

**Individual and consolidated financial  
statements**

**Floresteca S.A.**

December 31, 2019  
with Independent Auditor's Report

## **Floresteca S.A.**

### Individual and consolidated financial statements

December 31, 2019

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**A free translation from Portuguese into English of Independent Auditor's Report on individual and consolidated financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil**

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## **Independent auditor's report on individual and consolidated financial statements**

The Shareholders, Board of Directors and Officers  
**Floresteca S.A.**

### **Qualified opinion**

We have audited the individual and consolidated financial statements of Floresteca S.A. (the "Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2019, and the statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies .

In our opinion, except for the matter described in our "Basis for qualified opinion" paragraph, the accompanying individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of Floresteca S.A. as at December 31, 2019, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

### **Basis for qualified opinion**

As mentioned in Note 13 to the individual and consolidated financial statements, subsidiary Buriti Imóveis S.A. has a loan from LFP Prime bank amounting to R\$15,965 thousand (R\$ 14,103 thousand as at December 31, 2018). We were unable to conclude – through bank confirmation procedures or alternative auditing procedures – on the figure shown in noncurrent liabilities in the consolidated financial statements, or on the possible effects of an adjustment to this balance on the Company's consolidated results as at December 31, 2019.

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiary in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



## **Other matters**

### **Restatement of corresponding figures**

The audit of the individual and consolidated financial statements for the year ended December 31, 2018, originally prepared before the adjustments resulting from the review of the Contract for Forest Services and Acknowledgement of Building and Planting Rights pursuant to CPC 47 Revenue from Contracts with Customers, was conducted by other independent auditors, who issued a qualified audit report on April 1, 2019 regarding the impossibility of concluding – through bank confirmation procedures or alternative auditing procedures – on the loan of its subsidiary Buriti Imóveis S.A. with LFP Prime bank in the amount of R\$14,103 thousand and on the possible effects of an adjustment to this balance on the consolidated results. As part of our audit of the individual and consolidated financial statements as at December 31, 2019, we also audited the adjustments described in Note 2.4 that were made to restate the individual and consolidated financial statements as at December 31, 2018. We concluded that such adjustments are appropriate and were adequately performed. We were not engaged to audit, review or apply any other procedures in connection with the Company's individual and consolidated financial statements for the year ended December 31, 2018, and therefore we do not express an opinion or any form of assurance on these financial statements taken as a whole.

### **Responsibilities of management and those charged with governance for the individual and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiary's financial reporting process.



## **Auditor's responsibilities for the audit of the individual and consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiary's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

Campinas, June 8, 2020.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP034519/O-6

A handwritten signature in blue ink, appearing to read 'Cristiane Hilario', is written over the printed name and title.

Cristiane Cléria S. Hilário  
Accountant CRC 1SP243766/O-8

## Floresteca S.A.

Statements of financial position  
December 31, 2019 and 2018  
(In thousands of reais)

	Note	Individual		Consolidated	
		2019	2018 (Restated)	2019	2018 (Restated)
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	6	1,279	2,919	8,863	2,929
Trade accounts receivable		32	40	32	40
Related parties	7	9,015	8,091	9,015	8,091
Inventories		44	1,467	44	1,467
Taxes recoverable	8	3,685	4,291	3,756	4,291
Other assets		256	581	256	582
<b>Total current assets</b>		<b>14,311</b>	<b>17,389</b>	<b>21,966</b>	<b>17,400</b>
<b>Noncurrent assets</b>					
Related parties	7	451,755	444,305	451,575	443,975
Other assets		5,178	4,878	5,178	4,879
Deferred income and social contribution taxes	16	10,539	1,287	10,539	1,287
Investment properties	10	-	-	-	4,453
Biological assets	11	88,248	63,536	88,248	63,536
Property, plant and equipment	12	7,667	12,075	7,667	12,075
Intangible assets		49	77	49	77
<b>Total noncurrent assets</b>		<b>563,436</b>	<b>526,158</b>	<b>563,256</b>	<b>530,282</b>
<b>Total assets</b>		<b>577,747</b>	<b>543,547</b>	<b>585,222</b>	<b>547,682</b>

	Note	Individual		Consolidated	
		2019	2018 (Restated)	2019	2018 (Restated)
Liabilities and equity					
Current liabilities					
Loans and financing	13	58	402	58	402
Trade and other accounts payable		998	817	998	817
Taxes payable		158	145	161	145
Payroll, vacation pay and related charges		352	285	352	285
Total current liabilities		<b>1,566</b>	1,649	<b>1,569</b>	1,649
Noncurrent liabilities					
Loans and financing	13	115	116	16,080	14,220
Related parties	7	457,020	455,485	457,020	455,485
Provision for contingencies	14	403	415	403	415
Provision for losses on subsidiaries and unrealized gains	9	8,493	10,044	-	75
Other provisions	15	34,954	24,394	34,954	24,394
Total noncurrent liabilities		<b>500,985</b>	490,454	<b>508,457</b>	494,589
Equity					
Capital	17	27,798	27,798	27,798	27,798
Legal reserve		5,559	5,559	5,559	5,559
Retained earnings		41,839	18,087	41,839	18,087
Total equity		<b>75,196</b>	51,444	<b>75,196</b>	51,444
Total liabilities and equity		<b>577,747</b>	543,547	<b>585,222</b>	547,682

See accompanying notes.

## Floresteca S.A.

### Statements of profit and loss

Years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

	Note	Individual		Consolidated	
		2019	2018 (Restated)	2019	2018 (Restated)
Operating revenue, net	18	<b>6,090</b>	1,694	<b>15,057</b>	1,694
Gain on fair value of biological assets and investment properties	19	<b>24,169</b>	63,443	<b>19,882</b>	65,881
Cost of goods sold and service rendering	19	<b>(5,553)</b>	(418)	<b>(10,783)</b>	(418)
Gross profit		<b>24,706</b>	64,719	<b>24,156</b>	67,157
Operating income (expenses)					
Selling expenses	19	<b>(2)</b>	(60)	<b>(451)</b>	(60)
General and administrative expenses	19	<b>(12,369)</b>	(10,670)	<b>(12,376)</b>	(10,677)
Other operating income (expenses), net		<b>1,250</b>	823	<b>1,279</b>	839
Equity pickup	9	<b>(3,739)</b>	(190)	<b>(2)</b>	47
Income before finance income (costs)		<b>9,846</b>	54,622	<b>12,607</b>	57,306
Finance income	20	<b>478</b>	1,936	<b>4,002</b>	4,483
Finance costs	20	<b>(190)</b>	(314)	<b>(5,195)</b>	(5,541)
Finance income (costs), net		<b>288</b>	1,622	<b>(1,193)</b>	(1,058)
Income before taxes		<b>10,134</b>	56,244	<b>11,414</b>	56,248
Income and social contribution taxes - current	16	-	-	<b>(1,280)</b>	(4)
Income and social contribution taxes - deferred	16	<b>9,252</b>	5,217	<b>9,252</b>	5,217
Net income for the year		<b>19,386</b>	61,461	<b>19,386</b>	61,461
Number of shares				<b>27,796,555</b>	27,796,555
Earnings per share (in reais)				<b>0.70</b>	2.21

See accompanying notes.

## **Floresteca S.A.**

Statements of comprehensive income  
Year ended December 31, 2019  
(In thousands of reais, unless otherwise stated)

	<b>Individual</b>		<b>Consolidated</b>	
	<b>2019</b>	<b>2018 (Restated)</b>	<b>2019</b>	<b>2018 (Restated)</b>
Net income for the year	<b>19,386</b>	61,461	<b>19,386</b>	61,461
Total comprehensive income for the year	<b>19,386</b>	61,461	<b>19,386</b>	61,461

See accompanying notes.

## Floresteca S.A.

Statements of changes in equity  
Year ended December 31, 2019  
(In thousands of reais)

	Attributable to controlling shareholders of the Company				Total
	Capital	Legal reserve	Income reserve	Retained earnings	
At December 31, 2017 (restated)	27,798	5,559	(27,525)	-	5,832
Net income for the year	-	-	-	61,461	61,461
Loss on BV operations (Note 17.c)	-	-	(15,849)	-	(15,849)
Allocation of profit					
Transfers to income reserve	-	-	61,461	(61,461)	-
At December 31, 2018 (restated)	27,798	5,559	18,087	-	51,444
Net income for the year	-	-	-	19,386	19,386
Realized gains on investments (Note 10)	-	-	5,064	-	5,064
Loss on BV operations (Note 17.c)	-	-	(700)	-	(700)
Allocation of profit					
Transfers to income reserve	-	-	19,386	(19,386)	-
Balance at December 31, 2019	<b>27,798</b>	<b>5,559</b>	<b>41,839</b>	-	<b>75,196</b>

See accompanying notes.

## Floresteca S.A.

### Statements of cash flows Year ended December 31, 2019 (In thousands of reais)

	Individual		Consolidated	
	2019	2018 (Restated)	2019	2018 (Restated)
Cash flows from operating activities				
Net income for the year	<b>19,386</b>	61,461	<b>19,386</b>	61,461
Adjustments to reconcile net income for the year:				
Depreciation and amortization	<b>1,998</b>	2,520	<b>1,998</b>	2,520
Provision for contingencies	<b>(12)</b>	236	<b>(12)</b>	236
Fair value of assets	<b>(24,169)</b>	(63,443)	<b>(19,882)</b>	(65,881)
Unrealized exchange gains / losses	<b>(2)</b>	6,428	<b>1,860</b>	5,236
Interest incurred	<b>-</b>	-	<b>1,087</b>	890
Proceeds from disposal of fixed assets	<b>2,606</b>	332	<b>7,836</b>	332
Provision for losses on investments	<b>3,513</b>	(190)	<b>(75)</b>	47
Other provisions	<b>8,451</b>	-	<b>8,451</b>	-
FBV operations	<b>(700)</b>	(15,849)	<b>(700)</b>	(15,849)
Income and social contribution taxes - deferred	<b>(9,252)</b>	(5,217)	<b>(9,252)</b>	(5,217)
	<b>1,819</b>	(13,722)	<b>10,697</b>	(16,225)
Changes in operating assets				
(Increase) decrease in trade accounts receivable	<b>7</b>	39	<b>7</b>	39
(Increase) decrease in related parties	<b>(924)</b>	(1,575)	<b>(924)</b>	(1,575)
(Increase) decrease in inventories	<b>1,423</b>	3,537	<b>1,423</b>	3,537
(Increase) decrease in taxes recoverable	<b>607</b>	690	<b>535</b>	690
(Increase) decrease in other receivables	<b>29</b>	2,913	<b>29</b>	3,258
Changes in operating assets and liabilities				
Increase (decrease) in trade and other accounts payable	<b>181</b>	(778)	<b>181</b>	(1,162)
Increase (decrease) in taxes payable	<b>13</b>	(62)	<b>16</b>	(62)
Increase (decrease) in payroll, vacation pay and related charges	<b>66</b>	(5)	<b>66</b>	(5)
Net cash from operating activities	<b>3,221</b>	(8,963)	<b>12,030</b>	(11,505)
Cash flows from investing activities				
Acquisition of fixed and intangible assets	<b>(167)</b>	(360)	<b>(167)</b>	(360)
Addition to and acquisition of biological assets	<b>(544)</b>	(367)	<b>(544)</b>	(367)
Cash flow used in investing activities	<b>(711)</b>	(727)	<b>(711)</b>	(727)
Cash flows from financing activities				
Related parties	<b>(3,805)</b>	(12,944)	<b>(3,954)</b>	(10,398)
Payment of loans (principal)	<b>(345)</b>	(415)	<b>(1,432)</b>	(415)
Cash flow used in financing activities	<b>(4,150)</b>	(13,359)	<b>(5,386)</b>	(10,813)
Net increase (decrease) in cash and cash equivalents	<b>(1,640)</b>	(23,049)	<b>5,933</b>	(23,045)
Cash and cash equivalents at end of year	<b>1,279</b>	2,919	<b>8,863</b>	2,929
Cash and cash equivalents at beginning of year	<b>2,919</b>	25,967	<b>2,929</b>	25,974
Cash and cash equivalents at December 31	<b>(1,640)</b>	(23,049)	<b>5,933</b>	(23,045)

See accompanying notes.

## **Floresteca S.A.**

Notes to financial statements  
December 31, 2019  
(In thousands of reais)

### **1. Operations**

Floresteca S.A. (“Company” or “FSA”) was incorporated on January 12, 1994 as a Brazilian publicly-held corporation, and changed its status to a privately-held corporation on October 24, 2007; its principal place of business is BR 364, km 510, Fazenda Buriti, in the city of Jangada, State of Mato Grosso, Brazil. The Company is a direct wholly-owned subsidiary of Floresteca B.V., whose ultimate controlling interests are held by Brazilian and foreign shareholders.

In the financial statements, Floresteca S.A. is individually referred to as the Company, and together with its subsidiaries as the “Group.” The Group is mainly engaged in forestry, which involves planting, cultivating, cutting, and trading *Tectona grandis* (Teak) wood products. The activities performed by each Group entity are described below:

<b>Entity</b>	<b>Activity</b>	<b>Country</b>
Floresteca S.A.	Forestry, cultivation, cutting. Trade of forests and wooden products	Brazil
Buriti Imóveis S.A.	Purchase and sale of rural properties	Brazil

The operating activities are performed in several cities in Mato Grosso State.

The Company’s revenue will be obtained from future sales of its own teak forests. Floresteca S.A. also records revenue from the maintenance and management of forest land owned by third parties.

The Company is in the phase of maintaining and harvesting its own forests and third-party forests planted between 1994 and 2008, characterized by investments in cultivation and organization and development costs. The settlement of financial liabilities to third parties and to related parties, the recovery of cultivation costs on forest land owned by third parties, and the advances given to agricultural partners depend on the generation of future profits resulting from the interim thinning and final cutting of these forests.

The Company has not been currently investing in expanding its forest base, having focused only on the maintenance and harvesting of forestry assets in Mato Grosso State.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **1. Operations (Continued)**

The Company has a Contract for Forest Services and Acknowledgement of Building and Planting Rights dated July 5, 2007 ("*Master Agreement*"), whose latest amendment ("fifth") and latest addendum ("ninth") were effective on the date of the accompanying financial statements. The contract was entered into by Floresteca S.A. ("FSA"), Panflora Agroflorestal Ltda., and the foreign entities Floresteca B.V. ("FBV") and Stichting Administratie-en Trustkantoor Tectona ("SATT") (beneficiary), whereby the Company agrees to deliver high quality teak forests it has planted ("Forest"). At this point in time, neither FBV nor SATT have a permanent establishment in Brazil and the delivery of the physical product to SATT is merely notional. Accordingly, the Company does not deliver a physical forest but is responsible for managing it.

The Company annually submits a Management Plan and Budget ("MP") to Floresteca BV and SATT, containing the maintenance plan for the following year covering all forest maintenance activities, including thinning, overhead and management expenses, as well as harvesting costs, final cuts and sales relating to final cuts concerning the forests belonging to SATT. This MP includes the areas that are eligible for final cuts, and it is available for comments on Floresteca BV's website as well as by SATT, prior to conclusion. In December 2016, as a forest operator, the Company submitted a draft Management Plan for 2020 to Floresteca BV and SATT, and there were no objections to it from any of the parties involved in the Master Agreement.

The parties to the Master Agreement authorized FSA to select and engage a specialized consulting firm to conduct a market price survey. The market price survey is designed to provide a basis for the selling price to be adopted by FSA for the sale of forests that belong to SATT.

If SATT intends to sell, assign or transfer the timber from its forest, the Company will have the right of first refusal in the sale, assignment or transfer.

The amounts payable to SATT for the forests sold by FSA in Brazil will be given to SATT or FBV through the settlement of the loan and the amount received from sales in excess of the costs of third-party forests through capital gain remittances.

Third-party forests, extending over 14,610 hectares, are recorded at cost plus foreign exchange gains/losses on the loan, less depletion for the year (refer to Note 7).

The contractual terms and conditions are described below:

At the end of the planting cycle for each forest project, the Company will be reimbursed for the total aggregated costs of the project until its final cut.

## **Floresteca S.A.**

Notes to financial statements (Continued)

December 31, 2019

(In thousands of reais)

### **1. Operations (Continued)**

(i) As pre-payment for the cost price, the Company is entitled to the revenue described in (ii), (iii) and (iv) below.

(ii) The amounts related to the thinning of trees between the third and eighth year of each project from the date of the planting of the teak will be fully appropriated by Floresteca S.A. in the form of prepayment for the purchase price of the forests.

(iii) In the case of an approximately 20-year cycle plantation: Up to US\$2,000.00 per hectare from years 8 to 12 after the planting begins, and US\$2,500.00 per hectare from years 12 to 15 after the planting begins.

(iv) In the case of an approximately 25-year cycle plantation: Up to US\$2,000.00 per hectare from years 8 to 12 after the planting begins, US\$2,500.00 per hectare from years 12 to 15 after the planting begins, and US\$3,000.00 per hectare from years 15 to 20 after the planting begins.

Additionally, at the end of the teak forestry cycle (final cutting), both for plantations with an approximately 20-year cycle and for plantations with an approximately 25-year cycle, the Company will be entitled to reimbursement of final cut costs, which include costs of extraction, pulling to roadside and returning the land clean and root-free to its owners, and an incentive fee of 5% of the wood harvested at final cutting.

According to projections that consider the final cutting of the forests and the market value of teak, the overall compensation to be obtained by the Company will be sufficient to cover the costs until the final cutting.

Today, the activity of Floresteca S.A. is supported by revenue from tree thinning and final cutting, loans from related parties, and loans and financing obtained from financial institutions.

### **2. Summary of significant accounting practices**

Significant accounting practices adopted in the preparation of these individual and consolidated financial statements are described below. These practices have been consistently applied in all years presented, unless otherwise stated.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.1. Statement of compliance and basis of preparation**

The individual and consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil, including the standards issued by the Brazilian Financial Accounting Standards Board (CPC), and disclose all the relevant information specific to the financial statements, and only such information is consistent with the information used to manage the Company's operations.

The individual and consolidated financial statements have been prepared on a historical cost basis, adjusted to reflect the fair value of own biological assets and investment properties owned by its subsidiary, and financial assets and liabilities measured at fair value through profit or loss.

The preparation of the financial statements requires management to make judgements and use certain critical accounting estimates in the process of applying the accounting practices. Those more complex areas that require a higher degree of judgment, and those where the assumptions and estimates are significant for the financial statements are disclosed in Note 3.

The financial statements were approved for disclosure by the Company's Board of Directors on June 8, 2020.

#### **2.2. Consolidation**

The Group consolidates all the entities that it controls, i.e. when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to direct the relevant activities of the investee.

The following accounting practices are adopted for the preparation of the consolidated financial statements

##### **a) Subsidiaries**

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.2. Consolidation (Continued)**

##### *a) Subsidiaries (Continued)*

Investments in subsidiaries are accounted for using the equity method from the date control is acquired. Under this method, financial interests in subsidiaries are recognized in the financial statements at cost, and regularly adjusted for the amount of the Company's share in the investee's net results, with a matching entry in operating income (expenses), except for the exchange gains/losses of these companies, which are recorded in "Equity Adjustments," a specific equity account. These effects will be recognized in income and expenses upon sale or disposal of the investment.

Transactions, balances and unrealized gains on intercompany transactions are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment loss of the asset transferred. When necessary, adjustments are made to bring the subsidiary's accounting practices in line with those of the Company.

##### *b) Associates*

An associate is an entity over which the Company has significant influence, but not control, usually through a 20% to 50% ownership interest in the voting rights. Investments in associates are accounted for using the equity method and initially recognized at cost.

The Company's share in profit or loss of its associates is recognized in the statement of profit or loss and the share in changes in reserves is reflected in the Company's equity.

##### *c) Individual and consolidated financial statements*

In the individual financial statements, investments in subsidiaries are recorded under the equity method. The same adjustments are made to both individual and consolidated financial statements to reach the same profit or loss and equity attributable to the Company's shareholders.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 2. Summary of significant accounting practices (Continued)

#### 2.2. Consolidation (Continued)

##### d) Transactions eliminated on consolidation

Intra-group transactions and balances, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with investees recorded using the equity method are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

The Company's consolidated financial statements include the financial information of the following subsidiary:

	Interest	Country	Equity interest in investee	
			2019	2018
Buriti Imóveis S.A.	Direct	Brazil	99.99%	99.99%

#### 2.3. Foreign currency translation

##### a) Functional and presentation currency

The Company's functional currency is the Brazilian Real (R\$) and the financial statements are presented in thousands of Reais. All financial information presented in thousands of Reais was rounded to the nearest thousand, unless otherwise stated.

Amounts are rounded only after they have been totaled. Thus, the figures expressed in thousands when added together may not be the same as the related rounded totals.

##### b) Transactions and balances

Foreign currency-denominated transactions are translated into the functional currency at the rate of exchange prevailing at the transaction date or at the measurement date in case of subsequent measurements.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 2. Summary of significant accounting practices (Continued)

#### 2.3. Foreign currency translation (Continued)

##### b) Transactions and balances (Continued)

Exchange gains and losses resulting from the settlement of transactions and translation adjustments using the exchange rates at year-end for monetary assets and liabilities in foreign currencies are recognized in the statement of profit and loss.

Exchange gains and losses are stated in the statement of profit or loss as finance income or finance costs.

#### 2.4. Restatement of comparative figures

As at December 31, 2019, prior years' adjustments were identified in connection with the existing Master Agreement, with respect to accounting for costs incurred with the formation of third-party forests, recognition of forest management revenue and accounts payable to investors under CPC 47 - Contracts with customers. It is worth mentioning that these refer to book adjustments that do not affect the Company's cash.

The statement of financial position as at December 31, 2018, as well as the statement of profit and loss for the year then ended, presented for comparison purposes, have been adjusted and are being restated.

The effects of this restatement are shown below:

##### Statement of financial position

	Individual			Consolidated		
	Originally stated	Adjustments	Restated	Originally stated	Adjustments	Restated
Assets						
Current assets	<b>17,392</b>	<b>(3)</b>	<b>17,389</b>	<b>17,403</b>	<b>(3)</b>	<b>17,400</b>
Noncurrent assets						
Related parties	-	444,305	444,305	-	443,975	443,975
Other assets	6,224	(1,346)	4,878	5,895	(1,016)	4,879
Third-party biological assets	466,792	(466,792)	-	466,792	(466,792)	-
Other noncurrent assets	76,974	1	76,975	81,426	2	81,428
Total noncurrent assets	<b>549,990</b>	<b>(23,832)</b>	<b>526,158</b>	<b>554,113</b>	<b>(23,831)</b>	<b>530,282</b>
Total assets	<b>567,382</b>	<b>(23,835)</b>	<b>543,547</b>	<b>571,516</b>	<b>(23,834)</b>	<b>547,682</b>

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 2. Summary of significant accounting practices (Continued)

#### 2.4. Restatement of comparative figures (Continued)

##### Statement of financial position (Continued)

	Individual			Consolidated		
	Originally stated	Adjustments	Restated	Originally stated	Adjustments	Restated
Liabilities and equity						
Current liabilities						
Provision for warranty costs	4,980	(4,980)	-	145	-	145
Other current liabilities	1,649	-	1,649	1,579	(75)	1,504
<b>Total current liabilities</b>	<b>6,629</b>	<b>(4,980)</b>	<b>1,649</b>	<b>1,724</b>	<b>(75)</b>	<b>1,649</b>
Noncurrent liabilities						
Loans and financing	455,599	(455,483)	116	469,703	(455,483)	14,220
Intercompany loans	-	455,485	455,485	-	455,485	455,485
Payables to investors	25,087	(25,087)	-	25,087	(25,087)	-
Provision for contingencies	415	-	415	415	-	415
Provision for losses on subsidiaries and unrealized gains	5,064	4,980	10,044	-	75	75
Other provisions	-	24,394	24,394	-	24,394	24,394
<b>Total noncurrent liabilities</b>	<b>486,164</b>	<b>4,290</b>	<b>490,454</b>	<b>495,204</b>	<b>(615)</b>	<b>494,589</b>
Equity						
Capital	27,798	-	27,798	27,798	-	27,798
Legal reserve	5,559	-	5,559	5,559	-	5,559
Retained earnings	41,231	(26,217)	18,087	41,231	(26,217)	18,087
<b>Total equity</b>	<b>74,588</b>	<b>(23,144)</b>	<b>51,444</b>	<b>74,588</b>	<b>(23,144)</b>	<b>51,444</b>
<b>Total liabilities and equity</b>	<b>567,382</b>	<b>(23,835)</b>	<b>543,547</b>	<b>571,516</b>	<b>(23,834)</b>	<b>547,682</b>

## Floresteca S.A.

Notes to financial statements (Continued)

December 31, 2019

(In thousands of reais)

### 2. Summary of significant accounting practices (Continued)

#### 2.4. Restatement of comparative figures (Continued)

Statement of profit and loss:

	Individual			Consolidated		
	Originally stated	Adjustments	Restated	Originally stated	Adjustments	Restated
Net operating revenue	32,099	(30,405)	1,694	32,099	(30,405)	1,694
Gain on fair value of biological assets	-	63,443	63,443	-	63,443	63,443
Cost of goods sold and service rendering	(43,982)	43,564	(418)	(43,982)	46,002	2,020
<b>Gross profit</b>	<b>(11,883)</b>	<b>76,602</b>	<b>64,719</b>	<b>(11,883)</b>	<b>79,040</b>	<b>67,157</b>
Operating income (expenses)						
Selling expenses	6,903	(6,963)	(60)	9,594	(9,654)	(60)
General and administrative expenses	(60)	(10,610)	(10,670)	(60)	(10,617)	(10,677)
Other operating income, net	(10,670)	11,493	823	(10,677)	11,516	839
Equity pickup	-	(190)	(190)	-	47	47
Income (loss) before finance income (costs)	<b>(15,710)</b>	<b>70,332</b>	<b>54,622</b>	<b>(13,026)</b>	<b>70,332</b>	<b>57,306</b>
Finance income (costs), net	<b>1,623</b>	<b>(1)</b>	<b>1,622</b>	<b>(1,058)</b>	<b>-</b>	<b>(1,058)</b>
Income (loss) before taxes	<b>(14,087)</b>	<b>70,331</b>	<b>56,244</b>	<b>(14,084)</b>	<b>70,332</b>	<b>56,248</b>
Income and social contribution taxes	5,217	-	5,217	5,214	(1)	5,213
Net income (loss) for the year	<b>(8,870)</b>	<b>70,331</b>	<b>61,461</b>	<b>(8,870)</b>	<b>70,331</b>	<b>61,461</b>

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.4. Restatement of comparative figures (Continued)**

The impacts on the statement of comprehensive income and the statement of changes in equity refer to the adjustment in net income for the year. The adjustments shown above did not have a significant impact on total operating, investing and financing activities in the cash flow statements for the year ended December 31, 2018.

#### **2.5. Financial instruments**

Financial instruments are only recognized when the Company becomes a party to the contractual provisions of the instruments. Upon recognition, these are initially recorded at fair value plus transaction costs directly attributable to their acquisition or issuance, as applicable. Financial instruments are subsequently measured at every reporting date in accordance with the rules established for each type of classification of financial assets and liabilities.

Financial assets: On initial recognition, a financial asset is classified as measured at: (i) amortized cost; (ii) fair value through other comprehensive income; or (iii) fair value through profit or loss. Purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value, plus transaction costs for all financial assets not measured at fair value through profit or loss.

Financial assets measured at fair value recognized in profit or loss are initially recognized at fair value, and the transaction costs are charged to the statement of profit and loss for the period in which they are incurred.

The fair value of publicly traded investments is based on current purchase prices. If the market for a financial asset is not active, the Company establishes fair value through valuation techniques. These techniques include the use of recent arm's length market transactions, reference to other instruments that are substantially similar, analysis of discounted cash flows, and option pricing models that make maximum use of information generated by the market and rely as little as possible on information generated by the Company's management.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when: (i) the rights to receive cash flows from the asset have expired; and (ii) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.5. Financial instruments (Continued)**

Financial liabilities: the Company initially recognizes financial liabilities at the inception date. All other financial liabilities are initially recognized at the trade date when the Company becomes a party to the contractual provisions of the instrument. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. The Company's financial liabilities include loans and financing and trade accounts payable.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

#### **2.6. Impairment**

Financial assets not measured at fair value through profit or loss are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset, and that loss event adversely impacts the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence that the financial assets are impaired may include default or delay in payments by the debtor, restructuring of the amount owed to the Company under conditions that would not be considered by the Company in other transactions, indications that the debtor or issuer will enter bankruptcy, or disappearance of an active market for the security.

The Company considers evidence of impairment of receivables both individually and in the aggregate. All receivables are assessed for impairment. All receivables found not to be individually impaired are then collectively tested for any actual impairment that has not been identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.6. Impairment (Continued)**

The amount of any impairment loss identified for a financial asset at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Losses are recognized in the statement of profit and loss and reflected in an allowance account. If in a subsequent event, the amount of the impairment loss decreases, reversal of such impairment loss is recognized in profit or loss.

#### **2.7. Inventories**

Inventories are carried at the lower of cost and net realizable value. Inventory cost is based on the acquisition cost and includes costs incurred in acquisition of items, production and conversion costs and other costs incurred in bringing each item to its present location and condition.

The value of inventory of raw material does not exceed market value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the costs necessary to make the sale.

The cost of standing timber transferred from the biological assets is its fair value less the selling expenses calculated on the cutting date.

#### **2.8. Investment property**

Investment property is defined as property held to earn rental income or for capital appreciation, or both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment properties are stated at cost on initial recognition and subsequently at fair value. Changes in fair value are recognized in the statement of profit and loss.

When the use of a property changes so that it is reclassified as an item of property, plant and equipment, its fair value on the date of reclassification should be its cost for subsequent measurement.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.9. Property, plant and equipment**

i) Recognition and measurement

Property, plant and equipment items are stated at acquisition or construction cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes expenses directly attributable to the acquisition of an asset.

ii) Subsequent costs

Subsequent costs are capitalized only if it is probable that they will give rise to future economic benefits to the Company. Ongoing repair and maintenance costs are recognized as incurred.

iii) Depreciation

Property, plant and equipment items are depreciated from the date they are available for use or, in the case of built assets, on the day construction is completed and the asset is ready and available for use.

Depreciation is calculated to write off the cost of fixed asset items less their estimated residual value, using the straight line method over their estimated useful lives. The depreciation charge for each period is generally recognized in profit or loss unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful life, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant property, plant and equipment items for current and comparative years are as follows:

	<u>Years</u>
Buildings	10-25 years
Machinery and equipment	4-5 years
Facilities	10 years
Furniture and fixtures	10 years
Vehicles	5 years
Hardware	5 years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjustments, if any, are recognized as changes in accounting estimates.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.10. Intangible assets**

i) Software

The software is recorded at acquisition cost, less amortization, which is calculated according to its estimated useful life.

Intangible assets with finite lives are tested for impairment annually if there is evidence of impairment.

ii) Amortization

Amortization is recognized in the statement of profit and loss on a straight-line basis considering the estimated useful life of intangible assets, from the date they are available for use.

The estimated useful life of software for the current and comparative periods is 5 years.

#### **2.11. Impairment of non-financial assets**

The book value of the Company's non-financial assets, other than biological assets, inventories and deferred taxes, are reviewed at each reporting date to determine whether there is an indication of impairment. If any indication exists, the Company determines the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

Based on the application of the procedures described below, the Company's Management did not identify any evidence that could support the need to record an impairment of non-financial assets as at December 31, 2019.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.12. Short-term employee benefits**

Liabilities from short-term employee benefits are recorded on an undiscounted basis and charged to the statement of profit and loss as expenses as the related service is provided.

#### **2.13. Provisions**

Provisions are recognized when the Company has a present (legal or constructive) obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are calculated by discounting estimated future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. Finance costs are charged to the statement of profit and loss as incurred.

#### **2.14. Revenue recognition**

##### Forest assets

Floresteca S.A. should benefit from the sale of wood as a result of thinning, keeping the revenue derived from this direct sale to Floresteca BV. The performance obligation is the thinning of the forests, and 3 thinnings are expected over the life of the teak forest.

In addition, the Company has its own forests, and revenue from the sale of forest assets or by-products is stated at the fair value of the consideration received or receivable. Revenue is only recognized when the performance obligation is satisfied.

According to CPC 47 - Contracts with customers, the transaction price is based on the amount of the consideration to which the Company expects to be entitled in exchange for the transfer of the goods or services promised to the customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts or both. In addition, the Company should assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be canceled, renewed or modified. As defined in the "Master Agreement," the transaction price has variable components, including the age of the thinned wood. Accordingly, the transaction price can only be determined and allocated at the time of negotiation with Floresteca BV., which will take place at each sale of wood extracted from thinning.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.14. Revenue recognition (Continued)**

##### Forest management services

As defined in the Master Agreement, Floresteca S.A. is entitled to retain 5% of the volume of wood to be cut in the final harvest in the form of compensation, thus being able to negotiate that wood for the best price.

Revenue is recognized at 5% of the selling price of the final cutting of the wood, and recognized over time as the performance obligations are satisfied. Given that the Company provides forest management services by improving an asset that the customer controls over time and, therefore, satisfies the performance obligation, the related revenue is also recognized over time.

#### **2.15. Finance income and costs**

Finance income substantially includes exchange gains.

Finance costs basically comprise exchange losses and interest expenses on loans. Borrowing costs that are not directly attributable to acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method.

#### **2.16. Income tax (IRPJ) and social contribution tax (CSLL)**

The Group uses two taxation methods permitted in Brazil, the so-called *lucro real* (or actual profit, computed on the basis of accounting records) and *lucro presumido* (or deemed profit, computed on the basis of a percentage of gross revenue and other gains recorded on a cash basis. The percentage depends on the entity's activity and industry). Deferred income tax (IRPJ) is calculated at 15%, plus a 10% surtax on taxable income exceeding R\$240 for the year; deferred social contribution tax on net profit (CSLL) is calculated at 9%.

The subsidiary Buriti Imóveis S.A. uses the so-called "lucro presumido" taxation method (deemed profit computed as a percentage of gross revenue) and deferred tax is not applicable in these cases.

Income tax calculated on a percentage of gross revenue ("lucro presumido") for the activity of Buriti Imóveis S.A. deems that profit is equal to 8% of gross revenue, less sales returns - on a cash basis - with the application of a 15% rate plus a 10% surcharge on taxable profit that exceeds R\$240/year. For social contribution tax, profit is deemed to be equal to 12% and the rate applicable is 9%.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.16. Income and social contribution taxes (Continued)**

The Company uses the so-called "lucro real" taxation method (actual profit based on accounting records). The Company qualifies as a rural activity entity (cultivation of forests for cutting) and its taxation is based on the same rules applicable to other legal entities, except that the offset of tax losses carryforward is not limited to 30% each fiscal year. Accordingly, the Company may offset its tax losses in full in one single reporting period.

Deferred tax assets are recognized for unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and will be reduced to the extent that their realization is no longer probable.

#### **2.17. New or revised standards adopted for the first time in 2019**

The Company adopted for the first time CPC 06 (R2), Leases, effective for annual periods beginning on or after January 1, 2019. The nature and the impact of the changes resulting from the adoption of this new standard are described below:

i) CPC 06 (R2) - Leases

CPC 06 (R2) replaces the previous version (R1) of lease standards, and ICPC 03, Supplementary Aspects of Lease Transactions. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases in the statement of financial position.

The Company's management reviewed the impacts of adopting this standard on the financial statements and did not identify any adjustments to be reported.

ii) ICPC 22 - Uncertainty over Income Tax Treatments

The new interpretation establishes requirements for recognition and measurement in cases where the Company has defined, when calculating income taxes (income and social contribution taxes), the use of uncertain tax treatments that may be challenged by the tax authorities.

Where some tax treatments are uncertain, the Company should define if it is considered probable that the taxation authorities will accept their separate reporting; if it is not considered probable that the tax authorities will accept the treatment, a contingency should be recorded.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **2. Summary of significant accounting practices (Continued)**

#### **2.17. New or revised standards adopted for the first time in 2019 (Continued)**

##### ii) ICPC 22 - Uncertainty over Income Tax Treatments (Continued)

The Company's Management started to consider the aspects of ICPC 22 and reviewed the judgment adopted when calculating income tax and social contribution tax, concluding that there are no uncertain tax treatments in its financial statements, since all the procedures adopted for the payment of income taxes are supported by applicable legislation and case law.

Other standards and interpretations apply for the first time in 2019, but do not, however, have any impact on the Company's individual and consolidated financial statements. The Company decided not to early adopt any other standard, interpretation or amendment that had been issued but are not yet effective.

#### **2.18. Standards issued but not yet effective**

The new and amended standards and interpretations issued but not yet effective by the date of the Company's individual and consolidated financial statements are described below. The Company intends to adopt these new and amended standards, if applicable, when they become effective.

- a) CPC 11 - Insurance Contracts;
- b) Amendments to CPC 15 (R1): Definition of a business;
- c) Amendments to CPC 26 (R1): Definition of material omissions

### **3. Critical accounting estimates and judgments**

The preparation of the individual and consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates.

Underlying estimates and assumptions are continuously reviewed. Reviews of accounting estimates are recognized in the period the estimates are reviewed and in any future periods affected.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **3. Critical accounting estimates and judgments (Continued)**

The information about assumptions and estimates that have a significant risk of resulting in a material adjustment to accounting figures are included in the following notes:

- Property, plant and equipment (Note 2.9)
- Financial instruments (2.5)
- Provisions (Note 2.13)
- Income taxes (IRPJ and CSLL) (Note 2.16)
- Determination of fair value (Note 4)

### **4. Fair value measurement**

Fair values were calculated for valuation or disclosure purposes based on the methods below. Where applicable, further information on the assumptions used in measuring fair values is disclosed in specific notes.

#### **a) Biological assets – Growing *Tectona grandis* (Teak)**

Own forests total 263 hectares. Teak grows on leased land as described in Note 11 (located in Pará).

Biological assets also include 5% of the volume of the final cut of forests managed by the Company, as compensation for the service provided, according to the Master Agreement.

The fair value of Teak plantations was determined using a discounted cash flow method, considering the following main assumptions:

- (a) Cash inflows derived by multiplying Teak's future output during its useful life, measured in cubic meters of wood, by the price of Teak sold, which is estimated based on market prices adopted by a peer company.
- (b) Cash outflows represented by estimated (i) costs necessary for the biological transformation of Teak (forest maintenance); (ii) thinning and harvesting costs; (iii) capital costs (lease of land); and (iv) taxes on positive cash flows.

Based on estimated revenues and costs, the Company determines the discounted cash flow to be generated each year, considering a discount rate aimed at defining the present value of biological assets. Changes in fair value are recorded in "Biological assets" matched with "gains and/or losses on biological assets" in the statement of profit or loss for the year.

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **4. Fair value measurement (Continued)**

#### a) Biological assets – Growing Tectona grandis (Teak) (Continued)

Planted Teak forests are valued in their first year in view of little biological transformation and significant costs incurred in that period, due to cumulative seeding and maintenance costs, since this amount approximates fair value.

The model and assumptions used in determining fair value represent Management's best estimate on the date of the financial statements, and are annually reviewed and adjusted, if necessary. The Company uses the Level 3 hierarchy to calculate the fair value of biological assets. Please see changes in Note 11.

#### b) Investment property

Fair value was calculated for measurement and/or disclosure purposes based on independent expert reports. Where applicable, further information on the assumptions used in measuring fair values is disclosed in specific notes.

### **5. Risk management**

#### a) Overview

The Company is exposed to the following risks arising from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Currency risk

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **5. Risk management (Continued)**

#### a) Overview (Continued)

This note brings information on the Company's exposure to each of the foregoing risks, as well as the Company's objectives, policies and processes for measuring and managing such risks and the Company's capital management. Additional quantitative disclosures are included in these financial statements.

#### b) Risk management framework

The Company's risk management policies are established to detect and analyze risks faced by the Company, to set adequate risk limits and controls, and to monitor risks and compliance with these limits. These risk management systems and policies are regularly reviewed to reflect changes in market conditions and in the Company's activities.

##### i) *Credit risk*

Credit risk is the risk that a customer or counterparty to a financial instrument will not meet its contractual obligations, which arise mainly from the Company's trade receivables and investment securities, leading to a financial loss.

##### ii) *Liquidity risk*

Liquidity risk is the risk that the Company may have difficulty in satisfying obligations associated with financial liabilities that are settled in cash or with another financial asset. The Company's approach to liquidity management consists in ensuring, to the maximum extent possible, that it will always have sufficient liquidity to fulfil its obligations, under normal conditions and stress conditions, without causing unacceptable losses or the risk of adversely affecting the Company's reputation.

##### iii) *Market risk*

Market risk is the risk that changes in market prices, such as exchange rates and interest rates, may affect the Company's gains or the value of their share in financial instruments. The purpose of market risk management is to manage and control exposures to market risks within acceptable standards while optimizing returns.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 5. Risk management (Continued)

#### b) Risk management framework (Continued)

##### iv) *Operational risk*

Operational risk is the risk of direct or indirect loss resulting from a number of reasons associated with the Company's processes, personnel, technology and infrastructure and from external events, other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted business practices. Operational risks emerge from all of the Company's operations.

The Company's objective is to manage operational risk to avoid financial losses and damage to the Company's reputation, while ensuring cost effectiveness and avoiding control procedures that limit initiative and creativity.

The primary responsibility for developing and implementing controls to cover operational risks is attributed to senior management. The responsibility is supported by the development of overall standards for operational risk management in the relevant areas.

##### v) *Currency risk*

The Company is subject to currency risk in transactions involving sales, purchases and loans denominated in a currency other than the respective functional currencies of the Company's entities, especially the Brazilian Real (R\$), but also the US Dollar (USD) and the Euro (€).

Interest on loans is expressed in the currency of the loans. In general, loans are denominated in a currency that is equivalent to the cash flows generated from the Company's basic operations.

### 6. Cash and cash equivalents

	Individual		Consolidated	
	2019	2018	2019	2018
Cash and banks	1,279	1,407	1,287	1,418
Short-term deposits	-	1,512	7,576	1,512
<b>Total</b>	<b>1,279</b>	<b>2,919</b>	<b>8,863</b>	<b>2,929</b>

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 6. Cash and cash equivalents (Continued)

Cash and cash equivalents include cash, bank deposits, and short-term investments. Short-term investments are recorded at cost, plus earnings accrued through the reporting date, and are highly liquid. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Thus, an investment normally qualifies as a cash equivalent only when it has a short-term maturity, e.g. three months or less, from the date of acquisition. The fair value of short-term investments, when applicable, is measured based on quotes or publicly-disclosed information.

### 7. Related parties

The main asset and liability balances as at December 31, 2019, as well as certain transactions that impacted net income for the year, result from transactions with the parent company, key management personnel and other related parties. These transactions are carried out based on conditions agreed between the parties, considering the Company's organizational structure as a whole; accordingly, they could differ if performed directly with unrelated parties.

#### a) Balances

The commercial transactions involving the sale of forests and wood, as well as the loans and funding transactions between the companies are performed as follows:

	Individual		Consolidated	
	2019	2018	2019	2018
<b>Current assets</b>				
<b>Accounts receivable</b>				
TRC Agroflorestal Ltda. (1)	9,015	8,091	9,015	8,091
	<b>9,015</b>	<b>8,091</b>	<b>9,015</b>	<b>8,091</b>
<b>Noncurrent assets</b>				
<b>Costs to be reimbursed</b>				
Floresteca B.V. (2)	450,968	442,957	450,968	442,957
	<b>450,968</b>	<b>442,957</b>	<b>450,968</b>	<b>442,957</b>
<b>Other accounts receivable</b>				
Buriti Imóveis S.A.	181	330	-	-
Sylvio de Andrade Coutinho	170	255	170	255
Sylvio de Andrade Coutinho Neto	120	205	120	205
LHS Participações Ltda.	297	558	297	558
	<b>767</b>	<b>1,347</b>	<b>587</b>	<b>1,017</b>
	<b>451,755</b>	<b>444,305</b>	<b>451,575</b>	<b>443,975</b>
<b>Noncurrent liabilities</b>				
<b>Intercompany loan</b>				
Floresteca B.V. (3)	457,020	455,485	457,020	455,485
	<b>457,020</b>	<b>455,485</b>	<b>457,020</b>	<b>455,485</b>

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 7. Related parties (Continued)

#### a) Balances (Continued)

- (1) This refers to accounts receivable for the sale of teak logs, whereby, as defined in the Master Agreement, Floresteca S.A has a preemptive right in the sale, assignment or transfer, under equal conditions with any interested third parties; in this case, TRC Agroflorestal.
- (2) Costs incurred with forest formation. As defined in the Master Agreement, at the end of the planting cycle for each forest project, the Company will be reimbursed for the total aggregated costs of the project until the final cut. These funds will be used to settle the intercompany loan transaction.

As described in Note 1 and item 3 of the Master Agreement, the forests are fully owned by FBV and SATT, with SATT being the final beneficiary of the forests, Floresteca S.A. agrees to deliver a high quality forest planted with Teak, based on best practices, focusing on the final cut. Floresteca S.A acts as a forest manager. Third-party forests, extending over 14,610 hectares, are recorded at cost plus foreign exchange gains/losses on the loan, less depletion for the year.

Please refer to Note 11 for a list of the biological assets owned by Floresteca S.A.

Changes in costs to be reimbursed as at December 31, 2019 and 2018:

	Individual		Consolidated	
	2019	2018	2019	2018
Costs to be reimbursed at the beginning of the year	<b>442,957</b>	410,558	<b>442,957</b>	410,558
(+) Transfers	-	1,058	-	1,058
(+) Additions (a)	<b>16,355</b>	11,172	<b>16,355</b>	11,172
(-) Depletion (b)	<b>(17,442)</b>	(33,167)	<b>(17,442)</b>	(33,167)
(-) Amortization of land rehabilitation costs (c)	<b>(749)</b>	(749)	<b>(749)</b>	(749)
(+) Exchange rate adjustment (d)	<b>9,867</b>	54,087	<b>9,867</b>	54,087
Costs to be reimbursed at the end of the year	<b>450,988</b>	442,957	<b>450,988</b>	442,957

(a) Silvicultural investments in forests throughout the year.

(b) Amortization of projects harvested throughout the year.

(c) At the end of the teak cultivating cycle (final cutting), the Company will be entitled to reimbursement by FBV of costs to return the land clean and root free to its owners (see Note 15).

(d) As the forests belong to third parties, the forest appreciation has been accounted for at cost plus foreign exchange gains/losses on the loan received from FBV to finance the operation, in accordance with the Master Agreement described in Note 1.

- (3) Funds obtained from Floresteca B.V. to develop the Company's operations, adjusted for the foreign exchange gains/losses on the dollar or euro. In addition to the mentioned obligations in foreign currency, the Company has a contract in reais totaling R\$1,073. These loans do not bear interest and they will be paid through the delivery of the forest or the financial resources from the teak forests.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 7. Related parties (Continued)

#### a) Balances (Continued)

Changes in the intercompany loan with Floresteca B.V. as at December 31, 2019 and 2018:

	<u>Intercompany loan</u>	<u>Total</u>
<b>At January 1, 2018</b>	430,873	430,873
Foreign exchange differences	54,940	54,940
(-) Payment	<u>(30,329)</u>	<u>(30,329)</u>
<b>At December 31, 2018</b>	<u><b>455,485</b></u>	<u><b>455,485</b></u>
Foreign exchange differences	9,865	9,865
(-) Payment	<u>(8,330)</u>	<u>(8,330)</u>
<b>At December 31, 2019</b>	<u><b>457,020</b></u>	<u><b>457,020</b></u>

#### b) Key management personnel compensation

The Company's key management personnel compensation includes taxes on salaries and payroll totaling R\$716 as at December 31, 2019 (R\$642 in 2018). The members of the board of directors are not included in these figures, since they do not receive compensation.

### 8. Taxes recoverable

	<u>Individual</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Financing (COFINS)	<b>2,870</b>	3,467	<b>2,870</b>	3,467
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	<b>629</b>	758	<b>629</b>	758
Income tax	<b>31</b>	37	<b>31</b>	37
Withholding Income Tax (IRRF)	<b>-</b>	-	<b>77</b>	-
Funrural	<b>154</b>	29	<b>154</b>	29
<b>Total</b>	<u><b>3,685</b></u>	<u>4,291</u>	<u><b>3,761</b></u>	<u>4,291</u>

No provision was recorded for the non-use of tax credits, since the Company's management reviewed the specific aspects of its tax credits and concluded that they will be used over the next years.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 9. Investments

The financial information of subsidiaries and associates is summarized below: The information below considers the extent of the Company's percentage interests.

Investee	Control	Interest		Individual		Consolidated	
		2019	2018	2019	2018	2019	2018
Buriti Imóveis S.A. (a)	Direct	<b>99.99%</b>	99.99%	<b>(8,483)</b>	(4,904)	-	-
SCP M. Verde (b)	Ostensible partnership	<b>0.00%</b>	23.85%	-	(258)	-	(258)
SCP S. Lúcia (b)	Ostensible partnership	<b>0.00%</b>	28.54%	-	182	-	182
				<b>(8,483)</b>	(4,980)	-	(75)
Unrealized gains – Note 10				-	(5,064)	-	-
				<b>(8,493)</b>	(10,044)	-	(75)

(a) Subsidiary that owns the land where the Group's own forests are planted.

(b) In 2017, the forest projects belonging to the investment in the subsidiaries SCP Monte Verde and SCP Santa Lúcia were sold, but the entities were discontinued in 2019.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 9. Investments (Continued)

Changes in investments in subsidiaries are as follows:

Investee	2018	Equity pickup	Disposal	2019
Buriti Imóveis S.A.	(4,904)	(3,739)	150	(8,483)
SCP M. Verde	(258)	-	258	-
SCP S. Lúcia	182	-	(182)	-
	<b>(4,980)</b>	<b>(3,739)</b>	<b>226</b>	<b>(8,483)</b>

  

Investee	2017	Equity pickup	Disposal	2018
Buriti Imóveis S.A.	(4,668)	(236)	-	(4,904)
SCP M. Verde	(415)	(333)	490	(258)
SCP S. Lúcia	(498)	379	301	182
	<b>(5,581)</b>	<b>(190)</b>	<b>791</b>	<b>(4,980)</b>

#### Investment in subsidiaries

The main information about the subsidiaries, whose fiscal year also ends as at December 31, is presented below. This information was not adjusted for the extent of the Company's percentage interests:

#### December 31, 2019

Subsidiary	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities	Equity	Revenue	Net loss
Buriti Imóveis S.A.	7,656	-	3	16,146	(4,756)	-	(3,737)

#### December 31, 2018

Subsidiary	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities	Equity	Revenue	Net income
SCP M. Verde	-	-	-	16,380	(15,073)	-	(1,307)
SCP S. Lúcia	-	-	-	5,838	(6,622)	-	784

As at December 31, 2018, investments in SCPs Monte Verde and Santa Lucia were negative, so any investment in equity accounted investees was recognized in the Company's financial statements as provisions for losses totaling R\$258 and (R\$182) for SCP Monte Verde and SCP Santa Lúcia, respectively.

The Company's management elected not to report the balance of SCPs (Silent Partnerships) Monte Verde and Santa Lúcia due to the immateriality of the figures.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 10. Investment property

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1	9,516	7,078
Change in fair value (Note xx)	<b>(4,287)</b>	2,438
	<b>5,230</b>	9,516
Acquisition cost (a)	<b>5,230</b>	5,230
Change in cumulative fair value (b)	-	4,286
Disposal (a)	<b>(5,230)</b>	-
	-	9,516
Unrealized gains eliminated for consolidation purposes	-	(5,064)
<b>Net</b>	<b>-</b>	<b>4,452</b>

(a) In 2012 the Company sold 943.94 hectares of Buriti farmland to subsidiary Buriti Imóveis S.A. for R\$5,230, pursuant to the purchase and sale agreement entered into on November 28, 2012. The unrealized gain from the related party transaction, totaling R\$5,064, was eliminated for consolidation purposes until 2018. On May 17, 2019, Buriti sold the land to third parties and realized the gain on the transaction.

(b) As at December 31, 2018, the investment properties were valued by independent qualified valuers with experience in the valuation of investment properties in the same location as the Company.

### 11. Biological assets

	<b>Company and Consolidated</b>	
	<b>2019</b>	<b>2018</b>
Balance at beginning of year	<b>63,536</b>	783
(+) Additions	<b>544</b>	367
(-) Transfers	-	(1,058)
(+/-) Fair value adjustment (a)	<b>24,169</b>	63,443
<b>Balance at end of year</b>	<b>88,248</b>	63,536

(a) Change in the value of own biological assets, which include s5% of the volume of the final cut of forests, as part of its compensation, according to the Master Agreement.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 11. Biological assets (Continued)

#### List of projects:

	<u>Projects</u>	<u>Hectares</u>
Fazenda Santa Fé	STF 2003	70
Fazenda Bambu	3AM 1999	121
Fazenda Bambu	3AM 2000	72
		<u>263</u>

#### Regulatory and environmental risks

The Company defined environmental policies and procedures for compliance with environmental laws. Management carries out regular analyses to identify environmental risks and to ensure that the operating systems are adequate for managing the risks.

#### Supply and demand risks

The company is exposed to risks resulting from fluctuation in prices and the volume of sales of its plantations. Whenever possible, the Company manages this risk by aligning its extraction volume with the market's supply and demand. Management regularly reviews the industry trends to ensure that the Company's price structure is in line with the market and to ensure that projected extraction volumes are consistent with the expected demand.

#### Climate and other risks

The Company's plantations are exposed to the risk of damage caused by climate changes, diseases, bushfires and other forces of nature. The Company has thorough action plans focusing on monitoring and reducing these risks, relying mainly on a fire brigade that is highly qualified with respect to implementing preventive controls for bushfires, and a forest systematization and planning team that monitors the forest health and analyzes diseases and pests.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 12. Property, plant and equipment

	Company and Consolidated								Fair value - CPC 27 (a)	Total
	Land	Buildings	Facilities	Machinery and equipment	Vehicles	Furniture and fixtures	Hardware	Work in progress		
<b>Balance at January 1, 2018</b>	5,164	667	1,411	3,706	735	97	106	111	2,568	14,565
Additions and reclassifications	-	-	-	314	-	41	5	-	-	360
Disposals and write-offs	-	-	(16)	(598)	(356)	(3)	(5)	-	-	(978)
Depreciation	-	(410)	(300)	(1,528)	(227)	(20)	(31)	-	-	(2,517)
Depreciation written off or disposed of	-	-	8	420	330	(5)	4	(111)	-	645
<b>Residual value at December 31, 2018</b>	<b>5,164</b>	<b>257</b>	<b>1,103</b>	<b>2,313</b>	<b>481</b>	<b>110</b>	<b>78</b>	<b>-</b>	<b>2,569</b>	<b>12,075</b>
Acquisition cost	5,164	4,329	3,985	20,252	3,413	631	1,003	-	-	38,777
Cumulative depreciation	-	(4,072)	(2,883)	(17,939)	(2,930)	(521)	(924)	-	2,567	(26,701)
<b>Balance at December 31, 2018</b>	<b>5,164</b>	<b>257</b>	<b>1,103</b>	<b>2,313</b>	<b>482</b>	<b>110</b>	<b>78</b>	<b>-</b>	<b>2,568</b>	<b>12,075</b>
Additions and reclassifications	-	-	-	158	-	8	2	-	-	167
Disposals and write-offs	-	-	-	(55)	(95)	-	(15)	-	(2,568)	(2,734)
Depreciation	-	(230)	(281)	(1,225)	(215)	(18)	(28)	-	-	(1,998)
Depreciation written off or disposed of	-	-	-	50	95	-	9	-	-	154
<b>Residual value at December 31, 2019</b>	<b>5,164</b>	<b>27</b>	<b>822</b>	<b>1,241</b>	<b>267</b>	<b>100</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>7,667</b>
Acquisition cost	5,164	4,329	3,985	20,355	3,318	639	989	-	-	38,779
Cumulative depreciation	-	(4,302)	(3,163)	(19,114)	(3,050)	(539)	(943)	-	-	(31,112)
<b>Balance at December 31, 2019</b>	<b>5,164</b>	<b>27</b>	<b>822</b>	<b>1,241</b>	<b>267</b>	<b>100</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>7,667</b>
<b>Annual depreciation rate - %</b>	<b>-</b>	<b>4-10</b>	<b>10</b>	<b>20-25</b>	<b>20</b>	<b>10</b>	<b>20</b>	<b>-</b>	<b>-</b>	

(a) The Company uses information related to the survival of assets, taking into account the economic environment in which the entity operates and the assets' living rates. In 2019, there was a write-off at fair value (CPC 27) in the amount of R\$2,568, as management concluded that the useful life considered by the Company does not differ from the rates adopted for tax purposes.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
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### 13. Loans and financing

	Annual rate	Individual		Consolidated	
		2019	2018	2019	2018
<b>Local currency</b>					
Lease		53	119	53	119
Finame	4.5 to 7.5%	120	399	120	399
		<b>173</b>	518	<b>173</b>	518
<b>Foreign currency</b>					
Foreign Funding Loan - LFP (a)	11%	-	-	15,965	14,104
		<b>173</b>	518	<b>16,138</b>	14,622
Current		58	402	58	402
Noncurrent		115	116	16,080	14,220
<b>Total</b>		<b>173</b>	518	<b>16,138</b>	14,622

(a) In 2012, subsidiary Buriti Imóveis S.A. obtained a loan abroad for the only purpose of financing the forest planting, maintenance and harvest activities. The loan and financing agreements have non-financial covenants.

As at December 31, 2019, the Company does not have loan, financing or other agreements subject to covenants that could give rise to liabilities to be recognized in the financial statements.

Delivery of the Company's shares in Buriti S.A. was given in guarantee of LF Prime loans. As at December 31, 2019, the Company did not have any other assets given in guarantee of any liabilities.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 14. Contingencies

The Company is a party to (defendant in) legal and administrative proceedings before several courts and government agencies, arising from the normal course of business, involving tax, labor, civil and other claims.

Based on information from its legal advisors, on an analysis of the pending legal proceedings, and on past experience in relation to the amounts claimed, Management recorded a provision in an amount considered sufficient to cover the estimated losses on the lawsuits in progress, as follows:

	Company and Consolidated	
	2019	2018
Civil and tax claims	403	415
	<b>403</b>	<b>415</b>

There are other contingencies considered possible losses by the Company's Management, based on information provided by its legal advisors. For these cases, no provision was recorded. The amounts are shown below:

	Individual		Consolidated	
	2019	2018	2019	2018
Labor claims	43	43	43	43
Civil and tax claims	3,906	400	3,906	400
	<b>3,949</b>	<b>443</b>	<b>3,949</b>	<b>443</b>

### 15. Other provisions

	Company and Consolidated	
	2019	2018
Provision for land restoration costs	26,503	24,394
Other	8,451	-
	<b>34,954</b>	<b>24,394</b>

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 16. Income and social contribution taxes

#### a) Income and social contribution taxes - deferred

The major components of deferred income and social contribution taxes for the year ended December 31, 2019 and 2018 are:

	Company and Consolidated				2019
	2018	Addition	Write-off	Change	
<b>Assets</b>					
Cumulative income tax loss (a)	80,069	6,905	-	6,905	86,974
Total temporary differences - fair value	(61,100)	(24,169)	-	(24,169)	(85,269)
	18,969	(17,264)	-	(17,264)	1,705
Deferred income and social contribution taxes – 34%	6,449	(5,870)	-	(5,870)	580
<b>Liabilities</b>					
Provision for temporary differences	5,395	14,290	-	14,290	8,895
Accelerated depreciation tax incentive	(3,337)	-	1,309	1,309	(2,028)
Provision for restoration costs	-	7,488	-	7,488	7,488
Finance costs - restoration costs	-	14,937	-	14,937	14,937
Exchange differences taxed on a cash basis	(4,357)	4,357	-	4,357	-
Transfer pricing of investors' forests - fair value	(2,095)	2,094	-	2,094	(1)
	(15,184)	43,166	1,309	44,475	29,291
Deferred income and social contribution taxes – 34%	(5,163)	14,677	445	15,122	9,960
<b>Deferred income and social contribution taxes</b>	1,287	8,807	445	9,252	10,539

(a) Cumulative tax losses due to the Company's first years of operation.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 16. Income and social contribution taxes (Continued)

#### b) Income and social contribution taxes - current

Reconciliation of income and social contribution tax expenses:

	Consolidated	
	2019	2018
<u>Income tax calculation</u>		
Rate applied on adjusted revenue (IRPJ 8%)	-	
(+) Other finance income	3,799	16
<u>Tax base</u>	3,799	16
Rate used for calculation (IRPJ 15%)	570	2
Rate used for calculation (IRPJ 10%)	368	-
<u>Social contribution tax calculation</u>		
Rate applied on adjusted revenue (CSLL 12%)	-	-
(+) Other finance income/costs	3,799	16
<u>Tax base</u>	3,799	16
Rate used for calculation (CSLL 9%)	342	1
Current income and social contribution taxes	1,280	4

### 17. Equity

#### a) Capital

At December 31, 2019 and 2018, subscribed and paid-in capital comprises 27,797,555 registered common shares with a par value of R\$ 1 each, 27,796,553 of which belong to the foreign shareholders. There was no change in the Company's capital for the year.

Shareholder	Ownership	Number of shares	R\$ thousand
Floresteca B.V.	100.00%	27,796,551	27,797
Sylvio de Andrade Coutinho Neto	0.00%	1,002	1
Hendrik Cornelis van Druten	0.00%	1	-
Laurentius P. Antonius Brouns	0.00%	1	-
	<b>100%</b>	<b>27,797,555</b>	<b>27,798</b>

## Floresteca S.A.

Notes to financial statements (Continued)

December 31, 2019

(In thousands of reais)

### 17. Equity (Continued)

#### b) Legal reserve

The legal reserve is recognized at a rate of 5% of net income for each year, under the terms of article 193 of Law No. 6404/76, limited to 20% of capital stock.

#### c) Income reserve

This reserve refers to the profits to be transferred to the Company's parent Floresteca B.V., as defined in the Bylaws.

The Company also includes in the reserve the full result from the operations of Floresteca B.V., relating to the sale of forests in the final cut stage, since the Company is used as a vehicle to complete these operations. Changes in operations as at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Sale of logs - domestic market	<b>26,397</b>	31,403
Other sales (firewood, blocks and boards)	<b>225</b>	175
(-) Sales taxes	<b>(330)</b>	(1,173)
(-) Sales returns	<b>(302)</b>	-
(-) Cost of goods sold	<b>(26,690)</b>	(46,253)
	<b>(700)</b>	(15,849)

### 18. Net operating revenue

Reconciliation between gross revenue for tax purposes and net revenue shown on the face of the statement of profit or loss:

	<u>Individual</u>		<u>Consolidated</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Thinning sales	<b>5,017</b>	103	<b>5,017</b>	103
Land sold	-	-	<b>8,968</b>	-
Forest management services	<b>1,392</b>	1,663	<b>1,392</b>	1,663
<b>Gross revenue</b>	<b>6,409</b>	1,766	<b>15,377</b>	1,766
(-) Deductions				
Sales taxes	<b>(319)</b>	(72)	<b>(319)</b>	(72)
	<b>(319)</b>	(72)	<b>(319)</b>	(72)
	<b>6,090</b>	1,694	<b>15,057</b>	1,694

Please refer to Note 17c for changes in all of the result of operations of Floresteca B.V.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 19. Costs and expenses by nature

	Individual		Consolidated	
	2019	2018	2019	2018
Cost of logs sold	(5,553)	(418)	(5,553)	(418)
Cost of land sold	-	-	(5,230)	-
Fair value of biological assets	24,169	63,443	24,169	63,443
Fair value of investment properties	-	-	(4,287)	2,438
Advisory and professional services	(8,319)	(8,176)	(8,322)	(8,179)
Payroll	(131)	(470)	(131)	(470)
Taxes	(1,129)	(1,119)	(1,133)	(1,123)
Depreciation	(108)	(118)	(108)	(118)
Other income (expenses)	(2,686)	(848)	(3,135)	(848)
	<b>6,245</b>	<b>52,295</b>	<b>(3,728)</b>	<b>54,726</b>
Gain on fair value of biological assets and investment properties	24,169	63,443	19,882	65,861
Cost of goods sold and service rendering	(5,553)	(418)	(10,783)	(418)
Selling expenses	(2)	(60)	(451)	(60)
General and administrative expenses	(12,369)	(10,670)	(12,376)	(10,677)
	<b>6,245</b>	<b>52,295</b>	<b>(3,728)</b>	<b>54,726</b>

### 20. Finance income (costs)

	Individual		Consolidated	
	2019	2018	2019	2018
<b>Finance income</b>				
Exchange gains – Accrual method (a)	-	830	2,927	3,377
Other	478	1,106	1,075	1,106
	<b>478</b>	<b>1,936</b>	<b>4,002</b>	<b>4,483</b>
<b>Finance costs</b>				
Exchange losses – Accrual method (a)	(29)	-	(3,946)	(4,336)
Interest (b)	-	-	(1,087)	(890)
Other	(161)	(314)	(162)	(314)
	<b>(190)</b>	<b>(314)</b>	<b>(5,195)</b>	<b>(5,541)</b>
	<b>288</b>	<b>1,622</b>	<b>(1,193)</b>	<b>(1,058)</b>

Finance income substantially includes foreign exchange gains. The change in value of forests arising only from foreign exchange gains is reflected here.

Finance costs basically comprise exchange losses and interest expenses on loans. Borrowing costs that are not directly attributable to acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method.

- (a) Net exchange gains and losses refer to fluctuations in the exchange rates of loans obtained from Floresteca B.V. in USD and Euro (€) mainly;  
(b) Interest on loans from LFP Prime and Brazilian financial institutions.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 21. Financial instruments

The Company uses financial instruments in its operations. Most of the instruments used by the Company include financing, bank loans, and short-term investments in certificates of bank deposit and other short-term money market instruments. These instruments are managed through operational strategies and internal controls aimed at ensuring liquidity, profitability, and security. The Company does not engage in speculative investments in derivatives or any other risk assets.

The Company's operations are subject to the risk factors described in Note 5.

All transactions involving financial instruments are recognized in the Company's financial statements, as shown below:

	Consolidated				
	2019		2018		
	Level	Book value	Fair value	Book value	Fair value
<b>Assets</b>					
<b>Fair value through profit or loss</b>					
Cash and cash equivalents (Note 6)	1	8,863	8,863	2,929	2,929
Trade accounts receivable	2	32	32	40	40
Accounts receivable from related parties (Note 7)	2	9,015	9,015	8,091	8,091
Other assets	2	5,434	5,434	5,461	5,461
		<b>23,344</b>	<b>23,344</b>	16,521	16,521
<b>Liabilities</b>					
<b>Liabilities at amortized cost</b>					
Loans and financing (Note 13)	2	16,138	16,138	14,622	14,622
Trade and other accounts payable	1	998	998	817	817
		<b>17,136</b>	<b>17,136</b>	15,439	15,439

a) Identification and valuation of financial instruments

The book value of financial instruments recorded in the statement of financial position is the same as market value.

b) Derivatives

The Company has no transactions involving financial instruments that are not reflected in the financial statements for December 2017, nor does it engage in transactions involving financial derivatives (swaps, long-term contracts, hedging, commitments for the purchase or sale of foreign currency, future contracts or options, among others).

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### **21. Financial instruments (Continued)**

#### c) Determining the fair value of financial instruments

The Company reports its financial assets and liabilities at fair value, based on applicable accounting pronouncements that define fair value, by reference to fair value measurement concepts and disclosure requirements.

In the specific case of disclosure, the Company applies the hierarchy rules as follows:

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Fair value measurements are categorized into a three-level hierarchy, based on the observable inputs used to value an asset or liability on the measurement date.

Valuation according to a three-level hierarchy for measuring fair value is based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect industry assumptions. These two types of inputs are used to create the fair value hierarchy shown in the above table and detailed below:

*Level 1:* quoted (unadjusted) prices in active markets for identical assets and liabilities. Transactions with balances classified at this level refer to amounts held in cash quoted in Brazilian local currency and held for trading.

*Level 2:* inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices). Transactions with balances classified at this level refer to amounts held as investments in Certificates of Bank Deposit (CDB), General Market Price Index (IGPM), interest received according to fluctuations in Certificates of Interbank Deposit (CDI) rates and fixed rates. The criteria for measuring book value, which is equivalent to fair value given the nature of the transaction, depend substantially on observable information in an active market.

## Floresteca S.A.

Notes to financial statements (Continued)  
December 31, 2019  
(In thousands of reais)

### 21. Financial instruments (Continued)

#### c) Determining the fair value of financial instruments (Continued)

The financial instruments subject to exchange risk and their related sensitivity analyses are shown in the table below:

Company and Consolidated	US\$/R\$	
	Ptax Purchase	Ptax Sale
Rate at December 31, 2019	4.0301	4.0307
Scenario 1: 25% devaluation of the Real	5.0376	5.0384
Scenario 2: 50% devaluation of the Real	6.0452	6.0461
Scenario 3: 25% appreciation of the Real	3.0226	3.0230
Scenario 4: 50% appreciation of the Real	2.0151	2.0154

  

Company and Consolidated	Euro/R\$	
	Ptax Purchase	Ptax Sale
Rate at December 31, 2019	4.5290	4.5305
Scenario 1: 25% devaluation of the Real	5.6613	5.6631
Scenario 2: 50% devaluation of the Real	6.7935	6.7958
Scenario 3: 25% appreciation of the Real	3.3968	3.3979
Scenario 4: 50% appreciation of the Real	2.2645	2.2653

Individual and Consolidated	Balance in USD	Gain (Loss)			
		Scenario 1	Scenario 2	Scenario 3	Scenario 4
Loans and financing	26,589	(26,793)	(53,586)	26,793	53,586
<b>Net position</b>	<b>26,589</b>	<b>(26,793)</b>	<b>(53,586)</b>	<b>26,793</b>	<b>53,586</b>

Individual and Consolidated	Balance In Euro	Gain (Loss)			
		Scenario 1	Scenario 2	Scenario 3	Scenario 4
Loans and financing	76,984	(87,194)	(174,388)	87,194	174,388
<b>Net position</b>	<b>76,984</b>	<b>(87,194)</b>	<b>(174,388)</b>	<b>87,194</b>	<b>174,388</b>

*Level 3*: inputs for the asset or liability that are not based on market observable data (unobservable inputs).

## **Floresteca S.A.**

Notes to financial statements (Continued)  
December 31, 2019  
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### **22. Subsequent events**

#### Impacts of COVID-19 (Coronavirus) on the Company's business

The World Health Organization (WHO) has recently announced that the coronavirus outbreak (COVID-19) represents a global pandemic. It has proven to have significant impacts, including the closing of businesses and manufacturing facilities, the emergence of challenging working conditions, and the interruption of the global supply chain, which may affect the availability of some products and commodities sold by the Company.

Thus, in order to ensure the full continuity of its business and the health and safety of employees, the Company has adopted administrative and financial measures consistent with the present moment, with a view to implementing any necessary adjustments and practical measures in line with the guidelines of the health authorities.

However, at this point, the Company's Management is unable to accurately anticipate or estimate the adverse impacts generated by COVID-19 on the Company's operations and, consequently, on its individual and consolidated financial statements.