The Forest Company

Consolidated Financial Statements
For the year ended
31 December 2012

Company Number: 47338

THE FOREST COMPANY LIMITED

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General Information

Board of Directors
Rainer Häggblom (Chairman)
Dr. Dermot Smurfit (non-executive)
Susan Lloyd (non-executive and senior independent)
John Harald Örneberg (non-executive)
Birgitta Johansson – Hedberg (non-executive) (retired 6 June 2012)
Dr. Panu Kallio (non- executive)
Joseph Ryan (non-executive) (appointed 9 July 2012)

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Ticker: FCO
Website: www.theforestcompany.se

THE FOREST COMPANY LIMITED

HIGHLIGHTS

2012 was a year of positive progress for The Forest Company Limited ("The Forest Company" or the "Group" or the "Company"), with sales revenue increasing dramatically. While this underscores the Company's advances in the "second stage" of the forestry business, namely wood sales and the expansion down the value chain into charcoal sales, it is also worth highlighting the Company's achievements in the first phase (planting and growing).

In 2012 the Company completed forest inventories in Aimara and Ibiraçú that confirmed average mean annual increments ("MAI" or growth) higher than that projected in 2008 when the Company started these two greenfield projects. The MAI results were also higher than those which the contracted independent valuer had estimated in previous reports. 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 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 450 per cent 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 2,000 MDC of charcoal (volume based unit of charcoal) to 28,000 MDC per month. The Company continues to strengthen its position in the wood and charcoal sales market by increasing volumes to existing clients as well as establishing new contracts with prospective buyers.

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

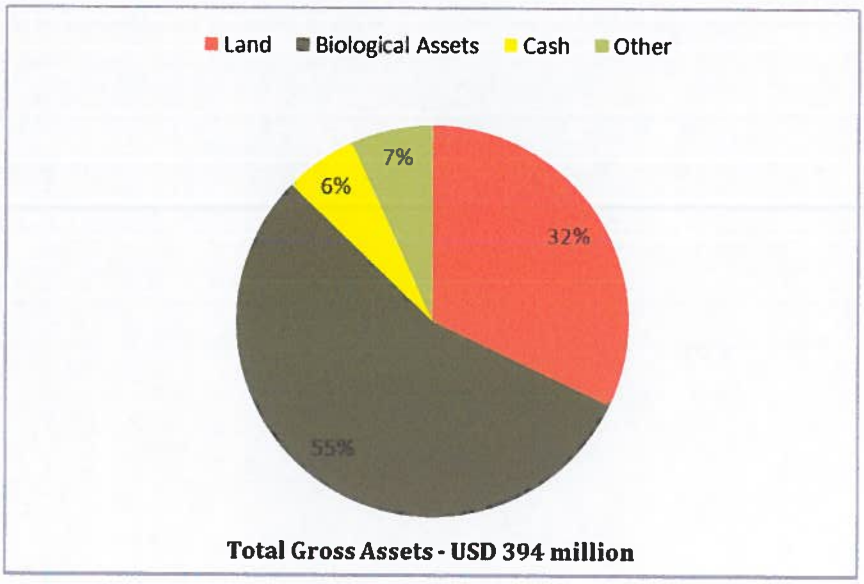
- Revenue from sales was USD 21.21 million, an increase of 450 per cent from USD 3.85 million in 2011.
- Gross profit was USD 8.77 million, increasing by 500 per cent from USD 1.45 million in 2011.
- Net operating loss, after depletion of biological assets (harvesting), gains and losses on non-current assets, and operating expenses, was USD 26.18 million, down from a net profit of USD 77.38 million in 2011.
- Loss per share amounted to USD (87.73) cents based on the average number of shares in issue (2011: USD 281.89 cents earnings per share).
- A dividend of 3 per cent of the Adjusted Net Asset Value as at 31 December 2011 (USD 33.36 cents per share) was paid on 31 October 2012 to investors at the record date of 1 May 2012.

FINANCIAL POSITION

- Total non-current assets were 3.6 per cent lower at USD 347.07 million as at 31 December 2012 compared to USD 360.28 million at 31 December 2011. The change was due to a number of factors, including a reduction in wood volume due to harvesting. In addition, foreign exchange movement through the year accounted for a 5 per cent drop in value of the net assets in US dollar terms.
- The Group repaid a portion of a loan used to finance the Frondosa project. Interest bearing borrowings reduced from USD 27.21 million at 31 December 2011 to USD 17.93 million at 31 December 2012. These interest bearing borrowings account for USD 9.33 million of current liabilities and USD 8.60 million of non-current liabilities.
- Cash balance as at 31 December 2012 was USD 23.69 million, down from USD 39.51 million at 31 December 2011.
- The Company issued 2,783,964 Ordinary Shares and 988,585 Class A Ordinary Shares on 17 February 2012 for a gross consideration of USD 33.88 million. A further 154,855 Ordinary Shares and 309,711 Class A Ordinary Shares were issued on 28 September 2012 for a gross consideration of USD 4.5 million. At the balance sheet date the Company had 37,124,576 shares in issue (12,933,193 Ordinary Shares and 24,191,383 Class A Ordinary Shares).

THE FOREST COMPANY LIMITED

THE FOREST COMPANY GROSS ASSETS BREAKDOWN AT 31 DECEMBER 2012



POST PERIOD EVENTS

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

THE FOREST COMPANY LIMITED

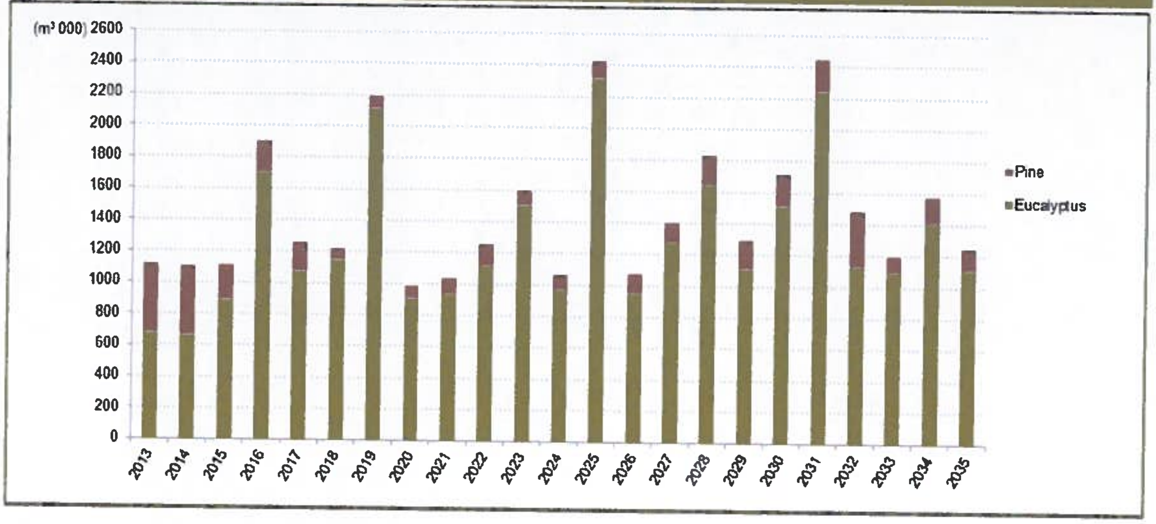
Chairman's Statement

In 2012 The Forest Company continued its successful strategy. It was a year of consolidating our management practices and solidifying our investments as projects became more efficiently managed in clusters. Our knowledge of and expansion into local markets deepened in tandem with our sales growth and relationships. 2012 was our first full year of sales in both Brazil and Colombia where we aim to tailor our products to the local markets.

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 (into charcoal and then biocarbon) in order to add further value for shareholders and customers and provide a sustainable supply of the products they require.

The Forest Company's projected wood flow by species, 2013 to 2035



During the year the Company and the 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 it 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 supply relationships and price support.

Valuations are carried out by an independent valuer using a systematic Capital Asset Pricing Model methodology and field visits to verify and collect growth rates, costs and all data used in the valuation.

Dividend

In 2012 The Forest Company paid a third dividend to shareholders of 3 per cent of the prior year's NAV. As the NAV has grown from the first dividend paid in October 2010, so has the level of the dividend, increasing by 39 per cent from October 2010 to the USD 33.36 cents per share paid on 31 October 2012.

The Company expects to pay an interim dividend based on the 31 December 2012 Adjusted NAV in October 2013. This dividend will be considered, and declared if appropriate, at the adoption of the interim financial statements in September 2013. As in prior years a scrip dividend alternative will be available to shareholders.

THE FOREST COMPANY LIMITED

CHAIRMAN'S STATEMENT (CONTINUED)

TIMBER PRODUCT MARKETS

With the economies of the US and Europe moving slowly in 2012, the global timber markets faced a challenging year. However, both global sawlog and pulpwood markets saw price increases in the fourth quarter of 2012 after experiencing decreases over the previous three quarters. According to Wood Resources Quarterly, prices are still below those of the fourth quarter of 2011, mainly because of the lower demand in the two key markets: US and Europe. However, the journal also believes that sawlog prices are currently under increased pressure and that global sawlog prices will continue to increase during 2013.

In looking at how Brazil and Colombia's timber markets fared in 2012, it is not surprising that Brazil had a relatively more difficult year. While Colombia is a net-importer of wood-based products (despite availability of land for commercial plantations), 79 per cent of Brazil's pulp production and 77 per cent of Brazil's sawnwood is exported, 19 per cent and 12 per cent of which, respectively, is exported to the US. As such, the slowdown in the US and Europe had a greater impact in Brazil than in Colombia.

BRAZIL

Despite the slowdown in the export of timber products, Brazil experienced a slight increase in domestic timber demand. However, as there was still abundant supply in the market, the increase was not accompanied by a similar rise in prices. Under these conditions, The Forest Company's wood sales volume grew by 740 per cent compared to 2011, with sales price stable vis-à-vis the previous year.

While the overall picture was moderately positive, the charcoal market in Brazil was slightly negative. The charcoal market is directly correlated with the pig iron and steel markets, and since more than half of the Brazilian pig iron production is exported, any fluctuations in the global demand for pig iron or steel affects the Brazilian domestic charcoal market. As such, the slump in steel demand from the US and Europe resulted in a decrease in charcoal demand and a 15 per cent decrease in prices. In spite of this, The Forest Company increased its charcoal capacity production from 2,000 to 28,000 units per month by the end of 2012. The market consensus is that demand will pick up in 2013.

COLOMBIA

Colombia, on the other hand, presented a relatively more positive picture, with timber demand increasing, accompanied by an increase in timber prices. An increase in the number of sawmills, coupled with the creation of a new panel-board mill by one of Colombia's leading panel-board producers, drove this growth in the domestic timber market. Given these favourable conditions, The Forest Company's sales grew by 166 per cent with prices increasing by 5 per cent over 2011.

OUTLOOK FOR 2013 AND BEYOND

The outlook for timber in the coming years is fairly positive compared to the past couple of years. That is because, despite recent slowdowns in the global economy, populations continue to grow and GDPs continue to increase. These are the underlying drivers in global wood demand.

BRAZIL

In the coming years, the State of Minas Gerais – the traditional mining state in the southeast – will continue to be an important region for timber in Brazil.

From 2013 to 2016, two of Brazil's largest integrated pulp companies (currently not operating in Minas Gerais) will experience a decrease in wood supply from their own forest plantations. This will cause these two important players to buy their wood in the local market. Currently, Minas Gerais (the state with the largest area of planted eucalyptus in Brazil) is the only alternative source, as other regions in Brazil do not have a supply of both mature and sufficient wood immediately to serve this new demand.

Additionally, growth in the charcoal and pig iron sectors will further promote Minas Gerais as an important timber region in Brazil. Prices for charcoal started to recover slowly at the beginning of 2013. However, what is most significant to highlight, is the expected growth in charcoal demand coming from an independent new pig iron mill, which is estimated to consume 815,000 MDC of charcoal in 2015.

THE FOREST COMPANY LIMITED

CHAIRMAN'S STATEMENT (CONTINUED)

The Forest Company currently has a strong presence in Minas Gerais, serving both the charcoal and pig iron industries, and is well positioned to participate in the growing Minas Gerais pulp and paper market.

The Forest Company also has a strong foothold in Paraná, the traditional forestry state in the south of Brazil. For the next years the region will still maintain its position as one of the most important timber markets in Brazil. Predominantly, the growth in the Brazilian construction industry will feed the demand for sawlogs in Paraná.

COLOMBIA

Domestic consumption by the forest industry in Colombia is estimated to grow by 32 per cent in the coming years with no forecast increase in supply. The expansion of the local forest-based industry, particularly the sawmilling and wood-based panel board sectors, is fuelling this demand. Projected GDP growth of 4.5 per cent in 2013 and 4.8 per cent in 2014 will further enhance the increasing demand.

The great advantage in Colombia lies in the fact that there is still land available for commercial plantations. Despite the 17 million hectares of land suitable for plantations, the country is still a net-importer of wood-based products and a significant portion of the domestic consumption still comes from native forests. As supply from native forests decreases, due to increasing environmental restrictions and consumer awareness, and as the local forest-based industry continues to grow, domestic plantation owners will be the main source of supply.

Furthermore, the other benefit in Colombia is that the government offers strong incentives to promote the forest industry. Among these efforts are subsidies they provide for planting activities. In 2013 the government increased the budget for these subsidies to USD 100 million from USD 30 million in 2012. Also, the government seeks to maintain high levels of foreign investment. Hence, the investment environment in Colombia is very favourable, and supplying wood to the domestic market presents great opportunities now and in the near future.

TFC STRATEGY

We continue to fulfil our strategy, which focuses on four main points:

1. to provide investment returns to our investors;
2. to continue to broaden the customer base for our products;
3. to continue to increase sales volumes; and
4. to expand existing projects.

A key part of our strategy is to invest in asset clusters minimising fixed costs, maximising synergies between the assets and maximising returns to our shareholders.

In order to ensure the solid foundations required to achieve our strategy, in 2012 the Board of The Forest Company appointed Joseph Ryan (FCA) as a non-executive Director and Chair of the Audit Committee. As an ex-PwC partner of long standing, Joseph brings a wealth of skills to the Company and works closely with the Investment Manager with regards to financial reporting and controls.

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 investors, we also attach great importance to environmental and social goals and the provision of an open investment experience. We look forward to partnering with our stakeholders in order to drive The Forest Company forwards and upwards.

Yours sincerely,

Rainer Häggblom
Chairman
29 April 2013

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT

I am pleased to present you with a summary of The Forest Company's activities for the year ended 31 December 2012.

The Adjusted NAV per share of The Forest Company as at 31 December 2012 was USD 9.69 (USD 10.02 per share including the dividend paid on 31 October 2012), and the total Adjusted NAV was USD 359.8 million (2011: USD 11.12 per share and total Adjusted NAV of USD 360.30 million). This represents a decrease of 9.89 per cent on the Adjusted NAV per share over the year cum dividend. The IFRS NAV per share as at 31 December 2012 was USD 9.00 and the total IFRS NAV was USD 334.18 million (2011: USD 10.56 per share and total IFRS NAV of USD 342.35 million).

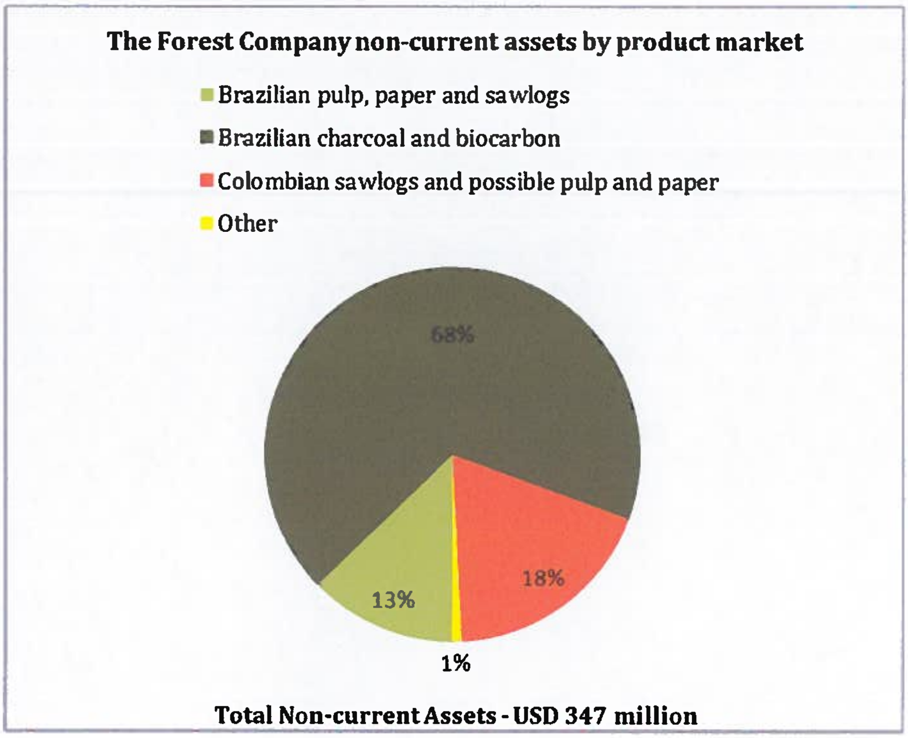
OVERVIEW OF ACTIVITY FOR THE YEAR

During 2012 the Company, with the assistance of the Investment Manager:

- paid a third dividend to Shareholders of 33.36 cents per share, on 31 October 2012;
- conducted forest inventories in Aimara and Ibiraçú that demonstrated an increase in the MAI of the eucalyptus planted by the Company. The Company also implemented new forestry management regimes to increase further the growth and productivity of plantations;
- increased sales of eucalyptus and pine in both Brazil and Colombia, and increased charcoal production capacity and sales in Brazil;
- moved to mechanised harvesting in Minas Gerais, Brazil and joined the Board of the Minas Gerais Silviculture Association ("AMS"– Associacao Mineira de Silviculture);
- entered into a contract to sell an area of land from the Frondosa project, which is isolated from the main farms and is suitable for sugar cane plantation. The Company will sell the land as the trees are harvested at a premium to the purchase price;
- purchased additional bare land in Colombia for a potential greenfield project and to facilitate access to other areas of the Company;
- received FSC certification for the Colombian plantations in March 2012, further demonstrating commitment to enhancing the Company's product and the environment;
- enhanced management capacity in Colombia through a minority investment in Silvotecnia, the leading forest service and management company in the country;
- successfully completed two private placements, raising gross proceeds of USD 38.4 million;
- initiated two social projects in Brazil and one in Colombia to help local communities; and
- further strengthened the Company's and the Investment Manager's expertise and capacity through the expansion of the Investor Relations and Finance teams.

SUMMARY OF ASSETS

Below you will find a breakdown of The Forest Company's non-current assets analysed by product market.



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. 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 2012 was USD 9.69 (USD 10.02 per share including the dividend paid on 31 October 2012), and the total Adjusted NAV was USD 359.80 million (2011: USD 11.12 per share and total Adjusted NAV of USD 360.30 million). This represents a decrease of 9.89 per cent on the Adjusted NAV per share over the year cum dividend. The IFRS NAV per share as at 31 December 2012 was USD 9.00 and the total IFRS NAV was USD 334.18 million (2011: USD 10.56 per share and total IFRS NAV of USD 342.35 million).

The decrease in the Adjusted NAV was a result of three factors. It was primarily due to the foreign currency translation into USD. These FX changes throughout the year account for over half of the reduction in the Adjusted NAV. Secondly, the independent valuations are based on certain inputs as of 31 December 2012 and do not reflect trend, or expectation. This may be a short-term shift away from sales of higher priced wood products, or 31 December 2012 charcoal production capacity. It is prudent and correct for the independent valuer to base their valuations on these factors, even if a reversion is likely. Thirdly during the year it became market practice in Brazil to quote wood prices net of non-reclaimable sales related taxes. As such the independent valuations of biological assets have incorporated this change in market practice.

The IFRS NAV was further reduced as a result of a change in the methodology of accounting for a notional land lease accrual to ensure the accrual is reflective of market rents 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 it pertains 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, 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 overall number of direct employees between Timber Capital Bermuda and Timber Capital Brazil increased in 2012. Perhaps more significant to highlight are the job opportunities the Company creates in the rural areas of Brazil and Colombia. In silviculture in Brazil the Company provides 179 indirect jobs and 14 direct jobs, with the lowest wages standing 85 per cent above the minimum wage. In Colombia the Company provides 296 indirect jobs. The total indirect hires across the Company in 2012 rose to over 750 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 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 at the highest levels with regards 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.

In 2012 the Company raised an additional USD 38 million and used the capital to invest further in the current projects. As at 31 December 2012 The Forest Company had raised a total of USD 300 million in equity capital through private placements to institutional investors, family offices and management. In February 2013, the Company raised further gross proceeds of approximately USD 2 million as part of a private placement that will close in May 2013.

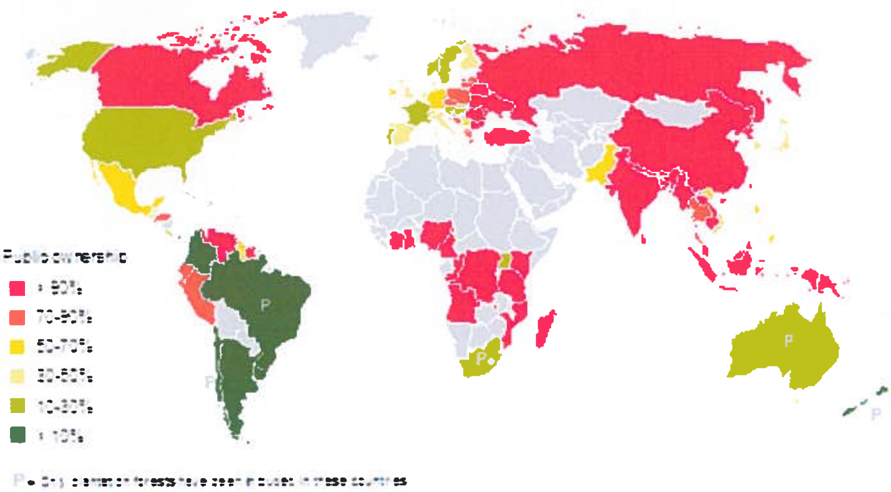
MARKETS AND PORTFOLIO

GLOBAL WOOD PRODUCTS MARKET SUMMARY

There are just over 4 billion hectares of forest land 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.

Figure-1
Public ownership of forestland



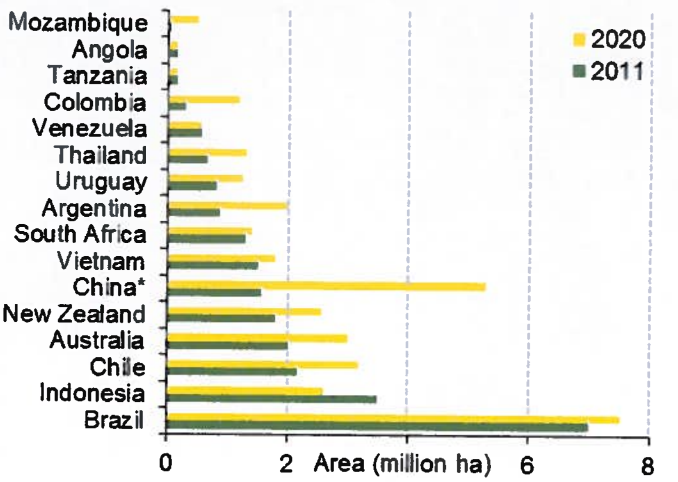
Source: Pöyry

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 in China to stabilise mountain slopes. 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.

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. Current plantation areas and expected expansion are illustrated in Figure -2.

Figure -2
Existing and expected forest plantation area in selected countries

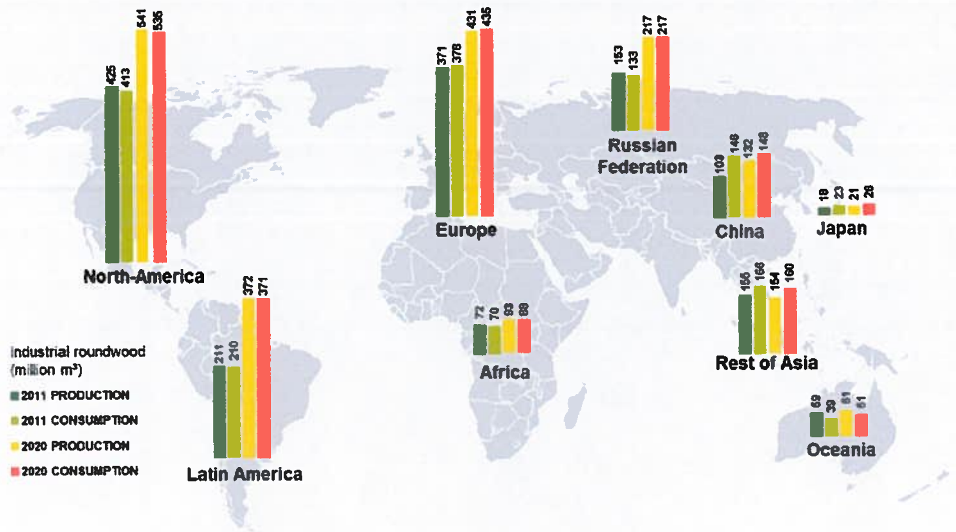


Source : Pöyry

* This figure represents the estimated *productive* area.

In 2011 some 1.6 billion m^3 of industrial roundwood were produced from the world's forest resources. Out of this Latin America contributed approximately 13 per cent. The distribution of roundwood production and consumption largely mirrors those areas in which large forest resources are found (See Figure -3). Looking ahead, Latin America is expected to have the largest increase (77 per cent) in roundwood consumption by 2020, followed by North America and Europe. The growth in consumption is believed to be coupled with a growth of roundwood production within the region.

Figure-3
Global industrial roundwood production and consumption



Source : Pöyry

The forest industry consists of several sectors with co-dependent 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 and paper sectors in their production. Of these three sectors the wood-paying capability[1] has historically been largest in the pulp and 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.

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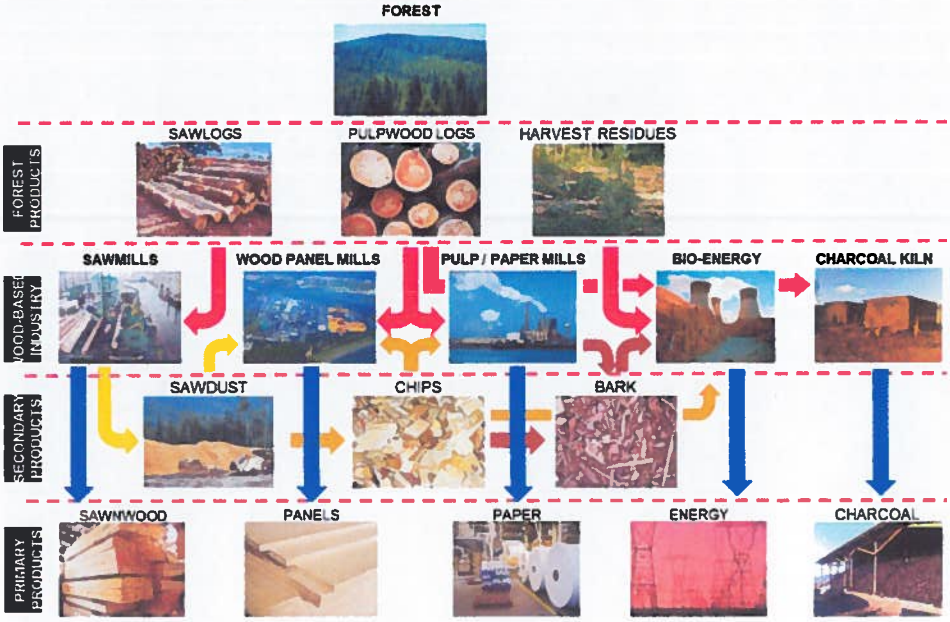
[1] Wood-paying capability is defined as the residual amount remaining after one deducts all direct and indirect production costs (excluding wood raw material costs), plus the minimum expected profit margin, from the price at which a wood-consuming industry sells its end product (e.g. sawnwood, wood-based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

Figure -4
Woodflow in the forest industry

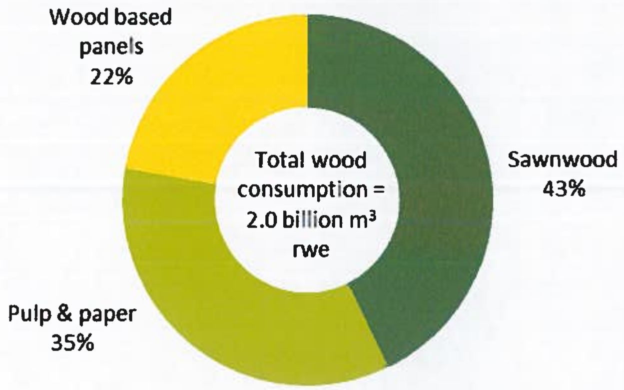


Source : Pöyry

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.

[1] Includes co-products measured as the amount of corresponding roundwood they make up.
Source: Pöyry

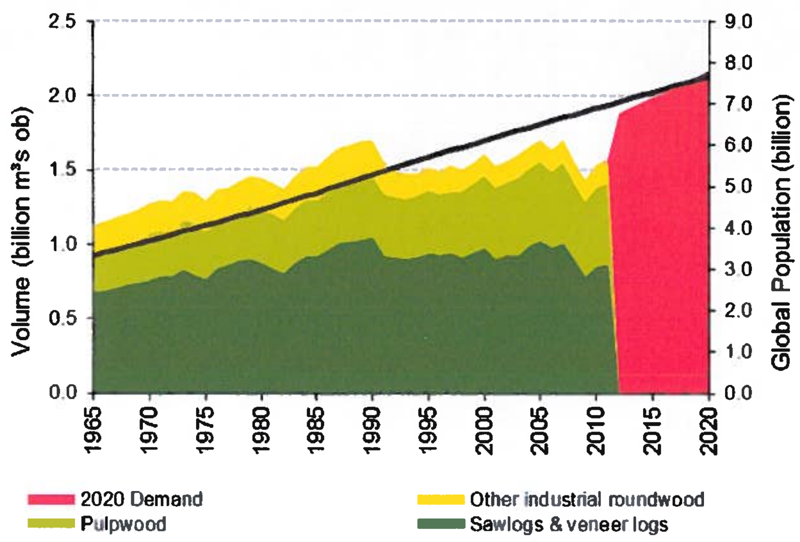
Figure-5
Global wood consumption by industry sector (2011)



Source :FAO and Pöyry

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 World Bank the world's population in 2011 was some 7 billion. This is expected by the UN to increase to 7.8 billion in 2020, and by 2050 it will exceed 9 billion.

Figure -6
Global industrial roundwood production and population growth

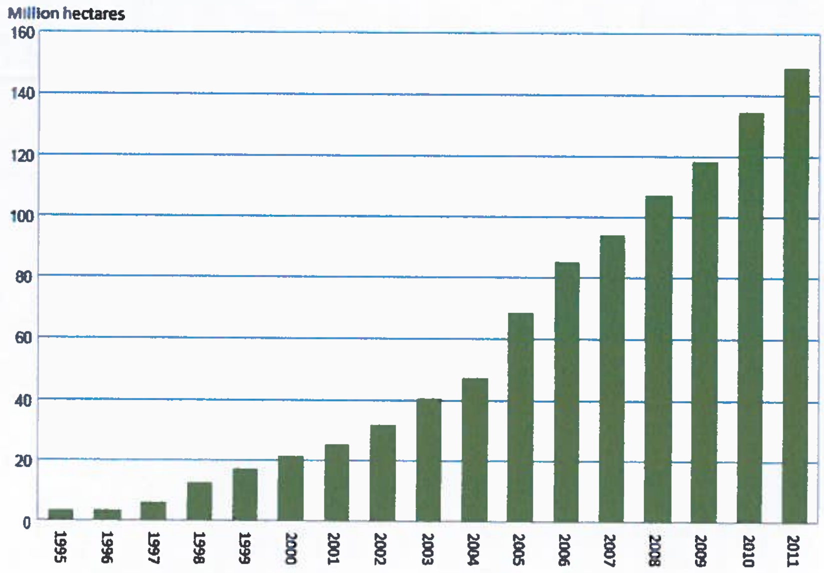


Source : Pöyry

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 the 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 area of certified forests worldwide has grown strongly since the 1990s, and by May 2012 had reached 394 million hectares. The FSC certified area totalled 152 million hectares by this point, or 39 per cent of the total (see Figure -7).

Figure -7
FSC certified area in the world



Source : FSC, Pöyry

It is estimated that the area of certified forests accounts for some 27 per cent of global roundwood production. Most of the certified area is found in the northern hemisphere, with Europe (incl. Russia) and North America representing over 80 per cent of the total. Despite the northern hemisphere's dominance, Brazil was the country with the sixth largest certified forest area in the world in 2012, with 6.5 million hectares of certified forests.

There are several motivators behind the demand for certified products. For many companies it is important to demonstrate the use of certified materials in their products as part of their sustainability and responsible procurement credentials.

Individual consumers are also demonstrating a greater awareness of such credentials. Surveys indicated that recognition of the FSC brand in Brazil rose from 1 per cent in 2006 to 22 per cent in 2009. A similar survey in the UK showed an increase from 19 per cent in 2007 to 43 per cent in 2011.

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 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.

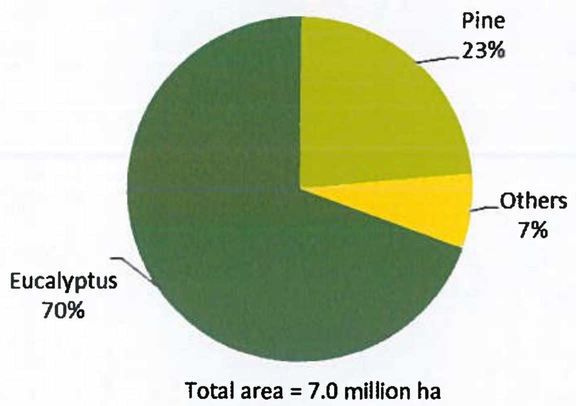
For most plantation owners, having FSC certification is unlikely to result in a price premium for their timber, but it is becoming an ever-increasing pre-requisite to prove the responsible nature of their product and operations, and to operate in global timber markets.

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.

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. However, new plantation establishment stagnated between 2010 and 2011, with an increase of less than 0.5 per cent. The area of eucalyptus increased by 2.5 per cent during 2011 from levels in 2010, mainly on land that had been converted from pine species. In comparison, the area with pine therefore decreased by 6.5 per cent. The plantation area is believed to have remained relatively stable since then.

Figure -8
Plantation area by species in Brazil (2011)



Source: ABRAF - Brazilian Association of Forest Plantation Producers

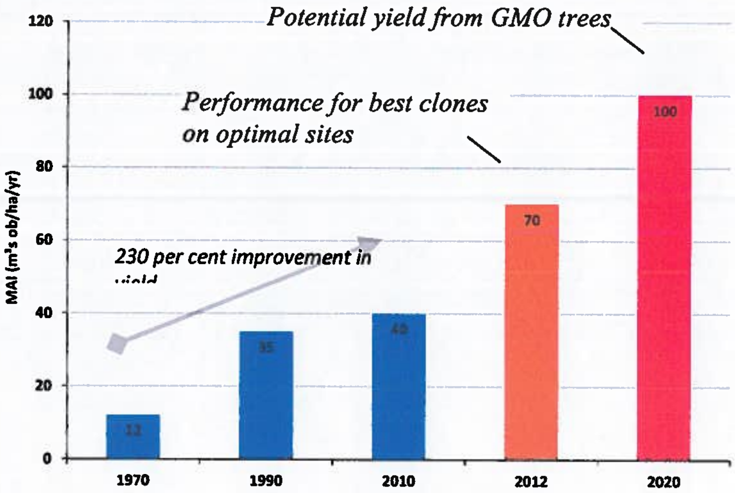
The main reasons for reduced growth in net planted area is considered to be related to legislation limiting the possibilities for foreign investors to purchase land, bureaucracy in the environmental licensing process, and the impact of economic conditions in the EU and the US on market demand. The Brazilian Real has also been considered by many as overvalued during recent years and an obstacle to investment. The Brazilian currency has, however, depreciated during the past year and is now close to the 10 year average against both the US Dollar and the Euro.

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

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. 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 m^3s ob/ha/yr in the 1970s to just over 40 m^3s ob/ha/yr currently. The best clones on the best sites even produce as much as 70 m^3s ob/ha/yr, and in the future it is believed that it will be possible to reach as much as 100 m^3s ob/ha/yr with the help of GMO trees (see Figure - 9).

Figure -9
Development of plantation productivity in Brazil

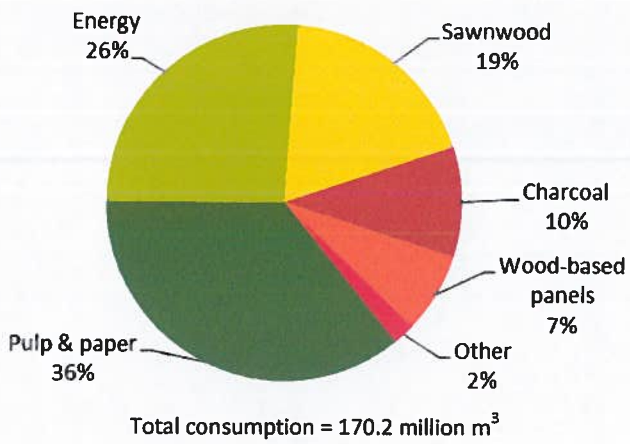


Source : Pöyry

Wood consumption

With its high yields and large plantation resource Brazil is a leading producer and consumer of industrial roundwood, with current consumption exceeding 170 million m^3 per annum (See Figure -10) The largest consumer of roundwood is the pulp industry. In 2011 Brazil was the fourth largest producer of pulp in the world after the US, Canada and China. Brazil is a highly cost competitive producer of pulp, courtesy of its ability to produce wood fibre at low cost and efficient and modern production facilities.

Figure -10
Industrial roundwood consumption by sector – Brazil (2011)



Source: ABRAF - Brazilian Association of Forest Plantation Producers

The consumption from the sawmilling sector is moderate when compared to pulp and paper, and predominantly consists of many smaller sawmills, although some larger players do exist in the sector.

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

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 the sawnwood industry.

THE FOREST COMPANY LIMITED

INVESTMENT MANAGER'S REPORT (CONTINUED)

THE FOREST COMPANY PROJECTS IN PARANA STATE, BRAZIL

KAA PROJECT	
LOCATION	PARANA, BRAZIL
YEAR OF INVESTMENT	2011
OWNERSHIP	100 PER CENT
SPECIES	PINE
END-USE	PULPWOOD/ SAWLOGS
TOTAL AREA	2,020 HA

AIMARA PROJECT	
LOCATION	PARANA, BRAZIL
YEAR OF INVESTMENT	2008
OWNERSHIP	80 PER CENT
SPECIES	PINE AND EUCALYPTUS
END-USE	PULPWOOD/ SAWLOGS
TOTAL AREA	2,820 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 valleys and rivers, which limits the available land for planting to approximately 50 per cent.

The forest assets of the Aimara project are held by the Company's Brazilian SPV, Aimara Ltda, which has entered into a contractual partnership arrangement with Klabin S/A, a leading pulp producer in Brazil. In 2012, the Company completed FSC certification for the project.

The project is planted with eucalyptus and since the second quarter of 2011 it has been fully planted. Aimara is obliged to sell all of the eucalyptus wood fibre it produces to Klabin, who are also obliged to buy it from Aimara, for use in its local pulp and paper production facilities under a 28 year off-take agreement that is governed by a predetermined price mechanism.

AIMARA HIGHLIGHTS FOR THE YEAR

At the outset of the project, Klabin contributed the harvesting rights to 538 ha of standing pine in return for a 20 per cent stake in the project. The harvesting rights were not related to the biological growth of the standing pine, and therefore were reflected as a financial receivable at fair value through profit and loss in the financial statements of the Company. In March 2012 the Company triggered the financial asset receivable for the sale of standing pine trees back to Klabin and consequently received USD 7.89 million (BRL 14.73 million) on 15 April 2012.

During the year the Company completed a forest inventory in Aimara, which confirmed an average MAI of 55.3 m^3/ha/year – a growth rate higher than that projected in 2008, when the Company started the greenfield project.

Post year end, FSC certification covering the Aimara project has been received.

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.

In this project the Company acquired concessions over the land and an option to acquire the underlying land, should legal restrictions on foreign ownership be lifted. The total investment in the project is approximately USD 20 million. Upon acquisition the total harvestable volume of wood from the property was 716,000m^3 solid over-bark (sob), which was equivalent to a stocking of above 600m^{3}sob/ha. The plantations have been well managed in the past and are of the highest saw and veneer log quality.

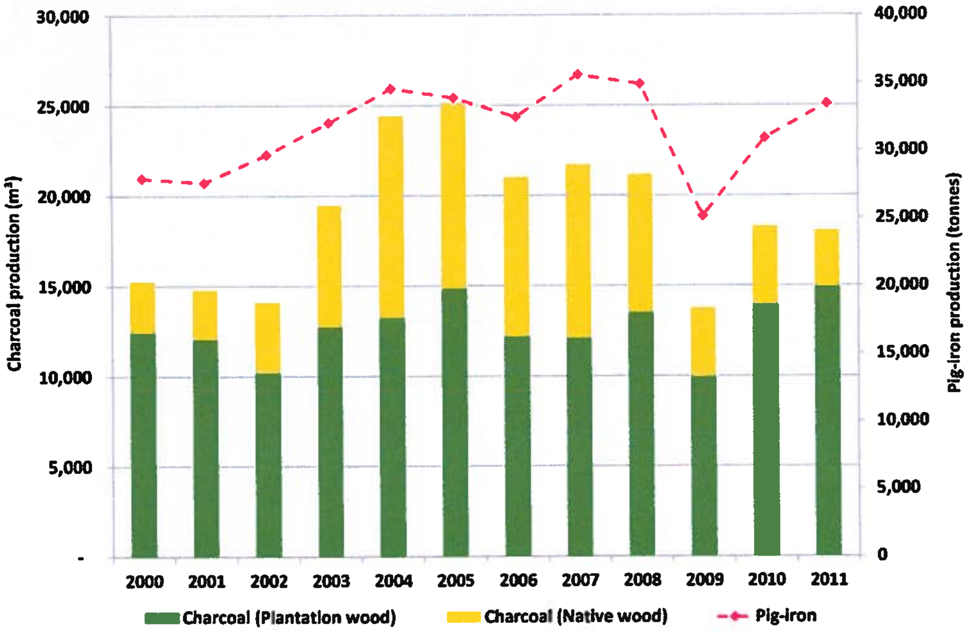
KAA HIGHLIGHTS FOR THE PERIOD

The Kaa project sold 72,967 m^3 of pine in 2012. The average price of the pine delivered was at or above the price used in the independent valuation of the asset. Sales increased steadily throughout 2012 with average monthly sales in Q4 almost twice that in Q1.

BRAZILIAN CHARCOAL MARKET

Brazil is the world's largest exporter of pig iron. Vegetal charcoal (charcoal from wood) is used as a reduction agent in the pig-iron production process. As such, major wood-consumers in Brazil are the charcoal and pig-iron industries. Annual consumption of charcoal exceeded 35 million m^3 up until the economic crisis in 2008. Almost two-thirds of this production took place in the state of Minas Gerais. As expected, subsequent to the crisis, global demand for pig-iron slumped, and Brazilian production fell by 28 per cent in 2009 (See Figure -11). However, volumes have since recovered, and by 2011 were almost back at pre-crisis levels.

Figure -11
Historical charcoal production in Minas Gerais and Brazilian pig-iron production (2000-2011)



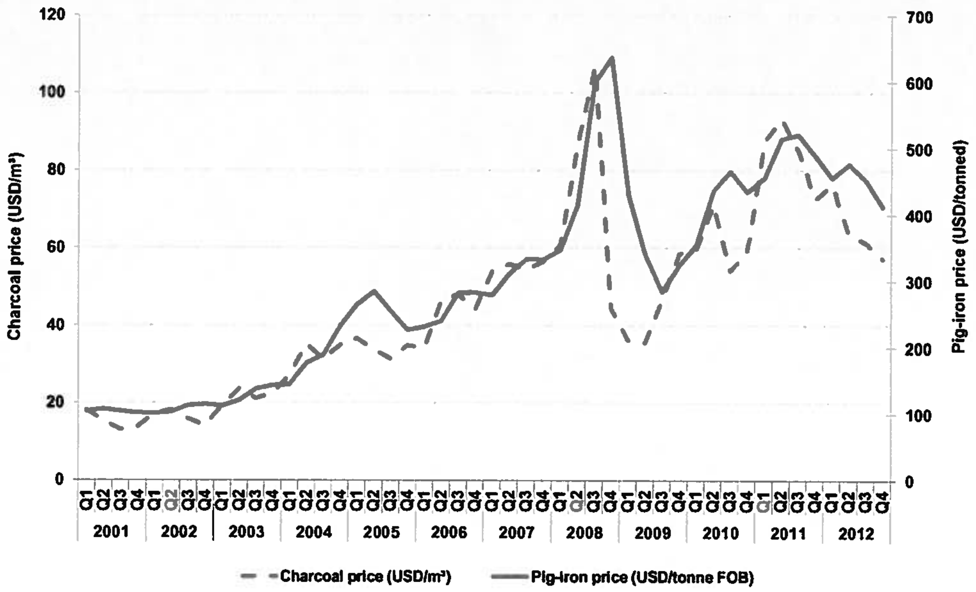
Source: Associação Mineira de Silvicultura (AMS) andMinisterio de Minas e Energia

The two largest pig-iron producing regions in Brazil are in Minas Gerais state and in the Carajás region of Pará state. 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 2011 charcoal production accounted for 10 per cent of the plantation-based wood harvest in Brazil, and the new legislation is expected to see this number increase significantly.

Given the close link between demand for charcoal and for pig iron, it is not surprising to see this relationship reflected in pricing. The debt crisis in the Euro zone and a sharper than expected slowdown in China saw pig-iron prices decline again during 2012 (See Figure -12). However, the outlook for 2013 is generally positive and should see demand and pricing recover.

Figure -12
Historical price development of charcoal in Minas Gerais



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

THE FOREST COMPANY LIMITED
INVESTMENT MANAGER'S REPORT (CONTINUED)

THE FOREST COMPANY PROJECTS IN MINAS GERAIS STATE, BRAZIL

FRONDOSA PROJECT	
LOCATION	MINAS GERAIS, BRAZIL
YEAR OF INVESTMENT	2011
OWNERSHIP	100 PER CENT
SPECIES	EUCALYPTUS
END-USE	CHARCOAL/ BIOCARBON FOR PIG-IRON PRODUCTION
TOTAL AREA	32,157 HA

IBIRACU PROJECT	
LOCATION	MINAS GERAIS, BRAZIL
YEAR OF INVESTMENT	2008
OWNERSHIP	100 PER CENT
SPECIES	EUCALYPTUS
END-USE	CHARCOAL/ BIOCARBON FOR PIG-IRON PRODUCTION
TOTAL AREA	11,478 HA

IBIRAÇÚ PROJECT DESCRIPTION

The Ibiraçú project is located in the municipality of Pirapora 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 (1,450mm 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 of approximately 11,478 hectares of unplanted farms, which were mainly old cattle land. The total expected plantation area amounts to 6,095 hectares, which will be planted with eucalyptus. All of the properties in the project are located in close proximity to each other in the Pirapora area and are managed as one unit of timberland.

The Company has obtained FSC certification for Ibiraçú.

IBIRAÇÚ HIGHLIGHTS FOR THE YEAR

The Company replanted an area of Compostela, one of the farms in Ibiraçú, due to poor quality planting by a prior service provider. The replanted area will ensure the maintenance of the growth yield expected by the Company and a higher quality wood product.

The Company and the Investment Manager have devised management regimes for eucalyptus in the region based on a combination of in-house and market-based research. The new management regimes, designed to enhance the growth yields of eucalyptus crops, will be used on new planting in the Ibiraçú and Frondosa projects.

The Company also completed a forest inventory in Ibiraçú, which confirmed an average MAI of 38 m3/ha/year, a growth rate higher than that projected in 2008, when the Company first started the greenfield project.

FRONDOSA PROJECT DESCRIPTION

In 2011 the Company acquired existing eucalyptus plantations covering a total land area of 32,157 hectares, with a total plantable area of 20,034 hectares, in the municipality of Pirapora in the state of Minas Gerais. The plantations are located close to, and are managed in conjunction with, the Ibiraçú project.

The Company acquired concessions over the land and an option to acquire the underlying land, should legal restrictions on foreign ownership be lifted. The Investment Manager believes that the plantations have been well managed in the past and are of the highest quality. 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. As of 31 December 2012, BRL 34.6 million of this loan was outstanding.

As part of the transaction, the Company acquired the physical assets of a pig-iron mill, and the surface rights on which the pig-iron mill stands. The Company also entered into an industrial facility lease agreement with the sellers to lease back the pig-iron mill for a period of two years. The Company paid 60 per cent of the appraised value of the pig-iron mill assets and surface rights assets. There are on-going efforts to sell these assets, and a share of any profit on disposal will go to the original seller, if the assets can be disposed of by November 2013. The Company's off-take agreement to supply charcoal to the pig-iron facility has been in effect since January 2012.

FRONDOSA HIGHLIGHTS FOR THE YEAR

In January 2012 the Company began to supply charcoal to the Frondosa pig-iron mill. During 2012 the Company also contracted to supply two other regional parties with charcoal and is currently negotiating other sales and increasing the volume of current contracts. Charcoal capacity and sales have increased steadily throughout 2012, peaking in November 2012 with monthly capacity of 28,000 MDC.

Since December 2012 charcoal production capacity has continued to increase, with further expansion and production efficiencies planned for 2013. Planning work for FSC certification has begun. Negotiations and efforts to sell the pig-iron mill continue.

Despite no acquisitions during the period, the total reported hectares of the Frondosa project increased by 216 hectares. This was due to final geo-referencing measurements.

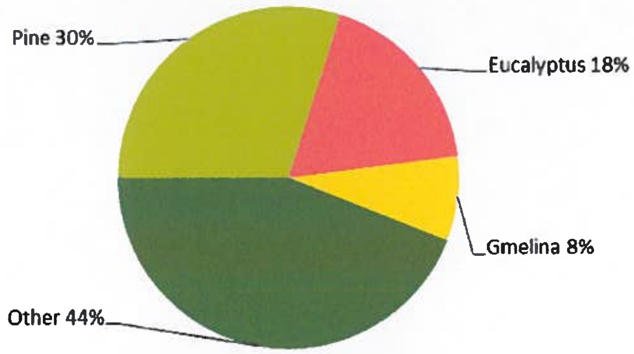
During the year, the Company researched and began efforts to separate out the charcoal production business from the forestry business in Minas Gerais. The Company will continue this work in 2013.

COLOMBIAN FORESTRY MARKET

Colombia has a 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-13). 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.

Figure-13
Area of registered plantations by species



Total plantation area = 282,000 ha

Source : Pöyry and ICA register

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.

Plantation and market outlook

As part of the National Forestry Development Plan (NFDP) established in 2000, the Colombian government continues to support the expansion of the domestic forest industry. As such, the government intends to increase Colombia's plantation area to 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 this goal the Colombian government is highly supportive of new investments by implementing favourable tax structures, as well as forestry subsidy programs. The financial subsidies, known as Forest Incentive Certificates (CIF), cover 50 per cent of a pre-determined cost for establishing and maintaining plantations up to the age of five years. For 2012 the budgeted funding for the subsidies was significantly increased (by more than 500 per cent to USD 100 million) to guarantee that all eligible projects would be able to receive funding.

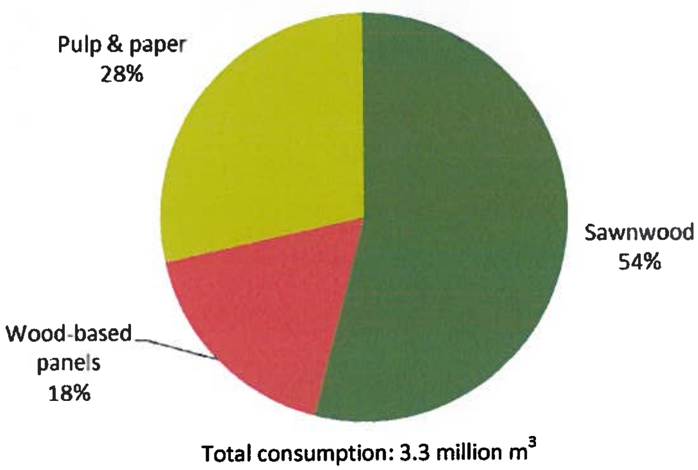
Forest investors will find a favourable land market in the eastern part of the country, where competition for land and their associated prices are low (*circa* USD 500/ha). However, this also means that any new plantations in those regions would be further away from the wood markets, which are more concentrated in the western parts of the country. For the areas pre-selected by the MADR (to be suitable for new plantations) about one third is located in the eastern plains, and two thirds is located in the more industry dense western parts in the Andes mountain region and the region of the Caribbean coast.

During several decades Colombia has been troubled by an internal conflict between guerrilla and government forces. In the most recent times the government has increased its efforts and put extra pressure on the guerrillas. Currently there are discussions about ceasefire and peace talks between the most dominant guerrilla group, the 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 investors in the future through an increase of available land on the market.

Wood consumption

Colombia currently relies on a large share of imports to satisfy its wood pulp and wood-based panels demand. This points to a need and 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 increase continuously. The roundwood consumption per forest industry sector can be viewed in Figure -14. A very limited volume of roundwood is exported from Colombia and there is no wood chip export facility in the country.

Figure -14
Wood consumption (roundwood and sawmill co-products) by sector, 2010



Source : Pöyry

The sawmilling industry is the main consumer of roundwood in Colombia and is mainly comprised of many smaller companies. The one exception is the sawmill of Industrias Forestales Doña Maria which has a production capacity of 100,000 m^3. The second largest sector is pulp and paper, which basically consists of 10 companies with the largest being Smurfit Kappa. Together they represent 3.5 per cent of the total Colombian industrial production.

The sector for wood-based panels is mainly controlled by Tablemac and Pizano, which together with their several plants account for the majority of the production capacity in Colombia. Late in 2012 Tablemac commenced operation of its newly established panel board plant in Barbosa. The plant is expected to have a production capacity of more than 130,000 m^3/per annum making it the largest wood-based panel mill in Colombia.

Activity in the forest sector is increasing, with a number of new developments already under way or in the planning stages.

THE FOREST COMPANY PROJECT IN COLOMBIA

MS TIMBERLAND PROJECT	
LOCATION	ANTIOQUIA REGION, COLOMBIA
YEAR OF INVESTMENT	2010
OWNERSHIP	90 PER CENT
SPECIES	PINE
END-USE	SAW LOGS / WOOD BASED PANELS
TOTAL AREA	10,852 HA

MS TIMBERLAND PROJECT DESCRIPTION

The MS Timberland project consists of 10,852 hectares of acquired land located in the Antioquia region near Medellin – traditionally a pine growing area. The net plantation area is 6,976 hectares, of which 6,461 hectares is currently planted, primarily with existing pine plantations. The Company harvests these plantations on a sustainable basis, replanting shortly after harvest. The plantation consists mainly of *P. patula*. There is potential to increase significantly the growth rate by introducing a pine species more suited to the region, *P. maximinoii*.

The Company invests in MS Timberland through a jointly-owned project company, in which The Forest Company holds a 90 per cent stake. The remaining 10 per cent is owned by Cotopaxi, an Ecuadorian wood-based panel manufacturer with existing plantation assets. MS Timberland mainly sells wood products to the sawmill and panel board industries. The Company also owns 13,651 hectares of bare land in the Vichada region of eastern Colombia for potential use as a greenfield project. These are not included in the above statistics.

MS TIMBERLAND HIGHLIGHTS FOR THE YEAR

The Company received FSC certification for the Antioquia project in March 2012.

The Company purchased a small farm of 247 hectares in the region that is key to providing improved access to some of the plantations. The Company's long-term supply off-take agreement with Cotopaxi is now in effect as scheduled. The Company is also selling wood products, both with bark and de-barked, to a number of other companies in the region.

The Company continued to construct bridges and build roads to facilitate harvesting and replanting on a sustainable basis.

During the year the Company purchased a further 4,256 hectares of bare land in the Vichada region of eastern Colombia.

OUTLOOK AND CONCLUSION

Despite the slight slowdown in the global timber market in 2012, The Forest Company had a positive year. The Company's success demonstrates the effectiveness of its strategy, which seeks to balance three key factors: (1) a continued effort on improving forest management regimes, (2) a focus on wood sales and (3) an emphasis on solidifying existing projects.

The Company sustained its work to improve biological growth rates as that is what underpins the NAV of each of the assets, and in turn increases the value of the Company as a whole. In 2012 the Company focused on wood and charcoal sales as that is what generates cash flow, and in turn allows the Company to pay dividends. Finally, the Company sought to solidify existing projects, as that is what creates a portfolio that gives higher return to investors.

Looking forward, the Company expects to maintain a similar course of action, with these three factors being the cornerstones of its strategy. Needless to say, the Company's principles of social and environmental responsibility will continue to be the guiding values behind its strategy. In doing so, The Forest Company is confident that it will be able to deliver steady and sustainable returns to its shareholders.

Yours sincerely,

Harald Örneberg
CEO and Founder
Timber Capital Limited
29 April 2013

THE FOREST COMPANY LIMITED

INVESTMENT POLICY

INVESTMENT OBJECTIVE

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

INVESTMENT POLICY

The Directors have 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.

INVESTMENT POLICY (CONTINUED)

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.

THE FOREST COMPANY LIMITED

Directors' Report For The Year Ended 31 December 2012

The Directors present herewith their report and audited consolidated financial statements for the year ended 31 December 2012.

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.

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 capital growth combined with a low risk profile through investing in new plantations, trees, timberland, timber related assets globally and associated rural real estate activities (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 58 and 59.

An interim dividend of 3 per cent (2011: 3 per cent) of the Adjusted Net Asset Value as at 31 December 2011 (USD 0.3336 per share) (2011: USD 0.2577 per share) was paid on 31 October 2012 to investors at the record date of 1 May 2012. The Directors do not recommend any further payment of a dividend in respect of the year ended 31 December 2012 (2011: Nil).

Going concern

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

During the year the Company closed its fourth and fifth private placements raising a further USD 38.38 million. Subsequent to the year end the Company raised a further USD 2 million bringing the total equity capital raised to USD 302.50 million.

Subsequent to year end the Company 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. Metlife is in the process of conducting collateral due diligence prior to drawdown.

The Board has made enquiries and examined the Group's cash forecasts, including restricted cash, borrowings and covenants under various scenarios and assumptions, including the scenarios based on current wood and charcoal sales contracts and the scenario based on forecast wood and charcoal sales contracts over the 18 month period until 30 June 2014. Having acquired significant levels of mature plantations during the prior year, the Company will continue to develop markets for wood and wood products in order to achieve the goal that sales exceed the carefully managed on-going costs of the Group.

Going concern (continued)
In the event that wood and charcoal sales do not cover the Group's outgoings, for reasons temporary or otherwise, the Group has recourse to a breadth of other cash generating options, including the continued deferral of payment of the performance fee to the Investment Manager, further issuance of shares, the reduction or deferral of scheduled silvicultural maintenance costs and other financing arrangements. 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 counsel in the various jurisdictions provides 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 counsel 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 2012.

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 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 the Lucro Presumido tax regime has been elected for 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 48 million. A proposal has been brought to the Brazilian congress to increase the limit to BRL 72 million for Lucro Presumido. However this cannot be relied on.

Principal risks and uncertainties (continued)

Tax risk (continued)

The revenues are managed to ensure they stay below the annual limit of BRL 48 million. In the event revenues of one of the Group's Brazilian projects exceed BRL 48 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.

The Group's project Frondosa in Minas Gerais, Brazil has the highest annual revenue. Forecast revenues are consistent with the criteria for Lucro Presumido. In 2013 the Group is planning to separate out the charcoal activity of Frondosa into a separate company and structure and will carefully manage the operational challenges that presents. The sensitivity of the deferred tax provisions to a forced change in tax election for the Frondosa project and for all Brazilian Group projects is discussed further in note 10.

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 their industry knowledge. 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, 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 are required to consider that they are reasonable and whether potential purchasers of the Company's project assets would make the same or 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 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 Shareholders. The Company believes that its valuation policy, and the method used by Indufor, is comparative and 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.

Principal risks and uncertainties (continued)
Valuation risk (continued)
As outlined above, the Group's project Frondosa in Minas Gerais, Brazil has the highest annual revenue. 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 the Frondosa project and for all Brazilian Group projects is discussed further in note 10.

The Company, as part of the Frondosa project, acquired a pig-iron mill that is held as a non-current asset for disposal. The Company paid BRL 30 million, which represented 60 per cent of the independently appraised value of the pig-iron mill in November 2011, and will only pay any part of the remainder if the pig-iron mill sale achieves more than the 60 per cent already paid prior to November 2013. Despite having received indications of interest from prospective buyers, there can be no guarantee that the Company will be able to dispose of the pig-iron mill at, or above, the BRL 30 million paid.

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 as disclosed in the Company's going concern consideration.

Details about the risks associated with the Group's financial instruments are given in note 31 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 International Financial Reporting Standards ("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 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;
2. to remove a notional land lease charge over acquired planted land. Whereas under IFRS these notional costs are deducted from the fair value of forest assets, for the purposes of the adjusted measures, these costs will not be deducted from the fair value of forest assets in line with current market practice; and,
3. 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, as required by IFRS, 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.

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

On 24 September 2012, the Board announced that an Adjusted NAV will be calculated semi-annually as at 31 December and 30 June of each year going forward. Full audited financial statements will continue to be published as at 31 December, and reviewed interim financial statements as at 30 June. However, the Company will no longer publish an Adjusted NAV as at 31 March and 30 September of each year.

THE FOREST COMPANY LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012
(CONTINUED)

Directors
The Directors of the Company who served during the year and as at 31 December 2012 are shown on page 3. Biographies of the Directors holding office at 31 December 2012 and at the date of signing these consolidated financial statements are shown from page 50 to 52.

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:

	2012 *Number of Ordinary Shares*	**2011** *Number of Ordinary Shares*
Rainer Häggblom	43,459	43,459
Dr. Dermot Smurfit	312,500	312,500
Susan Lloyd	16,428	15,882
John Harald Örneberg	1,054,306	1,054,306
Dr. Panu Kallio	2,586	2,500
Joseph Ryan	-	-

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

Pareto Öhman has been nominated 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 financial statements in accordance with applicable law and regulations.

Guernsey company law requires the Directors to prepare 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 period. 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.

Statement of Directors' Responsibilities in respect of the Financial Statements (continued)
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 26 February 2013, the Company accepted a subscription agreement for USD 2 million with 206,475 Ordinary shares being issued and allotted on 4 March 2013 at a price of USD 9.69 per share.

Corporate Governance
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 issued in October 2010 and as updated from time to time (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") and reports its corporate governance arrangements against the AIC Code on a "comply or explain" basis. The annual corporate governance review is undertaken against the AIC Guide and the Board considers that the Company was substantially in compliance throughout the year, with the exception of not having a Remuneration Committee, as explained on page 42.

The GFSC published the GFSC Finance Sector Code of Corporate Governance ("Guernsey Code") in 2011. The introduction to the Guernsey Code states that "Companies which report against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance are also deemed to meet this Code". Therefore, AIC members which are Guernsey-domiciled and which report against the AIC Code are not required to report separately against the Guernsey Code.

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.

Corporate Governance (continued)
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 the 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, Panu Kallio will be retiring by rotation and offers himself for re-election. In addition Joseph Ryan, who was appointed by the Board during the year, offers himself for re-election, in accordance with the Company's articles. Following the evaluation of the work of the Board and its committees that was undertaken during the year under review, the Board has concluded that each Director has performed effectively. The Board recommends that the Directors being offered for re-election be re-elected for a further term.

The European Union Alternative Investment Fund Manager Directive ("AIFMD") comes into effect in July 2013 with a 12 month implementation period. However, it may be introduced in some EU countries earlier. 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 in to the UK and any similar directives are introduced in Guernsey.

Corporate Governance (continued)

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 and is referred to by the Directors at each Board Meeting.

The Board has approved 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 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, 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, CISX 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.

Corporate Governance (continued)

Board responsibilities (continued)

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 CISX. 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 (this does not extend to the Auditor or 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 individual Directors and the Chairman is carried out annually by way of self-appraisal and reviews of the following areas: Board and Committee composition and independence, meeting process, Board and Committee information, knowledge, skills, risk, and an evaluation of the Board and Committee Chairmen. The process followed in 2012 involved completion of a paper-based questionnaire, the results of which were summarised by the Company Secretary and considered by the Nomination Committee as a whole to identify possible training requirements.

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.

Corporate Governance (continued)

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 2012 is set out below.

	Board		*Audit Committee*		*Management Engagement Committee*		*Nomination Committee*	
	Held	*Attended*	*Held*	*Attended*	*Held*	*Attended*	*Held*	*Attended*
Rainer Häggblom	4	4	4	4	n/a	n/a	2	2
Dr. Dermot Smurfit	4	4	n/a	n/a	n/a	n/a	n/a	n/a
Susan Lloyd	4	4	4	4	2	2	2	2
John Harald Örneberg	4	4	n/a	n/a	n/a	n/a	n/a	n/a
Birgitta Johansson-Hedberg (retired 6 June 2012)	2	2	2	2	1	1	1	1
Dr. Panu Kallio	4	4	n/a	n/a	2	2	2	1
Joseph Ryan (appointed 9 July 2012)	2	2	2	2	1	1	n/a	n/a

Board meetings were held in a number of locations throughout the year, including Guernsey, Miami, Amsterdam and Zurich. In addition, there were eight 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 above 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 CISX.

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 investors 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 investors as appropriate.

Corporate Governance (continued)

Audit Committee – See page 47 for the Audit Committee Report

The Audit Committee comprises Joseph Ryan (Chairman), Rainer Häggblom and Susan Lloyd and, pursuant to its terms of reference, will meet at least twice a year. In practice, the Audit Committee meets four times each year.

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

The Management Engagement Committee seeks to focus on compliance with applicable contractual arrangements rather than exhaustively to review the agreements themselves. It follows a consultative process and, where appropriate, 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 2012, 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 CISX Sponsor, was satisfactory and in accordance with the respective terms of engagement. The Committee also concluded that, following its review 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.

Corporate Governance (continued)
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. 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.

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.

Nomination Committee
The Board formed a Nomination Committee on 28 February 2012 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 is chaired by Susan Lloyd with other committee members being Rainer Häggblom, and Panu Kallio. The Nomination Committee shall meet at least once a year. Written Terms of Reference were approved by the Board subsequent to the Committee's first meeting held in 2012.

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.

During the year the Nomination Committee took the lead in the appointment of the new Director, Joseph Ryan, to the Board, following procedures in accordance with its Terms of Reference.

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 10.00am on 6 June 2013 at Lefebvre Place, Lefebvre Street, St. Peter Port, Guernsey.

On behalf of the Board:

Director

29 April 2013

THE FOREST COMPANY LIMITED

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. On 6 June 2012 Birgitta Johansson-Hedberg, formerly Chairman of the Audit Committee, resigned as a director.

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 50 to 52 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 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 four occasions during the year and the Chief Financial Officer of the Investment Manager was in attendance at three of those meetings. She was in attendance by telephone at the one meeting she 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 quarterly reports on the Company's financial results, risk management issues and its going concern.

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

- The 2011 Audited Annual Report and accounts and the 30 June 2012 Interim Report;
- Auditor reports and emphasis of matter paragraphs for the aforementioned reports;
- The independent valuer's feedback and reports;
- The Group accounting policies;
- Consideration and agreement of the terms of reference of the Audit Committee for approval by the Board;
- Compliance with the AIC Code of Corporate Governance; and,
- Reappointment, remuneration and engagement letter of the external auditors.

External audit

During the year the committee considered at length the re-appointment of the external auditors and decided not to put the provision of the external audit out to tender at this time. In doing so, they reviewed 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. The current lead audit partner has been in place for five years and will rotate after the completion of the 2012 year end audit.

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.

The Audit Committee has had regular contact with management 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 two areas of sensitivity which have been fully discussed in notes 10 and 11 in the financial statements:

- 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.

While the Audit Committee is satisfied, having received advice from professional advisers, that these sensitivities have been appropriately reflected and disclosed in the financial statements, it is noted that the Auditor has referred to these matters in their report.

Training

The committee receives regular technical updates and specific personal training is available if required. As a part of his induction as a new director, Joseph Ryan visited some of the Group's forest assets in Brazil and met the senior management team during his visit. Subsequently, he visited the Investment Manager's finance team in Bermuda in order to gain an understanding of the systems and methodologies used by them.

During the year the committee met with various members of the management team and in particular with the Investment Manager's senior forestry specialist and its newly appointed financial controller.

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

29 April 2013

THE FOREST COMPANY LIMITED
DIRECTORS

Rainer Häggblom

Chairman and Non-Executive Director

Rainer Häggblom (aged 56) has participated in strategy and investment planning and M&A assignments in more than 50 countries and for a wide variety of companies. Mr. Häggblom joined the Jaakko Pöyry Group in 1984. In 1989, he was appointed Vice President of Corporate Investment Planning, in 1990 Chief Operating Officer of the Consulting Division and in 1992 President of Jaakko Pöyry Consulting Oy. In 1999, he was appointed Chairman and CEO of Jaakko Pöyry Consulting Oy. In 2006 the name of the company was changed 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 in 1980 and Aalto University in 1984.

Dr. Dermot Smurfit

Non-Executive Director of the Company and Chairman of the Investment Manager

Dr. Dermot Smurfit (aged 68) 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 floated on AIM in May 2007 and First North. Dr. Smurfit is also the chairman of Eurolink Motorway Services Ltd, a toll road operator for the largest single toll road in Ireland and 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 floated on AIM in March 2006 and was subsequently acquired by a subsidiary of DLJ Merchant Banking in November 2006 and the former chairman of Anker PLC, an electronic point-of-sale company floated on AIM in November 2004 and subsequently bought in June 2005. He is the former chairman of Pankaboard, a Finnish manufacturer of paper board products as well as a former non-executive director of Ace Limited, a Swiss based multiline insurance company. 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 graduated from Oatlands College, Dublin in 1962 and Harvard Business School's Advanced Management Program in 1991. Dr. Smurfit became an honorary Doctor of Business Administration for the International Management Centres in 1998.

DIRECTORS (CONTINUED)

Susan Lloyd

Non-Executive Director and Senior Independent Director

Susan Lloyd (aged 71) 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. Since founding Susan Lloyd & Associates in November 1997, Ms. Lloyd has assisted in the placing of more than 10 funds with total committed capital in excess of GBP 1.5 billion. Previously, from 1990 to 1997, 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 in 1996. From 1992 to 1995, Ms Lloyd was also a 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 50) 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. From 1999 to 2005 Mr. Örneberg was manager of the ORN Event Fund and from 2002-2007 the manager of the ORN Multi-Strategy Fund. Prior to forming ORN Capital, from 1997 to July 1999, Mr. Örneberg served as Vice President in the Merger Arbitrage group of Salomon Smith Barney. From 1992 to 1997, he was an investment manager at Industri Kapital (originally Enskilda Ventures, a division of SEB). From 1990 to 1992, Mr. Örneberg worked in the Mergers and Acquisitions group of Enskilda Securities, also a division of SEB. From 1986 to 1988, Mr. Örneberg was a Financial Analyst in the investment banking division at Salomon Brothers.

Mr. Örneberg received an MBA from The Amos Tuck School of Business at Dartmouth College in 1990 and a B.Sc. in Monetary Economics from the London School of Economics in 1986. Mr. Örneberg has extensive experience in the Swedish forest industry, where he has managed forestry assets for the past 20 years.

THE FOREST COMPANY LIMITED

DIRECTORS (CONTINUED)

Joseph Ryan

Non-Executive Director

Joseph Ryan (aged 61) 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 qualified as a Chartered Accountant in 1974 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.

Dr. Panu Kallio

Non-Executive Director

Dr. Panu Kallio (aged 48) 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. Dr. Kallio has held this role since February 2006. Prior to that, Dr. Kallio was a research director at the Pellervo Economic Research Institute from June 1998 to 2006. 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.

Dr. Kallio received his Ph.D. in Agricultural Economics from Purdue University, USA in 1997 and his M.Sc. in Agricultural Economics from the University of Helsinki, Finland in 1991.

THE FOREST COMPANY LIMITED

DIRECTORS (CONTINUED)

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

Rainer Häggblom
Häggblom & Partners Ltd Oy
Prime Energy Power Ltd
Linnunmaa Oy
Kesla Oyj
Dovre Oyi

Joseph Ryan
Muntons Plc
Badminton England
Commonwealth Games England

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

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

John Harald Örneberg
Timber Capital Limited
Varpland H.F

Susan Lloyd
Langholm Capital Partners (Guernsey) Limited
VenCap 12 Limited
VenCap 10 US Limited
VenCap 10 Euro Limited

THE FOREST COMPANY LIMITED
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 2012 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 34. 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. 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 2012 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.

Emphasis of matter – valuation of biological and land assets

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 4, 10 and 11 to the financial statements regarding the critical judgements made in the valuation of biological and land assets. Biological and land assets are included in the Consolidated Statement of Financial Position at fair value as estimated by independent professional valuers at USD 344 million (31 December 2011: USD 353 million).

The valuations reflect the impact of key inputs in respect of future events, in particular the estimated future woodflow at current market prices; the effects of the elected Brazilian tax regime as discussed further below, and the estimated market discount rates applied to the cashflows.

Notes 10 and 11 to the financial statements include a sensitivity analysis which illustrates the potential impact of a change in the inputs and assumptions and is not intended to imply the likelihood of change or that possible changes in value would be restricted to this range.

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

Emphasis of matter – taxation of unrealised gains in biological and land assets

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 4,10 and 20 to the financial statements regarding the critical judgements made in respect of the evolution of the application of the Brazilian tax rules for the valuation of biological and land assets and calculation of deferred tax thereon. The accumulated deferred tax provisions in the Consolidated Statement of Financial Position on the accumulated gains on biological and land assets of USD 168 million (31 December 2011: USD 164 million) are USD 10 million (31 December 2011: USD 11 million) reflecting the assumption that the tax system of Lucro Presumido (a revenue based tax) will remain available to the Company in the long term.

Note 10 to the financial statements includes a sensitivity analysis which illustrates the impact of a full change in the Brazilian tax system to Lucro Real on the valuations of biological assets and the deferred tax provisions.

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

Deloitte LLP
Chartered Accountants
St Peter Port, Guernsey

29 April 2013

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.

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	31 Dec 2012 USD'000	31 Dec 2011 USD'000
ASSETS:			
Non-current assets			
Forest assets			
Land	10	116,393	104,311
Biological assets	10	217,475	241,895
Investment property	11	9,918	6,411
Property, plant and equipment	12	689	6,774
Investment in associates	13	2,194	-
Deferred tax asset	20	396	444
Other non-current assets		-	442
Total non-current assets		347,065	360,277
Current assets			
Non-current assets held for sale	14	14,529	16,248
Financial receivable at fair value through profit or loss	15	-	7,589
Inventory	16	4,350	1,784
Trade and other receivables	17	4,578	3,180
Cash and cash equivalents			
Restricted	18	17,835	27,089
Unrestricted	18	5,856	12,417
Total current assets		47,148	68,307
TOTAL ASSETS		394,213	428,584
Non-current liabilities			
Interest bearing borrowings	19	(8,605)	(11,335)
Deferred tax liability	20	(10,215)	(10,773)
Other long term liability	21	(11,157)	(17,989)
Total non-current liabilities		(29,977)	(40,097)
Current liabilities			
Interest bearing borrowings	19	(9,329)	(15,870)
Trade and other payables	22	(20,040)	(30,264)
Provisions	23	(690)	-
Total current liabilities		(30,059)	(46,134)
TOTAL LIABILITIES		(60,036)	(86,231)
Net assets		334,177	342,353

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

THE FOREST COMPANY LIMITED

Consolidated Statement of Financial Position

As at 31 December 2012

(continued)

	Notes	31 Dec 2012 USD'000	31 Dec 2011 USD'000
Equity			
Share capital	26	276,714	246,607
Revaluation reserve		54,729	39,093
Foreign currency translation reserve		(52,784)	(29,616)
Accumulated profit		55,518	86,269
Equity attributable to holders of redeemable Ordinary and Class A Ordinary Shares		334,177	342,353
Number of redeemable Ordinary Shares in issue at year end	26	12,933,193	9,782,497
Number of redeemable Class A Ordinary Shares in issue at year end	26	24,191,383	22,626,113
		37,124,576	32,408,610
Net asset value per redeemable Ordinary and Class A Ordinary Share	25	$9.00	$10.56

The consolidated financial statements were approved by the Board of Directors on 29 April 2013 and signed on their behalf by:

Director
29 April 2013

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

THE FOREST COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012	2011
Continuing operations		USD'000	USD'000
Revenue	5	21,210	3,854
Cost of Sales	5	(12,444)	(2,408)
Gross profit		8,766	1,446
Depletion	5	(7,286)	-
		1,480	1,446
Unrealised (loss)/gain on biological assets	10	(5,488)	112,720
Realised gain on disposal of planted land	10	266	-
Unrealised gain on investment property	11	238	552
Unrealised gain on financial receivable at fair value through profit or loss	15	-	1,472
Realised gain on financial receivable at fair value through profit or loss	15	362	-
		(3,142)	116,190
Operating expenses			
Administrative expenses	6	13,550	32,902
Forestry operating expenses	7	6,320	5,908
Revaluation of property, plant and equipment		3,170	-
Total operating expenses		23,040	38,810
Operating (loss)/profit		(26,182)	77,380
Interest income on bank deposits		984	3,042
Interest expense - bank borrowings	19	(5,495)	(530)
Interest expense - other	30	(495)	-
Share of income from associate	13	21	-
(Loss)/profit before tax		(31,167)	79,892
Taxation	8	(326)	(2,181)
(Loss)/profit for the year from continuing operations		(31,493)	77,711
Profit for the year from discontinued operations		-	166
(Loss)/profit for the year		(31,493)	77,877
(Loss)/profit attributable to:			
Holders of redeemable Ordinary Shares and Class A Ordinary Shares		(31,493)	77,877
Earnings per share - Basic and Diluted (US cents)			
From continuing operations	27	(87.73)	281.29
From discontinued operations	27	-	0.60
		(87.73)	281.89

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

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2012

(continued)

	Notes	2012 USD'000	2011 USD'000
(Loss)/profit for the year		(31,493)	77,877
Other comprehensive income			
Foreign currency translation differences		(23,168)	(37,229)
Revaluation of planted land	10	19,684	38,729
Revaluation of property, plant and equipment	12	(2,379)	2,492
Deferred tax effect on other comprehensive income	20	(927)	(2,776)
Total comprehensive (loss)/income for the year		(38,283)	79,093
Total comprehensive (loss)/income attributable to:			
Holders of redeemable Ordinary Shares and Class A Ordinary Shares		(38,283)	79,093

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

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

2012	Notes	Share capital USD'000	Revaluation reserve USD'000	Currency translation reserve USD'000	Accumulated profit USD'000	Total USD'000
As at 1 January 2012		246,607	39,093	(29,616)	86,269	342,353
Total comprehensive income/(loss)						
Loss for the year		-	-	-	(31,493)	(31,493)
Other comprehensive income/(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	20	-	(927)	-	-	(927)
Total comprehensive income/(loss)		-	15,636	(23,168)	(30,751)	(38,283)
Transactions with owners						
Shares issued		43,018	-	-	-	43,018
Issue costs		(841)	-	-	-	(841)
Dividends paid	28	(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

2011	Notes	Share capital USD'000	Revaluation reserve USD'000	Currency translation reserve USD'000	Accumulated profit USD'000	Total USD'000
As at 1 January 2011		168,854	648	7,613	8,392	185,507
Total comprehensive income/(loss)						
Profit for the year		-	-	-	77,877	77,877
Other comprehensive income/(loss)						
Currency translation loss		-	-	(37,229)	-	(37,229)
Revaluation of planted land	10	-	38,729	-	-	38,729
Revaluation of property, plant and equipment	12	-	2,492	-	-	2,492
Deferred tax effect on other comprehensive income	20	-	(2,776)	-	-	(2,776)
Total comprehensive income/(loss)		-	38,445	(37,229)	77,877	79,093
Transactions with owners						
Shares issued		86,463				86,463
Issue costs		(2,952)				(2,952)
Dividends paid	28	(5,758)				(5,758)
Total transactions with owners		77,753		-	-	77,753
As at 31 December 2011		246,607	39,093	(29,616)	86,269	342,353

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

THE FOREST COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 USD'000	2011 USD'000
Cash flows from operating activities			
(Loss)/profit for the year		(31,493)	77,877
Adjustments for:			
Original biological asset cost on sales	5	3,850	-
Depletion	5	7,286	-
Unrealised gain on investment property		(238)	(552)
Unrealised loss/(gain) on biological assets		5,488	(112,720)
Unrealised gain on financial receivable at fair value through profit or loss		-	(1,472)
Realised gain on financial receivable at fair value through profit or loss		(362)	-
Realised gain on disposal of planted land		(266)	-
Revaluation of property, plant and equipment		3,170	-
Depreciation		73	-
Taxation		326	2,181
Decrease/(Increase) in inventory		1,403	(457)
(Increase)/Decrease in trade receivables		(1,398)	2,701
(Decrease)/Increase in trade payables		(12,176)	24,159
Cashflow from operating activities		(24,337)	(8,283)
Tax paid		(1,260)	(1,080)
Net cash from operating activities*		(25,597)	(9,363)
Cash flows from investing activities			
Purchase of property, plant and equipment		(624)	(20,129)
Purchase of investment property		(4,279)	(7,754)
Purchase of forest assets		(7,786)	(132,399)
Purchase of investment in associate	13	(2,173)	-
Proceeds from repayment of financial receivable at fair value through profit or loss	15	7,889	-
Proceeds from sale of planted land		2,533	-
Planted land and biological assets costs capitalised		(12,714)	(8,856)
Net cash used in investing activities		(17,154)	(169,138)
Cash flow from financing activities			
Proceeds from issue of shares		38,378	85,259
Issue costs paid		(841)	(2,123)
Fundraising costs paid		-	(3,042)
Proceeds from interest bearing borrowings		1,068	27,205
Repayment of interest bearing borrowings		(8,279)	-
Dividends paid	28	(7,430)	(5,012)
Net cash from financing activities		22,896	102,287
Net decrease in cash and cash equivalents during the year		(19,855)	(76,214)
Cash and cash equivalents at the beginning of the year		39,506	112,335
Effects of changes in foreign currency		4,040	3,385
Cash and cash equivalents at the end of the year	18	23,691	39,506

*Net cash from operating activities includes USD 874,000 (2011: USD 3,042,000) interest received on cash balances.

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

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 (effective from 1 January 2013)
- IFRS 10, "Consolidated financial statements" including the investment entities amendment which is yet to be endorsed by the EU(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 13. "Fair value measurement" (effective 1 January 2014);
- IAS 1 Amendment: "Presentation of items of other comprehensive income" (effective 1 January 2013);
- IAS 12 Amendment: "Deferred tax – recovery of underlying assets" (effective 1 January 2013);
- IAS 19 (Revised) "Employee Benefits" (effective 1 January 2013)
- IAS 27 (Revised) "Separate Financial Statements" (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 2013 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 which may have a significant impact on the Group's financial statements. The Group is currently assessing the full impact of this standard.

2. Changes in accounting policies (continued)

- IFRS 11 will potentially 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. The Group's share of MS Timberland Holdings net loss and net assets for 2012 were 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.
- IFRS 13 will impact the disclosure of the Groups assets held at fair value. In particular additional disclosure with regards to the sensitivity analysis on the significant inputs to the Group's forest assets and investment property valuations will be required and this has been included in Note 10 and 11.

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 were also endorsed by the European Union for accounting periods ending on 31 December 2012.

The Group has adopted the following new and amended IFRSs which had no impact on the consolidated financial statements of the Group as of 1 January 2012:

- IFRS 1 Amendment: "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters" (effective from 1 July 2011);
- IFRS 7 Amendment: "Disclosures – Transfers of Financial Assets" (effective from 1 July 2011);

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 Group's objectives and policies for managing its capital, its financial instruments and its exposure to credit and liquidity risk are included in note 31. During the year the Company closed its fourth and fifth private placements raising a further USD 38.38 million. Subsequent to the year end the Company raised a further USD 2 million bringing the total equity capital raised to USD 302.50 million.

Subsequent to year end the Company 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. Metlife is in the process of conducting collateral due diligence prior to drawdown.

The Board has made enquiries and examined the Group's cash forecasts, including restricted cash, borrowings and covenants under various scenarios and assumptions, including the scenarios based on current wood and charcoal sales contracts and the scenario based on forecast wood and charcoal sales contracts over the 18 month period until 30 June 2014. Having acquired significant levels of mature plantations during the prior year, the Company will continue to develop markets for wood and wood products in order to achieve the goal that sales exceed the carefully managed on-going costs of the Group.

3. Accounting policies (continued)

a) Basis of preparation (continued)

Going concern (continued)

In the event that wood and charcoal sales do not cover the Group's outgoings, for reasons temporary or otherwise, the Group has recourse to a breadth of other cash generating options, including the continued deferral of payment of the performance fee to the Investment Manager, further issuance of shares, the reduction or deferral of scheduled silvicultural maintenance costs and other financing arrangements. 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 year's unrealised gains on the biological assets sold or used in the production of charcoal sold during the year. In the prior year this was included within the unrealised gains on biological assets.

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.

3. Accounting policies (continued)

f) Debt factoring

During the 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 will be repaid by settlement of the timber invoices over a period of 34 months.

Revenue relating to these invoices will be recognised in accordance with the Group's revenue accounting policy whilst the advance received has been 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. 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 follows:

	Rates			
	Jan - Dec 2012		Jan - Dec 2011	
Currency	*Closing rate*	*Average rate*	*Closing rate*	*Average rate*
Brazilian Reais (BRL)	2.0516	1.9552	1.8669	1.6742
Sterling (GBP)	0.637	n/a	0.623	n/a
Colombian Pesos (COP)	1,767.0	1,797.1	1,938.5	1,847.5

3. Accounting policies (continued)

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 similar 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) Investments in joint ventures

A jointly controlled entity involves the establishment of a corporation, partnership or other legal entity in which the Group has an interest along with other parties. Entities which are joint ventures, which the Group owns or operates and controls jointly with a third party, are accounted for under the proportional consolidation method. The Group's share of each of the assets, liabilities, income and expenses of the joint venture are combined with the similar items, line by line, in the consolidated financial statements.

k) 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee. 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 income statement reflects the share of the results of operations of the associates attributable to the Group.

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired.

3. Accounting policies (continued)

k) Investment in associates (continued)

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.

l) Forest assets

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

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

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

The fair market valuations of the forestry assets are calculated by separating the following components:
i. Land and surface rights
ii. Buildings
iii. Biological assets

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.

3. Accounting policies (continued)

l) Forest assets (continued)

ii. Buildings (continued)

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. The discount factor is based on a normal forest company's weighted average cost of capital ("WACC") after tax. 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 similar types of forestry assets in the geographical area.

m) Property, plant and equipment

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

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

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

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

3. Accounting policies (continued)

m) Property, plant and equipment (continued)
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 that are expected to be generated by the carbonisation assets.

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

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

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

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.

3. Accounting policies (continued)

n) Financial instruments (continued)

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.

o) 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.

p) Inventory

Inventory is carried at the lower of cost and net realisable value. Cost comprises the purchase price, costs directly attributable to the purchase and costs of the conversion of inventories. Cost of harvested timber inventory for charcoal production comprises the fair value at last valuation prior to harvesting and subsequent transfer from biological assets.

q) Share issue expenses and placement costs

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

r) Taxation

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

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

3. Accounting policies (continued)

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

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

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

s) Non-current assets held for sale
Assets and liabilities are classified as held for sale if the asset's carrying amount will be recovered principally through a sale transaction, rather than continuing use. The sale must be highly probable and expected to be completed within one year from the balance sheet date. Such assets and liabilities that meet these and other criteria are accounted for in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations 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.

t) 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.

u) 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.

v) 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, 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.
c) The Company continues to market the pig iron mill acquired as part of the Frondosa assets. Whilst it is intended that the best price will be achieved on disposal there is a possibility that the sale proceeds will not equal the carrying value at 31 December 2012.

Following the acquisition of the majority of the Company's biological and land assets in 2011, progress has been made in 2012 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 31.

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

2012	Harvested timber USD'000	Standing trees USD'000	Charcoal USD'000	Lease income USD'000	Total 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**

2011	Harvested timber USD'000	Standing trees USD'000	Charcoal USD'000	Lease income USD'000	Total USD'000
Sales	2,460	1,102	-	292	3,854
Cost of sales					
Variable cost	(1,782)	(626)	-	-	(2,408)
	(1,782)	(626)	-	-	(2,408)
Gross profit	**678**	**476**	-	**292**	**1,446**
Depletion	-	-	-	-	-
	678	**476**	-	**292**	**1,446**

6. Administrative expenses

	2012 USD'000	2011 USD'000
Investment Management fees (note 9)	5,665	3,751
Legal and professional fees	3,364	4,051
Consultancy fees	731	1,491
Travel expenses	1,126	843
Audit fees	1,022	864
Administration fees (note 9)	997	837
Directors fees and expenses	447	387
Bank charges	198	163
Investment Management performance fees (note 9)	-	16,851
Fund raising costs written off	-	3,664
	13,550	32,902

7. Forestry operating expenses

	2012 USD'000	2011 USD'000
Project facilities	901	118
Payroll	1,139	696
Forestry services	1,075	1,158
Land leasing	806	-
Irrecoverable tax inputs	1168	3,263
Insurance	569	201
Valuation fees	410	306
Other general expenses	252	166
	6,320	5,908

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

Subsidiaries 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 applied for the entire year. The regimes determine how the tax basis is calculated for each fiscal year, and each is described below.

8. Taxation (continued)

Brazilian taxation (continued)
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 24 million). It is electable for activities which are expressly defined by Brazilian legislation. Under this regime, income tax and social contribution arise on estimated 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 estimated 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 estimated 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.

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

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.
Effective tax rate:	3.08% 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.

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 over the tax basis for determining IRPJ and CSLL owed in the Actual Profit regime are the same as for the Lucro Presumido regime:

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.
Effective tax rate	34% of net profit

For the year ended 31 December 2012, all of the Company's Brazilian subsidiaries elected to be taxed under the Lucro Presumido regime. A sensitivity analysis of the two tax regimes is included in note 10.

8. Taxation (continued)

Brazilian taxation (continued)
Actual Profit Regime (continued)

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

Companies operating in Colombia are subject individually to corporate income tax. Corporate income tax is levied at a basic 33% on net income (total income less deductible expenses). Colombian law, however, also establishes a minimum taxable base called "presumptive income" which is equivalent to 3% of the net assets of the tax payer as of 31 December or the previous taxable year.

The Colombian subsidiaries do not pay income tax on the sale of wood products from plantations that did not receive government subsidies at the time of planting.

Branches of foreign companies, provided that the income they receive is remitted through dividends from a subsidiary company and that this remittance is made from profits that have already been taxed at 33%, will not pay withholding tax in Colombia.

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

	2012 USD'000	2011 USD'000
Current tax		
Brazil	1,093	1,147
Colombia	127	53
	1,220	1,200
Deferred tax		
Brazil	(234)	1,631
Colombia	(660)	(650)
	(894)	981
	326	2,181

Factors affecting the tax charge are as follows;

	2012 USD'000	2011 USD'000
(Loss)/profit before tax	(31,166)	79,892
Tax charge on Brazilian and Colombian subsidiaries	326	11,123
Factors affecting charge		
Credits due to change in tax regime	-	(4,307)
Credits due to prior year adjustments	-	(4,635)
Tax charge	326	2,181

Deferred tax on revaluation of planted land in the amount of USD 927,000 (2011: USD 2,776,000) has been charged to the revaluation reserve – see note 20.

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

9. Investment Management fee, Performance fee and Administration Fees

Investment management fee

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

The management fee is calculated based upon the last preceding Adjusted Net Asset Value current at the date of payment ("Current Adjusted NAV"). Where 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 2012, the Company incurred investment management fees of USD 5,665,000 (2011: USD 3,751,000), 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.

For the year ended 31 December 2012, the Company accrued Performance fees of USD Nil (2011: USD 16,851,000). An amount of USD 11,004,000 remains outstanding from the 2011 Performance fee (see note 30). This amount is made up of USD 10,913,000 of the original outstanding amount plus USD 92,000 of accrued interest.

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

Performance fee (continued)
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.

Administration fees
Total Administration fees for the Group were as follows for the Year ended 31 December 2012;

	2012 USD'000	**2011 USD'000**
Company	473	472
Subsidiaries - Brazil	340	304
Subsidiaries - Colombia	165	39
Subsidiaries - Other (Delaware and BVI)	19	22
	997	837

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

Administration fees (continued)

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 473,000 (2011: USD 472,000) of which USD 115,000 (2011: USD 156,000) 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 (2011: USD 22,000) in relation to bookkeeping and accounting services of which USD Nil (2011: USD Nil) was outstanding at the reporting date.

The Brazilian subsidiaries are administered by Premier Soluções Contábeis Consultoria e Pericias Ltda. in Sao Paulo. During the year, the Group incurred administration fees of USD 340,000 (2011: USD 304,000) relating to the Brazilian subsidiaries, of which USD Nil (2011: USD Nil) was outstanding at the year end.

The Colombian subsidiaries are provided with administrative services by Celt Consultores. During the year, the Group incurred administration fees of USD 165,000 (2011: USD 39,000) relating to the Colombian subsidiaries, of which USD Nil (2011: USD Nil) was outstanding at the year end.

10. Forest assets

2012	**Land*** USD'000	**Biological assets** USD'000	**Total** 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 harvested	-	(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**

2011	**Land*** USD'000	**Biological assets** USD'000	**Total** USD'000
Cost:			
Opening balance	17,315	31,885	49,200
Biological assets purchased	48,910	102,910	151,820
Land and biological assets costs capitalised	923	7,933	8,856
Transfer from Investment property	6,130	-	6,130
Biological assets cost reclassified	-	(5,359)	(5,359)
Closing balance	73,278	137,369	210,647
Fair value movements:			
Opening balance	2,306	13,630	15,936
Transfer from investment property	192	-	192
Increase in fair value of biological assets	-	112,720	112,720
Revaluation surplus	37,659	-	37,659
Biological assets fair value reclassified	-	(2,128)	(2,128)
Closing balance	40,157	124,222	164,379
Accumulated effect of foreign exchange movement on translation	(9,124)	(19,696)	(28,820)
Fair value of forest assets	**104,311**	**241,895**	**346,206**

*Includes surface rights and owned land

10. Forest assets (continued)

The Group's forest assets were revalued at 31 December 2012 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 discount rate in order to determine Net Present Value ("NPV"). The cash flows are calculated on the basis of the optimal woodflow and adjusted for market assumptions where applicable. This valuation approach is often referred to as the income approach.

The Company has pledged biological assets with a value of USD 21.82 million (BRL 44.76 million) (2011: USD 20.89 million) as security for interest bearing loans - see note 19.

During the year the Group derecognised a total USD 15.30 million (2011: USD 4.75 million) worth of biological assets which were sold either as standing trees or used in the production of charcoal.

Reclassification of forest assets
On 12 April 2009 the Company, through its joint venture, received its proportion of the title to the land and associated forestry assets contributed by Klabin, valued at USD 4,606,431 at the exchange rate of when it was received. The Group has an 80% interest in the joint venture. At 30 June 2011 the Company reclassified the contribution by Klabin from forest assets to financial receivable (note 15) as it has been established that Klabin's contribution did not transfer all the risks and rewards that would come with ownership of the forest assets but rather the Group is entitled to a fixed real rate of return post tax of 9% per annum. The reclassification had the effect of reducing the Forest assets by USD 7,487,000 creating a financial receivable of the same value.

Forest assets owned by Kaa
In 2011 the Company completed the Kaa transaction to acquire existing pine plantations. The plantations are located in Paraña 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.

10. Forest assets (continued)

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 starting 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.

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.

- **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: (5.46% to 5.81%) (2011: 5.83% to 5.93%):** The valuer used the Weighted Average Cost of Capital ("WACC') methodology to determine the post-tax 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.

10. Forest assets (continued)

A. Income approach (continued)

- **Market assumptions:** The valuer also evaluates 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.

10. Forest assets (continued)

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 below is provided in order to illustrate the sensitivity of the biological asset valuations to changes in the discount rate, wood volume assumptions, estimated wood prices and forestry costs. 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.

Variable		Total biological asset value sensitivity USD'000	Biological asset value USD'000	Sensitivity of biological asset value to change in variable as a percentage
Discount rate				
	1% decrease in discount rate	12,660	230,135	5.82%
	1% increase in discount rate	(11,460)	206,015	-5.27%
Forecast wood volume				
	1% decrease	(3,050)	214,425	-1.40%
	1% increase	2,920	220,395	1.34%
Wood prices				
	1% decrease	(3,050)	214,425	-1.40%
	1% increase	2,920	220,395	1.34%
Forestry costs				
	1% decrease	230	217,705	0.11%
	1% increase	(230)	217,245	-0.29%

For example, a decrease in the forecast wood volume of 1% would result in a decrease of the biological asset value of USD 3.05 million to 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 2.92 million to 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 48 million. Whilst the revenues are managed to ensure the annual revenue stays below BRL 48 million, should the revenue of one of the Group's Brazilian projects exceed BRL 48 million in any one calendar year, that project would be subject to Lucro Real the following year.

10. Forest assets (continued)

Brazilian tax sensitivity analysis (continued)

The Directors are confident that they have the systems and controls in place to ensure that the turnover level of BRL 48 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.

The Group's project Frondosa, in Minas Gerais, Brazil, has the highest annual revenue. Forecast revenues are consistent with the criteria for Lucro Presumido. In 2013 the Group is planning to separate out the charcoal activity of Frondosa into a separate company, 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 detailed below.

Brazilian tax sensitivity analysis, all Group Brazilian projects

	Lucro Presumido USD'000	Lucro Real USD'000	Change in value under Lucro Real USD'000	Percentage change in valuation under Lucro Real
Biological asset value sensitivity to tax election	173,995	146,693	(27,302)	-15.69%
Biological asset deferred tax provision sensitivity to tax election	(5,359)	(27,701)	(22,342)	416.94%
Total biological asset value and deferred tax sensitivity to tax election	168,636	118,992	(49,644)	-29.44%
Net Asset Value sensitivity to tax election on biological asset and deferred tax	334,180	284,536	(49,644)	-14.86%
Land value deferred tax provision sensitivity to tax election	(1,705)	(8,014)	(6,309)	370.04%
Total land, forest asset value and deferred tax sensitivity to tax election	166,931	110,978	(55,953)	-33.52%
Net Asset Value sensitivity to tax election	334,180	278,227	(55,953)	-16.74%

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

10. Forest assets (continued)

Brazilian tax sensitivity analysis (continued)
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 6.3 million as detailed above.

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.

At 31 December 2012, 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 1.16 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 2012, 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 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 5.68 million lower or USD 6.95 million higher respectively as a result of the translation of Colombian Peso denominated forest asset values.

11. Investment property

	2012 USD'000	2011 USD'000
Cost:		
Opening balance	4,639	4,802
Additions	2,847	6,474
Transfer to forest assets	-	(6,130)
Reclassification to property plant and equipment	-	(507)
Closing balance	7,486	4,639
Fair value movements:		
Opening balance	179	(181)
Transfer to forest assets	-	(192)
Increases in fair value of investment property	238	552
Closing balance	417	179
Accumulated effect of foreign exchange movement on translation	2,015	1,593
Fair value of investment properties	**9,918**	**6,411**

The Group's investment properties were valued at 31 December 2012 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 similar market data to the characteristics inherent in the element appraised. This method assumes that the data available allows a sample formation of sales or purchases of properties similar to the property being appraised and capable of completing all the existing variables in the regional estate market. The independent valuers deem surface rights inferring all rights and obligations of possession of the land for the long term to hold the same value as that of the underlying land on the basis the Group holds options to acquire the remaining 51% of the freehold interest of such land at nominal cost.

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

Investment property price sensitivity analysis

The following paragraph details the sensitivity of the Group's reported unplanted land (investment property) value to a 1% increase or decrease in the per hectare values of land. A 1% increase or decrease has been used in order to illustrate the effect that each 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 2012, 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 99,000.

11. Investment property (continued)

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 2012, 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 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 752,000 lower or USD 920,000 higher respectively as a result of the translation of Colombian Peso denominated forest asset values.

12. Property, plant and equipment

2012	Buildings	Carbonisation assets	Equipment	Total
	USD'000	USD'000	USD'000	USD'000
Cost/Valuation	864	5,689	375	6,928
Accumulated Depreciation	(59)	-	(95)	(154)
Balance as at 1 January 2012	805	5,689	280	6,774
Movements				
Assets acquired in the year	50	116	458	624
Disposals	(341)	-	-	(341)
Depreciation for the year	(67)	-	(6)	(73)
Revaluation reversal	-	(2,379)	-	(2,379)
Revaluation loss charged to income statement	-	(3,170)	-	(3,170)
Foreign exchange effect	(343)	(256)	(147)	(746)
	(701)	(5,689)	305	(6,085)
Carrying value				
Balance as at 31 December 2012	104	-	585	689
Comprising				
Cost/Valuation	573	-	833	1,406
Accumulated Depreciation	(469)	-	(248)	(717)
	104	-	585	689

12. Property, plant and equipment (continued)

2011	Buildings	Carbonisation assets	Equipment	Total
	USD'000	USD'000	USD'000	USD'000
Cost/Valuation	206	-	291	497
Accumulated Depreciation	-	-	-	-
Balance as at 1 January 2011	206	-	291	497
Movements				
Assets acquired in the year	-	3,197	625	3,822
Reclassified from investment property	507	-	-	507
Assets disposed of during the year	-	-	(305)	(305)
Depreciation for the year	(62)	-	(100)	(162)
Foreign exchange effect	154	-	(231)	(77)
Revaluation	-	2,492	-	2,492
	599	5,689	(11)	6,277
Carrying value				
Balance as at 31 December 2011	805	5,689	280	6,774
Comprising				
Cost/Valuation	864	5,689	375	6,928
Accumulated Depreciation	(59)	-	(95)	(154)
	805	5,689	280	6,774

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 2012.

Post tax real discount rate: 7.46% (Based on the WACC for Brazil of 5.46% plus a risk premium of 2%)(2011: 7.82% (Based on the WACC for Brazil of 5.82% 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: 90% utilisation of the current carbonisation capacity for year for 2013 and 100% for further years.

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.

In accordance with IAS 16 'Property, Plant and Equipment' the revaluation loss in excess of the previously recognised revaluation surplus has been recognised in the consolidated income statement.

13. Investment in associates

	2012 USD'000	2011 USD'000
Opening balance	-	-
Additions	2,173	-
Share of income from associate	21	-
Effect of foreign exchange movements	-	-
Closing balance	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. Non-current assets held for sale

The Group's non-current assets held for sale comprised the following major classes of assets and liabilities;

	2012 USD'000	2011 USD'000
Property, plant and equipment	14,839	16,307
Trade and other receivables	12	262
Cash and cash equivalents	9	-
Trade and other payables	(331)	(321)
Total	14,529	16,248

The Company's advisors are currently seeking a purchaser for the pig-iron mill assets held by Frondosa and it is anticipated that these will be disposed of within 12 months of the reporting date. The related assets and liabilities have been classified as non-current assets held for sale.

15. Financial receivable at fair value through profit or loss

	2012 USD'000	2011 USD'000
Opening balance	7,589	-
Reclassified from forest assets	-	7,487
Fair value adjustments	-	1,472
Repayment of financial receivable	(7,531)	-
Effect of foreign exchange movements	(58)	(1,370)
Closing balance	-	7,589

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 has 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 realized gain for the year of USD 362,000.

16. Inventory

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

	2012	2011
	USD'000	USD'000
Seedlings and consumables	381	1,651
Work in progress	3,969	110
Finished products	-	23
	4,350	1,784

The Group's work in progress consists of biological assets that at the balance sheet date were going through charcoal production. The prior year work in progress consisted of sawmill production that was in progress on disposal of the sawmill in Colombia.

17. Trade and other receivables

	2012	2011
	USD'000	USD'000
Trade receivables	2,133	1,416
Advances to suppliers	323	272
Prepaid interest	206	-
Other receivables	1,916	1,492
	4,578	3,180

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

18. Cash and cash equivalents

Cash and cash equivalents comprises cash held by the Group and short-term bank deposits available on demand. The carrying amounts of these assets approximate their fair value. The table below provides a breakdown of cash and cash equivalents that are considered to be restricted and unrestricted as at 31 December 2012.

	2012	2011
	USD'000	USD'000
Restricted		
Amounts pledged as collateral	4,235	6,427
Amounts held in escrow accounts in respect of assets purchased	13,600	20,662
	17,835	27,089
Unrestricted	5,856	12,417
	23,691	39,506

19. Interest bearing borrowings

2012 Lender	Project	Current USD'000	Non-current USD'000	Total USD'000
Banco Rodobens SA ("Rodobens")	Frondosa	3,117	-	3,117
Banco Rendimento SA ("Rendimento")	Frondosa	5,602	8,147	13,749
Serfinco SA (see below)	Antioquia	392	458	850
Other	Antioquia	218	-	218
		9,329	8,605	17,934

2011 Lender	Project	Current USD'000	Non-current USD'000	Total USD'000
Banco Rodobens SA	Frondosa	4,769	3,406	8,175
Banco Rendimento SA	Frondosa	11,101	7,929	19,030
		15,870	11,335	27,205

The Group, through Frondosa, drew down the facilities to complete the acquisition of the Frondosa assets in November 2011, receiving BRL 35 million from Rendimento and BRL 15 million from Rodobens.

The facility from Rendimento bears interest at the Brazilian interbank ("CDI") rate plus 1.0% per month and that from Rodobens bears interest at the rate of CDI plus 3.0% per year. As at 31 December 2012 the outstanding loan balances were BRL 6.39 million and BRL 28.21 million for the Rodobens and Rendimento loans respectively.

The capital on the facility from Rodobens has a final repayment date of 10 May 2013.

On 6 September 2012 the repayment period of BRL 32.57 million Frondosa loan with Rendimento was extended by 18 months, ending in November 2014, in order that the repayments will more closely match the income being generated by the project.

19. Interest bearing borrowings (continued)

The facility from Rendimento is secured by

i) an assignment under a Fiduciary Lien by Aimara in favour of Rendimento, over a CDB deposited therewith, in the amount of USD 2.19 million (BRL 4.5 million); and
ii) an Agricultural Pledge over standing trees valued at USD 21.82 million (BRL 44.76 million);

The facility from Rodobens is secured by a fiduciary assignment over a CDB owned by Aimara, in the amount of USD 3.10 million (BRL 6.36 million).

The security in relation to the facilities is being released by Rendimento and Rodobens proportionally with the repayments of principal and interest to be made by Frondosa.

On 22 May 2012 the Company, through El Guasimo, entered into a factoring agreement with Serfinco S.A. Stockbrokers ("Serfinco") for invoices relating to a three year timber sales contract with a total value of COP 2,218 million (approx. USD 1.19 million). As part of this agreement COP 1,688 million (approx. USD 852,000) was received from Serfinco and will be repaid by settlement of the timber invoices over a period of 34 months with an effective interest rate of 11% per year. Any default by the buyer will be settled by the Company. To date the Company has had to pay USD 233,000 to Serfinco as a result of the buyer's delayed harvesting. As at 31 December 2012 the amount owing to Serfinco was COP 1,504 million (approx. USD 850,000).

The total interest incurred on these borrowings was USD 5.50 million (2011: USD 3.04 million).

20. Deferred tax

	2012		2011	
	Liability USD'000	Asset USD'000	Liability USD'000	Asset USD'000
Opening balance	(10,773)	444	(8,114)	527
(Charged)/credited to income statement on fair value adjustments on forest assets	864	11	(9,860)	-
Charged to income statement on fair value adjustments on investment property	-	-	(57)	-
Charged to other comprehensive income on revaluation adjustments	(927)	-	(2,585)	-
Credited to income statement on change of tax regime in Brazil	-	-	4,307	-
Credited to income statement on tax adjustments in Colombia	-	-	4,635	-
Charged to other comprehensive income on change of tax regime	-	-	(191)	-
Other movements	65	(113)	46	(90)
Exchange rate differences	556	54	1,046	7
Closing balance	(10,215)	396	(10,773)	444

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.

21. Other long term liabilities

	2012 USD'000	2011 USD'000
Amounts owing on purchase of forest assets	10,203	17,989
Deferred income on land sold	954	-
	11,157	17,989

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 18) and will be disbursed as and when the liabilities become due.

22. Trade and other payables

	2012 USD'000	2011 USD'000
Trade payables	4,962	11,530
Amounts due on purchase of forest assets	3,244	-
2011 Investment management performance fees payable (Note 9)	11,005	16,851
Taxes payable	129	169
Accruals	700	282
Amounts due on purchase of investment property	-	1,432
	20,040	30,264

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.

23. Provisions

	2012 USD'000	2011 USD'000
At 1 January	-	-
Provision made during the year	690	-
	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 year.

24. Joint ventures

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

	2012 USD'000	2011 USD'000
Forest assets	75,000	78,873
Financial receivable at fair value through profit or loss	-	7,589
Property, plant and equipment	629	1,085
Trade and other receivables	2,244	1,726
Inventories	30	323
Cash and cash equivalents	5,409	14,643
Deferred tax asset	366	444
Other non-current liabilities	(458)	(1,432)
Deferred tax liability	(2,217)	(2,445)
Trade and other payables	(2,088)	(2,662)
Net Assets	78,915	98,144
Revenue	6,804	2,460
Cost of sales	(4,759)	(1,782)
Depletion	(3,316)	-
Interest income	803	1,663
Unrealised gains on investment property	-	203
(Decrease)/Increase in fair value of biological assets	(7,209)	22,885
Unrealised gains on financial receivable at fair value through profit or loss	-	1,472
Expenses	(2,652)	(3,023)
Net (loss)/profit before tax	(10,329)	23,878

The Group's revaluation surplus for the year includes an amount of USD 1,694,000 (2011: USD 535,000) 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. The Group's share of MS Timberland Holdings net loss and net assets for 2012 was 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.

25. 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 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, as a result of an "in use" basis of realisation being assumed.
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, in line with market practice.
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 2012 are as follows:

	2012		2011	
	USD	USD'000	USD	USD'000
	per share	*total*	*per share*	*total*
IFRS net asset value attributable to holders of redeemable Ordinary and Class A Ordinary shares	9.00	334,177	10.56	342,353
Adjustment for deferred tax duplication	0.17	6,288	0.23	7,471
Adjustment for notional land lease charge	0.38	14,266	0.14	4,220
Adjustment for unamortised organisation expenses	0.14	5,072	0.19	6,260
Adjusted net asset value attributable to redeemable Ordinary and Class A Ordinary shareholders	9.69	359,803	11.12	360,304

26. Share Capital

As at 31 December 2012 the authorised share capital of the Company was USD 20,000,002 (2011: USD 12,000,002) divided into 100,000,000 (2011: 100,000,000) redeemable Ordinary Shares of USD 0.10 each, 100,000,000 (2011: 100,000,000) redeemable Class A Ordinary Shares of USD 0.10 each and two (2011: 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.

(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 2012, the Company issued 4,715,966 new shares with 478,851 of these new shares being issued as a result of the scrip dividend issue on 31 October 2012. The shares issued increased the number of shares from 32,408,612 to 37,124,578. Total proceeds raised from the share issues were USD 43.02 million (USD 4.60 million as a result of the scrip dividend issue – see page 98).

26. Share Capital (continued)

Transactions in the shares of the Company for the year ended 31 December 2012 were as follows:

2012	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 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

2011	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 2011	2	8,738,558	13,406,031	22,144,591
Fractional shares issued 31 January 2011	-	3	1	4
Shares issued 27 May 2011	-	1,418,451	6,593,968	8,012,419
Shares redesignated on 28 July 2011	-	(486,939)	486,939	-
Shares issued 26 August 2011	-	-	2,115,996	2,115,996
Shares issued 1 October 2011	-	56,745	23,178	79,923
Shares issued 22 December 2011	-	55,679	-	55,679
As at 31 December 2011	2	9,782,497	22,626,113	32,408,612

On 17 February 2012, the Company completed the final close of its fourth private placement. Subscription Agreements were accepted totaling USD 33.88 million in respect of 2,783,964 Ordinary Shares and 988,585 Class A Ordinary Shares. Following this close, 2,783,964 Ordinary Shares and 988,585 Class A Ordinary Shares were issued and allotted by the Board at a price of USD 8.98 per share on the same date.

On 28 September 2012, the Company accepted Subscription Agreements totalling USD 4.5 million in respect of 154,855 Ordinary shares and 309,711 Class A Ordinary Shares as part of a fifth private placement. Following this acceptance, 154,855 Ordinary Shares and 309,711 Class A Ordinary Shares were issued and allotted by the Board at a price of USD 9.69 per share on the same date.

On 31 October 2012 the Company distributed USD 12.07 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 9.69 per Share (being the Net Asset Value per Share on 30 June 2012). As a result 211,877 Ordinary Shares and 266,974 Class A Ordinary Shares were issued on 31 October 2012.

26. Share Capital (continued)

	2012 USD'000	2011 USD'000
Balance at beginning of year	246,607	168,854
Issue of shares	43,018	86,463
Transaction costs on issue of shares	(841)	(2,952)
Dividends during the year	(12,070)	(5,758)
Balance at end of year	276,714	246,607

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.

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

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

	2012	2011
(Loss)/Profit for the year	**USD'000**	**USD'000**
From continuing operations	(31,493)	77,711
From discontinuing operations	-	166
	(31,493)	77,877
Average number of issued shares ('000s)	35,898	27,627
Basic and diluted (loss)/earnings per share	**US cents**	**US cents**
From continuing operations	(87.73)	281.29
From discontinuing operations	-	0.60
	(87.73)	281.89

28. Dividends

On 31 October 2012 the Company distributed USD 12.07 million (2011: USD 5.76 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 9.69 per Share (being the ex-dividend adjusted net asset value per Share on 30 June 2012). As a result 211,877 Ordinary Shares and 266,974 Class A Ordinary Shares were issued on 31 October 2011 and USD 7.43 million was paid in cash.

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.

29. Subsidiaries

Details of the Company's operating subsidiaries as at 31 December 2012 are as follows:

Name	Place of incorporation and operation	Ownership interest %	Voting power held %
Aimara Empreendimentos Imobiliários e Participações Ltda	Brazil	100	100
AB Florestal Participacoes Ltda	Brazil	100	100
Caeté Empreendimentos Imobiliários e Participações Ltda	Brazil	100	100
Frondosa Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda	Brazil	100	100
Hadoque Propriedades Rurais e Participacoes Ltda	Brazil	100	100
Ibiraçú Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda	Brazil	100	100
Kaa Empreendimentos Imobiliários e Participações Ltda	Brazil	100	100
MillCo Participacoes Ltda	Brazil	100	100
Paiva Florestal Participacoes Ltda	Brazil	100	100
Surubim Empreendimentos Imobiliários, Atividades Florestais e Participações Ltda	Brazil	100	100
Reforestadora El Guasimo	Colombia	90	90
Canaguay 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
La Diana Timberland Holdings Limited*	British Virgin Islands	100	100
La Esperenza Timberland Holdings Limited*	British Virgin Islands	100	100
La Esperenza Wood Timberland 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
Las Ventas Timberland Holdings Limited*	British Virgin Islands	100	100
MS Timberland Holdings Limited*	British Virgin Islands	90	90
Paraiso Wood Holdings Limited*	British Virgin Islands	100	100
Potosi Timberland Holdings Limited*	British Virgin Islands	100	100
Vichada Timberland Holdings Limited*	British Virgin Islands	100	100
Santa Ana Florestal Limited*	British Virgin Islands	100	100

*Operates in Colombia through a local branch.

29. Subsidiaries (continued)

Details of the Company's intermediate holding subsidiaries as at 31 December 2012 are as follows:

Name	Place of incorporation and operation	Ownership interest %	Voting power held %
MG Timberland Holdings Limited	British Virgin Islands	100	100
PA Timberland Holdings Limited	British Virgin Islands	100	100
PR Timberland Holdings Limited	British Virgin Islands	100	100
SC Timberland Holdings Limited	British Virgin Islands	100	100
SP Timberland Holdings Limited	British Virgin Islands	100	100
MG Timberland Holdings LLC	Delaware USA	100	100
MG Timberland LLC	Delaware USA	100	100
PA Timberland Holdings LLC	Delaware USA	100	100
PA Timberland LLC	Delaware USA	100	100
PR Timberland Holdings LLC	Delaware USA	100	100
PR Timberland LLC	Delaware USA	100	100
SC Timberland Holdings LLC	Delaware USA	100	100
SC Timberland LLC	Delaware USA	100	100
SP Timberland Holdings LLC	Delaware USA	100	100
SP Timberland LLC	Delaware USA	100	100

30. Related Party Transactions and Directors' Remuneration

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

Mr. John Harald Örneberg, a Director of the Company, is also a director and shareholder of the Investment Manager. As at 31 December 2012 Mr. Örneberg held 1,054,306 (2011: 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.

Dr. Dermot Smurfit, a Director of the Company, is also a director of the Investment Manager. As at 31 December 2012 Dr. Smurfit held 312,500 (2011: 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. The Company will pay interest to the Investment Manager on the deferred amount at USD 3 month LIBOR plus 4% per annum. For the year ended 31 December 2012, the Company incurred USD 495,000 interest in relation to this agreement of which USD 92,000 was outstanding at the end of the year. The outstanding performance fee at the end of the year was USD 10,913,000 (2011: USD 16,851,000).

Ms. Susan Lloyd, a Director of the Company, as at 31 December 2012 held 16,428 (2011: 15,882) redeemable Ordinary Shares in the Company.

Mr. Rainer Häggblom, a Director of the Company, as at 31 December 2012 held 43,459 (2011: 43,459) redeemable Ordinary Shares in the Company.

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

Dr Panu Kallio, a Director of the Company, as at 31 December 2012 held 2,586 (2011: 2,500) redeemable Ordinary Shares in the Company.

Directors' fees for the year ended 31 December 2012 were as follows;

	2012 USD'000	2011 USD'000
Rainer Häggblom (Chairman)	115	81
Dr. Dermot Smurfit (non-executive)	64	64
Susan Lloyd (non-executive)	55	55
John Harald Örneberg (non-executive)	-	-
Dr. Panu Kallio (non-executive)	55	55
Birgitta Johansson – Hedberg (non-executive) (retired 6 June 2012)	24	55
Joseph Ryan (non-executive) (appointed 9 July 2012)	31	-
	344	310
Expenses	103	77
	447	387

As at 31 December 2012 USD Nil (2011: USD Nil) was outstanding.

Included in the Chairman's fee is an accrued amount of 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.

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 44,000 (2011: USD 80,000) in relation to Mr. Larsson's employment in Brazil, all of which had been reimbursed at the reporting date (2011: USD 80,002). 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.

31. Financial instruments & associated risks

Capital risk management

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

The investment objective of the Group is to seek long term capital appreciation together with a dividend policy pursuant to which the Company will aim to pay an aggregate annual dividend equal to between 3% and 5% of the Adjusted 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 4.75% as at 31 December 2012 (2011: 7.02%).

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 balance sheet date the Group's financial instruments were made up of the following categories;

	2012 USD'000	2011 USD'000
Financial assets		
Loans and receivables		
Financial receivable at fair value through profit or loss	-	7,589
Trade and other receivables	4,578	3,180
Cash and cash equivalents	23,691	39,506
Investment in associate	2,194	-
Financial liabilities		
Loans and payables		
Trade and other payables	20,040	30,264
Interest bearing borrowings	17,934	27,205
Other long term liabilities	11,157	17,989

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.

31. Financial instruments & associated risks (continued)

Categories of financial instruments (continued)
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 2012 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 2012 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.

31. Financial instruments & associated risks (continued)

Market risk (continued)

Foreign currency risk (continued)

The closing financial asset and liability positions denominated in currencies other than United States Dollar as at 31 December 2012 were as follows:

2012	BRL USD'000	COP USD'000	GBP USD'000	Total 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	(11,319)	(80)	(404)	(11,803)

2011	BRL USD'000	COP USD'000	GBP USD'000	Total USD'000
Trade and other receivables	1,346	1,467	-	2,813
Cash and cash equivalents	30,735	2,740	-	33,475
Financial receivable at fair value through profit or loss	7,589	-	-	7,589
Other non-current assets	442	-	-	442
Trade and other payables	(9,551)	(2,269)	(157)	(11,977)
Interest bearing borrowings	(27,205)	-	-	(27,205)
Other long-term liabilities	(19,421)	-	-	(19,421)
Net exposure	(16,065)	1,938	(157)	(14,284)

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. 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 1.03 million higher (2011: USD 1.33 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 1.26 million lower (2011: USD 1.63 million lower) as a result of foreign exchange gains on translation of Brazilian Real denominated financial assets and liabilities.

31. Financial instruments & associated risks (continued)

Market risk (continued)

Foreign currency risk (continued)

As the Group's investments are held in Brazil and Colombia, any currency movements between the underlying currencies and the reporting currency will have an impact on the Group's results. Although management has not directly mitigated the foreign exchange risk by hedging the exposure, they expect that in the long term the foreign exchange exposure 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 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 which included the Group's interest bearing borrowings (see note 19). For floating rate financial assets and liabilities, the analysis is prepared assuming the amount of asset outstanding at the reporting date was outstanding for the whole year. A 1% increase or decrease has been used in order to illustrate the effect that each 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 2012 would have increased by USD 333,313 (2011: USD 513,770). 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 2012 would have decreased by USD 333,313 (2011: USD 513,770). 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 funds have been spread over five institutions with high credit ratings.

31. Financial instruments & associated risks (continued)

Credit risk (continued)
The table below shows the cash balances at the reporting date and the credit rating for each counterparty:

Counterparty	Location	Rating	2012 USD'000	2011 USD'000
Banco Itau	Brazil	A-	11,717	19,221
Royal Bank of Scotland International	United Kingdom	A	3,507	1,480
Banco Rodobens	Brazil	A	3,077	9,103
JP Morgan S.A.	Brazil	A-	2,354	-
Rendimento	Brazil	BBB	2,179	3,906
EFG Bank	Zurich	A	437	1,976
Banco Colombia	Colombia	BBB	160	2,737
Banco HSBC S.A.	Brazil	BBB-	-	716
Banco do Nordeste S.A.	Brazil	BBB	-	203
Other			260	164
			23,691	39,506

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.

Major clients
The Group's revenue as at 31 December 2012 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.

31. Financial instruments & associated risks (continued)

Liquidity risk

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

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

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

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

The following table details the Group's expected maturity for its loans and receivables:

31 December 2012	Weighted average interest rate	Less than 1 year USD'000	1-5 years USD'000	5+ years USD'000	Total USD'000
Assets					
Non-interest bearing	-	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)

31 December 2011	Weighted average interest rate	Less than 1 year USD'000	1-5 years USD'000	5+ years USD'000	Total USD'000
Assets					
Non-interest bearing	1.08%	3,178	7,589	-	10,767
Fixed interest rate instruments	0.74%	15,336	-	-	15,336
Variable interest rate instruments		24,172	442	-	24,614
Liabilities					
Non-interest bearing	-	(30,264)	(17,989)	-	(48,253)
Variable interest rate instruments	7.94%	(15,870)	(11,335)	-	(27,205)
		(3,448)	(21,293)	-	(24,741)

32. Operating segments

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

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

For the year ended 31 December 2012, the Directors believe that the Company and the Group was engaged in a single segment of business of holding investments in timber and timberland, operating from Guernsey, Colombia and Brazil. The information reviewed by the Board includes summarised financial information for each investment in the portfolio.

	Segment Income		Segment profit	
Segment revenues and results	**2012 USD'000**	**2011 USD'000**	**2012 USD'000**	**2011 USD'000**
Sales of product	21,210	3,854	1,480	1,446
Interest income	984	3,042	984	3,042
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	552	238	552
Unrealised gain on Financial receivable at fair value through profit or loss	-	1,472	-	1,472
Unrealised (loss)/gain on Forest assets	(5,605)	112,720	(5,605)	112,720
Total for continuing operations	17,455	121,640	(2,275)	119,232
Administration costs			(22,923)	(38,810)
Interest expense			(5,990)	(530)
Share of profit of associate			21	-
(Loss)/Profit before tax from continuing operations			(31,167)	79,892

32. Operating segments (continued)

	As at 2012 USD'000	As at 2011 USD'000
Segment assets		
Investment property	9,918	6,411
Forest assets	333,868	346,206
Property, plant and equipment	689	6,774
Investment in associate	2,194	-
Deferred tax assets	396	444
Other non-current assets	-	442
	347,065	360,277
Other assets	47,148	68,307
Total segment and consolidated assets	394,213	428,584
Segment liabilities		
Interest bearing borrowings	17,934	27,205
Other long term liabilities	11,157	19,421
Deferred tax liability	10,215	10,773
Trade and other payables	20,730	28,832
Total segment and consolidated liabilities	60,036	86,231

	Income		Non-current assets	
Geographical segments	2012 USD'000	2011 USD'000	2012 USD'000	2011 USD'000
Guernsey	6	95	-	-
Brazil	19,609	93,972	279,428	293,156
Colombia	(2,160)	27,573	67,641	67,121
Total	17,455	121,640	347,069	360,277

The 2011 Income related mainly to uplift in the value of assets purchased during that year whilst 2012 income has been derived mainly from sales of trees and charcoal. The Colombian 2012 negative income is as a result of an unrealised valuation loss as result of a lower biological asset valuation.

33. Contingent liabilities

The Company, via its Ibiraçú subsidiary, has 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 2.33 million (31 December 2011: USD 2.50 million) at the reporting date, being the purchase price yet to be paid.

In addition, the Company, through Ibiracu, 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 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.

33. Contingent liabilities (continued)

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

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

34. Subsequent events

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.