

# **Individual and Consolidated Financial Statements**

**Floresteca S.A.**

December 31, 2020  
with Independent Auditor's Report

# **Floresteca S.A.**

## Individual and consolidated financial statements

December 31, 2020

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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**

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

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

### **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, 2020, and the statements of profit or loss, of comprehensive income (loss), 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, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Floresteca S.A. as at December 31, 2020, its individual and consolidated financial performance and individual and consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

### **Basis for opinion**

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 subsidiaries 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 support our opinion.

### **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 Standards on Auditing 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, november 9, 2021.

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.

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

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

**Floresteca S.A.**

Statements of financial position  
December 31, 2020 and 2019  
(In thousands of reais)

	Note	Individual		Consolidated	
		2020	2019	2020	2019
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	6	<b>1,264</b>	1,279	<b>9,620</b>	8,863
Trade accounts receivable		<b>20</b>	32	<b>20</b>	32
Related parties	7	<b>6,660</b>	9,015	<b>6,660</b>	9,015
Inventories		<b>1,562</b>	44	<b>1,562</b>	44
Taxes recoverable	8	<b>2,603</b>	3,685	<b>2,811</b>	3,756
Other assets		<b>81</b>	256	<b>81</b>	256
<b>Total current assets</b>		<b>12,190</b>	14,311	<b>20,754</b>	21,966
<b>Noncurrent assets</b>					
Related parties	7	<b>605,243</b>	451,755	<b>605,063</b>	451,575
Deferred income and social contribution taxes	16	<b>43,253</b>	10,539	<b>43,253</b>	10,539
Other assets		<b>6,261</b>	5,178	<b>6,261</b>	5,178
Biological assets	10	<b>22,245</b>	88,248	<b>22,245</b>	88,248
Property, plant and equipment	11	<b>6,288</b>	7,667	<b>6,288</b>	7,667
Intangible assets		<b>5</b>	49	<b>5</b>	49
<b>Total noncurrent assets</b>		<b>683,295</b>	563,436	<b>683,115</b>	563,256
<b>Total assets</b>		<b>695,485</b>	577,747	<b>703,869</b>	585,222

	Note	Individual		Consolidated	
		2020	2019	2020	2019
Liabilities and equity					
Current liabilities					
Loans and financing	12	<b>3,027</b>	58	<b>22,638</b>	58
Trade and other accounts payable		<b>2,098</b>	998	<b>2,098</b>	998
Taxes payable		<b>141</b>	158	<b>141</b>	161
Payroll, vacation pay and related charges		<b>226</b>	352	<b>226</b>	352
Total current liabilities		<b>5,492</b>	1,566	<b>25,103</b>	1,569
Noncurrent liabilities					
Loans and financing	12	<b>2,576</b>	115	<b>4,871</b>	16,080
Related parties	7	<b>625,962</b>	457,020	<b>625,962</b>	457,020
Provision for contingencies	13	<b>485</b>	403	<b>485</b>	403
Provision for losses in subsidiaries	9	<b>13,522</b>	8,493	-	-
Other provisions	14	<b>37,080</b>	34,954	<b>37,080</b>	34,954
Total noncurrent liabilities		<b>679,625</b>	500,985	<b>668,399</b>	508,457
Equity					
Capital	16	<b>27,798</b>	27,798	<b>27,798</b>	27,798
Legal reserve		<b>5,559</b>	5,559	<b>5,559</b>	5,559
Income reserve		-	41,839	-	41,839
Accumulated losses		<b>(22,990)</b>	-	<b>(22,990)</b>	-
Total equity		<b>10,367</b>	75,196	<b>10,367</b>	75,196
Total liabilities and equity		<b>695,485</b>	577,747	<b>703,869</b>	585,222

See accompanying notes.

## Floresteca S.A.

Statements of profit and loss  
 Years ended December 31, 2020 and 2019  
 (In thousands of reais, unless otherwise stated)

	Note	Individual		Consolidated	
		2020	2019	2020	2019
Net operating revenue	17	<b>29,908</b>	6,090	<b>29,908</b>	15,057
Gain (loss) on fair value of biological assets and investment properties	18	<b>(66,130)</b>	24,169	<b>(66,130)</b>	19,882
Cost of goods sold and service rendering	18	-	(5,553)	-	(10,783)
Gross profit (loss)		<b>(36,222)</b>	24,706	<b>(36,222)</b>	24,156
Operating income (expenses)					
Selling expenses	18	<b>(3)</b>	(2)	<b>(3)</b>	(451)
General and administrative expenses	18	<b>(13,606)</b>	(12,369)	<b>(13,613)</b>	(12,376)
Other operating income, net		<b>609</b>	1,250	<b>609</b>	1,280
Equity pickup	9	<b>(5,030)</b>	(3,739)	-	(2)
Income (loss) before finance income (costs)		<b>(54,252)</b>	9,846	<b>(49,229)</b>	12,607
Finance income	19	<b>1,242</b>	478	<b>6,542</b>	4,002
Finance costs	19	<b>(2,556)</b>	(190)	<b>(12,879)</b>	(5,195)
Finance income (costs)		<b>(1,314)</b>	288	<b>(6,337)</b>	(1,193)
Income (loss) before taxes		<b>(55,566)</b>	10,134	<b>(55,666)</b>	11,414
Current Income and social contribution taxes	15	-	-	-	(1,280)
Deferred income and social contribution taxes	15	<b>32,715</b>	9,252	<b>32,715</b>	9,252
Net income (loss) for the year		<b>(22,851)</b>	19,386	<b>(22,851)</b>	19,386
Number of shares				<b>27,796,555</b>	27,796,555
Earnings per share (in reais)				<b>(0.70)</b>	0.70

See accompanying notes.

## Floresteca S.A.

Statements of comprehensive income (loss)  
Year ended December 31, 2020  
(In thousands of reais, unless otherwise stated)

	Individual		Consolidated	
	2020	2019	2020	2019
Net income (loss) for the year	<b>(22,851)</b>	19,386	<b>(22,851)</b>	19,386
Total comprehensive income for the year	<b>(22,851)</b>	19,386	<b>(22,851)</b>	19,386

See accompanying notes.

## Floresteca S.A.

Statements of changes in equity  
Year ended December 31, 2020  
(In thousands of reais)

	<b>Attributable to controlling shareholders of the Company</b>				
	<b>Capital</b>	<b>Legal reserve</b>	<b>Income reserve</b>	<b>Retained earnings (accumulated losses)</b>	<b>Total</b>
Balance at December 31, 2018	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
Gains on BV operations (Note 16.c)	-	-	(700)	-	(700)
Allocation of profit					
Transfers to income reserve	-	-	19,386	(19,386)	-
Balance at December 31, 2019	27,798	5,559	41,839	-	75,196
Loss for the year				<b>(22,851)</b>	<b>(22,851)</b>
Loss on BV operations (Note 16.c)	-	-	<b>(41,978)</b>	-	<b>(41,978)</b>
Transfer to accumulated losses	-	-	<b>140</b>	<b>(140)</b>	-
Balance at December 31, 2020	<b>27,798</b>	<b>5,559</b>	<b>-</b>	<b>(22,990)</b>	<b>10,367</b>

See accompanying notes.

## Floresteca S.A.

Statements of cash flows  
Year ended December 31, 2020  
(In thousands of reais)

	Individual		Consolidated	
	2020	2019	2020	2019
Cash flows from operating activities				
Net income (loss) for the year	<b>(22,851)</b>	19,386	<b>(22,851)</b>	19,386
Adjustments to reconcile net income for the year:	-	-	-	-
Depreciation and amortization	<b>1,390</b>	1,998	<b>1,390</b>	1,998
Provision for contingencies	<b>82</b>	(12)	<b>82</b>	(12)
Fair value of biological assets and investment properties	<b>66,130</b>	(24,169)	<b>66,130</b>	(19,882)
Unrealized exchange gains / losses	<b>2,018</b>	(2)	<b>7,958</b>	1,860
Interest incurred	<b>558</b>	-	<b>1,890</b>	1,087
Proceeds from disposal of fixed assets	<b>61</b>	2,606	<b>61</b>	7,836
Provision for losses on investments	<b>5,030</b>	3,513	-	(75)
Other provisions	<b>2,125</b>	8,451	<b>2,125</b>	8,451
FBV operations	<b>(41,978)</b>	(700)	<b>(41,978)</b>	(700)
Deferred income and social contribution taxes	<b>(32,715)</b>	(9,252)	<b>(32,715)</b>	(9,252)
	<b>(20,149)</b>	1,819	<b>(17,907)</b>	10,697
Changes in operating assets				
(Increase) decrease in trade accounts receivable	<b>13</b>	7	<b>13</b>	7
(Increase) decrease in related parties	<b>19,544</b>	(924)	<b>19,544</b>	(924)
(Increase) decrease in inventories	<b>(1,517)</b>	1,423	<b>(1,517)</b>	1,423
(Increase) decrease in taxes recoverable	<b>1,081</b>	607	<b>946</b>	535
(Increase) decrease in other receivables	<b>(908)</b>	29	<b>(908)</b>	29
Changes in operating assets and liabilities				
Increase (decrease) in trade and other accounts payable	<b>12,558</b>	181	<b>11,226</b>	181
Increase (decrease) in taxes payable	<b>(17)</b>	13	<b>(20)</b>	16
Increase (decrease) in payroll, vacation pay and related charges	<b>(126)</b>	66	<b>(126)</b>	66
	-	-	-	-
Net cash from operating activities	<b>10,479</b>	3,221	<b>11,251</b>	12,030
Cash flows from investing activities				
Acquisition of fixed and intangible assets	<b>(30)</b>	(167)	<b>(30)</b>	(167)
Addition to and acquisition of biological assets	<b>(126)</b>	(544)	<b>(126)</b>	(544)
Cash flow used in investing activities	<b>(156)</b>	(711)	<b>(156)</b>	(711)
Cash flows from financing activities				
Related parties	<b>(3,753)</b>	(3,805)	<b>(3,753)</b>	(3,954)
Repayment of loans	<b>(6,585)</b>	(345)	<b>(6,585)</b>	(1,432)
Cash flow used in financing activities	<b>(10,338)</b>	(4,150)	<b>(10,338)</b>	(5,386)
Increase (decrease) in cash and cash equivalents, net	<b>(15)</b>	(1,640)	<b>757</b>	5,933
Cash and cash equivalents at end of year	<b>1,264</b>	1,279	<b>9,620</b>	8,863
Cash and cash equivalents at beginning of year	<b>1,279</b>	2,919	<b>8,863</b>	2,929
	<b>(15)</b>	(1,640)	<b>757</b>	5,933

See accompanying notes.

## Floresteca S.A.

Notes to individual and consolidated financial statements  
December 31, 2020 and 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 individual and consolidated financial statements (Continued)  
December 31, 2020 and 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 individual and consolidated financial statements (Continued)  
December 31, 2020 and 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.

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

On March 11, 2020, the World Health Organization (WHO) declared the outbreak of the Coronavirus disease (COVID-19) a global pandemic. The outbreak triggered significant decisions by governments and private sector entities, which added to the potential impact of the outbreak, increased the degree of uncertainty for economic agents and can impact the financial statements. The major economies in the world and the major economic blocs have been studying packages of significant economic incentives to overcome the potential economic recession that these measures to mitigate the spread of COVID-19 may cause.

In Brazil, the Executive and Legislative Branches of the Federal Government published several regulatory acts to prevent and contain the pandemic, as well as mitigate the respective impacts on the economy, with emphasis on Legislative Decree No. 6, published on March 20, 2020, which declares a state of public emergency. State and local governments have also published several regulatory acts seeking to restrict the free movement of people and commercial and service activities, in addition to enabling emergency investments in the health area.

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020 and 2019  
(In thousands of reais)

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

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

Management has been constantly evaluating the impact of the outbreak on the operations and on the financial position of the Company and its subsidiaries, in order to implement appropriate measures to mitigate impacts on operations.

The operations of the Company and its subsidiaries for the year ended December 31, 2020 were not significantly impacted by the pandemic, as they are long-term, with a cycle of 20 to 25 years; thus, the period the operations were suspended did not impact its operations.

Management constantly assesses the impact that the outbreak may have on the Company's operations and financial position, in order to implement appropriate measures to mitigate the impacts of the outbreak thereon.

### **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.

#### **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 november 9, 2021.

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020 and 2019  
(In thousands of reais)

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

#### **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.

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.

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020 and 2019  
(In thousands of reais)

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

#### 2.2. Consolidation (Continued)

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.

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	
			2020	2019
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. 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.

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices (Continued)**

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

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

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

#### **2.4. 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 individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices (Continued)**

#### **2.4. 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 canceled 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.

#### **2.5. Impairment of nonfinancial assets**

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 individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices (Continued)**

#### **2.5. Impairment of non-financial assets (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.

#### **2.6. 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.

#### **2.7. 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 individual and consolidated financial statements (Continued)  
December 31, 2020 and 2019  
(In thousands of reais)

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

#### **2.8. 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 individual and consolidated financial statements (Continued)  
December 31, 2020 and 2019  
(In thousands of reais)

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

#### **2.9. Intangible assets**

i) Software

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.

#### **2.10. Impairment of nonfinancial 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 nonfinancial assets as at December 31, 2020 and 2019.

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020 and 2019  
(In thousands of reais)

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

#### **2.11. 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.

#### **2.12. 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.

#### **2.13. 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 management of the forest lands until the final cut, which includes thinning, which are expected to take place three times over the life of the teak forest.

In addition, the Company has its own forests, and revenue from the sale of forest assets and/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, that is, when the wood is actually sold.

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 individual and consolidated financial statements (Continued)  
December 31, 2020 and 2019  
(In thousands of reais)

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

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

##### Forest management services – incentive fee

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.

##### Forest management services – retainer (silvicultural costs)

As defined the Master Agreement, the Company has the right to retain part of the revenues earned over the life of the projects based on the prices determined in the agreement, which vary according to the age of each plantation. Thus, revenues are recognized as each project reaches the age established in the Master Agreement, regardless of whether the wood was cut and/or sold. This revenue to which the Company is entitled is recognized as “retainer” and discounted from future profits to which Floresteca BV. Is entitled, which are accrued in Equity, as per Note 16.

On December 31, 2020, this revenue recorded in Statements of profit and loss was in the amount of R\$29,908. The Company also calculated retainer revenue in the amount of R\$20,441 for the year ended December 31, 2019, considering that the amounts was determined immaterial for the individual and consolidated financial statements taken as a whole, the 2019 figures presented comparatively, have not been restated.

#### **2.14. 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.

#### **2.15. Income and social contribution taxes**

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

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2020 and 2019

(In thousands of reais)

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 individual and consolidated financial statements (Continued)  
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(In thousands of reais)

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

#### **2.15. 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.

#### **2.16. New or revised standards adopted for the first time in 2020**

##### Amendments to CPC 15 (R1): Definition of a Business

The amendment to CPC 15 (R1) in January 2020 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. Referred to amendments had no impact on the Company’s individual and consolidated financial statements, but may affect future periods in case the Company engages in any business combinations.

##### Amendments to CPC 38, CPC 40 (R1) and CPC 48: Interest Rate Benchmark Reform

The amendments to CPC 38 and CPC 48 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the Company’s individual and consolidated financial statements as it does not have any interest rate hedge relationships.

##### Amendments to CPC 26 (R1) and CPC 23: Definition of material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices (Continued)**

#### **2.16. New or revised standards adopted for the first time in 2020 (Continued)**

##### Amendments to CPC 15 (R1): Definition of a Business

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These amendments had no impact on the individual and consolidated financial statements and no future impacts are expected for the Company.

##### Revision of CPC 00 (R2): Conceptual Framework for Financial Reporting

The revised pronouncement includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These changes had no impact on the Company's individual and consolidated financial statements.

##### Amendments to CPC 06 (R2): Covid-19 related rent concessions

The amendments provide relief to lessees from applying CPC 06 (R2) guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under CPC 06 (R2), if the change were not a lease modification.

This amendment had no impact on the Company's individual and consolidated financial statements.

#### **2.17. Standards issued but not yet effective in 2020**

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

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices (Continued)**

#### **2.16. New or revised standards adopted for the first time in 2020 (Continued)**

##### IFRS 17 - Insurance Contracts

In May 2017, IASB issued IFRS 17 - Insurance Contracts (still with no equivalent issued by the CPC in Brazil, but which will be named CPC 50 - Insurance Contracts and replace CPC 11 - Insurance Contracts), a new comprehensive accounting standard that includes recognition and measurement, presentation and disclosure. As soon as it comes into effect, IFRS 17 (CPC 50) will replace IFRS 4 – Insurance Contracts (CPC 11) issued in 2005. IFRS 17 applies to all types of insurance contracts (such as life, non-life, direct insurance and reinsurance), irrespective of the type of entity that issues these contracts, as well as certain guarantees and financial instruments with discretionary participation features. Certain scope exceptions apply. IFRS 17 general purpose is to provide insurance companies with an accounting model for insurance contracts that is more useful and consistent.

In contrast with IFRS 4 requirements, which are widely based on local accounting policies effective in prior periods, IFRS 17 provides a comprehensive model for insurance contracts, comprising all significant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (variable rate approach).
- A simplified approach (premium allocation approach) mainly for short-term contracts.

IFRS 17 is effective for periods beginning on or after January 01, 2023, and presentation of amounts for comparison purposes is required. Early adoption is allowed if the entity also adopts IFRS 9 and IFRS 15 on the same date or before first-time adoption of IFRS 17. This standard does not apply to the Company.

##### Amendments to IAS 1: Classification of liabilities as current or noncurrent

In January 2020, IASB issued amendments to paragraphs 69 through 76 of IAS 1, correlated with CPC 26, in order to specify the requirements for classifying liabilities as current or noncurrent. These amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are valid for periods beginning on or after January 1, 2023 and should be applied retrospectively. The Company is currently assessing the impact that the amendments will have on current practice and whether existing loan agreements may require renegotiation.

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **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.

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)
- Fair value measurement (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 Tectonagrandis (Teak)**

Own forests total 350.42 hectares. Teak grows on leased land as described in Note 11 (located in Mato Grosso).

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.

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **4. Fair value measurement (Continued)**

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.

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

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.

## **Floresteca S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **5. Risk management (Continued)**

#### 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.

##### 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.

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 5. Risk management (Continued)

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

##### 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

	<b>Individual</b>		<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Cash and banks	<b>913</b>	1,279	<b>915</b>	1,287
Short-term deposits	<b>350</b>	-	<b>8,705</b>	7,576
<b>Total</b>	<b>1,264</b>	1,279	<b>9,620</b>	8,863

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:

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 7. Related parties (Continued)

#### a) Balances (Continued)

	Individual		Consolidated	
	2020	2019	2020	2019
<b>Current assets</b>				
<b>Accounts receivable</b>				
TRC Agroflorestal Ltda. (1)	6,660	9,015	6,660	9,015
	<b>6,660</b>	<b>9,015</b>	<b>6,660</b>	<b>9,015</b>
<b>Noncurrent assets</b>				
<b>Costs to be reimbursed</b>				
Floresteca B.V. (2)	604,646	450,968	604,646	450,968
	<b>604,646</b>	<b>450,968</b>	<b>604,646</b>	<b>450,968</b>
<b>Other accounts receivable</b>				
Buriti Imóveis S.A.	181	181	-	-
Sylvio de Andrade Coutinho	85	170	85	170
Sylvio de Andrade Coutinho Neto	35	120	35	120
LHS Participações Ltda.	297	297	297	297
	<b>597</b>	<b>767</b>	<b>417</b>	<b>587</b>
	<b>605,243</b>	<b>451,755</b>	<b>605,063</b>	<b>451,575</b>
<b>Noncurrent liabilities</b>				
<b>Intercompany loan</b>				
Floresteca B.V. (3)	625,962	457,020	625,962	457,020
	<b>625,962</b>	<b>457,020</b>	<b>625,962</b>	<b>457,020</b>

(1) This amount refers to accounts receivable from sales of teak logs. As defined in the Master Agreement, it is TRC Agroflorestal's priority right to sell these teak logs.

(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, 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.

Changes in costs to be reimbursed as at December 31, 2020 and 2019:

	Individual		Consolidated	
	2020	2019	2020	2019
Costs to be reimbursed at the beginning of the year	450,988	442,957	450,988	442,957
(+) Additions (a)	7,245	16,355	7,245	16,355
(-) Depletion (b)	(23,514)	(17,442)	(23,514)	(17,442)
(-) Amortization of land rehabilitation costs (c)	(751)	(749)	(751)	(749)
(+) Exchange rate adjustment (d)	170,677	9,867	170,677	9,867
Costs to be reimbursed at the end of the year	<b>604,646</b>	<b>450,988</b>	<b>604,646</b>	<b>450,988</b>

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 7. Related parties (Continued)

#### a) Balances (Continued)

- (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.

Changes in the intercompany loan with Floresteca B.V. as at December 31, 2020 and 2019:

	<b>Intercompany loan</b>	<b>Total</b>
<b>At January 1, 2019</b>	455,485	455,485
Foreign exchange differences	9,865	9,865
(-) Payment	(8,330)	(8,330)
<b>At December 31, 2019</b>	457,020	457,020
Foreign exchange differences	172,695	172,695
(-) Payment	(3,753)	(3,753)
<b>At December 31, 2020</b>	<b>625,962</b>	<b>625,962</b>

#### b) Key management personnel compensation

The Company's key management personnel compensation includes taxes on salaries and payroll totaling R\$390 as at December 31, 2020 (R\$444 in 2019). The members of the board of directors are not included in these figures, since they do not receive compensation.

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 8. Taxes recoverable

	Individual		Consolidated	
	2020	2019	2020	2019
Financing (COFINS)	1,991	2,870	1,991	2,870
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	441	629	441	629
Income tax	15	31	222	31
Withholding Income Tax (IRRF)	2	-	2	77
Funrural	154	154	154	154
<b>Total</b>	<b>2,603</b>	<b>3,685</b>	<b>2,811</b>	<b>3,761</b>

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.

### 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	
		2020	2019	2020	2019
Buriti Imóveis S.A. (a)	Direct	99.99%	99.99%	(13,522)	(8,483)
				<u>(13,522)</u>	<u>(8,483)</u>

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

Changes in investments in subsidiaries are as follows:

Investee	2019	Equity pickup	Write-off	2020
Buriti Imóveis S.A.	(8,483)	(5,030)	-	(13,523)
	<u>(8,483)</u>	<u>(5,030)</u>	-	<u>(13,523)</u>

  

Investee	2018	Equity pickup	Write-off	2019
Buriti Imóveis S.A.	(4,904)	(3,739)	150	(8,483)
	<u>(4,980)</u>	<u>(3,739)</u>	<u>226</u>	<u>(8,483)</u>

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 9. Investments (Continued)

#### 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, 2020

<u>Subsidiary</u>	<u>Current assets</u>	<u>Noncurrent assets</u>	<u>Current liabilities</u>	<u>Noncurrent liabilities</u>	<u>Equity</u>	<u>Revenue</u>	<u>Loss for the year</u>
Buriti Imóveis S.A.	8,564	-	-	22,086	(8,492)	-	(5,030)

#### December 31, 2019

<u>Subsidiary</u>	<u>Current assets</u>	<u>Noncurrent assets</u>	<u>Current liabilities</u>	<u>Noncurrent liabilities</u>	<u>Equity</u>	<u>Revenue</u>	<u>Loss for the year</u>
Buriti Imóveis S.A.	7,656	-	3	16,146	(4,756)	-	(3,739)

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 10. Biological assets

	Individual and Consolidated	
	2020	2019
Balance at beginning of year	88,248	63,536
(+) Additions	126	544
(+/-) Fair value adjustment (a)	(66,130)	24,169
<b>Balance at end of year</b>	<b>22,245</b>	<b>88,248</b>

(a) Change in the value of own biological assets, which include 5% of the volume of the final cut of forests, as part of its compensation, according to the Master Agreement.

#### List of projects

	Projects	Hectares
Fazenda Santa Fé	STF 2003	69.69
Fazenda Bambu	BAM 1999	141.90
Fazenda Bambu	BAM 2000	68.85
Fazenda Paiolandia	PAI 1997	69.98
		<u>350.42</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 individual and consolidated financial statements (Continued)  
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### 11. Property, plant and equipment

	Individual 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, 2019</b>	5,164	257	1,103	2,313	482	110	78	-	2,568	12,075
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>257</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>
Additions and reclassifications	-	-	-	15	-	14	-	-	-	30
Disposals and write-offs	-	-	-	(263)	(351)	-	-	-	-	(614)
Depreciation	-	(1)	(218)	(979)	(149)	(18)	(26)	-	-	(1,390)
Depreciation written off or disposed of	-	-	-	255	341	-	-	-	-	596
<b>Residual value at December 31, 2020</b>	<b>5,164</b>	<b>25</b>	<b>604</b>	<b>270</b>	<b>108</b>	<b>97</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>6,288</b>
Acquisition cost	5,164	4,329	3,985	20,107	2,967	653	989	-	-	38,194
Cumulative depreciation	-	(4,303)	(3,381)	(19,838)	(2,858)	(557)	(969)	-	-	(31,906)
<b>Balance at December 31, 2020</b>	<b>5,164</b>	<b>25</b>	<b>604</b>	<b>270</b>	<b>108</b>	<b>97</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>6,288</b>
<b>Annual depreciation rate - %</b>	-	4-10	10	20-25	20	10	20	-	-	

(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 individual and consolidated financial statements (Continued)  
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### 12. Loans and financing

	Annual rate	Individual		Consolidated	
		2020	2019	2020	2019
<b>Local currency</b>	X%				
Lease		5,514	53	5,514	53
Finame	4.5 to 7.5%	89	120	89	120
		<b>5,603</b>	173	<b>5,603</b>	173
<b>Foreign currency</b>					
Foreign Funding Loan - LFP (a)	US\$ +11%	-	-	21,906	15,965
		-	-	<b>21,906</b>	16,138
Current		3,027	58	22,638	58
Noncurrent		2,576	115	4,871	16,080
<b>Total</b>		<b>5,603</b>	173	<b>27,509</b>	16,138

(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, 2020 and 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, 2020 and 2019, the Company did not have any other assets given in guarantee of any liabilities.

### 13. 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:

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 13. Contingencies (Continued)

	Individual and Consolidated	
	2020	2019
Labor claims	53	-
Civil and tax claims	431	403
	<b>485</b>	403

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	
	2020	2019	2020	2019
Labor claims	11	43	11	43
Civil and tax claims (a)	51,339	3,906	51,339	3,906
	<b>51,349</b>	3,949	<b>51,349</b>	3,949

(a) On September 3, 2020, the Company is a party to legal proceeding No. 1043555-46.2020.8.11.0041, filed by company Rondon Empreendimentos Ltda., which claims to have credits receivable from Floresteca SA amounting to R\$47,592. The likelihood of loss is classified as possible.

### 14. Other provisions

	Individual and Consolidated	
	2020	2019
Provision for land restoration costs	27,162	26,503
Other	9,920	8,451
	<b>37,082</b>	34,954

### 15. Income and social contribution taxes

#### a) Deferred income and social contribution taxes

The major components of deferred income and social contribution taxes for the year ended December 31, 2020 and 2019 are:

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 15. Income and social contribution taxes (Continued)

#### a) Deferred income and social contribution taxes (Continued)

	Individual and Consolidated				2020
	2019	Addition	Write-off	Change	
<b>Assets</b>					
Cumulative tax loss (a)	86,974	22,457	-	22,457	109,431
	86,974	22,457	-	22,457	109,431
Deferred income and social contribution taxes – 34%	29,571	7,635	0	7,635	37,206
<b>Liabilities</b>					
Provision for temporary differences	8,895	5,111	-	5,111	14,006
Accelerated depreciation tax incentive	(2,028)	-	1,155	1,155	(873)
Provision for restoration costs	7,488	659	-	659	8,147
Finance costs - restoration costs	14,937	751	-	751	15,688
Exchange differences taxed on a cash basis	-	-	(46)	(46)	(46)
Transfer pricing of investors' forests - fair value	(1)	1	-	1	-
Total temporary differences - fair value	(85,269)	-	66,130	66,130	(19,139)
	(55,979)	6,522	67,929	71,451	17,783
Deferred income and social contribution taxes – 34%	(19,033)	2,218	22,076	24,293	6,047
<b>Deferred income and social contribution taxes</b>	10,539	9,853	22,076	31,929	43,253

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

#### b) Current Income and social contribution taxes

Reconciliation of income and social contribution tax expenses:

	Consolidated	
	2020	2019
<u>Income tax calculation</u>		
Rate applied on adjusted revenue (IRPJ 8%)	-	-
(+) Other finance income/costs	0.20	3,799
<u>Tax base</u>	0.20	3,799
Rate used for calculation (IRPJ 15%)	0.03	570
Rate used for calculation (IRPJ 10%)	-	368
<u>Social contribution tax calculation</u>		
Rate applied on adjusted revenue (CSLL 12%)	-	-
(+) Other finance income/costs	0.20	3,799
<u>Tax base</u>	0.20	3,799
Rate used for calculation (CSLL 9%)	0.02	342
Current income and social contribution taxes	0.05	1,280

## Floresteca S.A.

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### 16. Equity

#### a) Capital

At December 31, 2020 and 2019, 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.

<u>Shareholder</u>	<u>Ownership</u>	<u>Number of shares</u>	<u>R\$ thousand</u>
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>

#### 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Sale of logs - domestic market	<b>22,358</b>	32,806
Forest management services – retained (a)	<b>(29,908)</b>	(6,090)
Other sales (firewood, blocks and boards)	<b>114</b>	225
(-) Sales taxes	<b>(696)</b>	(649)
(-) Sales returns	<b>(944)</b>	(302)
(-) Cost of goods sold	<b>(32,902)</b>	(26,690)
	<b>(41,978)</b>	(700)

(a) This amount refers to incentive fee and retainer. Net amount of revenue that the Company is entitled to, as defined in the Master Agreement.

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 17. Net operating revenue

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

	Individual		Consolidated	
	2020	2019	2020	2019
Thinning sales	-	5,017	-	5,017
Land sold	-	-	-	8,968
Forest management services	<b>32,956</b>	1,392	<b>32,956</b>	1,392
<b>Gross revenue</b>	<b>32,898</b>	6,409	<b>32,898</b>	15,377
(-) Deductions	<b>(3,048)</b>	(319)	<b>(3,048)</b>	(319)
	<b>(3,043)</b>	(319)	<b>(3,043)</b>	(319)
	<b>29,908</b>	6,090	<b>29,908</b>	15,057

### 18. Costs and expenses by nature

	Individual		Consolidated	
	2020	2019	2020	2019
Cost of logs sold	-	(5,553)	-	(5,553)
Cost of land sold	-	-	-	(5,230)
Fair value of biological assets	<b>(66,130)</b>	24,169	<b>(66,130)</b>	24,169
Fair value of investment properties	-	-	-	(4,287)
Advisory and professional services	<b>(11,589)</b>	(8,319)	<b>(11,594)</b>	(8,322)
Payroll	<b>(71)</b>	(131)	<b>(71)</b>	(131)
Taxes	<b>(1,732)</b>	(1,129)	<b>(1,734)</b>	(1,133)
Depreciation	<b>(61)</b>	(108)	<b>(61)</b>	(108)
Other income (expenses)	<b>(155)</b>	(2,686)	<b>(155)</b>	(3,135)
	<b>(79,739)</b>	6,245	<b>(79,746)</b>	(3,728)
Gain on fair value of biological assets and investment properties	<b>(66,130)</b>	24,169	<b>(66,130)</b>	19,882
Cost of goods sold and service rendering (a)	-	(5,553)	-	(10,783)
Selling expenses	<b>(3)</b>	(2)	<b>(3)</b>	(451)
General and administrative expenses	<b>(13,606)</b>	(12,369)	<b>(13,613)</b>	(12,376)
	<b>(79,739)</b>	6,245	<b>(79,746)</b>	(3,728)

(a) In 2020 there were no costs for cutting wood.

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 19. Finance income (costs)

	Individual		Consolidated	
	2020	2019	2020	2019
<b>Finance income</b>				
Foreign exchange gains (a)	-	-	3,851	2,927
Other	1,242	478	2,691	1,075
	<b>1,242</b>	<b>478</b>	<b>6,542</b>	<b>4,002</b>
<b>Finance costs</b>				
Foreign exchange losses (a)	(1,972)	(29)	(10,963)	(3,946)
Interest (b)	(558)	-	(1,890)	(1,087)
Other	(26)	(161)	(27)	(162)
	<b>(2,556)</b>	<b>(190)</b>	<b>(12,789)</b>	<b>(5,195)</b>
	<b>(1,314)</b>	<b>288</b>	<b>(6,337)</b>	<b>(1,193)</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.

### 20. 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:

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Notes to individual and consolidated financial statements (Continued)  
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### 20. Financial instruments (Continued)

	Level	Consolidated			
		2020		2019	
		Book value	Fair value	Book value	Fair value
<b>Assets</b>					
<b>Assets at amortized cost</b>					
Cash and cash equivalents (Note 6)	1	9,620	9,620	8,863	8,863
Trade accounts receivable	2	20	20	32	32
Accounts receivable from related parties (Note 7)	2	6,660	6,660	9,015	9,015
Other assets	2	6,342	6,342	5,434	5,434
		<b>22,642</b>	<b>22,642</b>	<b>23,344</b>	<b>23,344</b>
<b>Liabilities</b>					
<b>Liabilities at amortized cost</b>					
Loans and financing (Note 13)	2	27,506	27,509	16,138	16,138
Trade and other accounts payable	1	2,095	2,095	998	998
		<b>29,604</b>	<b>29,604</b>	<b>17,136</b>	<b>17,136</b>

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 2020, 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).

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.

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 20. Financial instruments (Continued)

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

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.

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

Individual and Consolidated	US\$/R\$	
	Ptax Purchase	Ptax Sale
Rate at December 31, 2020	5.1961	5.1967
Scenario 1: 25% devaluation of the Real	6.4951	6.4959
Scenario 2: 50% devaluation of the Real	7.7942	7.7951
Scenario 3: 25% appreciation of the Real	3.8971	3.8975
Scenario 4: 50% appreciation of the Real	2.5981	2.5984

  

Individual and Consolidated	Euro/R\$	
	Ptax Purchase	Ptax Sale
Rate at December 31, 2020	6.3756	6.3779
Scenario 1: 25% devaluation of the Real	7.9695	7.9724
Scenario 2: 50% devaluation of the Real	9.5634	9.5669
Scenario 3: 25% appreciation of the Real	4.7817	4.7834
Scenario 4: 50% appreciation of the Real	3.1878	3.1890

## Floresteca S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020 and 2019  
(In thousands of reais)

### 20. Financial instruments (Continued)

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

<b>Individual and Consolidated</b>		<b>Gain (Loss)</b>			
<b>Category</b>	<b>Balance in USD</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 4</b>
Loans and financing	26,589	(34,543)	(69,087)	34,543	69,087
<b>Net position</b>	<b>26,589</b>	<b>(34,543)</b>	<b>(69,087)</b>	<b>34,543</b>	<b>69,087</b>

<b>Individual and Consolidated</b>		<b>Gain (Loss)</b>			
<b>Category</b>	<b>Balance in Euro</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 4</b>
Loans and financing	76,313	(121,679)	(243,358)	121,679	243,358
<b>Net position</b>	<b>76,313</b>	<b>(121,679)</b>	<b>(243,358)</b>	<b>121,679</b>	<b>243,358</b>

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

### 21. Events after the reporting period

#### Commitment to purchase and sell land of farm Capim Branco

On September 9, 2020, the Company entered into a commitment to sell the land located in the municipality of Jangada-MT and in the district of Rosário Oeste-MT, registered under No. 15.888 and 15.747 with an area of 1,215.8567 hectares for the amount of R\$8,500.

Until the issue date of the financial statements, the legal procedures for transferring the land were not completed, so the land is still legally under the control of the Company and recorded in its statement of financial position under Property, plant and equipment, whose cost at December 31, 2020 is R\$5,164, as per Note 11.

After the registration is transferred, the revenue from the sale of land will be recognized in the Company's P&L and the respective property, plant and equipment will be written off.