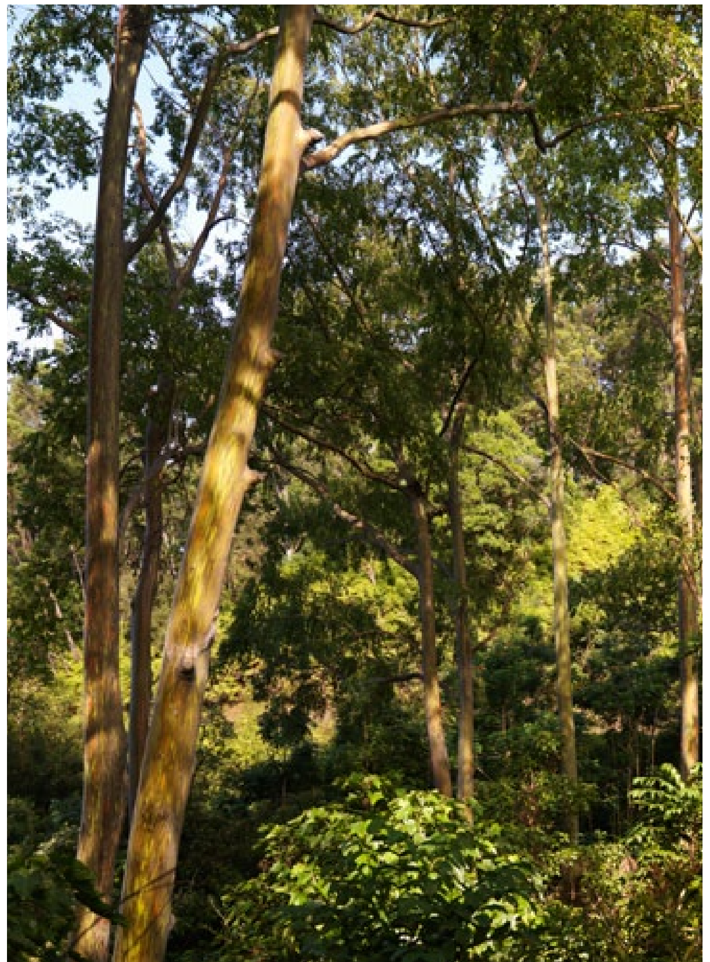
We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

— proper accounting records have not been kept; or

— the financial statements are not in agreement with the accounting records; or

— we have not received all the information and explanations we require for our audit.

Deloitte LLP
Chartered Accountants
St Peter Port, Guernsey
9 April 2014



Note: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes have occurred to the financial information since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in Guernsey governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Consolidated statement of financial position

AS AT 31 DECEMBER 2013

	NOTES	2013	2012
		USD'000	**USD'000**
ASSETS			
Non-current assets			
Forest assets			
— Land	*10*	124,579	116,393
— Biological assets	*10*	179,278	217,475
Investment property	*11*	7,630	9,918
Property, plant and equipment	*12*	3,354	689
Investment in associates	*13*	2,298	2,194
Other non-current assets	*14*	11,868	-
Deferred tax asset	*21*	263	396
Total non-current assets		**329,270**	**347,065**
Current assets			
Non-current assets held for sale	*15*	-	14,529
Inventory	*17*	2,327	4,350
Trade and other receivables	*18*	8,220	4,578
Cash and cash equivalents			
— Restricted	*19*	7,906	17,835
— Unrestricted	*19*	26,838	5,856
Total current assets		**45,291**	**47,148**
TOTAL ASSETS		**374,561**	**394,213**
LIABILITIES			
Non-current liabilities			
Interest bearing borrowings	*20*	(15,260)	(8,605)
Deferred tax liability	*21*	(10,160)	(10,215)
Other long term liability	*22*	(6,046)	(11,157)
Total non-current liabilities		**(31,466)**	**(29,977)**
Current liabilities			
Interest bearing borrowings	*20*	(881)	(9,329)
Trade and other payables	*23*	(6,713)	(20,040)
Provisions	*24*	(838)	(690)
Total current liabilities		**(8,432)**	**(30,059)**
TOTAL LIABILITIES		**(39,898)**	**(60,036)**
NET ASSETS		**334,663**	**334,177**

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

	NOTES	2013	2012
		USD'000	**USD'000**
EQUITY			
Share capital	*27*	320,178	276,714
Revaluation reserve		77,694	54,729
Foreign currency translation reserve		(94,857)	(52,784)
Accumulated profit		**31,648**	**55,518**
Equity attributable to holders of redeemable Ordinary and Class A Ordinary Shares		**334,663**	**334,177**
Number of redeemable Ordinary Shares in issue at year end	*27*	18,885,736	12,933,193
Number of redeemable Class A Ordinary Shares in issue at year end	*27*	24,201,802	24,191,383
		43,087,538	**37,124,576**
Net asset value per redeemable Ordinary and Class A Ordinary Share	***26***	**$7.77**	**$9.00**

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

The consolidated financial statements were approved by the Board of Directors on 8 April 2014 and signed on their behalf by:

Joseph E Ryan FCA
Director
9 April 2014

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	2013	2012
		USD'000	USD'000
Continuing operations			
Revenue	*5*	29,231	21,210
Cost of Sales	*5*	(23,755)	(12,444)
Gross profit		**5,476**	**8,766**
Depletion	*5*	(9,636)	(7,286)
		(4,160)	**1,480**
Unrealised gain/(loss) on biological assets	*10*	222	(5,488)
Realised gain on disposal of planted land	*10*	-	266
Unrealised loss on planted land	*10*	(301)	-
Unrealised gain on investment property	*11*	-	238
Realised gain on financial receivable at fair value through profit or loss	*16*	-	362
Profit on disposal of property, plant and equipment		14	-
		(4,225)	**(3,142)**
Operating expenses			
Administrative expenses	*6*	13,813	13,550
Forestry operating expenses	*7*	5,890	6,320
Revaluation of property, plant and equipment	*12*	-	3,170
Total operating expenses		**19,703**	**23,040**
Operating loss		**(23,928)**	**(26,182)**
Interest income on bank deposits		3,951	984
Interest expense - bank borrowings	*20*	(4,952)	(5,495)
Interest expense - other	*31*	(232)	(495)
Share of income from associate	*13*	118	21
Loss before tax		**(25,043)**	**(31,167)**
Taxation	*8*	(2,536)	(326)
Loss for the year from continuing operations		**(27,579)**	**(31,493)**
Profit for the year from discontinued operations	*15*	3,709	-
Loss for the year		**(23,870)**	**(31,493)**

	NOTES	2013	2012
		USD'000	**USD'000**
Loss attributable to			
Holders of redeemable Ordinary Shares and Class A Ordinary Shares		**(23,870)**	**(31,493)**
Earnings per share - Basic and Diluted (US cents)			
From continuing operations	*28*	(67.83)	(87.73)
From discontinued operations	*28*	9.12	-
		(58.71)	**(87.73)**

Consolidated statement of other comprehensive income	NOTES	2013	2012
		USD'000	**USD'000**
Loss for the year		**(23,870)**	**(31,493)**
Other comprehensive loss net of income tax **Items that may be reclassified subsequently to profit or loss**			
Foreign currency translation differences		(42,073)	(23,168)
Deferred tax effect on other comprehensive income	*21*	(305)	(927)
		(42,378)	**(24,095)**
Items that will not be reclassified subsequently to profit or loss			
Revaluation of planted land	*10*	23,270	19,684
Revaluation of property, plant and equipment	*12*	-	(2,379)
		23,270	**17,305**
Other comprehensive loss for the year		**(19,108)**	**(6,790)**
Total comprehensive loss for the year		**(42,978)**	**(38,283)**
Loss attributable to:			
Holders of redeemable Ordinary Shares and Class A Ordinary Shares		**(42,978)**	**(38,283)**

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

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2013

2013	NOTES	SHARE CAPITAL	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED PROFIT	TOTAL
		USD'000	**USD'000**	**USD'000**	**USD'000**	**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)
Revaluation of planted land	*10*	-	23,270	-	-	23,270
Deferred tax effect on other comprehensive income	*21*	-	(305)	-	-	(305)
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	*29*	(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.

2012	NOTES	SHARE CAPITAL	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED PROFIT	TOTAL
		USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**
As at 1 January 2012		**246,607**	**39,093**	**(29,616)**	**86,269**	**342,353**
Total comprehensive loss						
Loss for the year		-	-	-	(31,493)	(31,493)
Other comprehensive loss						
Currency translation loss		-	-	(23,168)	-	(23,168)
Reclassification of realised revaluation reserve			(742)	-	742	-
Revaluation of planted land	*10*	-	19,684	-	-	19,684
Revaluation of property, plant and equipment	*12*	-	(2,379)	-	-	(2,379)
Deferred tax effect on other comprehensive income	*21*	-	(927)	-	-	(927)
Total comprehensive loss		**-**	**15,636**	**(23,168)**	**(30,751)**	**(38,283)**
Transactions with owners						
Shares issued		43,018	-	-	-	43,018
Issue costs		(841)	-	-	-	(841)
Dividends paid	*29*	(12,070)	-	-	-	(12,070)
Total transactions with owners		**30,107**		**-**	**-**	**30,107**
As at 31 December 2012		**276,714**	**54,729**	**(52,784)**	**55,518**	**334,177**

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

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	2013	2012
		USD'000	USD'000
Cash flows from operating activities			
Loss for the year		(23,870)	(31,493)
Adjustments for:			
Original biological asset cost on sales	*5*	7,587	3,850
Depletion	*5*	9,636	7,286
Unrealised loss on investment property		-	(238)
Unrealised (gain)/loss on biological assets		(222)	5,488
Realised gain on financial receivable at fair value through profit or loss		-	(362)
Realised gain on disposal of planted land		(14)	(266)
Revaluation of property, plant and equipment		-	3,170
Depreciation		146	73
Taxation		2,536	326
Decrease in inventory		319	1,403
Increase in trade receivables		(3,642)	(1,398)
Decrease in trade payables		(10,919)	(12,176)
Cash flow from operating activities		**(18,443)**	**(24,337)**
Tax paid		(1,300)	(1,260)
Net cash from operating activities*		**(19,743)**	**(25,597)**

**Net cash from operating activities includes USD 3,951,000 (2012: USD 874,000) interest received on cash balances.*
The accompanying notes form an integral part of these consolidated financial statements.

	NOTES	2013	2012
		USD'000	**USD'000**
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,913)	(624)
Purchase of investment property		(62)	(4,279)
Purchase of forest assets		(4,986)	(7,786)
Purchase of investment in associate	*13*	-	(2,173)
Proceeds from repayment of financial receivable at fair value through profit or loss	*16*	-	7,889
Proceeds from sale of planted land		-	2,533
Planted land and biological assets costs capitalised		(2,367)	(12,714)
Net cash used in investing activities		**(11,328)**	**(17,154)**
Cash flow from financing activities			
Proceeds from issue of shares		54,365	38,378
Issue costs paid		(1,546)	(841)
Fundraising costs paid		-	-
Proceeds from interest bearing borrowings		16,141	1,068
Repayment of interest bearing borrowings		(16,171)	(8,279)
Dividends paid	*29*	(9,355)	(7,430)
Net cash from financing activities		**43,434**	**22,896**
Net increase / (decrease) in cash and cash equivalents during the year		12,363	(19,855)
Cash and cash equivalents at the beginning of the year		23,691	39,506
Effects of changes in foreign currency		(1,310)	4,040
Cash and cash equivalents at the end of the year	*19*	**34,744**	**23,691**

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2013

1. General information

The Forest Company Limited (the "Company") is a Guernsey incorporated closed-ended investment company with an infinite life. The investment objective of the Company and its subsidiaries (together the "Group") 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.

The assets of the Group are managed by Timber Capital Limited (the "Investment Manager") 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

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("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 and had been endorsed by the EU unless otherwise stated, but were not yet effective.

IFRS 9, "Financial instruments" — which is yet to be endorsed by the EU (to be decided);

IFRS 10, "Consolidated financial statements" — (effective 1 January 2014);

IFRS 11, "Joint Arrangement" — (effective 1 January 2014);

IFRS 12, "Disclosures of interests in other entities" — (effective 1 January 2014);

IFRS 7 Amendment: "Financial instruments: Disclosures" — (effective 1 January 2015);

IAS 27 (Revised) "Separate Financial Statements" — (effective 1 January 2014);

IAS 32 (Revised) "Separate Financial Statements" — (effective 1 January 2014);

IAS 36 (Revised) "Impairment of assets" — (effective 1 January 2014);

IAS 39 (Revised) "Financial Instruments: Recognition and Measurement" — (effective 1 January 2014);

IFRS 10, IFRS 12, IAS 27 and IAS 32 amendments relating to investment entities — (effective 1 January 2014).

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 2014 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.

IFRS 10 — establishes a single control model that applies to all entities. This change will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. IFRS 10 also requires mandatory non-consolidation to investment entities and fair valuing of investments and subsidiaries which may have a significant impact on the Group's financial statements. The Group is currently assessing the full impact of this standard.

International Financial Reporting Standards ("IFRS") not yet adopted:

IFRS 11 — will impact the accounting and disclosure of interests the Company holds in joint arrangements. In particular the Company's current MS Timberland Holdings joint arrangement will no longer be eligible for line by line proportionate consolidation but rather will be accounted for using the equity method as it will be 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 Group's share of MS Timberland Holdings

net loss and net assets for 2013 were USD 1.9 million and USD 49.3 million (2012: USD 11.3 million and USD 55.3 million) respectively. The Aimara joint arrangement will be classified as a joint operation and will continue to be eligible for the proportionate consolidation method as the terms of the agreement with Klabin gives both parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

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.

ADOPTION OF NEW AND REVISED STANDARDS

During the year the Group adopted all new and revised IFRS and International Accounting Standards (IAS) that are relevant to its operations and those which were also endorsed by the European Union for accounting periods ending on 31 December 2013. The material impact of the adoption of the new accounting standards are as follows:

IFRS 13 — impacts the fair value measurement and disclosure of the Groups assets held at fair value. Additional disclosures with regards to the sensitivity analysis on the significant inputs to the Group's forest assets and investment property valuations have been included in Notes 10 and 11.

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 International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are presented in United States Dollars ("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 32 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.

In November 2013 the sale of the pig iron mill assets held by Frondosa was completed for BRL 35 million (USD 16.19 million). Payment for this sale will be received over 60 months commencing in February 2014 and will be adjusted annually for inflation. The Group has also entered into an agreement with the new owners of the pig iron mill to supply them with charcoal each month on an ongoing basis.

During the year the Company closed its sixth and seventh private placements raising a further USD 54.36 million bringing the total equity raised since inception to USD 367.4 million.

The Company also agreed the terms of a loan for USD 15 million from the Metropolitan Life Insurance Company ("Metlife") with an additional line of credit of the same amount. The term loan was drawn down on 27 November 2013 and utilised to pay off the remaining balance of the higher interest bearing Redimento bank loan.

The Board has made enquiries and examined the Group's cash forecasts for the 18 month period to 30 June 2015, including restricted cash, borrowings and covenants 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 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.

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 the Group's proportionate share of jointly controlled entities' assets, liabilities, income and expenditure on a line by line basis from the date on which joint control commences to the date on which joint control ceases.

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, subsequent planting and maintenance costs 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. DEBT FACTORING

During the prior year the Group entered into a debt factoring agreement for invoices relating to a three year timber sales contract from its Colombian operations. As part of this agreement the Group received an advance on the sales contract from the factoring agent which were to be repaid by settlement of the timber invoices over a period of 34 months. The Group repaid the advance received on 23 October 2013.

Revenue relating to the related invoices was recognised in accordance with the Group's revenue accounting policy whilst the advance received was classified as an interest bearing borrowing and accounted for in accordance with the Group's policy on interest bearing borrowings.

G. 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.

H. 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 United States Dollars ("USD"), which is the functional currency of the Company, and the presentational currency for the consolidated financial statements.

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 in table 3.

I. 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.

J. INVESTMENT 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

TABLE 3 — RATES	JAN–DEC 2013		JAN–DEC 2012	
CURRENCY	CLOSING RATE	AVERAGE RATE	CLOSING RATE	AVERAGE RATE
Brazilian Reals (BRL)	2.3621	2.1612	2.0516	1.9552
Sterling (GBP)	0.6036	n/a	0.637	n/a
Colombian Pesos (COP)	1,929.51	1,869.31	1,767.0	1,797.1

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.

K. 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

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 and is recorded in the revaluation reserve (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. 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.

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 weighted average cost of capital ("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 estimated market rental yields at the later of the time of establishing the plantations or 30 June 2011 and subsequently adjusted for inflation for the period to the end of the second rotation for eucalyptus and for the period to the end of the first rotation for pine. 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 of 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.

L. 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; 5 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.

M. 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.

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 uses 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 twelve 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 *Fair value through profit or loss* — This category comprises only the financial receivable related to forestry assets for which the Group is not exposed to the risk of movement in variables affecting the fair value of those assets, but rather subject to a set return per annum. The financial receivable has been designated at fair value through profit and loss to eliminate the measurement inconsistency which would otherwise occur, as the Company evaluates the project on a fair value basis.

The fair value of the financial receivable is based on a valuation performed by an independent third party expert.

The financial receivable is initially recognised at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statement of comprehensive income, as gain or loss on financial receivable at fair value through profit and loss.

iv *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.

N. INTEREST BEARING BORROWINGS

Borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income within interest expenses over the period of the borrowings on an effective interest basis.

O. 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.

P. 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.

Q. 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.

R. 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 and 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.

S. DERIVATIVE FINANCIAL INSTRUMENTS

The Group may use foreign forward exchange contracts to manage its currency risk. The Group does not hold or issue derivatives for trading or speculative purposes.

All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently re-measured at fair value. The gains or losses on derivatives, which are not designated as a hedging instrument, are recognised in the consolidated statement of comprehensive income immediately.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instruments is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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.

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 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 Oy ("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. 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.

Further progress has been made in 2013 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.

KEY SOURCES OF ESTIMATION UNCERTAINTIES

Changes in exchange rates can impact the financial results as the Company has operations and assets in jurisdictions which use currencies other than the United States Dollar ("USD"). The Company's exposure to these risks and other financial risks is analysed in Note 32.

The Company is also exposed to the risk of fluctuations in the value of investment properties, and plant held at fair value – these are detailed in Note 11 and 12.

5. Revenue, Cost of sales and Depletion

TABLE 5

2013	HARVESTED TIMBER	STANDING TREES	CHARCOAL	LEASE INCOME	TOTAL
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Sales	7,603	5,700	15,928	-	29,231
Cost of sales					
Original biological asset cost	(2,135)	(2,913)	(2,539)	-	(7,587)
Variable cost	(3,354)	(166)	(12,648)	-	(16,168)
	(5,489)	**(3,079)**	**(15,187)**	**-**	**(23,755)**
Gross profit	**2,114**	**2,621**	**741**	**-**	**5,476**
Depletion	(2,016)	(2,708)	(4,912)	-	(9,636)
	98	**(87)**	**(4,171)**	**-**	**(4,160)**

2012	HARVESTED TIMBER	STANDING TREES	CHARCOAL	LEASE INCOME	TOTAL
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Sales	6,538	1,322	11,739	1,611	21,210
Cost of sales					
Original biological asset cost	(1,537)	(762)	(1,551)		(3,850)
Variable cost	(3,222)	(98)	(5,274)	-	(8,594)
	(4,759)	**(860)**	**(6,825)**	**-**	**(12,444)**
Gross profit	**1,779**	**462**	**4,914**	**1,611**	**8,766**
Depletion	(3,337)	(398)	(3,551)	-	(7,286)
	(1,558)	**64**	**1,363**	**1,611**	**1,480**

[See note 3 D for policy regarding depletion].

6. Administrative expenses

TABLE 6	2013	2012
	USD'000	**USD'000**
Investment Management fees (Note 9)	5,653	5,665
Legal and professional fees	3,416	3,364
Travel expenses	1,081	1,126
Audit fees	727	1,022
Administration fees (Note 9)	1,490	997
Consultancy Fees	737	731
Directors fees and expenses	552	447
Bank charges	157	198
	13,813	**13,550**

7. Forestry operating expenses

TABLE 7	2013	2012
	USD'000	**USD'000**
Project facilities	732	901
Payroll	1,278	1,139
Forestry services	1,070	1,075
Land leasing	602	806
Irrecoverable tax inputs	637	1,168
Insurance	606	569
Valuation fees	185	410
Other general expenses	780	252
	5,890	**6,320**

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 £600. Guidance notes issued by the States of Guernsey indicate that the Company should not be subject to the EU Savings Tax Directive.

BVI TAXATION

Subsidiaries incorporated in the British Virgin Islands are tax exempt.

US TAXATION

All Corporate entities incorporated in Delaware are all Delaware Limited Liability Companies ("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 the Presumed Profit regime ("Lucro Presumido") and the Actual Profit regime ("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.

Presumed Profit Regime ("Lucro Presumido") — The Presumed Profit regime is limited to companies with annual revenue/sales of up to R$ 48 million (Approximately USD 21 million). From 1 January 2014, the limit will increase to R$ 78 million. 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 under this regime.

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 corporate income tax (IRPJ) and 12% for social contribution on net profits (CSLL). The rates for lessors of property, plant and equipment ("PPE") are 32% for both IRPJ and CSLL.

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, in a monthly basis. Under the Presumed Profit Regime, 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.

IRPJ — 15% levied on the total tax basis;

IRPJ Surtax — 10% levied on the total tax basis over R$ 60,000 per quarter;

CSLL — 9% levied on the total tax basis.

PIS/COFINS — 3.65% on the gross operating revenues.

Effective tax rate — 6.73% of revenue

Actual Profit Regime ("Lucro Real") — Under the Actual Profit regime, taxable income is defined by the net accounting profit, adjusted for non-deductible expenses, non-taxable revenues, or deferred taxation adjustments.

Taxpayers using the Actual Profit regime 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 the Actual Profit regime 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 Actual Profit regime are the same as for the Lucro Presumido regime.

Under the Actual Profit Regime, 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.

Once the tax basis has been calculated, taxes owed will be derived by applying the following rates:

IRPJ — 15% levied on taxable income;

IRPJ Surtax — 10% levied on the taxable income in excess of R$ 240,000 per annum (or R$ 60,000 per quarter or R$ 20,000 per month);

CSLL — 9% levied on taxable income.

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)

For the year ended 31 December 2013, all of the Company's Brazilian subsidiaries elected to be taxed under the Lucro Presumido regime. A sensitivity analysis on the effect on the forest assets of the two tax regimes is included in Note 10.

For the year ending 31 December 2014 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 2 years or carried forward against the following 5 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's tax charge for the year comprises:

TABLE 8.1	2013	2012
	USD'000	USD'000
Current tax		
Brazil	1,276	1,093
Colombia	88	127
	1,364	**1,220**
Deferred tax		
Brazil	(120)	(234)
Colombia	1,292	(660)
	1,172	**(894)**
	2,536	**326**

Factors affecting the tax charge are as follows;

TABLE 8.2	2013	2012
	USD'000	USD'000
Loss before tax	(25,043)	(31,166)
Tax charge on Brazilian and Colombian subsidiaries	2,536	326
Factors affecting charge		
Credits due to change in tax regime	-	-
Credits due to prior year adjustments	-	-
Tax charge	**2,536**	**326**

Deferred tax on revaluation of planted land in the amount of USD 305,000 (2012: USD 927,000) has been charged to the revaluation reserve – see Note 21.

The provisions for deferred tax on biological and land assets in Brazil assume that the Lucro Presumido tax system 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, Performance 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 26) (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 ("Current Adjusted NAV"). When an updated Net Asset Value is published ("Updated Adjusted NAV") 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 2013, the Company incurred investment management fees of USD 5,653,000 (2012: USD 5,665,000), all of which had been paid at the end of the year.

PERFORMANCE FEE

The Investment Manager is entitled to receive a performance fee in respect of each Performance Period (as defined below). This will be an amount equal to 20% of the amount (if any) by which the Group's Adjusted Net Asset Value per Share at the end of the Performance Period exceeds the higher of (i) the Adjusted Net Asset Value per Share on the calculation date for the immediately preceding Performance Period, or (ii) the Adjusted Net Asset Value per Share on the calculation date for the previous Performance Period in relation to which a performance fee was paid, in each case as increased by the Hurdle Rate, being 8% per annum compounded.

A "Performance Period" is the period from 1 January to 31 December in each year and, if different, the final period for which the Investment Management Agreement subsists. Any Performance fee payable to the 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.

Under the terms of the amended Investment Manager's Agreement dated 1 March 2011, the performance fee will be equal to 20% of the amount by which the Group's Adjusted Net Asset Value exceeds the Master Hurdle Amount.

The Master Hurdle Amount will be calculated as follows:

i on any calculation date falling prior to 31 December, it will be the Adjusted Net Asset Value per share on the funding date as increased by an annual compounding hurdle rate of 8% (the "Initial Hurdle Amount");

ii on any calculation date falling on 31 December, it will be the Initial Hurdle Amount as adjusted for any new share issues or dividends paid by the Company (the "New Adjusted Hurdle Amount"); and,

iii on any calculation date falling after 31 December, it will be the New Adjusted Hurdle Amount as increased by an annual compounding hurdle rate of 8% and may be further adjusted on any calculation date as a result of any share issues or dividends paid by the Company.

For the year ended 31 December 2013, the Company accrued Performance fees of USD Nil (2012: USD Nil). The 2011 Investment management performance fee payable of USD 11,005,000 was paid in full on 3 June 2013 with an additional amount of USD 232,000 of interest accrued to that date.

ADMINISTRATION FEES

Total Administration fees for the Group were as follows for the year ended 31 December 2013;

TABLE 9	2013	2012
	USD'000	USD'000
Company	435	473
Subsidiaries – Brazil	841	340
Subsidiaries – Colombia	195	165
Subsidiaries – Other (Delaware and BVI)	19	19
	1,490	**997**

Heritage International Fund Managers Limited (the "Administrator") has been appointed to provide day to day administration and company secretarial services to the Company, as set out in the amended Administration Agreement dated 30 June 2010. In consideration for its services, the Administrator receives an annual scaled fee based upon the Adjusted Net Asset Value equal to;

a. 0.12% of the Adjusted Net Asset Value from USD 0 to USD 132,363,000; plus

b. 0.10% of the Adjusted Net Asset Value from USD 132,363,000 to USD 330,908,000; plus

c. 0.08% of Adjusted Net Asset Value over USD 330,908,000 payable in GBP quarterly in arrears at the USD-GBP foreign exchange indication rate at that quarter end, subject to receiving a minimum annual fee of £88,544.

During the year, the Company incurred Administration fees of USD 435,000 (2012: USD 473,000) of which USD 119,000 (2012: USD 115,000) 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 19,000 (2012: USD 19,000) in relation to bookkeeping and accounting services of which USD Nil (2012: USD Nil) was outstanding at the reporting date.

The Brazilian subsidiaries were administered by Premier Soluções Contábeis Consultoria e Pericias Ltda ("Premier") up until 28 February 2014. Following a handover period which started in October 2013, Torres Accounting, SA Contabil and Leading Contabil will assume the on-going administration of these subsidiaries. As a result the Group incurred administration fees of USD 841,000 (2012: USD 340,000) relating to the Brazilian subsidiaries, of which USD Nil (2012: USD Nil) was outstanding at the year end. These fees included termination fees for Premier.

The Colombian subsidiaries are provided with administrative services by Celt Consultores. During the year, the Group incurred administration fees of USD 195,000 (2012: USD 165,000) relating to the Colombian subsidiaries, of which USD Nil (2012: USD Nil) was outstanding at the year end.

TABLE 10.1 — FOREST ASSETS

2013	LAND*	BIOLOGICAL ASSETS	TOTAL
	USD'000	**USD'000**	**USD'000**
Cost			
Opening balance	74,813	143,122	217,935
Land and biological assets costs capitalised	429	1,977	2,406
Biological assets harvested	-	(8,505)	(8,505)
Transferred from Investment Property	1,002	-	1,002
Closing balance	**76,244**	**136,594**	**212,838**
Fair value movements			
Opening balance	59,075	108,523	167,598
Decrease in fair value of biological assets	-	222	222
Biological assets harvested	-	(6,143)	(6,143)
Transferred from Investment Property	567	-	567
Unrealised loss on planted land	(301)	-	(301)
Revaluation surplus	23,270	-	23,270
Closing balance	**82,611**	**102,602**	**185,213**
Accumulated effect of foreign exchange movement on translation	(34,276)	(59,918)	(94,194)
Fair value of forest assets	**124,579**	**179,278**	**303,857**

2012	LAND	BIOLOGICAL ASSETS	TOTAL
	USD'000	**USD'000**	**USD'000**
Cost			
Opening balance	73,278	137,369	210,647
Land and biological assets costs capitalised	2,052	10,842	12,894
Biological assets purchased	-	(5,089)	(5,089)
Land sold	(517)	-	(517)
Closing balance	**74,813**	**143,122**	**217,935**
Fair value movements			
Opening balance	40,157	124,222	164,379
Decrease in fair value of biological assets	-	(5,488)	(5,488)
Biological assets harvested	-	(10,211)	(10,211)
Land sold	(766)	-	(766)
Revaluation surplus	19,684	-	19,684
Closing balance	**59,075**	**108,523**	**167,598**
Accumulated effect of foreign exchange movement on translation	(17,495)	(34,170)	(51,665)
Fair value of forest assets	**116,393**	**217,475**	**333,868**

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

10. Forest assets

The Group's forest assets were revalued at 31 December 2013 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 Net Present Value ("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 139.90 million (BRL 330.45 million) (2012: USD 21.82 million) as security for interest bearing loans – see Note 20.

During the year the Group derecognised a total USD 14.65 million (2012: USD 15.30 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 Participacoes SA, which owns the 99 year surface rights over 10 real estate properties which were transferred from the sellers to Chapter Participacoes SA; 49% of the capital of Chapter Participacoes SA; 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 Participacoes SA at a minimal cost.

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 Participacoes Ltda ("AB Florestal"), Surubim Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda and Millco Participacoes Ltda, which own the biological assets and the 99 year surface rights over the real estate properties which are owned by Hadoque Propriedades Rurais e Participacoes Ltda (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.

PLANTATION LAND SOLD

On 20 September 2012, AB Florestal entered into an agreement to sell 3,313 ha of planted land located in Minas Gerais. In accordance with the agreement, AB Florestal received a deposit from the purchaser in September 2012 with the balance to be paid in four annual instalments. The first instalment of BRL 2.79 million was received on 28 September 2013. AB Florestal passed possession of 615.12 ha of bare land to the purchaser on the agreement date with the remainder to be transferred as AB Florestal harvests the plantations over an agreed period of five years from the transaction date. No transfers have been made in current year.

The total sale price of land transferred at the transaction date was USD 1.55 million (BRL 3.18 million) representing a profit of 58% on the original purchase price paid in 2011 and resulting in a realised profit for the year of USD 266,000 on the disposal. The sale price of further transfers will be subject to a discount mechanism related to when AB Florestal harvests the plantations and passes possession to the purchaser. AB Florestal retains legal title for the land until receipt of the final payment and completion of harvesting.

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 Discounted Cash Flow 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.

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 valuations only consider taxes payable at the applicable rate with the taxable income being adjusted for any tax exemptions, deductions and tax credit where applicable.

Post tax real discount rate (5.64% to 5.92%) (2011: 5.46% to 5.81%) — The valuer used the Weighted Average Cost of Capital ("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.

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 3 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 Sociedade em Conta de Participações ("SCP") was executed between Aimara and Klabin SA ("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.

TABLE 10.2 — BIOLOGICAL ASSETS SENSITIVITY ANALYSIS	TOTAL BIOLOGICAL ASSET VALUE SENSITIVITY		BIOLOGICAL ASSET VALUE		SENSITIVITY OF BIOLOGICAL ASSET VALUE TO CHANGE IN VARIABLE AS A PERCENTAGE	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Variable	**USD'000**		**USD'000**			
Discount rate						
1% decrease in discount rate	11,043	12,660	190,321	230,135	6.16%	5.82%
1% increase in discount rate	(10,014)	(11,460)	169,264	206,015	-5.59%	-5.27%
Forecast wood volume						
1% decrease	(2,512)	(3,050)	176,766	214,425	-1.40%	-1.40%
1% increase	2,515	2,920	181,793	220,395	1.40%	1.34%
Wood prices						
1% decrease	(2,509)	(3,050)	176,769	214,425	-1.40%	-1.40%
1% increase	2,515	2,920	181,793	220,395	1.40%	1.34%
Forestry costs						
1% decrease	178	230	179,456	217,705	0.10%	0.11%
1% increase	(171)	(230)	179,107	217,245	-0.10%	-0.29%

SENSITIVITY ANALYSIS

The valuation of the Company's non-current assets is sensitive to a number of variables.

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 above 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.

For example, a decrease in the forecast wood volume of 1% would result in a decrease of the biological asset value of USD 2.51 million (2012: USD 3.05 million) to USD 176.77 million (2012: USD 214.43 million), and an increase in the forecast wood volume of 1% would result in an increase in the biological asset value of USD 2.52 million (2012: USD 2.92 million) to USD 181.80 million (2012: USD 220.40 million), when all the other variables are held constant.

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 tax 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 tax 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.

Forecast revenues are consistent with the criteria for Lucro Presumido. During the year, the Group separated out the charcoal activity of Frondosa into a separate company, Biocarbono, which will elect to be taxed under the Lucro Real tax regime. Each of the Group's Brazilian projects 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 in table 10.3.

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. 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 8.7 million as detailed above (2012: USD 6.3 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 one per cent 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.

TABLE 10.3 — BRAZILIAN TAX SENSITIVITY ANALYSIS, ALL GROUP BRAZILIAN PROJECTS	LUCRO PRESUMIDO		LUCRO REAL		CHANGE IN VALUE UNDER LUCRO REAL		PERCENTAGE CHANGE IN VALUATION UNDER LUCRO REAL	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	USD'000		**USD'000**		**USD'000**			
Biological asset value sensitivity to tax election	149,946	173,995	127,180	146,693	(22,758)	(27,302)	-15.18%	-15.69%
Biological asset deferred tax provision sensitivity to tax election	(4,618)	(5,359)	(24,008)	(27,701)	(19,390)	(22,342)	419.83%	416.94%
Total biological asset value and deferred tax sensitivity to tax election	145,328	168,636	103,180	118,992	(42,148)	(49,644)	-29.00%	-29.44%
Net Asset Value sensitivity to tax election on biological asset and deferred tax	303,857	334,180	261,709	284,536	(42,148)	(49,644)	-13.87%	-14.86%
Land value deferred tax provision sensitivity to tax election	(1,588)	(1,705)	(10,529)	(8,014)	(8,672)	(6,309)	546.25%	370.04%
Total land, forest asset value and deferred tax sensitivity to tax election	143,740	166,931	92,920	110,978	(50,820)	(55,953)	-35.36%	-33.52%
Net Asset Value sensitivity to tax election	303,857	334,180	253,037	278,227	(50,820)	(55,953)	-16.72%	-16.74%

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

At 31 December 2013, 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 1.24 million (2012: USD 1.16 million) respectively.

Forest assets foreign currency exchange rate sensitivity analysis — The Group's forest assets are held in currencies other than United States Dollar 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 2013, the Group forest assets were denominated in Brazilian Reais and Colombian Pesos.

If the United States Dollar strengthened or weakened by 10% against the Brazilian Real and all other variables held constant, the Group's forest asset values for the year would have been USD 23.63 million lower or USD 28.88 million higher (2012: USD 26.69 million lower or USD 32.62 million higher) respectively as a result of the translation of Brazilian Real denominated forest asset values.

If the United States Dollar strengthened or weakened by 10% against the Colombian Peso and all other variables held constant, the Group's forest asset values for the year would have been USD 4.96 million lower or USD 6.06 million higher (2012: USD 5.68 million lower or USD 6.95 million higher) respectively as a result of the translation of Colombian Peso denominated forest asset values.

Biological assets sensitivity to charcoal operations profitability — At 31 December 2013, the Group's forestry projects which produce wood primarily for its charcoal production subsidiary had biological assets valued at $125.4m (2012: $128.9m). The Group's charcoal production subsidiary made losses during 2013 which are expected to continue throughout 2014. However, the Group's investment in newly designed, larger and more efficient kilns is expected to reduce production costs and lead to operating profits being made in 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.

If 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 $ 15.8m.

Fair value of forest assets — All forest assets 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.

11. Investment property

TABLE 11	2013	2012
	USD'000	USD'000
Cost		
Opening balance	7,486	4,639
Additions	62	2,847
Transfer to forest assets	(1,002)	-
Closing balance	**6,546**	**7,486**
Fair value movements		
Opening balance	417	179
Transfer to forest assets	(567)	-
Increases in fair value of investment property	-	238
Closing balance	**(150)**	**417**
Accumulated effect of foreign exchange movement on translation	1,234	2,015
Fair value of investment properties	**7,630**	**9,918**

The Group's investment properties, which consist of unplanted land, were valued at 31 December 2013 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 34).

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 one per cent 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 2013, 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 76,000 (2012: USD 99,000).

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 2013, the Group forest assets were denominated in Brazilian Reais and Colombian Pesos.

If the United States Dollar strengthened or weakened by 10% against the Brazilian Real 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 (2012: USD 150,000 lower or USD 184,000 higher) as a result of the translation of Brazilian Real denominated Investment property values.

If the United States Dollar strengthened or weakened by 10% against the Colombian Peso and all other variables held constant, the Group's forest asset values for the year would have been USD 693,000 lower or USD 848,000 higher (2012: USD 752,000 lower or USD 920,000 higher) respectively as a result of the translation of Colombian Peso 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

The Group's property, plant and equipment are as in table 12.

As part of the Frondosa acquisition the Group acquired carbonisation assets which are being used to produce charcoal for the pig iron industry.

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 following summarises the main assumptions used by Indufor when valuing the carbonisation assets as at 31 December 2013.

Post tax real discount rate — 7.64% (Based on the WACC for Brazil of 5.64% plus a risk premium of 2%)(2012: 7.46% (Based on the WACC for Brazil of 5.46% 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 charcoal market prices, and verifies those independently. The valuation methodology, discounting real cashflows, assumes no real or nominal increases in charcoal prices.

Plant capacity — 87% utilisation of the current carbonisation capacity for year for 2013 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

TABLE 12 — PROPERTY, PLANT AND EQUIPMENT

2013	BUILDINGS	CARBONISATION ASSETS	EQUIPMENT	TOTAL
	USD'000	USD'000	USD'000	USD'000
Cost				
Balance as at 1 January	**422**	**3,313**	**1,069**	**4,804**
Additions	820	2,644	449	3,913
Disposals	(388)	-	(59)	(447)
Closing balance as at 31 December	**854**	**5,957**	**1,459**	**8,270**
Depreciation/Fair value:				
Balance as at 1 January	**(129)**	**(3,057)**	**(106)**	**(3,292)**
Depreciation	(69)	-	(77)	(146)
Disposals	-	-	60	60
Closing balance as at 31 December	**(198)**	**(3,057)**	**(123)**	**(3,378)**
	656	**2,900**	**1,336**	**4,892**
Effect of foreign exchange movements	(222)	(481)	(835)	(1,538)
Closing balance	**434**	**2,419**	**501**	**3,354**

2012	BUILDINGS	CARBONISATION ASSETS	EQUIPMENT	TOTAL
	USD'000	USD'000	USD'000	USD'000
Cost				
Opening balance	713	3,197	611	4,521
Additions	50	116	458	624
Disposals	(341)	-	-	(341)
Closing balance	**422**	**3,313**	**1,069**	**4,804**
Depreciation/Fair value				
Opening balance	(62)	2,492	(100)	2,330
Depreciation	(67)	-	(6)	(73)
Revaluation reversal	-	(2,379)	-	(2,379)
Revaluation loss charged to income statement	-	(3,170)	-	(3,170)
Closing balance	**(129)**	**(3,057)**	**(106)**	**(3,292)**
Total	**293**	**256**	**963**	**1,512**
Accumulated effect of foreign exchange movement on translation	(189)	(256)	(378)	(823)
Closing balance	**104**	**-**	**585**	**689**

start-up issues that may occur during the first 6 months of operation.

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

During the year the Group started construction of additional kilns. These kilns under construction have a carrying value at 31 December 2013 of USD 2,419,000, and have not been included in valuations as these were not in use as by the year end date.

13. Investment in associates

TABLE 13	2013	2012
	USD'000	USD'000
Opening balance	2,194	-
Additions	-	2,173
Share of income from associate	118	21
Dividends received	(14)	-
Closing balance	**2,298**	**2,194**

On 26 April 2012 the Company entered into a Share Purchase Agreement to purchase 3,700,071 shares of capital stock of Silvotecnia S.A. ("Silvotecnia"), a forestry industry service provider, as part of its Colombian operations. On the same date 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 purchase price paid for the acquired shares was USD 2.17 million.

14. Other non-current assets

TABLE 14	2013	2012
	USD'000	USD'000
Receivable on pig iron mill assets disposal (Note 15)	11,854	-
Other	14	-
Total	**11,868**	**-**

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 have not been discounted. As part of the agreement the Company has also committed to supply the new owners charcoal for the operation of the mill.

As at 31 December 2012, non-current assets held for sale consisted of USD 14,529,000 which consisted of property, plant and equipment, trade receivables and trade liabilities. The trade receivables were paid and the trade liabilities settled prior to the sale during the year.

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

TABLE 15	2013	2012
	USD'000	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**	**-**
Net cash inflows from operating activities	2,067	-
Net cash inflows from financing activities	(2,072)	-
Net cash outflows	**(5)**	**-**

The gain on disposal has been calculated as follows;

TABLE 15.2	2013	2012
	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 (Note 14)	11,854	28,000
Within 1 year (Note 18)	2,963	7,000
Effect of foreign exchange	1,378	-
	16,195	**35,000**

16. Financial receivable at fair value through profit or loss

TABLE 16	2013	2012
	USD'000	USD'000
Opening balance	-	7,589
Repayment of financial receivable	-	(7,531)
Effect of foreign exchange movements	-	(58)
Closing balance	**-**	**-**

As at 31 March 2012 the Company, through the Aimara project, returned the 538 ha of pine originally contributed by Klabin. The Company agreed a fixed rate of return from the biological asset and it had been reflected as a financial asset receivable in the consolidated financial statements. Accordingly, on 15 April 2012 the Company received USD 7.89 million (BRL 14.73 million) representing a total gain of 41% over the original value of the pine contributed and a net realised gain for the year of USD 362,000.

17. Inventory

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

TABLE 17	2013	2012
	USD'000	USD'000
Seedlings and consumables	60	381
Work in progress	2,265	3,969
Finished products	2	-
	2,327	**4,350**

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

18. Trade and other receivables

TABLE 18	2013	2012
	USD'000	USD'000
Trade receivables	1,343	2,133
Advances to suppliers	370	323
Prepaid interest	33	206
Receivable on pig iron mill - Note 15	2,963	-
Other receivables	3,511	1,916
	8,220	**4,578**

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

19. 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 2013

TABLE 19	2013	2012
	USD'000	USD'000
Restricted		
Amounts pledged as collateral	-	4,235
Amounts held in escrow accounts in respect of assets purchased	7,906	13,600
	7,906	**17,835**
Unrestricted	26,838	5,856
	34,744	**23,691**

20. Interest bearing borrowings

The capital on the facility from Rodobens was fully repaid on 10 May 2013 and the capital on the facility from Rendimento was fully repaid on 14 December 2013. The facility from Rendimento bore interest at the Brazilian interbank ("CDI") rate plus 1.0% per month and that from Rodobens bore interest at the rate of CDI plus 3.0% per year.

The factoring agreement with Serfinco was fully repaid on 23 October 2013.

On 11 April 2013, the Company, through SP Timberland Holdings LLC, agreed the terms of a loan for USD 15 million from the Metropolitan Life Insurance Company ("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 the Redimento facility as noted above. The fixed interest rate on the term loan is based upon 585 bps above the 10 year US Treasury rate, subject to a minimum of 7.75%. As at 31 December 2013 the principal amount owing to Metlife was USD 15 million.

The total interest incurred on these borrowings was USD 4.72 million (2012: USD 5.50 million) with USD 0.23 million of early settlement penalty in relation to Banco Rendimento (2012: USD nil).

The Company has pledged land and biological assets with a value of USD 139.90 million as security for the Metlife loan – see Note 10. At 31 December 2012, USD 21.82 million was pledged as security for the facility from Banco Rendimento.

TABLE 20 – INTEREST BEARING BORROWINGS

2013		CURRENT	NON-CURRENT	TOTAL
		USD'000	USD'000	USD'000
Lender	**Project**			
Metlife	Frondosa	-	15,000	15,000
Other	Antioquia	881	260	1,141
		881	**15,260**	**16,141**

2012		CURRENT	NON-CURRENT	TOTAL
		USD'000	USD'000	USD'000
Lender	**Project**			
Banco Rodobens SA ("Rodobens")	Frondosa	3,117	-	3,117
Banco Rendimento SA ("Rendimento")	Frondosa	5,602	8,147	13,749
Serfinco SA (see note 20)	Antioquia	392	458	850
Other	Antioquia	218	-	218
		9,329	**8,605**	**17,934**

21. Deferred tax

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 comprehensive income. See Note 10 for sensitivity analysis.

TABLE 21 —DEFERRED TAX	2013 LIABILITY	2013 ASSET	2012 LIABILITY	2012 ASSET
	USD'000	USD'000	USD'000	USD'000
Opening balance	**(10,215)**	**396**	**(10,773)**	**444**
Credited to income statement on fair value adjustments on forest assets	(1,172)	-	864	11
Charged to income statement on fair value adjustments on investment property	-	-	-	-
(Charged)/Credited to other comprehensive income on revaluation adjustments	(305)	-	(927)	-
Other movements	-	(106)	65	(113)
Exchange rate differences	1,532	(27)	556	54
Closing balance	**(10,160)**	**263**	**(10,215)**	**396**

22. Other long term liabilities

TABLE 22	2013	2012
	USD'000	USD'000
Amounts owing on purchase of forest assets	5,217	10,203
Deferred income on land sold	829	954
	6,046	**11,157**

The amounts owing on forest assets consist of amounts owed by the Group on forest assets purchased in prior years. The amounts owing on these liabilities are held in escrow accounts (see Note 19) and will be disbursed as and when the liabilities become due.

23. Trade and other payables

TABLE 23	2013	2012
	USD'000	USD'000
Trade payables	4,516	4,962
Amounts due on purchase of forest assets	733	3,244
2011 Investment management performance fees payable	-	11,005
Taxes payable	233	129
Accruals	1,231	700
	6,713	**20,040**

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.

24. Provisions

TABLE 24	2013	2012
	USD'000	USD'000
At 1 January	690	-
Provision made during the year	260	690
Effect of foreign exchange	(112)	-
	838	**690**

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.

25. Joint ventures

The consolidated financial statements include the following in relation to joint ventures:

TABLE 25	2013	2012
	USD'000	USD'000
Forest assets	65,323	75,000
Property, plant and equipment	924	629
Other non-current assets	14	-
Trade and other receivables	1,744	2,244
Inventories	33	30
Cash and cash equivalents	3,016	5,409
Deferred tax asset	235	366
Other non-current liabilities	(278)	(458)
Deferred tax liability	(2,679)	(2,217)
Trade and other payables	(1,625)	(2,088)
Net Assets	**66,707**	**78,915**

TABLE 25 (CONTINUED)	2013	2012
Revenue	7,604	6,804
Cost of sales	(5,489)	(4,759)
Depletion	(2,016)	(3,316)
Interest income	237	803
Increase/(Decrease) in fair value of biological assets	198	(7,209)
Profit on disposal of assets	14	-
Expenses	(2,533)	(2,652)
Net loss before tax	**(1,985)**	**(10,329)**

The Group's revaluation surplus for the year includes an amount of USD 458,000 (2012: USD 1,694,000) relating to the revaluation of planted land held by the Joint ventures.

The Company (via its subsidiary) has an 80% interest in the 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.

Although the Company owns 80% of the joint venture 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.

The Company has a joint venture with Aglomerados Cotopaxi S.A. ("Cotopaxi"), an Ecuadorian wood based panel producer, through MS Timberland Holdings Ltd, 90% of which is owned by the Company. MS Timberland Holdings Ltd owns 100% of the shares of Reforestadora El Guasimo ("El Guasimo"), a former subsidiary of Cementos Argos S.A, one of the largest cement producers in Colombia.

Although the Company owns 90% of MS Timberland Holdings Ltd 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.

The adoption of IFRS 11, 'Joint Arrangement' will impact the joint ventures as MS Timberland Holdings will no longer be eligible for line by line consolidation but would be accounted for using the equity method as it will be 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 Group's share of MS Timberland Holdings net loss and net assets for 2013 was USD 1.9 million and USD 49.3 million (2012: USD 11.3 million and USD 55.3 million) respectively. The Aimara joint arrangement will be classified as a joint operation and will continue to be eligible for the

proportionate consolidation due to the obligation of Klabin to purchase all eucalyptus produced by Aimara which reflects dependence on Klabin for the generation of cash flows.

26. Net asset value

In accordance with the terms of the Company's Private Placement Memorandum the Group's Adjusted Net Asset Value 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.

Following the redefinition of the Adjusted NAV by the Board of Directors which was effective 31 December 2011, the IFRS NAV is adjusted as follows in calculating the Adjusted NAV:

1. *Deferred tax duplication* — Future tax payments are deducted from future cashflows in the calculation of the fair value of biological assets as a result of an "in use" basis of realisation being assumed and, as required by IFRS, these are again deducted from the net asset value by way of a deferred tax liability accrual; for purposes of the Adjusted NAV, the deferred tax liability accrual on biological assets is not included to remove duplication;
2. *Notional land lease charge* — 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,Share issue costs — Whereas these costs are deducted from equity in the first accounting period under IFRS, for purposes of the adjusted NAV, these costs are capitalised and amortised over a five-year period.
3. *Share issue costs* — Whereas these costs are deducted from equity in the first accounting period under IFRS, for purposes of the adjusted NAV, these costs are capitalised and amortised over a five-year period.

Reconciliations of the Group's IFRS Net Asset Value to the Adjusted Net Asset Value as at 31 December 2013 are as follows:

27. Share Capital

As at 31 December 2013 the authorised share capital of the Company was USD 20,000,002 (2012: USD 20,000,002) divided into 100,000,000 (2012: 100,000,000) redeemable Ordinary Shares of USD 0.10 each, 100,000,000 (2012: 100,000,000) redeemable Class A Ordinary Shares of USD 0.10 each and two (2012: 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 out of the profits of the Company available for dividend and 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.

	2013		2012	
TABLE 26 —NET ASSET VALUE	PER SHARE	TOTAL	PER SHARE	TOTAL
	USD	**USD'000**	**USD**	**USD'000**
IFRS net asset value attributable to holders of redeemable Ordinary and Class A Ordinary shares	7.77	334,663	9.00	334,177
Adjustment for deferred tax duplication	0.15	6,522	0.17	6,288
Adjustment for notional land lease charge	0.29	12,576	0.38	14,266
Adjustment for unamortised organisation expenses	0.11	4,686	0.14	5,072
Adjusted net asset value attributable to redeemable Ordinary and Class A Ordinary shareholders	**8.32**	**358,447**	**9.69**	**359,803**

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 2013, the Company issued 5,962,962 new shares with 352,467 of these new shares being issued as a result of the scrip dividend issue on 31 October 2013. The shares issued increased the number of shares from 37,124,578 to 43,087,540. Total proceeds raised from the share issues were USD 57.40 million, of which USD 3.04 million was as a result of the scrip dividend issue – see page 93.

Transactions in the shares of the Company for the year ended 31 December 2013 were as follows:

On 26 February 2013, the Company accepted a subscription agreement for USD 2 million with 206,475 Ordinary shares being allotted on 4 March 2013 at a price of USD 9.69 per share.

On 23 May 2013, the Company accepted a subscription agreement for USD 52.36 million with 5,404,020 Ordinary shares being allotted on 29 May 2013 at a price of USD 9.69 per share. Of this total, 5,400,557 Ordinary Shares were allotted by the Company to subscribers to its Offering Memorandum dated 20 July 2012 (as updated by the Supplement dated 17 December 2012). The remaining 3,463 Ordinary Shares (the "Bonus Award Shares") were 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 2013, all of these shares remain in escrow.

On 23 September 2013 the Company declared USD 12.39 million as an interim dividend to shareholders. Shareholders eligible to receive the 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) ("New Shares"). Such New Shares were allotted at a price of USD 8.62 per Share (being the Net Asset Value per Share on 30 June 2013). As a result 342,048 Ordinary Shares and 10,419 Class A Ordinary Shares were issued on 31 October 2013.

TABLE 27

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**
2012				
At 1 January 2012	2	9,782,497	22,626,113	32,408,612
Shares issued 17 February 2012	-	2,783,964	988,585	3,772,549
Shares issued 28 September 2012	-	154,855	309,711	464,566
Shares issued 31 October 2012	-	211,877	266,974	478,851
As at 31 December 2012	**2**	**12,933,193**	**24,191,383**	**37,124,578**

TABLE 27.2	2013	2012
	USD'000	USD'000
Balance at beginning of year	276,714	246,607
Issue of shares	57,403	43,018
Transaction costs on issue of shares	(1,546)	(841)
Dividends during the year	(12,393)	(12,070)
Balance at end of year	**320,178**	**276,714**

As a result of the Companies (Guernsey) Law, 2008 (the 'Law') proceeds of share issues are required to be credited to share capital, not share premium account. In addition, there is no longer a requirement to seek court approval to make distributions from the share premium account and distributions may now be made from share capital and share premium accounts, as well as other reserves, subject to meeting the relevant solvency tests in the Law. The existing balance of USD 243.37 million on the share premium account has, therefore, been transferred to share capital account.

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

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

TABLE 28	2013	2012
	USD'000	USD'000
Loss for the year		
From continuing operations	(27,579)	(31,493)
From discontinued operations	3,709	-
	(23,870)	**(31,493)**
Average number of issued shares ('000s)	40,661	35,898
	US cents	US cents
From continuing operations	(67.83)	(87.73)
From discontinued operations	9.12	-
	(58.71)	**(87.73)**

29. Dividends

On 23 September 2013 the Company declared USD 12.39 million (2012: USD 12.07 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) ("New Shares"). Such New Shares were allotted at a price of USD 8.62 per Share (being the ex-dividend adjusted net asset value per Share on 30 June 2013). As a result 342,048 Ordinary Shares and 10,419 Class A Ordinary Shares were issued on 31 October 2013 and USD 9.35 million was paid in cash on the same date. No further dividend is declared for 2012.

Under Guernsey law, companies can pay dividends in excess of accounting profit for the period provided that they satisfy the Solvency test prescribed under the Companies (Guernsey) Law, 2008. 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 the year.

30. Subsidiaries

Details of the Company's subsidiaries as at 31 December 2013 are as in table 30.

31. 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, is also a director and shareholder of the Investment Manager. As at 31 December 2013 Mr. Örneberg held 1,054,306 (2012: 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 year.

TABLE 30 – SUBSIDIARIES NAME	PLACE OF INCORPORATION AND OPERATION	OWNERSHIP INTEREST %	VOTING POWER HELD %
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			
El Amparo Wood Holdings Limited*	British Virgin Islands	100	100
El Gavan Wood Holdings Limited*	Delaware USA	100	100
El Morichal Wood Holdings Limited*	Delaware USA	100	100
La Diana Timberland Holdings Limited*	Delaware USA	100	100
La Esperenza Timberland Holdings Limited*	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	90	90
AB Florestal Participacoes Ltda#	Brazil	100	100
Hadoque Propriedades Rurais e Participacoes Ltda#	Brazil	100	100
MillCo Participacoes Ltda#	Brazil	100	100
Paiva Florestal Participacoes Ltda#	Brazil	100	100
DM Timberland Wood Holdings Limited	British Virgin Islands	100	100

** Operates in Colombia through a local branch*

 # Operational entities

TABLE 30.2 – INTERMEDIATE HOLDING SUBSIDIARIES NAME	PLACE OF INCORPORATION AND OPERATION	OWNERSHIP INTEREST %	VOTING POWER HELD %
MS Timberland project			
MS Timberland Holdings Limited*	British Virgin Islands	90	90
Reforestadora El Guasimo#	Colombia	90	90
Antioquia Wood Holdings Limited	British Virgin Islands	100	100
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*

Note 31 continued

— Dr. Dermot Smurfit, a Director of the Company, is also a director of the Investment Manager. As at 31 December 2013 Dr. Smurfit held 312,500 (2012: 312,500) redeemable Ordinary Shares in the Company. All fees paid to the Investment Manager are disclosed in Note 9.

— On 11 September 2012, The Company and the Investment Manager formalised an agreement for the Company to pay the performance fees in respect of the financial year ended 31 December 2011 over a mutually agreed period of time, allowing the Company to utilise the funds in the interim. The Company paid interest to the Investment Manager on the deferred amount at USD 3 month LIBOR plus 4% per annum. For the year ended 31 December 2013, the Company incurred USD 232,000 (2012: USD 495,000) interest in relation to this agreement of which USD Nil (2012: USD 92,000) was outstanding at the end of the year. The outstanding performance fee at the end of the year was USD Nil (2012: USD 10,913,000).

— Ms. Susan Lloyd, a Director of the Company, as at 31 December 2013 held 16,980 (2012: 16,428) redeemable Ordinary Shares in the Company.

— Mr. Rainer Häggblom, a Director of the Company, as at 31 December 2013 held 44,921 (2012: 43,459) redeemable Ordinary Shares in the Company.

— Dr Panu Kallio, a Director of the Company, as at 31 December 2013 held 2,673 (2012: 2,586) redeemable Ordinary Shares in the Company.

— Mr. Joseph Ryan, a Director of the Company, as at 31 December 2013 held 3,100 (2012: Nil) redeemable Ordinary Shares in the Company.

Directors' fees for the year ended 31 December 2013 were as in table 31.

TABLE 31	2013	2012
	USD'000	USD'000
Rainer Häggblom (Chairman)	151	115
Dr. Dermot Smurfit (non-executive)	64	64
Susan Lloyd (non-executive)	55	55
Harald Örneberg (non-executive)	-	-
Dr. Panu Kallio (non-executive)	55	55
Birgitta Johansson – Hedberg (non-executive) (retired 6 June 2012)	-	24
Joseph Ryan (non-executive) (appointed 9 July 2012)	63	31
Total fees	**388**	**344**
Expenses	164	103
	552	**447**

As at 31 December 2013 USD Nil (2012: USD Nil) was outstanding.

Included in the Chairman's fee is an accrued amount of USD 70,000 (2012: USD 33,562) 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 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 2013, all of these shares remain in escrow.

From 1 February 2009 Mr. Johan Larsson, a principal of the Investment Manager, has been employed by Aimara Empreendimentos with his associated costs of employment being reimbursed by the Investment Manager. During the year the Group incurred USD 34,000 (2012: USD 44,000) in relation to Mr. Larsson's employment in Brazil, all of which had been reimbursed at the reporting date (2012: USD 44,000). 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 41,000 (2012: USD Nil) 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.

32. 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 Net Asset Value, but with a target of 5% of the Adjusted Net Asset Value. 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 Net Asset Value plus total debt was 4.31% as at 31 December 2013 (2012: 4.75%).

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.

CATEGORIES OF FINANCIAL INSTRUMENTS

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

TABLE 32	2013	2012
	USD'000	USD'000
Financial assets *Loans and receivables*		
Trade and other receivables	20,088	4,578
Cash and cash equivalents	34,744	23,691
Investment in associate	2,298	2,194
Financial liabilities *Loans and payables*		
Trade and other payables	6,713	20,040
Interest bearing borrowings	16,141	17,934
Other long term liabilities	6,046	11,157

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, TCL and the Administrator, Heritage International Fund Managers ("HIFM"), 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 2013 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 United States Dollar, 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 2013 the Company's assets denominated in other currencies were principally held in Brazilian Reais and Colombian Pesos with other balances in Pounds Sterling.

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.

The closing financial asset and liability positions denominated in currencies other than United States Dollar as at 31 December 2013 were as in table 32.2.

The sensitivity analyses below have been determined based on the exposure to the Brazilian Reais 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.

TABLE 32.2 — CLOSING ASSETS AND LIABILITIES

2013	BRL	COP	GBP	TOTAL
	USD'000	USD'000	USD'000	USD'000
Investment in associate	-	2,298	-	2,298
Trade and other receivables	6,300	1,382	-	7,682
Cash and cash equivalents	16,244	1,494	-	17,738
Trade and other payables	(766)	(681)	(459)	(1,906)
Interest bearing borrowings	-	(1,141)	-	(1,141)
Other long-term liabilities	(5,217)	-	-	(5,217)
Net exposure	**16,561**	**3,352**	**(459)**	**19,454**

2012	BRL	COP	GBP	TOTAL
	USD'000	USD'000	USD'000	USD'000
Investment in associate	-	2,194	-	2,194
Trade and other receivables	2,306	1,874	-	4,180
Cash and cash equivalents	19,325	322	-	19,647
Trade and other payables	(8,074)	(1,208)	(404)	(9,686)
Interest bearing borrowings	(16,866)	(1,068)	-	(17,934)
Other long-term liabilities	(10,204)	-	-	(10,204)
Net exposure	**(13,513)**	**2,114**	**(404)**	**(11,803)**

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 Colombian Pesos.

For Brazilian Reais 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 10% increase or decrease represents management's assessment of a reasonably possible change in foreign exchange rates.

If the United States Dollar strengthened by 10% against the Brazilian Real and all other variables held constant, the Group's comprehensive income for the year would have been USD 2.59 million higher (2012: USD 1.03 million higher) as a result of foreign exchange losses on translation of Brazilian Real denominated financial assets and liabilities.

If the United States Dollar weakened by 10% against the Brazilian Real and all other variables held constant, the Group's comprehensive income for the year would have been USD 2.13 million lower (2012: USD 1.26 million lower) as a result of foreign exchange gains on translation of Brazilian Real denominated financial assets and liabilities.

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 will be reduced by the appreciation in the value of the investment property at the Group level. Thus foreign exchange risk is not considered to be significant in the long term.

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 20). 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 one per cent movement in the interest rates will have on the Group's comprehensive income.

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

— Loss for the year ended 31 December 2013 would have increased by USD 214,339 (2012: USD 333,313). This is due to the Group's exposure to interest rate fluctuations on its variable rate financial assets;

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

— Loss for the year ended 31 December 2013 would have decreased by USD 214,339 (2012: USD 333,313). 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.

The table below shows the cash balances at the reporting date and the credit rating for each counterparty.

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 2013 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.

TABLE 32.3 — MATERIAL CASH BALANCES

COUNTERPARTY	LOCATION	RATING	2013	2012
			USD'000	USD'000
Banco Itau	Brazil	A-	13,735	11,717
Royal Bank of Scotland International	United Kingdom	A	2,116	3,507
Banco Rodobens	Brazil	A-	-	3,077
JP Morgan S.A.	Brazil	A+	715	2,354
Rendimento	Brazil	BBB+	1,474	2,179
EFG Bank	Zurich	A	15,093	437
Banco Colombia	Colombia	BBB	1,213	160
Other			398	260
			34,744	**23,691**

PRIMARY MARKET

At 31 December 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 also currently investing in new kilns that will 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.

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.

Table 32.4 details the Group's expected maturity for its loans and receivables.

33. Operating segments

The information in this note, including table 33, 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

TABLE 32.4 **2013**	WEIGHTED AVERAGE INTEREST RATE	LESS THAN 1 YEAR	1–5 YEARS	5+ YEARS	TOTAL
31 December 2013		**USD'000**	**USD'000**	**USD'000**	**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**

2012	WEIGHTED AVERAGE INTEREST RATE	LESS THAN 1 YEAR	1–5 YEARS	5+ YEARS	TOTAL
31 December 2012		**USD'000**	**USD'000**	**USD'000**	**USD'000**
Assets					
Non-interest bearing	-	6,770	-	-	6,770
Fixed interest rate instruments	0.85%	19,235	-	-	19,235
Variable interest rate instruments	0.23%	4,302	-	-	4,302
Liabilities					
Non-interest bearing		(20,040)	(11,157)	-	(31,197)
Variable interest rate instruments	13.12%	(11,005)	(17,935)	-	(28,940)
		(738)	**(29,092)**	**-**	**(29,830)**

TABLE 33 – OPERATING SEGMENTS	SEGMENT INCOME 2013	SEGMENT INCOME 2012	SEGMENT PROFIT 2013	SEGMENT PROFIT 2012
	USD'000	**USD'000**	**USD'000**	**USD'000**
Segment revenues and results				
Sales of product	29,231	21,210	(4,160)	1,480
Interest income	3,951	984	3,951	984
Realised gain on financial receivable at fair value through profit or loss	-	362	-	362
Realised gain on disposal of planted land	-	266	-	266
Unrealised gain on Investment property	-	238	-	238
Profit on disposal of property, plant and equipment	14	-	14	-
Unrealised loss on planted land	-	-	(301)	-
Unrealised gain/(loss) on Forest assets	222	(5,605)	222	(5,605)
Total for continuing operations	**33,418**	**17,455**	**(274)**	**(2,275)**
Administration costs			(19,703)	(22,923)
Interest expense			(5,184)	(5,990)
Share of profit of associate			118	21
Loss before tax from continuing operations			**(25,043)**	**(31,167)**

TABLE 33.2 – OPERATING SEGMENTS	2013	2012
	USD'000	**USD'000**
Segment assets		
Forest assets	303,857	333,868
Investment property	7,630	9,918
Property, plant and equipment	3,354	689
Investment in associate	2,298	2,194
Other non-current assets	11,868	-
Deferred tax assets	263	396
	329,270	**347,065**
Other assets	45,291	47,148
Total segment and consolidated assets	**374,561**	**394,213**
Segment liabilities		
Interest bearing borrowings	16,141	17,934
Deferred tax liability	10,160	10,215
Other long term liabilities	6,046	10,467
Trade and other payables	6,713	20,730
Provisions	838	690
Total segment and consolidated liabilities	**39,898**	**60,036**

TABLE 33.3 – OPERATING SEGMENTS	INCOME		NON-CURRENT ASSETS	
	2013	**2012**	**2013**	**2012**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Guernsey	19	6	-	-
Brazil	24,647	19,609	269,005	279,428
Colombia	8,752	(2,160)	60,265	67,637
Total	**33,418**	**17,455**	**329,270**	**347,065**

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 2013, 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.

All income has been derived mainly from sales of wood and charcoal. The Colombian 2012 negative income is as a result of an unrealised valuation loss as result of a lower biological asset valuation.

34. 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 2.02 million (31 December 2012: USD 2.33 million) at the reporting date, being the purchase price yet to be paid.

In addition, the Company, through Ibiracu, 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. The Company has received legal advice on these matters and the Board does not expect that material costs will arise in resolving the issue.

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 19).

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

35. Subsequent events

On 8 April 2014, the Directors declared an interim dividend of 3% of the Adjusted Net Asset Value per share as at 31 December 2013 (USD 0.25 cents per share), payable on 31 October 2014 to shareholders at the record date of 1 May 2014.