

The Forest Company ||



INVESTMENT MANAGER REPORT

2023

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RECENT UPDATES

MAIN ACHIEVEMENTS

Management implemented several actions during 2023 to improve operational performance and shareholder value. These actions are outlined further in this report. Some of the main achievements are described below:

- Re-planted a total of 1,492 ha.
- Deleveraged the company with USD 4.2 million.
- A total of 79,750 verified carbon units (VCU) were sold in the international market at USD 5.1 per ton, generating a total income of USD 407K.
- The Colombian investee, MS Timberland, completed the FSC audit with zero non-conformities.
- Kicked off a pilot project in Colombian operations for the installation of solar panels in one of the camps. The intention is to replicate the pilot in all camps in the forthcoming 24 months, aiming to reduce up to 60% of the total gallons of gasoline used for the power plants that provide electricity to the camps.
- Silvotecnia started the implementation of an information system in the field to allow real-time information about the operations (use of resources, progress of work, etc.).
- Silvotecnia has successfully renewed its smart logging certification with only minor non-conformities.
- The portfolio of clients for the sustainability and consultancy lines of business in Colombia has increased.
- Completed the environmental licencing of all farms in the Minas Gerais region in Brazil.
- Kicked-off negotiations to increase the volume of charcoal delivered to the Silicon Alloy industry.
- Development and implementation of a new system for monitoring and measurement of biodiversity.
- Succeeded in reducing the silviculture cost per hectare for re-planting by circa 13% due to the renegotiations held mainly with the fertilisers and other input providers.

At 31 of December 2023 the Company's Adjusted NAV increased to USD 201 million from USD 168.6 million at 31 of December 2022. This represents an increase of 19% resulting mainly from the appreciation of the investees' underlying currencies against the dollar.

During 2023, the investees generated a total aggregated sales of USD 28.0 million and the Company ended the period with an aggregated cash balance, including all investees, of USD 5.2 million.

At the operations level, the focus continues to be the implementation of each investee's strategic plan, aiming to achieve improved profitability, securing long-term contracts where possible and ensuring an efficient operation throughout. During this period, the following achievements are seen as the more relevant, either because of their immediate financial impact or their impact on operations which will boost future performance.

RECENT UPDATES

BRAZIL

The solid-wood products and wood-based panels markets have been the most affected by the current macro-economic environment with high-interest rates and high inflation reducing sales by pushing industrial segments to reduce production via work-shift reduction. The producer's expectations are for recovery and growth in the second half of the year supported by the US growing housing demand associated with low stocks. Pulp and paper industries, which are the most relevant for the Company, have performed more resiliently although putting considerable pressure on the wood producers to secure wood supply at low cost.

Overall, industrial players are experiencing a rise in wood prices at the same time as the demand and price for their products have reduced. This is triggering hard negotiations with wood suppliers to push wood prices down. Suppliers. However, are dealing with increased forestry capex and are unwilling to let go of the price gains achieved in 2021 and 2022, which are compensating for the lower wood production profitability in prior years. Regarding pulpwood, we believe the supply strategies being put in place will ensure proper prices in the long run as industry-forest investor partnerships are executed.

The prospects for the charcoal industry have improved during the second half of 2023 with increased economic activity in some key steel markets in Europe and US which has improved the demand for charcoal and driven by the charcoal prices.

The Chinese demand for pig-iron was very slow during the first half of 2023. We have seen the demand slowly increasing during second half of 2023 but are expecting the demand to further pick up during 2024.

Hence, we see the outlook for wood and charcoal demand remains positive in Brazil through a combination of a lack of timber available in the open market and increasing demand which supports higher prices. Also, overall, global wood product demand is growing rapidly, and emerging wood products have the potential to mitigate climate change by replacing carbon-intensive construction materials with ones sourced from commercially sustainable forests. Further, more adverse and severe climate events in recent years have impacted forest productivity and charcoal operations, which, together with a trend for forest areas to be converted into crops, have increased the perceived risk of investment, and thus reduced forest plantation areas. This factor has increased the gap between future demand and wood supply.

In addition, the pressure to achieve COP 27 committed goals will require collective and innovative solutions which, supported by the government's strong environmental and climate change mitigation policies, will open new opportunities for The Forest Company to do business in the near future.

We see it as strategic to continue to invest in increasing our planted area while establishing long-term partnerships or off-take agreements with major industry consumers in the region to secure a steady cash-flow stream in the forthcoming years, capturing the opportunities the momentum will bring.

COLOMBIA

Colombia is consuming about 3 million cubic meters of wood per year. The balance is in deficit and there is at least another 3 million of wood demand in the market that cannot be supplied by current resources in the country. Hence, the market is increasing relying on imports to satisfy consumption needs. (Fedemaderas 2024).

In the case of wood product, the value of Colombian exports of wooden furniture remained stable in 2023, reaching USD 60.1 million. This value represented a slight decrease of 1.0% compared to 2022 (USD 60.69 million), exports of wood products in 2023 reduced 1.4% (USD 520.5 million) compared with 2022 (USD 527.6 million).

The importation of transformed wood decreased 34% in 2023 (USD 265 Million) compared to 2022 (USD 403 million), and paper product 35% in 2023 (USD 960 Million) compared to 2022 (USD 1,467 million).

The year of 2023 was a challenge. One of the words most pronounced by analysts, experts, and authorities during 2023 was 'deceleration'. Negative Gross Domestic Product (variation of -0.3% annually in the third quarter of 2023), something that has not been seen -not counting the pandemic- since 1999, and a contraction in the generation of new jobs.

The increase in the interest rate by the Bank of the Republic and the fight to control the inflation, together with a political conflict, produced a fall in investment by 11% annually in the third quarter. The economic slowdown explains 1.5% decline in export for the month of October 2023.

However, the recent research of BBVA report warn that the recovery of private consumption of goods and the maintenance of positive figures in export, despite the falls, will lead to good performance in production sectors and will boost the performance of private investment in the second half of 2024.

NET ASSET VALUE

ADJUSTED NET ASSET VALUE

	2H 2023	1H 2023	1H 2023 to 2H 2023%	2H 2022	1H 2023 to 2H 2022%
Adjusted NAV (USD million)	201	185.1	+9.8%	168.6	+19.0%
Adjusted NAV per share (USD per share)	3.9	3.6	+9.8%	3.3	+18.9%
Adjusted NAV accum. dividends per share (USD per share)	5.6	5.3	+6.5%	5.0	+12.5%

The entity's adjusted NAV is published semi-annually for the purposes of reporting to the shareholders. The movements in the Company's NAV reflect the changes in the value of the Company's investments. The reconciliation of the Company's IFRS fair value to the adjusted NAV as of 31 December 2023 is as follow:

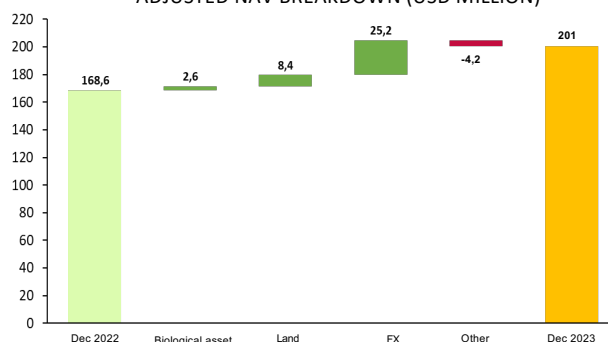
	2023 USD per share	2023 USD Million	2022 USD per share	2022 USD Million
IFRS fair value	3.6	182.5	3.0	154.9
Adjustment for notional land lease charge	0.3	18.5	0.3	13.7
Adjusted NAV	3.9	201	3.3	168.6

The adjusted NAV increased by 8.4 % in 2H 2023, from USD 185.1 million in 1H 2023 to USD 201 million in 2H 2023. When compared to the USD 168.6 million in 2H 2022, the adjusted NAV increased by 19.0%.

The main impacts in 2023 compared to 2022 were driven by the following changes in the investee companies:

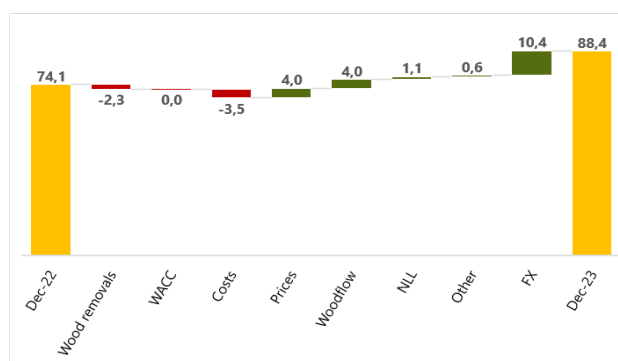
- A USD 25.2 million net increase from strengthening of BRL and COP against the USD during the period.
- Biological assets decreased with USD 3.6 million during the period mainly due to decreased wood prices and increased forecasted future harvesting volumes (wood flow). For further details see table in next section of the report.
- Land value increased with USD 7.7 million during the period. Mainly from increase in land values in Brazil.
- Other factors had a positive impact of USD 3.3 million during the period.

ADJUSTED NAV BREAKDOWN (USD MILLION)



At the end of December 2023, the adjusted NAV per share was USD 3.9 (2H 2022: USD 3.6). Adding back all previous dividends paid since inception, the adjusted NAV per share was USD 5.6 (2H 2022: USD 5.0).

MOVEMENTS IN BIOLOGICAL ASSETS (USD MILLION)



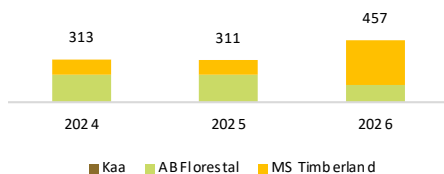
The main movements and drivers for the biological asset value during the period were:

- -2.3 MUSD decrease as a result of wood removals (volumes delivered) during 2023.
- No change in WACC.
- -3.5 MUSD decrease due to higher costs assumed in the valuation model (-0.2 MUSD H2 2023).
- A USD 1.1 million increase arising from assumed higher NLL compared to previous valuations. (0.6 MUSD H2 2023)
- The appreciation of the local currencies, Brazilian real and Colombian peso, contributed to an increase of USD 10.4 million in biological asset value. During 2023, the BRL appreciated by 8.9% against the USD, while the COP appreciated by 25.9%.

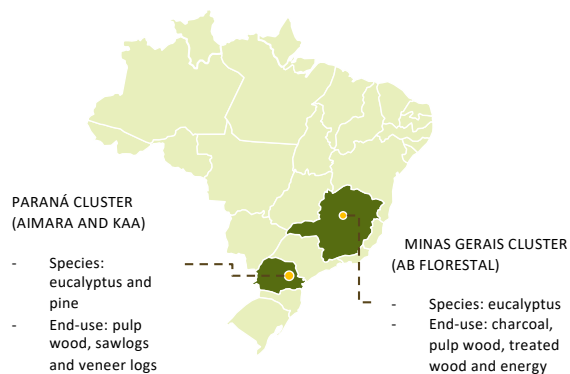
PROJECTS OVERVIEW

During 2023 a total of 732,942 m³ of wood (including volume carbonised through the charcoal operations) was sold by the Company's investees including a total of 185,842 MDC of charcoal.

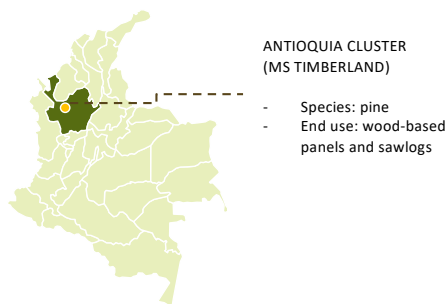
CURRENT CONTRACTED SALES ('000 M³)



BRAZILIAN PROJECT LOCATIONS



COLOMBIAN PROJECT LOCATION



AB FLORESTAL

IRR after-tax since inception 2023 (local currency): 6.9%

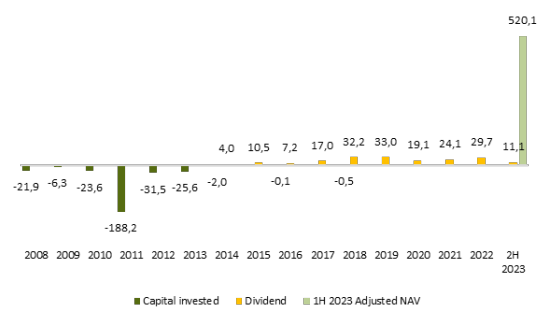
During 2023, AB Florestal sold 436,903 m³ of standing wood with nearly 60% consumed within the group to produce charcoal through the BioCarbono project.

During the period, a total of 185,842 cubic metres of charcoal was sold in Minas Gerais.

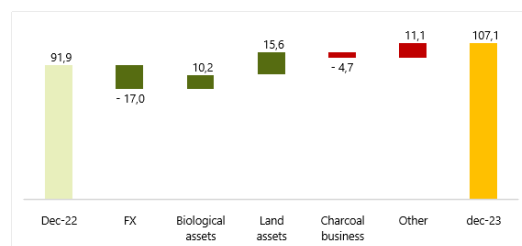
In 2023, AB Florestal paid dividends in the amount of BRL 11.1 million.

The Company's operations in Minas Gerais add up to a total NAV of USD 65.9 million, a 31% increase compared to 31st December 2022.

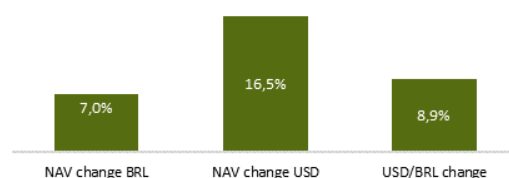
CAPITAL INVESTED, DIVIDENDS AND 2023 ADJUSTED NAV (BRL MILLION)



ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/BRL CHANGES (2023 VS 2022)



PROJECTS OVERVIEW

CEREJEIRA

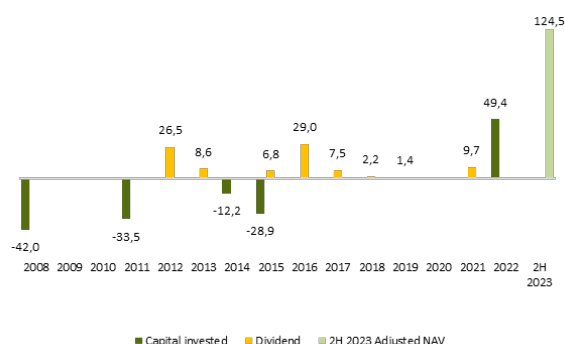
IRR is after-tax since inception to 2023 (local currency): **34%**.

Cerejeira is a project in place following the Klabin transaction in which The Forest Company has a 50% stake. This includes the land and biological assets of Kaa and Aimara's projects that were contributed in exchange for the shares in the project.

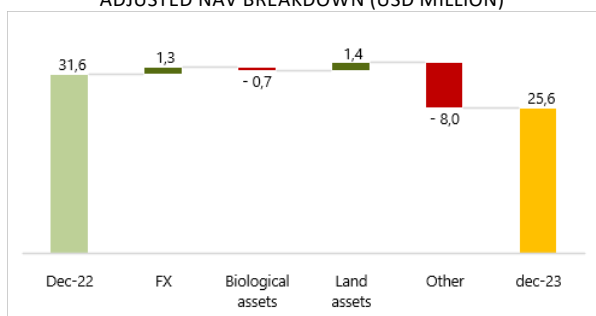
Cerejeira will be managing the pine and eucalyptus plantations whose wood volumes are intended to supply Klabin's pulp operation in the region (Paraná).

The adjusted NAV decreased by 18.9% during 2H 2023 to USD 25.6 million compared with 2022 H2 mainly driven adjustments to the fair value of the assets even if the appreciation of the BRL /USD is taken into account.

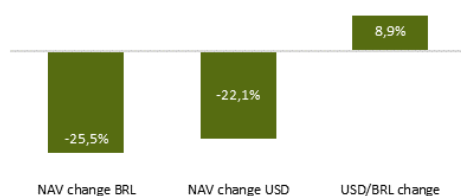
CAPITAL INVESTED, DIVIDENDS AND 2023 ADJUSTED NAV (BRL MILLION)



ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/BRL CHANGES (2023 VS 2022)



MS TIMBERLAND

IRR after-tax since inception to 2023 (local currency): **13.6%**

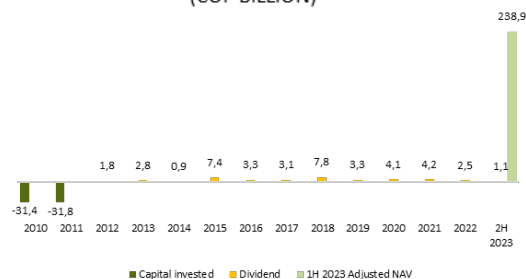
During 2023, the Colombia operations sold a total of 39,374 m3 of wood and totalled 83,680 m3 2023 (91,699 m3 2022) a 9% decrease. Measured in Colombian pesos the sales ended up in COP 16.2 million (COP 17.3 million).

The adjusted NAV value increased by 26.5 % during 2023 to USD 62 million compared with 2H 2022, being impacted by the increase of the discount rates applied in the biological assets valuation model.

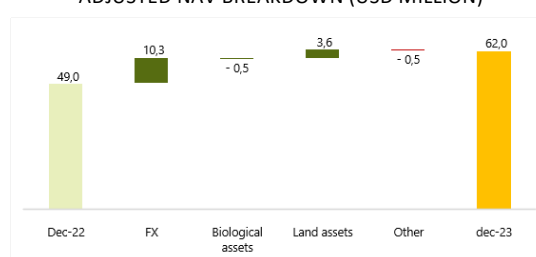
The biological asset value decreased by 0.5 million in local currency which was caused by higher harvesting costs assumed in the valuation model. Both forestry assets value benefitted from the Colombian peso appreciation against the dollar with forestry assets showing an increase of 4.5% during 2023 when measured in USD terms.

The biological asset value increased by 88.6% in USD in 2021, driven by improved price assumptions. Land value decreased by 21.1% in the local currency reflecting a more conservative approach by the new independent valuer and the sale of one farm.

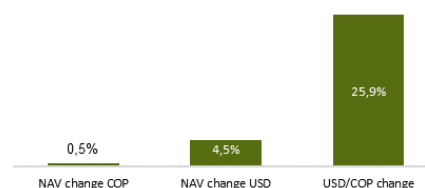
CAPITAL INVESTED, DIVIDENDS AND 2021 ADJUSTED NAV (COP BILLION)



ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/COP CHANGES (2023 VS 2022)



PROJECTS OVERVIEW

SILVOTECNIA

IRR after-tax since inception to 2023 (local currency): 9.6%

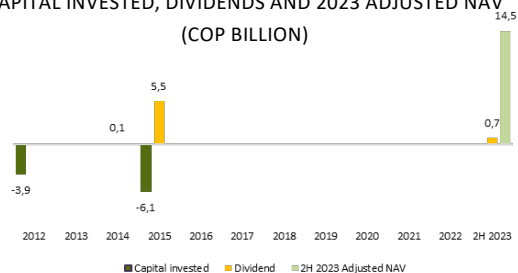
This investee's NAV increased during 2023 to USD 3,8 million or 18.4%.

During 2023, Silvotecnia's sales increased with 1% driven by an overall lower pace in the Colombian economy even if the drop is counteracted by the company's broadening of their service offer. Total sales of COP 22.3 billion were achieved for total 2023, representing a 1% increase compared to last year and with an EBITDA margin of 4.7% (2022: 6.0%)

From 2016 to 2H 2023, there was no additional capital invested instead profit has been reinvested into the expansion of the business.

The adjusted NAV value increased by 18.4% during 2023 to USD 3.8 million compared with year end 2022, mostly due to the strengthening of the Colombian currency, COP, against the USD.

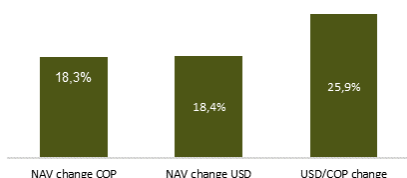
CAPITAL INVESTED, DIVIDENDS AND 2023 ADJUSTED NAV (COP BILLION)



ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/COP CHANGES (2023 VS 2022)



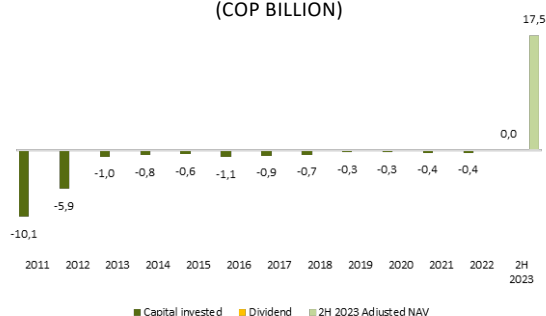
VICHADA

IRR after-tax since inception to 2023 (local currency): 2.9%

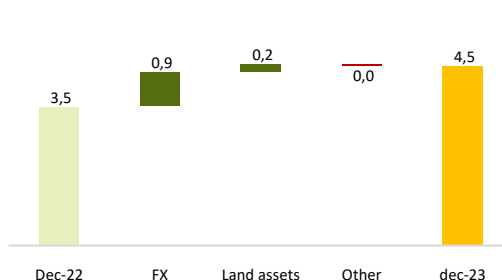
The Vichada project is part of a group of properties located in the Vichada department, Colombia. The properties cover an area of 13,576 ha.

This investee's NAV increased during 2023 to 17.5 billion COP or 3.9% vs same period last year.

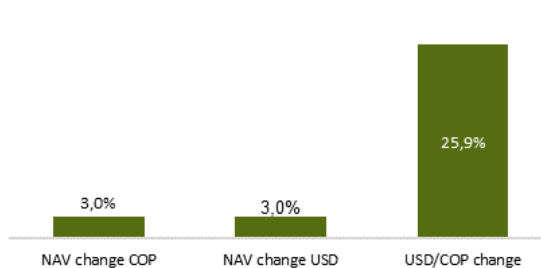
CAPITAL INVESTED, DIVIDENDS AND 2023 ADJUSTED NAV (COP BILLION)



ADJUSTED NAV BREAKDOWN (USD MILLION)



ADJUSTED NAV AND USD/COP CHANGES (2023 VS 2022)



PROJECTS OVERVIEW

SALES PERFORMANCE

		2023	2022	%
Total for The Forest Company	Wood sales (m ³)	547,099	972,375	-44%
	Charcoal sales (MDC)	185,842	175,654	6%
	Gross sales (USD)	27,952,977	31,187,467	-10%
Paraná (Pine and Eucalyptus)	Wood sales (m ³)	26,516	224,745	-88%
	Gross sales (BRL)	664,285	12,472,496	-95%
	Gross sales (USD)	132,470	2,530,241	-95%
Minas Gerais (Eucalyptus)	Wood sales (m ³)	436,903	655,932	-33%
	Gross sales (BRL)	29,702,059	38,615,545	-23%
	Gross sales (USD)	5,865,949	7,443,076	-21%
Minas Gerais (Charcoal)	Charcoal sales (MDC)	185,842	175,654	6%
	Gross sales (BRL)	66,538,214	61,330,247	3%
	Gross sales (USD)	13,152,959	11,921,526	10%
Antioquia (Pine)	Wood sales (m ³)	83,680	91,699	-9%
	Gross sales (‘000 COP)	16,184,583	17,267,581	-6%
	Gross sales (USD)	3,588,425	4,060,120	-12%
Colombia (Forest Services)	Gross sales (USD)	5,213,174	5,232,504	-0%

- The aggregated revenues totaled USD 28.0 million, a decrease of 10% compared to 2022, driven by a reduction of the volumes sold that fell 44%.
- Paraná 2022 sales show a significant increase, which is explained by the one-off sale to Klabin.
- Wood sales volumes in Minas Gerais during 2023 decreased by 33% in volume and by -23% when measured in local currency.
- In Antioquia, 2023, total sales were 9% below 2022 which had been impacted by constraints in the delivery capacity caused by heavy rains in the region and consequent reduction of transportation capacity.
- Total sales from forest services in Colombia increased by 1% measured in COP but was at the same level as 2022 when measured in USD due to that the average FX rate 2023 was 1% lower than 2022. However, when measured from Dec 31, 2022, to December 31, 2023, the COP strengthened by almost 11%.

FINANCIAL OVERVIEW

CASH FLOW FOR TOPCO HOLDING COMPANY

Cash flow statement (USD '000)	2023	1H 2023	2022
Cash dividend received from subsidiaries	10,527	516	5,383
Cash paid to suppliers	-4,214	-1,974	-4,674
Capital invested	-100	-40	-111
Net cash flow from operating activities	6,213	-1,498	598
Net cashflow from investing activities	2,252	268	2,856
Net cash flow from financing activities	-10,546	-499	-1,050
Net increase (decrease) in cash held	-2,081	-1,729	2,404
Cash at beginning of period	2,426	2,426	22
Cash equivalents at TopCo at end of period	345	697	2 426

CASH FLOW FROM OPERATIONS

The cash flow from operating activities was positive by USD 6.2 million (2022:USD 0.6 million).

CASH FLOW FROM INVESTING ACTIVITIES

During 2023, the investing activities was positive by 2.3 MUSD due to divestment of the Cerejeira project.

CASH FLOW FROM FINANCING ACTIVITIES

The outflow from financing activities was USD -10.5 million (2022: USD -1.0 million), mainly explained by repayment of the MetLife term loan.

The MetLife loan was repaid during the period (USD 11.6 million).

CASH FLOW FROM PROJECTS

Cash flow statement (USD '000)	AB Florestal	Aimara	Kaa	Cerejeira	MST	Bio-Carbono	Silvotecnia	Vichada	Total projects
Net cash flow from operating activities	7,890	-794	-882	-221	1,323	-1,112	769	-109	6,864
Net cash flow from investing activities	-3,062	-5	-55	-40	-903	-125	-5	0	-4,195
Net cash flow from financing activities	-2,702	1,814	678	352	-223	1,290	-655	116	670
Net cash flow before dividends	2,126	1,015	-259	91	197	53	109	7	3,339
Dividends paid to TopCo	-2,229	-2,313	-7,725	0	-267	0	-15	0	-12,548
Non-controlling interests		-1,059			-30				-1,089
Net change in cash held	-103	-2,357	-7,984	91	-100	53	94	7	-10,298
Cash at beginning of period	119	2,946	7,641	3,328	129	148	3	5	14,320
Effects of changes in FX	10	154	347	293	40	6	4	1	855
Cash at end of period	26	743	4	3,713	69	207	101	13	4,876

CASH FLOW PER COUNTRY

Cash flow statement (USD '000)	Brazil	Colombia	TopCo
Net cash flow from operating activities	4,881	1,983	6,213
Net cash flow from investing activities	-3,287	-909	2,252
Net cash flow from financing activities	1,432	-762	-10,546
Net cash flow before dividends	3,026	312	-2,081
Dividends paid	-12,267	-282	-
Non-controlling interests	-1,059	-30	-
Net increase (decrease) in cash held	-10,299	0	-2,081
Cash at beginning of period	14,182	137	2,426
Effects of changes in FX	810	45	-
Cash equivalents at end of period	4,693	183	345

FINANCIAL OVERVIEW

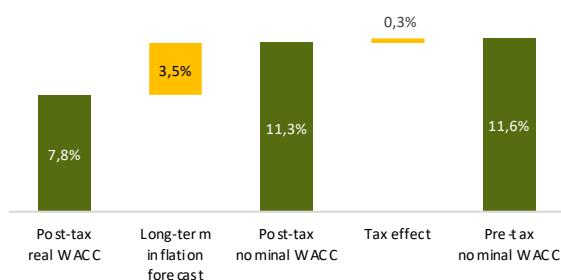
REAL, POST-TAX WACC

WACC assumptions ¹	2023	2022
Brazilian Projects		
WACC real post-tax	7.8%	7.7%
Inputs		
Risk-free rate	6.6%	6.7%
Beta	0.46	0.56
Asset specific risk premium	1.5%	-
Market risk premium	5.6%	5.9%
Colombian Projects		
WACC real post-tax	9.0%	9.1%
Inputs		
Risk-free rate	7.8%	8.1%
Beta	0.46	0.56
Asset specific risk premium	1.5%	-
Market risk premium	5.1%	5.9%

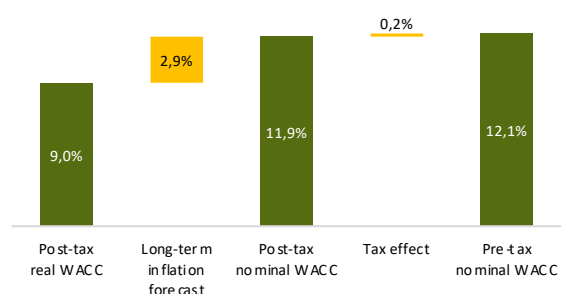
Real WACC post-tax for Brazilian forestry assets in 2023 was 7.8% vs 7.7% in 2H 2022, and for Colombian assets 9.0% in 2023 compared to 9.1% in 2H 2022. The decrease in the risk-free rate and in the market specific premium was off-set by the inclusion of an asset specific risk premium of 1.5% used by the valuer to reflect current market conditions.

Based on the long-term inflation forecast and the Brazilian tax regime, the valuation of The Forest Company's Forest projects in Brazil is currently based on a USD nominal pre-tax discount rate of 11.6%. In Colombia, the valuation of our forest projects is based on a USD nominal pre-tax discount rate of 12.1%.

BRAZIL: WACC REAL POST-TAX AND NOMINAL PRE-TAX

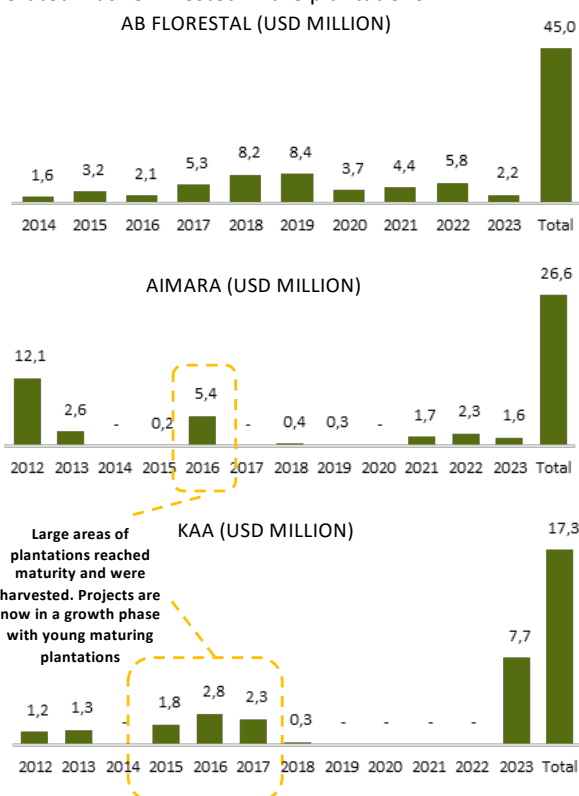


COLOMBIA: WACC REAL POST-TAX AND NOMINAL PRE-TAX



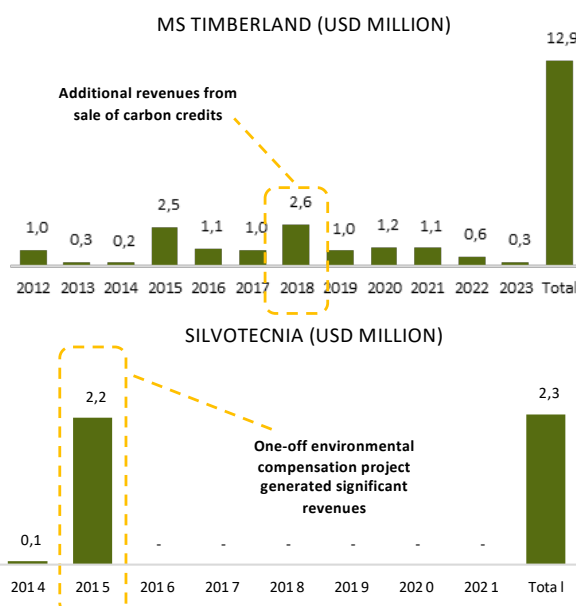
BRAZIL: DIVIDENDS GENERATED BY PROJECTS

In 2023, Brazilian projects generated a dividend yield of 4.07% on accumulated invested capital, in USD because in this period a significant part of the operating cash-flow generated was re-invested in the plantations.



COLOMBIA: DIVIDENDS GENERATED BY PROJECTS

Colombian projects generated a dividend yield of 5.98% during 2023 on accumulated invested capital, in USD.



1- Source: Risk-free rate (government bond issued in USD), Beta (independent valuer's estimate), Market risk premium (Damodaran), Inflation (FOMC forecast)

IMPACT

THE FOREST COMPANY'S IMPACT STRATEGY

The Forest Company invests in sustainable, high-growth forest plantations, building a portfolio that combines income yield with capital appreciation. Through our investments, we make a positive impact in the local regions where we operate. Our impact is linked to the UN sustainable development goals ("SDGs") a collection of 17 global goals designed by the UN to be a blueprint for achieving a better and more sustainable future), and measurements and monitoring are integrated into our day-to-day operations.

2023 HIGHLIGHTS

- Regarding responsible consumption and proper waste management practices, in Colombia, we initiated an integrated waste management project in La Culebra to establish a waste system, promote responsible disposal, and encourage recycling. This included providing education on waste differentiation and disposal. In Brazil, we conducted ethanol fuel tests for motorcycles, transitioning from a test to a company-wide policy that mandates ethanol use in flex vehicles, thereby reducing reliance on fossil fuels.
- Contributing to the impact of supporting gender equality, alongside the handicraft workshops, we continue to promote economic independence among the participants of the AME project in Colombia. Several sessions were held in different communities to foster a gender perspective.
- For biodiversity conservation and forestry health in Brazil, our "Eyes on the Forest" project saw a significant increase in wildlife engagement among workers. We plan to expand these conservation efforts into 2024.
- Regarding responsible water usage in Colombia, we educated students at El Chaquiral School on assembling homemade water filters and raised community awareness about the importance of watersheds and ecosystems.
- As a recognition of good practices, by the end of 2023, MSTimberland achieved the "Sello de Sostenibilidad de Corantioquia" in the AAA category, garnering environmental recognition within the Corantioquia jurisdiction. Enhancing governance, also, by the end of the year in Brazil, we established the Ethics Committee to oversee ethical standards and internal policies.

SUMMARY OF TFC'S 2023 IMPACT THEMES, GOALS AND KPIs

IMPACT	GOAL	STATUS
I. Supporting gender equality	Women at the office Ensure equal employment opportunities for men and women in administrative positions	
	Women in the field Support 100 women from the regions of operation to learn a skill that will help them in the labor market	
II. Promoting responsible water practices	Community education Support and strengthen the participation of 100% of communities in our operations to protect water resources	
	Water bodies Guarantee that 100% of water bodies in areas of operation are protected by stream-side management areas that meet or surpass local regulations	
III. Developing our Employees	Employees motivation By 2027, to have reduced the turnover rate according to internal parameters	
	Employees safety and well being By 2027, to have reduced frequency rate according to internal parameters	
IV. Promoting responsible consumption and proper waste management practices	Community consumption and waste management Support 100% of the influenced communities with initiatives for responsible consumption and proper waste management and recycling	
	Operation consumption Reduce resources consumption per activity in the operation maintaining desirable production levels	
	Carbon sequestration Support and invest in reforestation, afforestation or land restoration of 20,000 hectares	
VI. Conserving biodiversity and managing forest health	Environmental education Increase awareness of the importance of the conservation of natural areas and biodiversity for 100% of the communities in the areas of influence and groups of interests	
	Biodiversity measurement Improve biodiversity monitoring measurements	



On hold
When progress towards achieving the sustainability impact has not been initiated, or it has been paused.



Initiated
When the company has begun taking steps to achieve the sustainability impact, but progress is limited or not yet measurable.



Partially achieved
When the company has made progress towards achieving sustainability impact goals set but not yet achieved them.



Achieved
When the company has met the defined target for the impact



Exceeded
When the company has exceeded the defined target for the impact

MACRO PERSPECTIVE

BRAZIL

Macro indicators	2017	2018	2019	2020	2021	2022F ¹	2023F ¹
GDP (%)	1.3	1.8	1.2	-3.9	4.6	2.9	2.9
USD/BRL	3.3	3.9	4.0	5.2	5.6	5.3	4.9
Inflation (%)	2.9	3.7	4.3	4.5	10.1	5.8	4.6
Interest rate (%)	7.0	6.5	4.5	2.0	9.3	13.8	11.8

MACROECONOMIC AND POLITICAL OUTLOOK

Luiz Inácio Lula da Silva, the 77-year-old ex-metalworker who previously led the country through a commodities-driven boom from 2003 to 2010, retook office in January vowing to restore strong growth, fight resurgent poverty and "make Brazil happy again". However, a Congress dominated by conservative lawmakers, many opposed to Lula's plans for expanded social and environmental protection programmes is expected to bring negotiating challenges to the current president. During 2023, Brazilian politics have been marked by several hiccups in the coalition-building of the President's third administration.

The fall of the unemployment rate to 7.9% in December, an eight-year low for the period, is good news on economic recovery. Unemployment rate is forecasted to be stable around 7.8% the coming years.

Central bank's monetary policy committee says inflation remains "resilient" with the benchmark interest rate being kept high – currently. During the last 6 months the interest rate has been lowered and ended up at 11.75% in December. The forecast for 2024 is 9.25% and is forecasted to stay at that level the coming next years.

During 2H 2023 annual inflation (IPCA) has been reducing slowly, achieving a level of 4.6% in December. The inflation is forecasted to be further lowered the coming year to 3.6% and will be stable at that level.

GDP showed a further growth and reached 2% in December which is higher than earlier forecasts. The latest set of indicators points to a scenario of gradual stabilization and, according to Itau's most recent macro analysis forecasts, GDP growth for 2024 is expected to be 2% which also is the prediction for 2025.

In summary, the macro scenario for Brazil is likely to show a GDP growth estimate to 2.0% from 1.8% for both 2024 and 2025, incorporating the improved outlook for credit, which has been confirmed by the latest data. The job market will likely also remain robust. The unemployment rate forecasts have been revised to 7.8% from 8.0% for both 2024 and 2025.

External environment exerts pressure on the BRL, but it is offset by a higher Selic rate. The Selic rate has also been revised (now forecasted a year-end rate of 9.25% in 2024 (11.75% December 2023.)) The BRL appreciated against the USD by 8.8% during 2023 compared to the 31st December, 2022, closing rate.

COLOMBIA

Macro indicators	2017	2018	2019	2020	2021	2022F ¹	2023F ¹
GDP (%)	1.4	2.6	3.3	-6.8	10.7	7.3	0.3
USD/COP	2.932	3.254	3.287	3.428	4.070	4.850	3.89
Inflation (%)	4.1	3.2	3.8	1.6	5.6	13.1	9.7
Interest rate (%)	4.8	4.3	4.3	1.8	3.0	12.0	12.8

MACROECONOMIC AND POLITICAL OUTLOOK

Recent political turmoil in Colombia has raised concerns regarding the current President's administration's ability to move forward with the proposed reforms, which contain controversial changes in healthcare, pension and labour legislation. The reform discussions have been suspended while the government is rebuilding its coalition and the alleged malpractice regarding campaign financing is under investigation. It is expected the reforms will be revised to increase the chances of approval.

Colombia's GDP growth came below expectations in 4Q23, with investment dynamics remaining weak. The Colombian economy increased by 0.3% YoY in 4Q23 (-0.6% in 3Q23; revised down by 0.3pp)

The Colombian economy had been growing sequentially in seven consecutive quarter, but activity has been weakening in line with tight monetary policy, low confidence, and high inflation. The latest projections forecast a GDP growth of 1.5% in 2024 and 2.3% in 2025, down from 7.3% in 2022.

The benchmark interest rate decreased and reached 12.75%. This is a bit lower than 13.25% both in Q1 and Q2 2023.

Inflation fell slowly to 9.7% year-on-year in December with the Central Bank governor stating recently that inflation has peaked and that the 3% target over a two-year horizon is achievable. The long-term forecast does however show that inflation will be 5.4% in Q4 2024.

Despite the continuous decrease of the average unemployment rate during 2023 from a peak of 13.7% in January at, it remains high at around 10%.

During 2023, the COP appreciated by 25.9% against the USD aided by high interest rates and expectations of a smoother structural reform to be presented.

The
Forest
Company
||

An aerial photograph of a lush green forest landscape. A dirt path winds through the trees, and the forest is dense and vibrant. The text "THANK YOU" is centered over the image.

THANK YOU