



Foresight
SUSTAINABLE
FORESTRY
COMPANY PLC

**UNAUDITED INTERIM REPORT
AND FINANCIAL STATEMENTS**

FOR THE PERIOD TO 31 MARCH 2023



Foresight
FOR A SMARTER FUTURE

ABOUT US

Foresight Sustainable Forestry Company Plc (“FSF”, the “Fund” or the “Company”) is the first and only UK listed investment trust focused on UK forestry, afforestation and natural capital. FSF was awarded the London Stock Exchange’s Green Economy Mark at IPO. In December 2022, FSF became the first fund to be accredited with the London Stock Exchange’s Voluntary Carbon Market designation.

FSF aims to generate sustainable financial returns for its Shareholders through investing in a diversified portfolio of UK forestry and afforestation assets.



The first fund to be accredited with the Voluntary Carbon Market designation

INVESTMENT OBJECTIVES



Real returns and capital appreciation



Value creation through afforestation



Sustainable timber supply



Combat climate change and biodiversity loss



Access to voluntary carbon units

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HIGHLIGHTS

AS AT 31 MARCH 2023

£186.6m

NET ASSET VALUE (“NAV”)¹
(30 September 2022: £180.6m)

117,000 tonnes

**TIMBER UNDER CONSIDERATION
FOR HARVESTING IN 2023**
(30 September 2022: 26,000 tonnes)

10.6%

TOTAL NAV RETURN FROM IPO¹
(30 September 2022: 7.0%)²

4,120 hectares

**LAND NEWLY PLANTED OR IN
AFFORESTATION DEVELOPMENT**
(30 September 2022: 3,917 hectares)

108.5p

NAV PER SHARE¹
(30 September 2022: 105.0p)

c.955,000

TREES PLANTED THIS YEAR
(30 September 2022: c.514,000)

11,743 hectares

IN THE PORTFOLIO
(30 September 2022: 9,618 hectares)

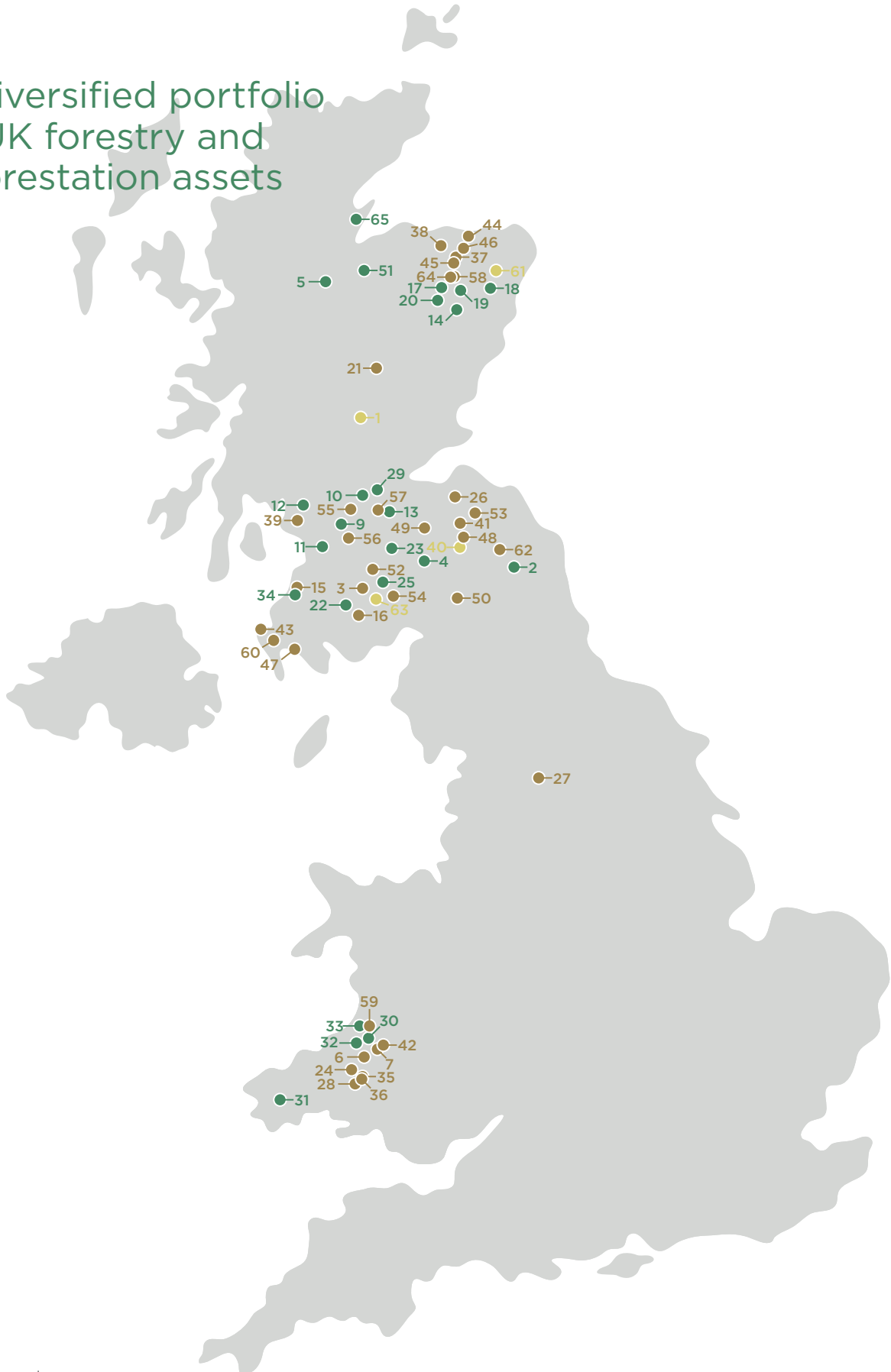
£2.5m

**VALUE ASCRIBED TO PROGRESS
TOWARDS CREATION OF CARBON
CREDITS**
(30 September 2022: £0.6m)

1. Alternative performance measures (“APMs”) have been included to better reflect the Group’s underlying activities. Whilst appreciating that APMs are not considered to be a substitute for, or superior to, IFRS measures, the Company believes their selected use may provide stakeholders with additional information, which will assist in their understanding of the business. Further information is available on page 33.
2. Calculated with IPO costs netted off, see page 33 of APMs for more information.

GEOGRAPHIC FOOTPRINT

A diversified portfolio of UK forestry and afforestation assets



Map not to scale.
The exact position of assets may differ.



65 properties

Key:
● Afforestation
● Forestry
● Mixed

1	Fordie Estate	🌳	24	Banc Farm	🌳	47	Knock Fell	🌳
2	Whiteburn	🌳	25	Glass Rigg	🌳	48	Cheterknowes Wood	🌳
3	Lambs Craig	🌳	26	Mountmill Burn	🌳	49	Windylaws	🌳
4	Shorthope	🌳	27	Nor Hill	🌳	50	Liddel Water	🌳
5	Aberarder	🌳	28	Cwmban Fawr Farm	🌳	51	Bogbain Wood	🌳
6	Frongoch	🌳	29	Drumelzie	🌳	52	Glendyne Wood	🌳
7	Brynglas	🌳	30	Waun Maenllyd	🌳	53	Bruntaburn Forest	🌳
8	Esgair Hir	🌳	31	South Dairy	🌳	54	Goukstane Wood	🌳
9	East Browncastle	🌳	32	Derry Lodge	🌳	55	Cessnock Wood	🌳
10	Berrieswalls	🌳	33	Bronnant	🌳	56	Redding Farm	🌳
11	Barkip	🌳	34	Craigwell Wood	🌳	57	Allanton Farm	🌳
12	Over Auchentiber	🌳	35	Maescastell	🌳	58	Newnoth Forest	🌳
13	Crofthead	🌳	36	Pistyll South	🌳	59	Coed Y Garreg	🌳
14	Coull	🌳	37	Red Craig & Glen Burn	🌳	60	Knocktail Wood	🌳
15	Auchensoul	🌳	38	Burn of Bellyhack	🌳	61	Bedehouse & East Bennachie	🌳
16	Upper Barr	🌳	39	Dove Hill	🌳	62	Highside Wood	🌳
17	Bogforlea	🌳	40	Drove Road	🌳	63	High Auldgirth	🌳
18	Harthills	🌳	41	Chatto Craigs	🌳	64	Newnoth Farm	🌳
19	Kirkwood	🌳	42	Coed Doethie	🌳	65	Balnagowan	🌳
20	Tom Na Wan	🌳	43	Piltanton Wood	🌳			
21	Rorie Hill	🌳	44	Brown Hill	🌳			
22	Waterhead and Craigenputtock	🌳	45	Ness Bogie	🌳			
23	Camps Woodlands	🌳	46	Reams Hill	🌳			

CHAIR'S STATEMENT



FSF's strategy has delivered resilient NAV progression during the period, despite volatile macroeconomic conditions.

Richard Davidson
Chair

Introduction

On behalf of the Board, I am pleased to present the Unaudited Interim Report and Financial Statements for Foresight Sustainable Forestry Company Plc ("FSF", the "Company" or the "Fund") for the period ended 31 March 2023.

The Company has had an encouraging first half of the year, delivering an increased Net Asset Value ("NAV"), progressing on four new planting schemes and fully deploying the equity proceeds from our June 2022 fundraise while buying 15 new properties.

In December 2022, FSF also became the first company to be awarded the London Stock Exchange's new Voluntary Carbon Market designation. This is a designation that recognises funds that have invested in carbon credit projects that meet internationally recognised standards.

FSF's share price has reflected the momentum in the business by, for the most part, trading at, or above, NAV through the half-year period. This is despite the investment trust sector, as a whole, trading on close to all time record discounts to NAV. Whilst exhibiting low volatility through the six months, our share price closed at 108.0 pence on 31 March 2023.

Key financials

In the six months to 31 March 2023, our NAV increased by £6.0 million to £186.6 million (30 September 2022: £180.6 million) and NAV per Ordinary Share increased to 108.5 pence (30 September 2022: 105.0 pence). The key driver of this gain was the 7.4% upwards revaluation of our portfolio of afforestation sites. This figure was largely influenced by a combination of capital appreciation from the completion of planting at four of our afforestation properties, and mark-to-market gains on the 15 properties acquired in the period.

Acquisitions and capital deployment

During the period, the Company deployed a further c.£30 million¹ into 15 acquisitions. Of these properties, ten were afforestation, three were forestry and two were mixed.

FSF remains focused on its process of acquiring and owning high-quality afforestation and established forestry properties. Given the higher interest rate and tougher asset market environments in 2022, the Managers have been highly selective on the quality and pricing of additional acquisitions through the six month period.

While we have now deployed the proceeds of our most recent equity fundraise, we remain in acquisition mode as the Company's Revolving Credit Facility ("RCF") remains undrawn and available. Our ambition remains to grow FSF, and we continue to pursue a pipeline of attractive NAV accretive investment opportunities.

Forest operations

It has been a busy and productive period for operations across the portfolio. Operational efforts have been focused on completing the planting of nearly one million trees across four woodland creation schemes, and taking the total number of planted afforestation properties in the portfolio to six. Overall, 690 hectares² of the portfolio now sits in our Establishment Stage Afforestation category. The four newly planted (spring 2023) properties are forecast to produce an estimated 190,500 tonnes of sustainable timber (for each c.35-40-year rotation), contributing to domestic timber security and the removal of atmospheric carbon dioxide while aligning with both regional and national tree planting strategies.

1. Inclusive of tax and transaction costs.

2. Full breakdown of the portfolio is included on pages 17 and 18.



The engine room of FSF's returns is expected to remain the successful development of woodland creation schemes as has been seen on the six afforestation properties that have been planted to date. FSF has 34 further afforestation properties in the portfolio that remain on track to be planted in the spring of 2024 and 2025.

Things have been quieter on the harvesting side due to softer timber prices. For the period, FSF harvested and sold 6,400 tonnes of timber. The Company elected to leave c.117,000 tonnes of mature timber biologically growing "on-the-stump" and will bring that and more substantial volumes to market when trading conditions are more favourable.

Voluntary Carbon Market Designation

In December, FSF became the first ever company to receive the London Stock Exchange's newly created Voluntary Carbon Market designation. The designation is aimed at enabling companies with net zero pledges to invest in investment companies, like FSF, that are investing in projects that will create and distribute high-integrity voluntary carbon credits. The carbon credits can ultimately be used by these companies, alongside efforts to reduce emissions, to offset the final 5-10% of unavoidable emissions to achieve net zero. A more detailed description of the voluntary carbon credits markets can be found on pages 14 to 16 in the Investment Manager's report.

The Board's plan remains for the Company to distribute carbon credits, for those investors who elect, as in-specie dividends from 2030 onwards. For those who elect not to receive in-specie, the Company will sell the carbon units on their behalf and distribute the proceeds in cash.

Sustainability

A post-period event, but one we are especially proud of, is the publication of the Company's first dedicated Sustainability & Environmental, Social and Governance ("S&ESG") report in April 2023. The report outlines the Company's sustainability vision and provides Shareholders with an update on the Company's delivery against its Key Sustainability and ESG objectives (over the period ended 30 September 2022), as well as explaining the natural capital land management approach that the Company is applying with a view to generating natural capital alpha. The report is available on the Company's website¹.

Of particular note is the additional work that the Company is doing in respect of community engagement with local stakeholders on planting plans and the successful completion of year one of FSF's Forestry Skills Training Programme. The Company aims to be a progressive industry leader and an advocate for sustainable land-use design.

1. FSF Sustainability and ESG Report 2022: <https://media.umbraco.io/foresight/arOgzg2h/sustainability-and-esg-report-2022.pdf>

CHAIR'S STATEMENT CONTINUED

Market outlook for FSF's key markets

Despite sharp rises in interest rates and falling equity and real estate prices in 2022, our Managers have observed good evidence that indicates that the investment market for forestry assets and FSF's strategy will remain resilient. Underpinning this resilience are three characteristics. First, UK forest owners tend not to use structural leverage, meaning forest property prices are to some extent insulated from rising interest rates. Second, UK forest owners enjoy a five to ten year harvesting window on mature trees, meaning less impact from short-term timber price volatility. Proactive decisions can be made to not cut and instead leave maturing timber "on-the-stump" to add biomass and value during times of softer timber prices. Finally, the global sustainable timber supply deficit is widely expected to continue to expand. Whilst the UK is waking up to the importance of increased domestic timber security, trees, by their nature, will take 35-40 years until they will reach harvesting maturity.

In the short term, domestic demand for sustainable timber is expected to remain subdued. Domestic construction demand is forecast by the Construction Products Association ("CPA") to be down by c.5% in 2023, versus 2022, impacted by a combination of high inflation and high interest rates.

On the supply side, with most storm damaged timber now processed through supply chains, inventories are back to more normal levels. Over the long term, the uneven age profile of commercial forests in the UK means that annual softwood supply is forecast by Forest Research to peak in the 2030s and then decline by c.45% by 2050. Over the long term, in the UK, demand for sustainable timber is expected to almost double by 2050, according to industry body Confor.

It also remains important to note that the UK imports c.80% of all timber consumed, and of these imports 63% are softwood, so international dynamics remain an important factor in determining UK conditions. The ongoing Russian war in Ukraine means all timber originating from Ukraine, Russia and Belarus is deemed conflict timber and cannot be certified as sustainable for the duration of the conflict. Pre-invasion, Russia, Belarus and Ukraine accounted for c.20% of the global timber trade.

The demand outlook internationally has improved during the reporting period. The Inflation Reduction Act ("IRA") in the US is expected to materially increase US timber demand. There is early anecdotal evidence that increasing volumes of European timber are being exported to the US to fulfil this growing demand. The demand outlook in China has also improved following the lifting of zero-Covid policies and the implementation of a substantial rescue plan for its indebted property developers.

Finally, with the rest of Europe enjoying a slightly softer landing than the UK, the demand for sustainable timber has been slightly more resilient in Europe than in the UK. However, the long-term demand outlook for sustainable timber in both the UK and Europe remains positive and underpinned by the prevailing decarbonisation agenda.

Conclusion

As we embark on the next six months, the Company is well positioned to leverage a range of environmental tailwinds whilst it continues to deliver on its business objectives. I am pleased with the trajectory that the Company has maintained over the six months to 31 March 2023 and would like to thank our Shareholders, my fellow Board members and the Fund Managers for their dedication to the Company's successful growth.

Richard Davidson

Chair

12 June 2023

INVESTMENT MANAGER'S REPORT

We are pleased to have fully deployed FSF's equity in a NAV accretive manner, whilst simultaneously delivering strong capital appreciation by successfully planting four afforestation schemes in the period.



Robert Guest
Managing Director, Foresight Group, Co-lead Manager of FSF



Richard Kelly
Managing Director, Foresight Group, Co-lead Manager of FSF

Executive summary

During the last six-month reporting period, the Company has been intensely focused on a combination of disciplined capital deployment and afforestation development activity. The period has seen FSF's portfolio deliver strong returns on both the afforestation and standing forestry components, with both outperforming in an otherwise flat market. Whilst the economic backdrop has been highly uncertain and volatile during this challenging time for investors, we are encouraged to see the resilience of FSF's NAV progression and share price for our investors and stakeholders.

Key Performance Metrics

Key investment metrics for the period ended 31 March 2023

All amounts presented in £million (except as noted)	As at 31 March 2023	As at 30 September 2022
Market capitalisation	185.8	182.4
Share price	108.0p	106.0p
Gross Asset Value ("GAV")	186.6	180.6
Total NAV return from IPO ¹	10.6%	7.0%
Net Asset Value ("NAV")	186.6	180.6
NAV per share	108.5p	105.0p
Profit before tax for the period	6.0	8.8

The purpose and calculation methodology of the key APMs are shown on page 33.

1. Calculated with IPO costs netted off, see page 33 of APMs for more information.

Acquisitions

FSF started the period with approximately £30.0 million of cash available for further acquisitions, which remained from the £45.0 million equity placing that took place in June 2022. We were pleased to report in January 2023 that FSF had successfully acquired 12 properties in the period which saw the June 2022 equity proceeds fully deployed, ahead of the six-month target committed to participating investors. On 30 March 2023, the Company acquired a further three properties for a total consideration of £9.9 million. These acquisitions were funded from cash and not the Revolving Credit Facility ("RCF"), although the Company expects to draw on the facility in the second half of the year for planned capital expenditure. The Company's intention is to minimise exposure to interest charges whilst retaining a sufficient cash buffer.

The portfolio section on the following pages summarises the acquisitions that have been made and the impact on FSF's portfolio during the period.

INVESTMENT MANAGER'S REPORT CONTINUED

Acquisitions continued

In the aftermath of the UK Government's 'Mini-Budget' in September 2022, we observed extraordinary levels of market volatility, rising debt costs and elevated levels of economic uncertainty. In response, we undertook a forensic review of FSF's entire investment pipeline. Given the market uncertainties, a cautious approach was adopted and only the most robust and value-accretive opportunities were progressed. Many opportunities were re-negotiated, and several aborted. We are pleased to report that this strategy, of highly disciplined deployment, has worked well. The second largest area of NAV gains to the period ended 31 March 2023 came from mark-to-market gains realised on properties that were acquired during the period, in what was otherwise a flat market for afforestation and forestry property values.

The majority of acquisitions in the period were directly originated off-market and bilateral opportunities, where we continue to see better value. These opportunities are sourced from a combination of Foresight's proprietary market-mapping deal procurement approach and by leveraging our extensive network of contacts. We are also increasingly enjoying inbound approaches from vendors who recognise FSF's strong track record as a reliable, all-cash counterparty that operates a highly efficient transaction process. Immediate mark-to-market gains on new acquisitions have been underpinned in many instances through the realisation of marriage value. Acquiring properties that are either directly adjacent, or in close proximity, to existing FSF properties can result in scale economies that are reflected in uplifted valuations when combined. As a result, the acquisitions added to the portfolio this period were all in FSF's three core property clusters, South and Central Scotland and South Wales.

Portfolio

As can be seen in the portfolio section below, the acquisition strategy has shifted this period, from being nearly exclusively focused on afforestation properties in the prior period, to being on a blend of afforestation, standing forestry and mixed opportunities. FSF's portfolio started the reporting period with a 41% allocation to afforestation assets, which is in line with the target 40-50% allocation to afforestation. With the re-balance of FSF's portfolio now complete, this has the potential to materially accelerate the pace of future deployment. The typical cheque sizes for standing forestry properties are generally materially larger than those for bare and unplanted afforestation land.

The other key change which we have had to adapt to has been changes to the Woodland Carbon Code's ("**WCC**") new financial additionality rules that became effective in October 2022.

The new rules require that an afforestation scheme must pass a financial additionality test to qualify for the issuance of voluntary carbon credits. The new test focuses on the level of income forgone by converting agricultural land into forestry. Only projects where the net present value of the afforestation scheme (purely from an income perspective and using standardised WCC assumptions) is less than leaving the land in agriculture qualify for carbon credits. As a result, afforestation developers broadly have three options. Firstly, if a scheme design does not pass this test, a proportion of woodland creation grants can be sacrificed until the scheme does pass. Secondly, the scheme can be redesigned, increasing allocations to non-commercial broadleaves until the scheme passes the financial additionality test. Finally, the option not to commence with afforestation on the land in question remains available.

The new rules are idiosyncratic in how they apply to different land classifications in different areas of the country.

We have carried out a detailed review of the new rules and have adapted FSF's acquisition approach accordingly.

We also continue to liaise with the industry and the WCC to identify where some of the standardised assumptions in the financial additionality test are creating unusual and unplanned outcomes, and where improvements could be made to make the test more fair and accurate for applicants whilst continuing to uphold the important concept of financial additionality for WCC units. Robert Guest (Co-Lead Manager of FSF) now sits on the WCC Advisory Board, having been appointed to the position during the period.

In terms of afforestation development during the period, we are delighted to report that FSF has successfully planted four further afforestation schemes in the portfolio, including Upper Bar, Auchensoul, Frongoch and Redding Farm. In total, these schemes have seen c.1 million trees planted over an area that extends to 426 hectares. The revaluation of these four properties, which have moved from planting stage afforestation properties to establishment stage afforestation properties, was the biggest driver of FSF's NAV appreciation during the period. In total these properties enjoyed gains of £5.0 million during the period. £3.1 million of this gain was in relation to the freehold, with the remaining £1.9 million associated with the addition of another c.107,500 voluntary carbon credit Pending Issuance Units ("**PIUs**").

It has been pleasing to see the achievement of capital value uplifts versus the initial cost of acquisition (inclusive of consideration, transaction taxes and advisor costs) on these four properties has remained at similar levels to those achieved with FSF's first two planted afforestation properties, Banc Farm and Mountmill Burn.

In total, as at the reporting period end, FSF has six establishment stage afforestation properties in the portfolio where 689 hectares are planted.

Across these six properties, c.1.5 million trees have successfully been planted and are expected to sequester 143,707 tonnes of additional atmospheric CO₂. These properties have enjoyed total returns of over 98.5% (including freehold and carbon credit appreciation) versus cost to 31 March 2023. We believe this is a clear testament to the strategy and further enhancement of FSF's track record for successfully developing afforestation properties in a way that is strongly value accretive for our investors. Looking forward, we are excited to progress and plant the remaining 34 development stage afforestation assets over the coming two years.

The recent and successful completion of planting on these four afforestation properties has created an additional c.107,500 voluntary carbon credit PIUs, which are now recognised within the Fund's Net Asset Value. This takes the total number of voluntary carbon credits recognised on FSF's balance sheet to 143,707 at the period end. The value ascribed to each carbon credit has remained unchanged at £17.50 per unit during the period. The expansion of the number of carbon credits in FSF's portfolio means that as at 31 March 2023, carbon credits were valued at £2.5 million and are now considered a material part of the portfolio. A more detailed description of the approach and methodology applied to the valuation of voluntary carbon credits can be found on page 11 of this report.

During the period, FSF also delivered £1.6 million of returns on standing forestry properties. Market valuations for standing forestry properties remained flat during the period.

These gains are as a result of a series of structural enhancement projects the team have delivered, such as restocking lower yielding species with higher yielding crops, as well as capital expenditure investments, including upgrades to internal roading and fencing on portfolio properties.

We have continued to observe UK sawlog prices remaining generally subdued. On the demand side, the cost-of-living crisis, high inflation and elevated debt costs are dampening demand. On the supply side, chipwood prices have enjoyed a c.26% increase as demand for wood pellets to fuel bioenergy plants has increased in reaction to the Russian invasion of Ukraine and the associated European energy crisis.

It has been encouraging to see forest and afforestation values hold up in the face of a more uncertain and volatile economic backdrop, and lower timber prices during the period.

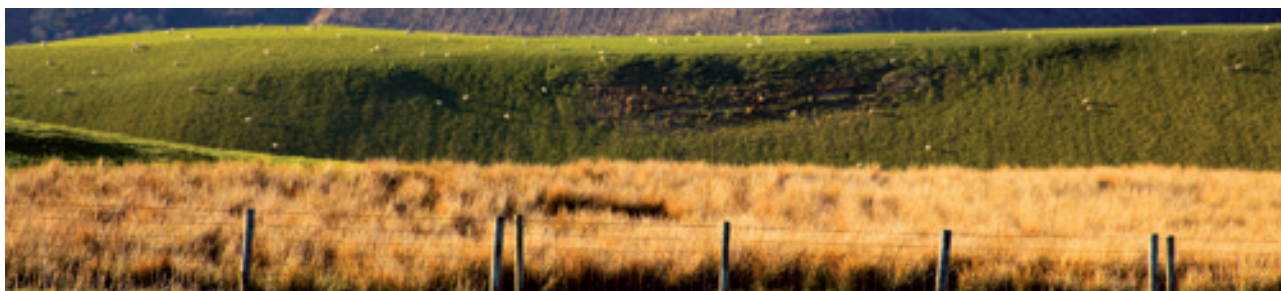
Forest prices have historically shown to be more resilient during times of economic stress and we observe that this trend continued during the reporting period. UK forest owners tend not to use structural leverage for property ownership, meaning forest prices are less sensitive to rising debt costs than many other asset classes. Further biological growth of trees occurs regardless of what is going on in the economy.

Whilst spot timber prices are not immune to economic conditions, forest owners who are not reliant on taking a consistent and regular cash yield possess a powerful optionality to choose when to harvest mature trees and bring the related timber to market for sale.

Therefore, forest values are more affected by investors' long-term view of timber prices than they are of short-term spot prices. This characteristic makes forest property prices and FSF's NAV less volatile than many other asset classes to short and medium-term economic volatility. With respect to FSF's portfolio, we exercised this optionality and continued to postpone c.117,000 tonnes of timber that has entered this harvesting window.

It has been pleasing to see both FSF's share price and NAV remain remarkably resilient during the period, particularly versus the universe of other LSE listed investment trusts, which have traded on an unweighted discount to NAV of 12.4% in the six months to 31 March 2023. Resilience has remained a key facet of forestry and natural capital as an asset class.

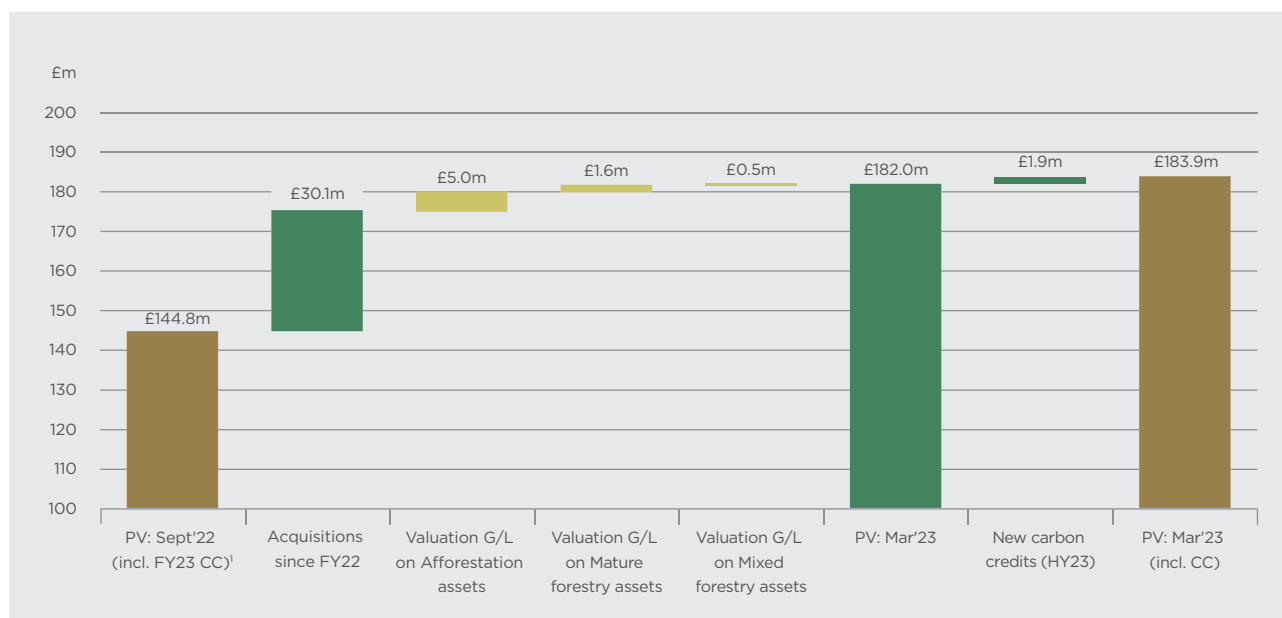
To help put our activities into context on a national level, FSF is making a very material contribution to delivering the government's tree planting target, with our existing afforestation portfolio covering 4,120 hectares of land, which will be planted with c.9 million trees. That's equivalent to one third of the total amount of planting that was achieved in the UK in 21/22, which totalled 14,000 hectares¹. Tree planting is a core pillar of the UK Government's national Net Zero strategy, and we're proud to be leading the way in making this target a reality. In doing so, we are creating new employment opportunities, ensuring that we are positively contributing to the Just Transition.



1. Provisional Woodland Statistics 2022.

INVESTMENT MANAGER'S REPORT CONTINUED

Portfolio valuation



1. Portfolio Value of £144.8 million is the sum of the Red Book valuation (£144.2 million) and Carbon Credits (£0.6 million) as at 30 September 2022. See Analysis of Group net assets on pages 29 to 30.

As at 31 March 2023, the forestry portfolio, excluding additional carbon credits held through SPVs as described on page 9, was valued at £182.0 million. Since 30 September 2022, 15 assets valued at £30.1 million were acquired and the property revaluation in the portfolio delivered a gain of £7.1 million, representing a weighted average (across the three investment categories) valuation uplift of 4.0%.

Afforestation properties delivered gains of £5.0 million, representing a 7.4% increase in that category, driven by mark-to-market gains and recognition of the successful completion of planting at four properties (Auchensoul, Redding Farm, Upper Bar and Frongoch).

Standing forestry properties delivered gains of £1.6 million, representing a 2.1% increase in that category, largely driven by mark-to-market uplifts on recently acquired properties. Valuations for established forest properties have remained comparatively stable during a period of relatively subdued timber prices.

Mixed afforestation and forestry properties delivered gains of £0.5 million, representing a 2.0% increase in that category. Valuations have remained stable, reflecting the market for forestry properties and the fact that the afforestation projects included within these mixed properties are yet to complete planting.

Valuations were conducted by an independent third-party on a property-by-property basis in accordance with the Royal Institute of Chartered Surveyors ("RICS") Red Book Fair Value methodology. Despite the challenging economic issues over the last six months, the investment market for forestry assets has remained robust, with the independent valuer confirming that there were enough comparable transactions during the period to provide sufficient evidence for the portfolio's valuation.

In the same period, four afforestation schemes completed planting and FSF has recognised an additional £1.9 million of value ascribed to the creation of carbon credits, bringing the overall portfolio value to £183.9 million. This estimate takes into consideration the verifier's 20% buffer to ensure that the number of units offset or traded is conservative versus the amount of carbon that will be sequestered. The four properties are estimated to create c.107,500 voluntary carbon credits (net of the 20% buffer) and are part of a wider afforestation programme that is expected to see the creation of c.1,000,000 voluntary carbon credits in total from the current portfolio. The methodology, unit pricing of £17.50 and treatment of the additional value added at 31 March 2023 has remained consistent with the audited financial statements as at 30 September 2022.

Portfolio valuation methodology

Savills Advisory Services Limited (“Savills”) was engaged by the Company to provide a fair value valuation of the portfolio in accordance with the Royal Institution of Chartered Surveyors (“RICS”) Valuation – Global Standards July 2017 (the “Red Book”).

The Red Book valuation falls within the International Financial Reporting Standards (“IFRS”), as part of the International Valuation Standards which requires investment properties to be considered on the basis of fair value at the balance sheet date. IFRS 13 outlines the principles for fair value measurement which Savills valuation is consistent with. The Red Book valuations are undertaken on a property-by-property basis and is completed semi-annually.

The fair value assessment of the properties has been completed by Savills on a comparable basis by looking at transactions of similar properties. Development Stage and Planting Stage Afforestation property comparables include the rights to future potential voluntary carbon credit creation. Establishment Stage Afforestation and Established Forest property comparables exclude any value ascribed to any associated voluntary carbon credits that have been created.

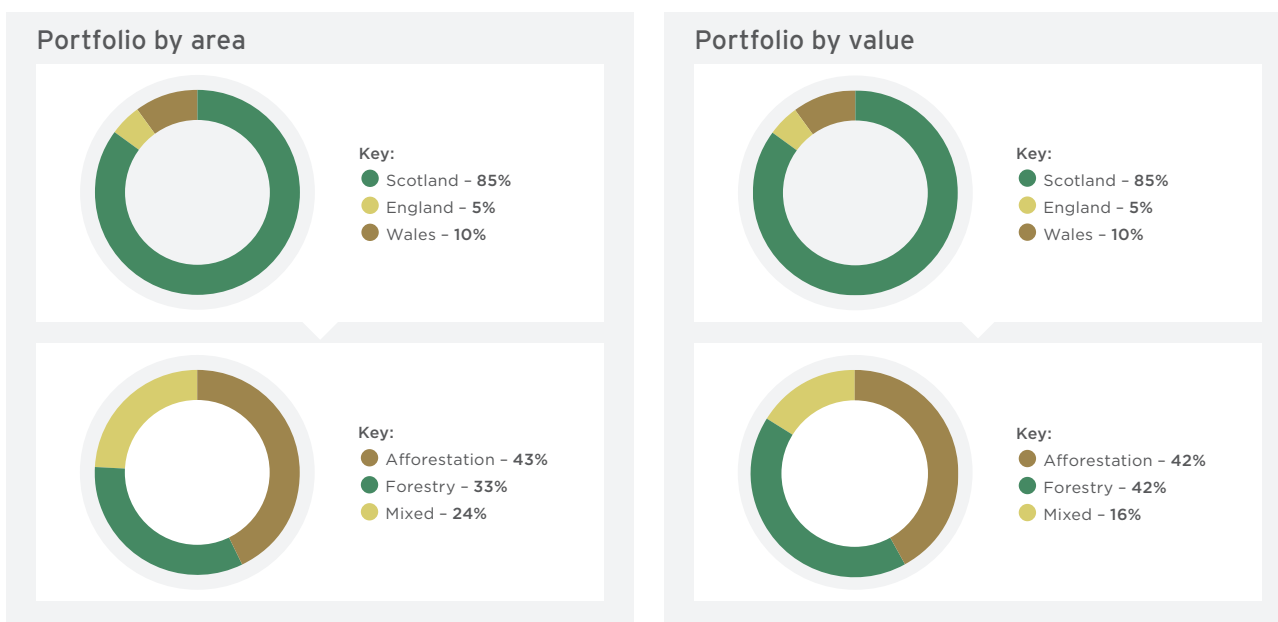
In addition to the fair value, the Red Book methodology considers a number of additional factors impacting the valuation. A reasonable view of the potential for afforestation properties’ value uplift over time is considered rather than valuing the land in its current state. Savills also consider the stage of each property within the forestry grant application process and may make reassessments as to the value of properties when a new developmental milestone occurs. Additionally, as the properties under ownership are located across the UK (Scotland, North England and Wales), the external valuer accounts for the potential differences in market interest and demand at the different locations. On a case-by-case basis, Savills will also assess the extent of damage suffered by sites due to any extreme windblow incidents. Where damage is extensive, Savills will make prudent adjustments to the value of the site if it is evident that some of the affected timber may be challenging to recover.

The value associated with the carbon credits attached with the Establishment Stage Afforestation properties is excluded from the RICS Red Book valuation of these properties. Value recognition for carbon credits is ascribed separately using the Investment Manager’s assessment based on a range of recent comparable voluntary carbon credit transactions that occurred in the period and observed by leading third party carbon credit consultants and brokers. When establishing their value of carbon credits, a conservative 25% risk discount is applied to the average observed unit price of a verified carbon credit. The risk discount accounts for the Woodland Carbon Code verification process not having fully completed. As the volume of carbon credits created by the Company increases, to further add to the robustness and validity of the carbon credit valuation, it is the intention of the Board, in due course, to use an independent third-party consultant/valuer to value the Company’s carbon credits.

Portfolio allocation

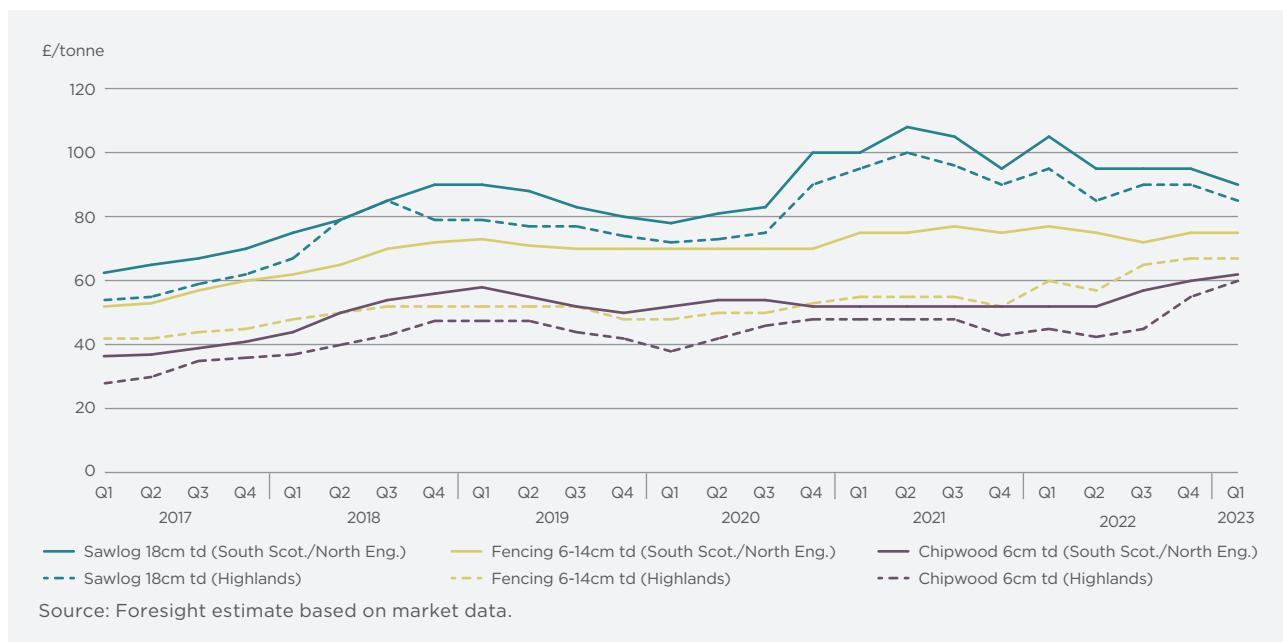
As at 31 March 2023, the Company’s portfolio comprised 65 properties with a total area of 11,743 hectares.

An overview of the portfolio is provided on page 2 (geographic footprint). The split of hectares by country and the split of hectares by afforestation/forestry is illustrated below.



INVESTMENT MANAGER'S REPORT CONTINUED

UK timber market



The timber outputs are divided into the following three categories depending on the top diameter¹. Quarters follow the calendar year.

- Sawlog, with a top diameter¹ of 18cm and above, is the primary timber product and fetches the highest price. This timber can be used for construction and is often used for fencing posts and other home improvements
- Small Roundwood, with a top diameter¹ between 6-18cm. This is largely used in fencing panels and pallet construction. It is processed at a separate mill to sawlog, that is specifically designed to process the smaller pieces of timber
- Chipwood, with a minimum top diameter¹ of 6cm, is essentially too small, too large or not straight enough to be processed in a sawlog or fence wood mill. This product is chipped, rather than sawn. The largest use of chipwood is in the manufacturing of versatile panel such as Medium Density Fibreboard (“MDF”) and Oriented Strand Board (“OSB”). However, it can also be used in pulp mills to make paper products or biomass plants, generating power and heat

The last six-month period has seen a mixed picture for UK timber prices, with sawlog prices declining by c.5.4%, fencing prices increasing by c.3.7%, and chipwood prices increasing significantly, by 19.6%.

The UK continues to remain heavily reliant on timber imports, importing c.80% of all timber consumed. Further, the UK remains the second largest importer of timber globally, behind only China. As such, UK timber prices are impacted by both domestic and international timber dynamics. The Investment Manager believes that the following key themes have impacted on timber prices and the outlook during the period.

Domestic supply

On the domestic supply side, most of the excess storm damaged timber, representing c.20% of the UK’s annual harvest (or c.4% of the UK’s overall annual demand, once 80% timber importation is considered), from Storm Arwen in 2021 is now understood to have been processed through the timber supply chain. UK originated timber supply and inventory levels are therefore returning to more normal levels. This is starting to ease some of the downward pricing pressure observed in 2022.

Looking forward, the maturity levels of UK commercial forests are such that reducing supply levels over the medium and long term are a certainty. The Forestry Commission forecasts that the amount of UK grown softwood that will reach maturity and be ready for harvest is trending steadily down for the next five decades. By 2046, the total standing conifer volume is expected to decline by 15%.

1. Top diameter is a measurement dimension that expresses the diameter of a log at its thinnest point, furthest from the butt.

It is the view of the Investment Manager that, now most of the storm damaged timber has been processed, the impact of Storm Arwen will slightly intensify the forecast domestic supply contraction – as a reasonable proportion of the storm-damaged trees will not have achieved optimal size and bulk at the point they were blown.

The Russian invasion of Ukraine and the related European energy crisis

The global timber market has continued to be significantly impacted by the Russian invasion of Ukraine, which began on 24 February 2022. Prior to the invasion, in 2021, Russia, Ukraine, and Belarus accounted for a quarter of worldwide timber trade. They supplied 8.5 million cubic metres of timber to Europe, representing c.9% of the region's total demand. In July 2022, all imports of Russian wood were banned in Europe. Further, the PEFC and FSC declared that all timber originating from these countries was deemed conflict timber and no longer certified. This has resulted in the global trade of softwood logs plunging by 20% during the first half of 2022 year-on-year. This situation has continued during this reporting period, while Russia furthermore has been accused of industrial-scale logging of Ukraine's forests without compensation. The US has not put a ban on Russian timber in 2022, but instead placed a 50% tariff. By the end of 2022, US imports of Russian plywood were half of 2021, but the US still directly imported at least \$1.2 billion from Russia. The reduction in global timber supply has placed more muted downward pressure on UK sawlog prices during the period, as only c.1.2% of timber imports were directly from Russia, Belarus and Ukraine prior to the invasion.

The impact of the invasion has been more directly felt on domestic chipwood prices during the period. As a result of the invasion, Europe has been through an energy crisis, as it weans itself off Russian-originated oil and gas. Biomass material used for bioenergy power plants has become increasingly scarce. To compensate for reduced Russian gas imports, European and UK woodchip demand from bioenergy power plants has surged and translated into UK woodchip prices rising by 19.61% between the end of Q3 2022 and Q1 2023.

In the early part of 2023, European wholesale energy prices have eased, falling to new lows since the invasion began following a warmer than expected winter and the implementation of various energy related European policies. The Investment Manager is of the view that with the invasion ongoing, a European energy crisis could be re-ignited in the winter of 2023/2024. Europe will need to both secure supplies of liquefied natural gas and reduce energy demand in parallel to avoid significantly escalating gas prices.

Domestic demand softens

Whilst the UK has technically avoided a recession during the period, economic output has remained subdued. This, combined with a UK cost-of-living crisis, has resulted in reduced demand for sawlog products during the period. In the aftermath of the UK Government's Mini Budget, rising debt costs and a cost-of-living crisis have created uncertainty in the housing sector and tempered domestic demand for sawlog. Looking forward, the CPA forecasts that construction output is expected to fall by 4.7% in 2023, and grow by 0.6% in 2024. It is also the view of the Investment Manager that domestic demand for sawlog will likely remain relatively subdued during 2023 and 2024.

International demand and outlook strengthens

The outlook for American construction looks particularly positive, following the IRA and the additional timber-related demand this is likely to generate. US imports from Europe jumped by 27% in 2022 compared to 2021, overtaking the previous record set in 2005, with the majority imported from Germany. During the first three months of 2023, construction spending in the US amounted to \$403 billion, 4.3% above the \$386.7 billion for the same period in 2022. However, the potential of the US Government defaulting on its national debt, due to debt ceiling restrictions, could temper the strong US demand outlook, if that comes to pass.

The outlook for Chinese timber demand has also improved during the period. The lifting of strict zero-COVID-19 policies is likely to result in higher economic growth, more construction and boost Chinese timber demand. In addition, progress has been made on the Chinese property developer debt crisis. The Chinese government has introduced a 21-point plan to aid property developers with financing and debt extensions, worth up to \$67 billion, that is generally expected to bring confidence back to Chinese property and construction markets, also contributing to an improved outlook for Chinese timber demand.

INVESTMENT MANAGER'S REPORT CONTINUED

Harvesting plan

The harvesting programme for 2023 is still evolving. Previously it was reported that harvesting would occur across eight properties with an estimated timber yield of c.100,000 tonnes. However, in light of softening timber prices towards the end of 2022, the proposed harvesting blocks were not considered accretive to the Fund and so have been postponed.

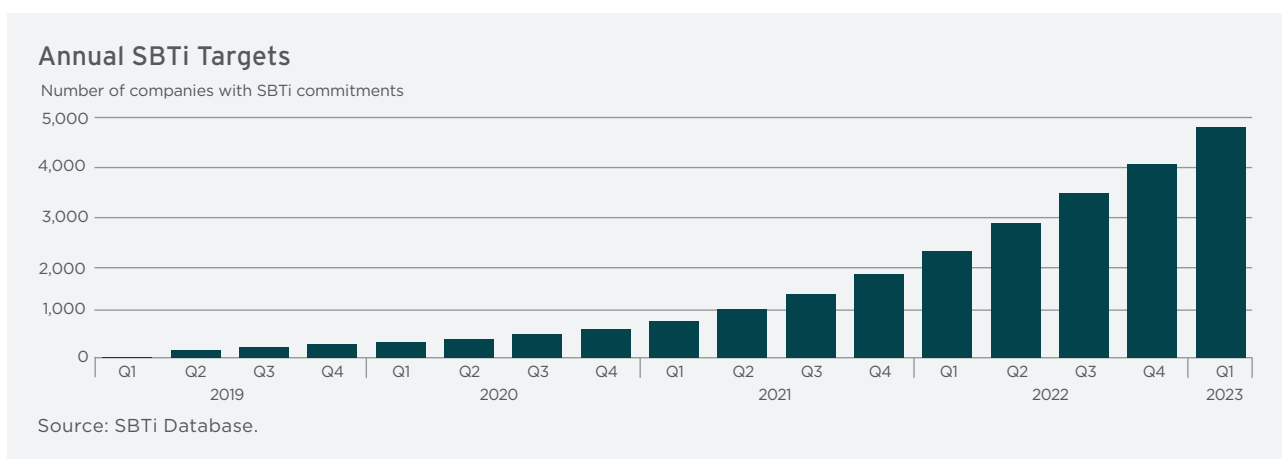
Following a full review, FSF have identified 18 properties that have compartments of suitable age and quality for felling from a silvicultural perspective in 2023. Of these, 11 have been identified as being of potential interest for felling this year. An NAV accretion analysis tool has been created to assist with the financial decision making on which compartments to harvest. This tool will be used in conjunction with live market data to establish, on an ongoing basis, where harvesting coupes will provide sufficient value to be felled. If all 11 coupes are felled, they will yield c.117,000 tonnes of timber.

At five forests, (including Aberarder, Bogforlea, Harthills, Kirkwood and Tom Na Wan), agreements with James Jones, one of the UK's largest sawmillers, are in place for them to undertake the harvesting directly. It is likely that these will proceed at some point during 2023.

Harvesting work will continue at Whiteburn throughout much of 2023. The focus of this operation is clearing up a block of windblown timber left over from Storm Arwen. This is largely a silvicultural decision, as the windblown timber needs to be harvested within a one to two years to limit staining and the timber drying out and depreciating in value.

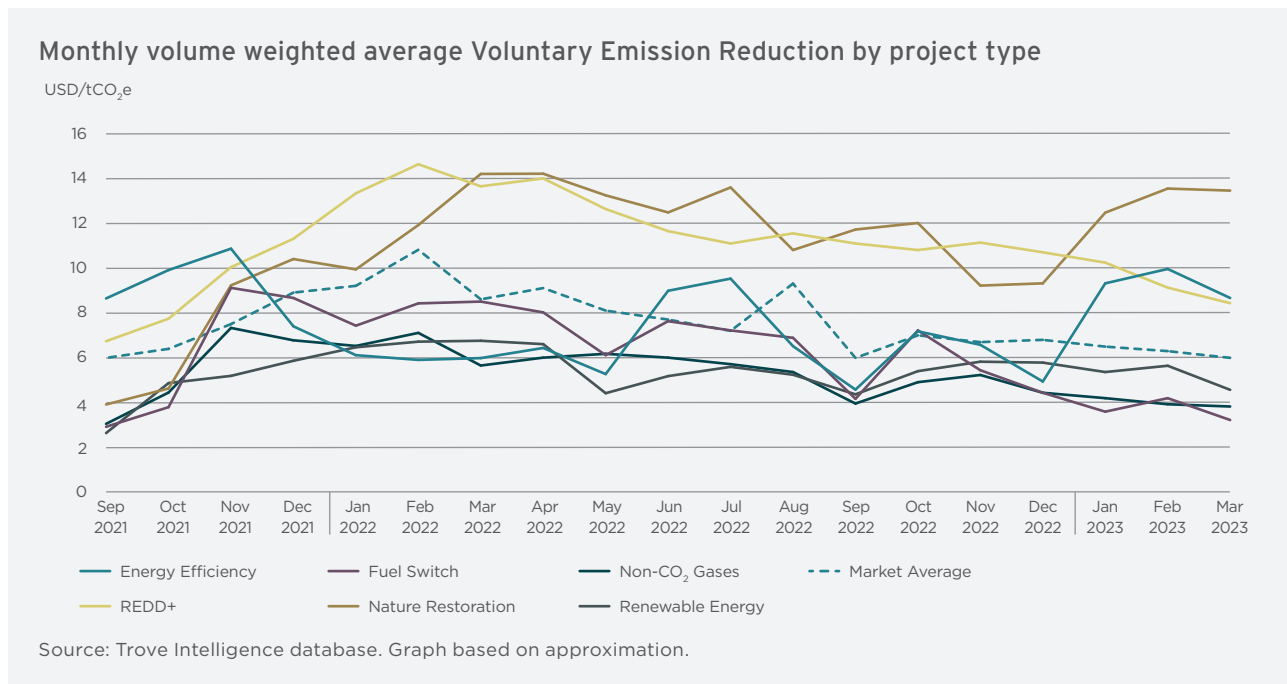
Voluntary carbon market

Voluntary carbon credits recognise the additional and permanent capture or avoidance of carbon dioxide from the atmosphere. Carbon credits can be retired by companies with net zero pledges to offset unabatable emissions created within their businesses or indirectly within their supply chains. During the period, the number of companies setting Science Based Target Initiative ("SBTi") net zero pledges has continued to accelerate, with an all-time monthly high of 782 companies committing to SBTi in Q1 2023. This takes the total number of companies which have, or committed to, set SBTi net zero pledges to 4,797 by the end of Q1 2023. The continued acceleration of net zero pledges by companies bolsters the long-term demand outlook for voluntary carbon credits. It is highly likely each of these companies will ultimately require carbon credits to offset up to 5-10% of their emissions, considered unabatable in line with SBTi rules.



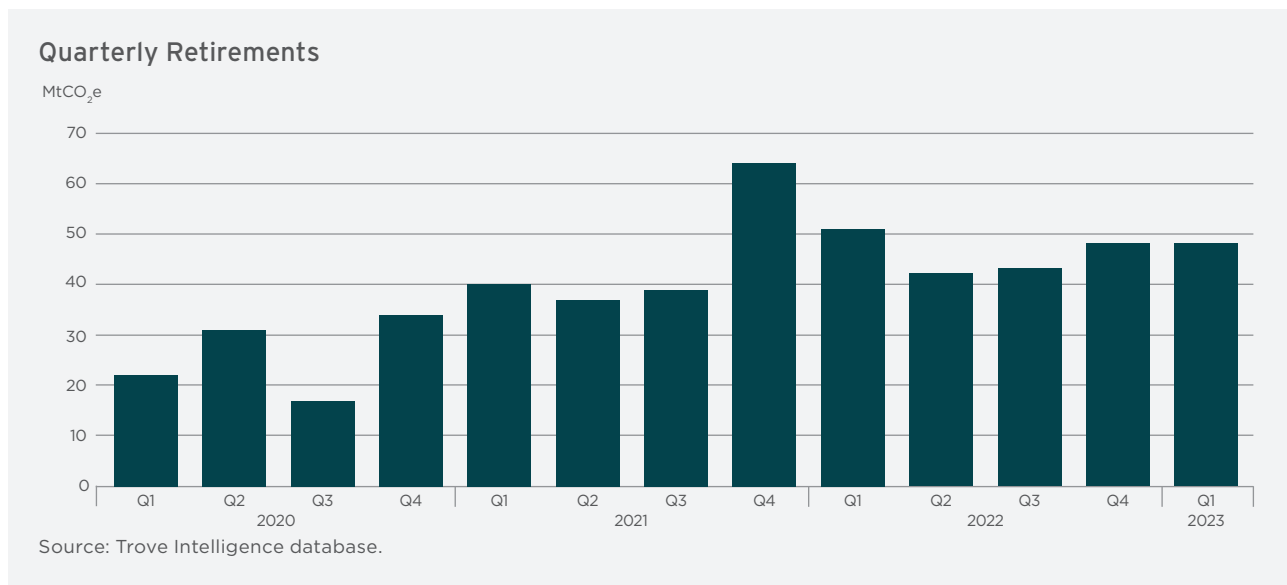
During the period, voluntary carbon credits have come under the media spotlight. An article in the Guardian exposed integrity issues with some avoided deforestation voluntary carbon credits, issued by Verra's REDD+ methodology. We have since observed shifting buyer preferences towards nature-based afforestation credits, which are seen as high-integrity as they remove carbon from the atmosphere and permanently store it in organic material. In contrast REDD+ and similar avoidance-based carbon credits, by for example conserving nature and avoiding deforestation, less clearly demonstrate the permanence and additionality principles. The chart overleaf from Trove, a leading voluntary carbon credit research group, illustrates that whilst prices of avoidance-based credits (e.g. REDD+) have declined 24.0% during the period, prices of high-integrity nature-based credits (which include afforestation credits of the kind that FSF's afforestation portfolio generates) have increased by 14.8% between September and March.

Voluntary carbon market continued



Despite significant market volatility and uncertainty, it has been pleasing to see global retirements of voluntary carbon credits remaining steady during the period, as can be seen on the graph below.

FSF’s carbon strategy continues its focus on building up its stock of high-integrity credits. From a UK voluntary carbon market perspective, the Investment Manager has observed stable pricing for high-integrity WCC Pending Issuance Units, with its unit price assumption remaining unchanged at c.£17.50 per tonne during the period. The Investment Manager remains optimistic about the prospects for pricing growth in WCC units that FSF’s portfolio expects to generate over time, providing that the Company can continue to demonstrate that its units are of the highest quality in the future.



INVESTMENT MANAGER'S REPORT CONTINUED

Voluntary carbon market continued

We are keenly attuned to the development of the LSE's Voluntary Carbon Market. This, as introduced by the Company's Chairman, allows market participants to easily identify listed investment companies that are contributing positively to the establishment and scale-up of voluntary carbon markets. FSF qualifies under all of the criteria and as part of this, FSF intends to give investors the choice to receive cash dividends from the net proceeds of the sale of voluntary carbon credits, or to elect to receive in-specie voluntary carbon credit dividends. If credits are received in-specie they can be directly utilised by the recipient for its own net zero offsetting or onward carbon trading strategy. The designation enables investors to:

- Secure a supply of voluntary carbon credits for net zero commitments or trading purposes
- Hedge against the risk of rapidly rising voluntary carbon credit prices
- Generate an attractive underlying risk adjusted return via the Company's land development and timber operations (over and above the voluntary carbon value) with FSF's listed structure allowing the flexibility to adjust the volumes of shares held as the investor's carbon credit yield requirements change over time

Health and safety ("H&S")

There were no H&S incidents (near misses or RIDDORs) during the period across the portfolio. Despite this, H&S management of the sites remains a key focus for FSF. Operational activities across all of the portfolio continue to be monitored to ensure that the correct information is provided at regular intervals, so appropriate action taken where necessary.

During the period, the Investment Manager conducted the second annual health and safety audit of a Forest Manager. The Asset Management team continue to work closely with E.J. Downs Forestry ("EJDF"), who have significant experience in the forestry management space and advise the Company on silvicultural decisions, to implement the recommendations from this report. Forest Managers continue to work on compiling hazard maps for each site to identify and mitigate all risks that may be present. In addition, a near miss incentive scheme has also been developed and initiated to encourage the reporting of near miss events across the forestry operations.

Afforestation property development progress

FSF has now acquired 40 sites with afforestation potential. During the period, FSF has been developing a more efficient categorisation of afforestation development. The definitions of these phases can be found below:

- **Development Stage Afforestation**
Land prior to the securing of planning permission and grant application.
- **Planting Stage Afforestation**
Planning permission and grant application completed but initial planting of trees not yet completed.
- **Establishment Stage Afforestation**
Initial planting of site completed but trees establishing and stabilising (typically a 3-5 year period).
- **Established Forests**
Trees stabilised and established.

All FSF afforestation sites have been categorised in line with the definition above, as follows:

Property name	Development Stage Afforestation	Planting Stage Afforestation	Establishment Stage Afforestation	Established Forest
Auchensoul	🌲	🌲	🌲	—
Banc Farm	🌲	🌲	🌲	—
Frongoch	🌲	🌲	🌲	—
Mountmill Burn	🌲	🌲	🌲	—
Redding Farm	🌲	🌲	🌲	—
Upper Barr	🌲	🌲	🌲	—
Windylaws	🌲	—	—	—
Allanton Farm	🌲	—	—	—
Bedehouse & East Bennachie	🌲	—	—	—
Brown Hill	🌲	—	—	—
Bruntaburn Forest	🌲	—	—	—
Brynglas	🌲	—	—	—
Burn of Bellyhack	🌲	—	—	—
Cessnock Wood	🌲	—	—	—
Chatto Craigs	🌲	—	—	—
Cheterknowes Wood	🌲	—	—	—
Coed Doethie	🌲	—	—	—
Coed Y Garreg	🌲	—	—	—
Cwmban Fawr Farm	🌲	—	—	—
Dove Hill	🌲	—	—	—
Drove Road Wood	🌲	—	—	—
Esgair Hir	🌲	—	—	—
Fordie Estate	🌲	—	—	—
Glendyne Wood	🌲	—	—	—
Goukstane Wood	🌲	—	—	—
High Auldgirth	🌲	—	—	—
Highside Wood	🌲	—	—	—

INVESTMENT MANAGER'S REPORT CONTINUED

Afforestation property development progress continued

Property name	Development Stage Afforestation	Planting Stage Afforestation	Establishment Stage Afforestation	Established Forest
Knock Fell	🌱	—	—	—
Knocktail Wood	🌱	—	—	—
Lambs Craig	🌱	—	—	—
Liddel Water	🌱	—	—	—
Maescastell	🌱	—	—	—
Ness Bogie	🌱	—	—	—
Newnoth Farm	🌱	—	—	—
Nor Hill	🌱	—	—	—
Piltanton Wood	🌱	—	—	—
Pistyll South	🌱	—	—	—
Reams Hill	🌱	—	—	—
Red Craig & Glen Burn	🌱	—	—	—
Rorie Hill	🌱	—	—	—

Status as at 31 March 2023.

The Investment Manager continues to attach a high importance to achieving the development milestones. It is an important metric for the Company both in terms of driving returns and achieving its sustainability targets. To date, 690 hectares have been consented and planted, meanwhile 3,430 hectares with afforestation potential continue to be developed.

Asset Classification	Hectares
Development Stage Afforestation Assets ¹	3,430
Planting Stage Afforestation Assets ¹	—
Establishment Stage Afforestation Assets ¹	690
Established Forest Assets ¹	5,772
Other Land ²	1,851
Total	11,743

1. Hectares within woodland creation scheme boundary or managed forest boundary.
2. Other Land is held as part of the core Forestry Assets allocation and can accompany both afforestation and Established Forest Assets. It includes land that is considered unplantable due one or multiple constraints. For example other land includes, but is not limited to, areas of land that are too steep slopes, areas of deep peat and waterways.

Pipeline and deal procurement

Foresight sources deals and acquisition opportunities via selling agents, on-market bids, bilateral deals, direct origination and direct approaches. Approximately 4,500 specific properties (c.900,000 hectares) which are highly suitable for afforestation have been identified by the Investment Manager, which is able to secure transaction opportunities through its direct origination system. The Company has priority over these and other Foresight forestry opportunities that are within the Company's mandate.

At the time of writing, FSF has a live pipeline of afforestation and forestry opportunities worth c.£77.4 million.

Community engagement

Throughout the period, FSF has continued to engage closely with communities to ensure maximum benefit is gained by local residents from each of FSF's sites. As part of our standard approach, three afforestation sites were taken through a formal community engagement process during the period, culminating in the successful planting of four woodland creation schemes¹. Community engagement meetings will continue to take place for all other afforestation schemes in the portfolio.

In addition to this, several other community based projects are being developed and implemented across the properties in the FSF portfolio, for example:

- Mountain bike trails are being developed at Banc Farm along with a car park to enable access. Discussions are ongoing with the local mountain bike group and the hope is that the trails will be in use later this year
- An area of c.20 hectares is being leased back to the community at Upper Barr to undertake a community planting scheme
- A parcel of land has been gifted to the local Chapel at Frongogh, to enable it to extend their otherwise full graveyard
- A larger parcel of land at Frongoch, considered inappropriate for tree planting, has been leased back to a local farmer. This enables ongoing employment in the farming industry and diversifying the land use within the valley

Representatives of FSF attended a community wealth building day in Moffat during the period. The session was organised by South Scotland Enterprises and Scottish Forestry and included representatives from a series of key stakeholders from the forestry industry in south Scotland.

During the period, FSF also completed the pilot of its Forestry Skills Training Programme. The initiative was established to ensure that FSF is not just making material contributions to the twin fights against climate change and biodiversity loss, but is doing so in a way that enables a just transition. Following the success of the pilot, steps were taken during the reporting period to refine and significantly expand the programme. This has culminated in FSF announcing, in May 2023, that it has launched the 2023 Forestry Skills Training Programme.

The number of places available this year has increased from four to ten, and the geographic scope increased from being only available in Wales, to being available in Wales and Scotland. We are deeply proud of the deep real-world impact the pilot has had on local communities, and are excited to now scale the initiative.

Upside opportunities

Upside opportunities continue to be identified and progressed across the portfolio with key themes including wind farm development, eco-tourism and disposing of, repurposing or renovating buildings that were included as part of the original land acquisition. Each upside opportunity is reviewed on its merits and taken forward on a case-by-case basis. For the reporting period, specific examples include agreeing exclusivity for a small wind farm development and signing a new two-year PPA for the hydro plant at Fordie on a very favourable rate.

Biodiversity enhancement and nature-based credits

Discussions continue with our partners and consultants on the potential verification routes/tools to determine biodiversity baselines across the portfolio. A number of metrics for measuring biodiversity have been screened such as the DEFRA metric, the Biodiversity Intactness Index and FSC Ecosystem Services. In addition, the Company continues to explore how nature enhancement projects can translate into a tangible financial benefit for the Company is ongoing. There are a number of standards including Plan Vivo and Credit Nature that are developing methodologies to verify and issue nature-based credits. The data being collected in order to baseline biodiversity is intended to become the basis for any future biodiversity credits created. The exploration of bundling nature enhancement value with carbon credits is underway and ongoing.

1. Redding Farm was purchased with an approved woodland creation grant contract, so no community engagement was carried out by Foresight.

AFFORESTATION CASE STUDY

REDDING FARM SOUTH LANARKSHIRE, SCOTLAND

Redding Farm is a 71 hectare afforestation property in South Lanarkshire, Scotland. The property was acquired in November 2022 and has 52 hectares of land deemed suitable for afforestation development.

Shortly prior to purchase, planting designs for a Woodland Creation Scheme were finalised and this was followed by planting grant application submission. FSF unusually acquired the property with planning consent and a grant contract in place. Following acquisition, FSF engaged with Cheviot Trees to provide the trees required for the development of the property. It is common practice for FSF to begin conversations with suppliers at an early stage to establish what stock is available. Following initial contact with the nursery, the quantity of trees required was refined to specifically suit the planting design, which is usually completed in parallel with the grant application.

There is a two-year process at the tree nursery to prepare the saplings for planting. This involves propagating the seeds, transferring them outside, biological growth, picking the saplings, grading them and placing them in cold storage. For the trees at Redding Farm, this process was complete by November 2022. The saplings arrived at the property in two deliveries, on the 13 and 20 March 2023, after much of the ground prep had been undertaken.

The ground prepping involves a tractor turning over 'mounds' of turf to provide suitable and evenly spaced sites to plant the saplings. This ensures that as soon as the saplings arrive, planting can commence. The planting process is done manually, rather than mechanically. This is still considered to be best practice due to mechanical planting being more costly and susceptible to weather. At Redding Farm, the planting team were able to complete the whole planting stage in 17 days.

The sensitive planting design incorporated 18% Broadleaves and open ground, with Sitka Spruce forming 43% of the gross area. A total of 108,400 trees were planted and the Forest Manager will continue to monitor the planting throughout the summer to ensure the trees are establishing properly. Throughout the growing season, weed control, mowing and other maintenance work will be undertaken as and when required to minimise competition with the tree saplings.

At the end of the first growing season, which runs from Spring 2023 to Autumn 2023, a survey will be taken by the Forest Manager to establish how many of the saplings have failed. Replacement saplings will then be ordered and planted to replace the failed saplings. This process is known as 'beating up' and is an important step of successful forest establishment.

The process of weed control and mowing will continue for approximately three growing seasons. At Redding Farm this will continue through to the end of summer 2025, at which point the trees are expected to be considered successfully established. Visually, the commercial species, such as Sitka Spruce will look like small trees and typically be 1.0-1.5m in height three years after planting. The native broadleaves have more varied growth rates in early years and typically be 0.75-2.0m in height three years after planting. However, this is the point at which FSF will view the site as an established forest, rather than as an afforestation site.

Grant payments are available across the first 5-years of forest establishment, which offsets a significant proportion of the capital expenditure associated with forest establishment.

Investment overview

Company	Foresight Sustainable Forestry Company Plc
Property location	South Lanarkshire, Scotland
Property type	Afforestation
Project size	71 hectares
Operational date	31.03.2023
Investment amount	£0.95 million, including deal costs, but excluding all afforestation costs



SUSTAINABILITY AND ESG

INTRODUCTION

Sustainability and strong governance are fundamental to FSF's business model, as captured in the Company's three key Sustainability and ESG objectives:



Key objective 1: timber supply

To deliver and increase the supply of homegrown UK timber to reduce the country's reliance on imports.



Key objective 2: sustainable returns

To do so in a way that combines sustainable financial returns with carbon sequestration, biodiversity protection and other positive environmental and social impacts.



Key objective 3: progressive industry leadership

To be a sustainability leader in the UK forestry industry whilst delivering both traditional commercial timber products and innovative natural capital services.

2023 Interim highlights

- The publication of the Company's first dedicated S&ESG report.
- Voluntary Carbon Market Designation.
- Hosted 27 school children from Carreg Hirfaen school to play a part in the planting at Frongoch.

Sustainability and ESG report

In April 2023, post-period end, the Company published its first dedicated S&ESG report which outlined the Company's S&ESG vision and provided stakeholders with an update on the Company's delivery against its Key Sustainability and ESG objectives over the period ended 30 September 2022. The report is available on the Company's website. The report also explains the natural capital land management approach that the Company is applying with a view to generating natural capital alpha, which is the delivery of ecosystem services to society alongside resilient risk-adjusted financial returns to its Shareholders. These concepts and the related terminology are described in the report which is available on the Company's website.

SUSTAINABILITY AND ESG CONTINUED

Sustainable Development Goals (“SDGs”) impact reporting

FSF embeds sustainability at the core of its business. The SDG’s represent a core driver of the Company’s investment activities. The Company believes it can make the greatest contribution to five of the SDGs. In the following pages, we demonstrate the progress made by the Company in each of these core areas for the period **1 October 2022 to 31 March 2023**.




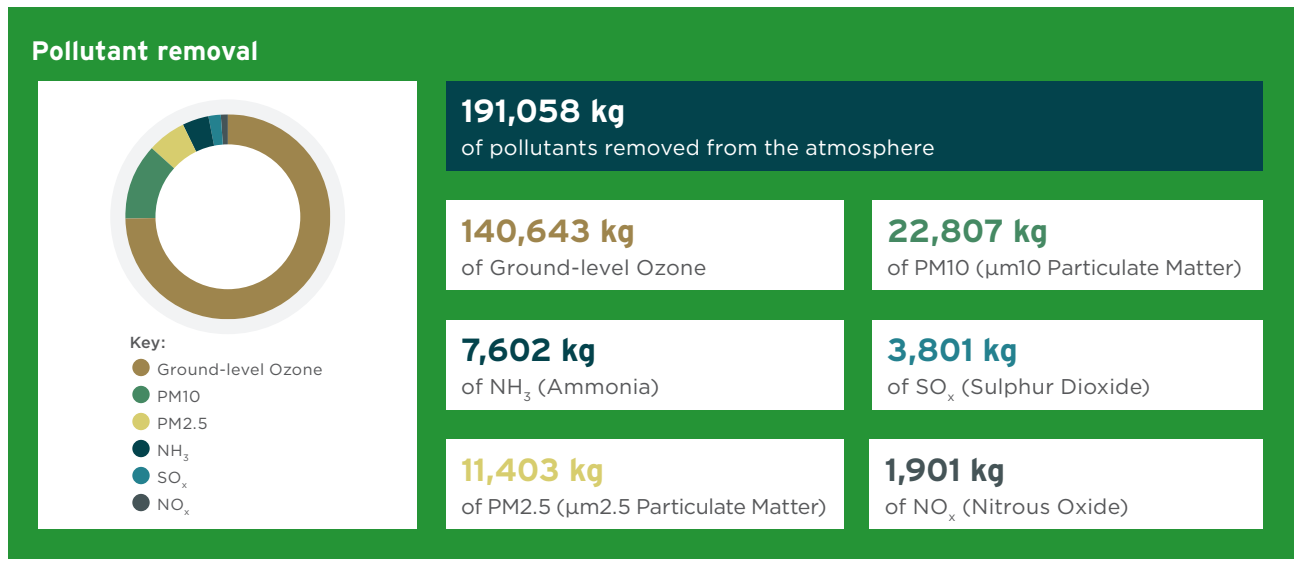
Timber supply chain


Goal	SDG Target	Contribution
12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	12.2 Achieve the sustainable management and efficient use of natural resources.	Number of tonnes of sustainably grown, standing timber. Percentage of commercial forestry projects that are dual FSC and PEFC certified within 12 months of acquisition.

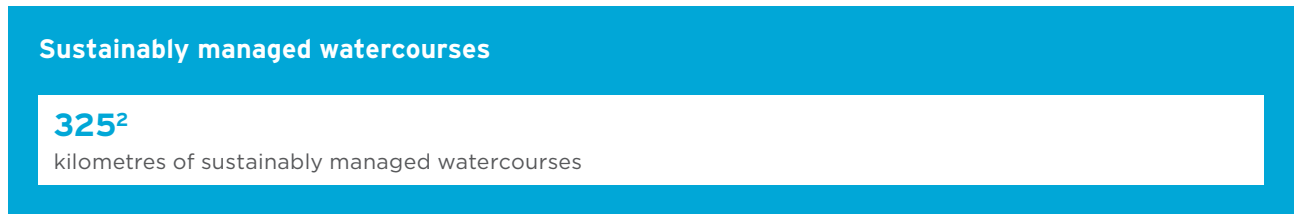


Environmental impact

Goal	SDG Target	Contribution
3 GOOD HEALTH AND WELL-BEING 	3.9 Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.	Number of tonnes of pollutants¹ removed from the atmosphere, including: NO _x (Nitrous Oxide), SO _x (Sulphur Dioxide), PM10 (µm10 Particulate Matter), PM2.5 (µm2.5 Particulate Matter), Ground-level Ozone, NH ₃ (Ammonia).




Goal	SDG Target	Contribution
6 CLEAN WATER AND SANITATION 	6.6 Protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.	Number of kilometres of sustainably managed watercourses.



1. Office for National Statistics, woodland natural capital accounts, UK 2020.
 2. Includes all permanent water courses and larger drains whether wholly inside the property boundaries or located on the property boundary with a shared responsibility for watercourse management.

SUSTAINABILITY AND ESG CONTINUED


Environmental impact continued

Goal	SDG Target	Contribution
13 CLIMATE ACTION 	13.3 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.	Total annual portfolio sequestration (tCO ₂ e/annum). Average annual sequestration per stocked ha (tCO ₂ e/stocked ha). Average annual sequestration per gross ha.

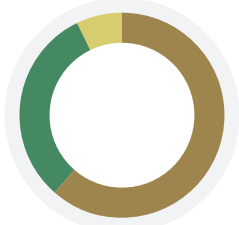
Carbon Sequestration¹

17,036 tCO₂e arboreal sequestration achieved over the reporting period within the portfolio.	1.5 tCO₂e / stocked ha average arboreal sequestration on a per stocked hectare basis (commercial + non-commercial).	3.8 tCO₂e / ha average arboreal sequestration per gross hectare.
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Natural capital services

Goal	SDG Target	Contribution
15 LIFE ON LAND 	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.	Number of hectares of sustainably managed forests Of which: <ul style="list-style-type: none"> Number of hectares that are long-term, mixed broadleaf carbon sinks Number of hectares that are SSSI/SAC^{2,3}

Biodiversity



Key:

- Open ground - 61%
- Commercial forestry - 32%
- Native broadleaves/long-term carbon sink - 7%

11,743 ha total hectareage of portfolio (inc. forests and open ground)	7,218 ha of open ground and land awaiting approval for afforestation
765 ha of which is SSSI ² /SAC ^{1,3}	
3,704 of which is total hectareage of sustainably managed commercial forests	
821 ha of which is long-term, mixed broadleaf carbon sinks	

1. Both SSSI and SAC areas will be included within the open ground.
 2. Site of Special Scientific Interest.
 3. Special Area of Conservation.

Carbon credits

Carbon credits generated:

PIUs held on balance	143,707
PIUs sold	—
WCUs held on balance	—
WCUs sold	—
Total carbon credits held on balance	143,707
Total carbon credits sold	—



Richard Kelly, Managing Director, Foresight Group and Co-lead Manager of FSF, with three of the four successful FSF Forestry Skills Training Programme graduates at a community tree planting day at Frongoch, Wales, in March 2023. Following this success of this pilot initiative, the Company is proud to have extended both the scale and geographic scope of the initiative in 2023. The number of places has been increased from four to ten, and the geographic scope extended from just in Wales, to cover both Wales and Scotland. It is through initiatives like this, that FSF is ensuring it is making a direct contribution to the twin fights against climate change and diversity loss in a way that also enables a just transition. A detailed case study covering this initiative can be found in the Company's 2022 Sustainability and ESG report.

TCFD AND EMISSIONS REPORTING

The Company's focus for quantitative reporting of exposure to climate-related risks is achieved using the universally accepted core metrics, as recommended by the Task Force on Climate Related Financial Disclosures ("TCFD").

TCFD

The Company's S&ESG report, published in April 2023, provides a comprehensive response to all 11 of the disclosures and can be found on the Company's website.

Climate scenario analysis

As part of the Company's disclosures under TCFD, the S&ESG report demonstrated the approach it has taken to conducting robust Scenario Analysis using S&P Global's Climonomics platform. This integrated not only physical and transition risks, but also climate-related opportunities, providing a single output reflecting the resilience of the portfolio under different climate futures.

The Sustainable Finance Disclosure Regulation ("SFDR")

SFDR is a framework designed to increase transparency on sustainability reporting with a view to facilitating sustainable investment practices and to aid the understanding of the sustainability credentials as published by funds and/or companies. FSF considers itself an Article 9 fund. In compliance with the Level 2 disclosure requirements under the Regulatory Technical Standards (RTS), the Company updated its pre-contractual and website disclosures, both of which can be found on the Company's website.

For the purposes of periodic disclosure updates, the Company will be aligning its reference period with its annual reporting period, namely 1 October to 30 September.

RISK AND RISK MANAGEMENT

Risk and risk management

FSF has a comprehensive risk management framework overseen by the Audit and Risk Committee, comprising the independent Non-Executive Directors.

The Directors consider the following as the principal risks and uncertainties to the Company at this time:

- The Company being unable to access sufficient funding to complete its growth ambitions
- A reduction in demand from the users of timber that negatively impacts profitability
- Resistance to change of land use from the public generating negative PR and impacting the Company's ability to obtain planning consent
- Changes in the economic, technological, political or regulatory environment, including inflation

The following represent the most relevant emerging risks as viewed by the Board and the Investment Manager:

The Company is exposed to a number of risks that have the potential to materially affect the Company's valuation, reputation and financial or operational performance. The nature and levels of risk are identified according to the Company's investment objectives and existing policies, with the levels of risk tolerance ultimately defined by the Board.

Financing capital

As a newly listed entity, the Company is focused on growing its portfolio. In order to achieve our growth ambitions and to ensure the Company is able to take full advantage of the opportunities in its pipeline, additional financing will be required in the short to medium term.

The Company's borrowing policy enables the Directors to use gearing for liquidity and working capital purposes, or to finance acquisition of investments subject to following a prudent approach and maintaining a conservative level of aggregate borrowings that will not exceed 30% of Gross Asset Value, calculated at the time of drawdown. The Company has a £30 million Revolving Credit Facility, that at the end of the period remains fully undrawn. The equity levels of the Company are closely monitored by the Board and the Investment Manager on a regular basis.

The Company continues to work closely with its broker, Jefferies International Limited, and the Investment Manager's in-house Retail Sales team, will conduct market research ahead of any future funding rounds to gauge demand from existing and new investors.

Timber market volatility

Timber prices can be volatile periodically. However, demand over the medium to long term has historically created real-term pricing growth. In the context of global under-supply and increasing demand, this reduces market risk for the sale of the Company's key products and revenue streams.

Should timber prices be less attractive at the point of felling, the Investment Manager also has the option to delay felling, allowing trees to continue to grow and provide time for a recovery from short-term pricing volatility.

Community engagement

The development of afforestation assets in rural areas is sensitive for local residents and, if managed unsatisfactorily, could result in poor relationships developing between the Company and local communities. This in turn could impact both the Company's reputation, ability to obtain the necessary planning consent for planting to commence and potentially the Company's share price.



RISK AND RISK MANAGEMENT CONTINUED

Community engagement continued

During the due diligence phase of afforestation investments, the Investment Manager commissions an independent community risk assessment to ensure that afforestation only takes place in areas where tree planting is less likely to be a contentious issue. A separate planning risk assessment is also undertaken ahead of all potential land acquisitions where afforestation is intended and the Investment Manager only pursues opportunities where the risk of not obtaining planning consent, including for reasons relating to objections raised by the local community, is assessed to be low.

Once afforestation properties are acquired, the Investment Manager runs a co-ordinated programme of community engagement and seeks to respond and, wherever possible, adapt the scheme design to meet concerns raised by community members.

In addition, in the event that planting was unable to go ahead, the acquired land would still have agricultural value. Therefore, whilst the return generated from this would be lower, an income stream would still be available to the Company.

The Company is also working closely with industry bodies such as Confor and Timber Development UK to promote the merits of increased sustainable UK timber supply. The Investment Manager has piloted and is significantly expanding its Forestry Skills Training Programme that enables members of rural farming communities to adapt to afforestation-related land use change by providing them with all of the skills, training, certifications, safety equipment and mentoring required to commence a new career in forestry.

Changes in the macroeconomic environment

The UK economy has seen significant fluctuations in growth over the last two years, predominantly due to Russia's invasion of Ukraine, rising debt costs and persistently high inflation.

However, the Company is in a relatively strong position to withstand changes in the macroeconomic environment as it is invested in real assets, principally freeholds of UK land and forest stock. The forest stock enjoys biological growth regardless of occurrences in financial markets. UK freeholds, real assets and the value of commodities, such as timber, have a strong track record of good performance during periods of inflation and instability of equity markets. In the view of the Investment Manager, the continued global supply and demand imbalance in timber markets, which is accentuated in the UK as a net timber importer and during a period where GBP is weak versus EUR and USD, leaves the Company well positioned to deliver real term value growth for Shareholders. Moreover, FSF is in a position to mitigate the impact of any intra-quarter or intra-year falls in timber prices by postponing parts of its harvesting programme, and allowing the trees to continue to grow until the underlying imbalance between supply and demand begins to be reflected in market prices again.

FINANCIAL REVIEW

Analysis of financial results

The condensed set of financial statements of the Company for the six-month period ended 31 March 2023 are set out on pages 36 to 39.

The Company prepared the condensed unaudited financial statements for the period to 31 March 2023 in accordance with IAS 34 as adopted by the UK and issued by the International Accounting Standards Board. The Company applies IFRS 10 and Investment Entities: Amendments to IFRS 10, IFRS 12 and measures all their subsidiaries that are themselves investment entities at fair value. The Company accounts for its interest in its wholly owned direct subsidiary FSFC Holdings Limited as an investment at fair value through profit or loss in accordance with IFRS 13 Fair Value Measurement.

The primary impact of this application, in comparison to consolidating subsidiaries, is that the cash balances, the working capital balances and borrowings in the intermediate holding companies and project companies are presented as part of the Company's fair value of investments.

The Company's intermediate holding companies provide services that relate to the Company's investment activities on behalf of the parent which are incidental to the management of the portfolio.

The Company, its subsidiaries FSFC Holdings Limited and FSFC Holdings 2 Limited (together the "Group"), hold investments in 65 portfolio properties held within five special purpose vehicles which intend to make distributions in the form of interest on loans and dividends on equity as well as loan repayments and equity redemptions.

For more information on the basis of accounting and Company structure, please refer to the notes to the condensed unaudited financial statements on pages 40 to 55.

Key financial metrics for the period ended 31 March 2023

All amounts presented in £million (except as noted)	As at 31 March 2023	As at 30 September 2022
Gross Asset Value ("GAV") ¹	186.6	180.6
Net Asset Value ("NAV") ²	186.6	180.6
NAV per share (pence)	108.5	105.0
Total Income	7.3	11.0
Profit before tax	6.0	8.8
Earnings per share (pence)	3.5	6.2

1. Calculated as the sum of the NAV and total outstanding debt on page 37.
2. Total equity as per the statement of financial position on page 37.

Net assets

Net assets increased 3.3% from £180.6 million at 30 September 2022 to £186.6 million at 31 March 2023.

The Net Assets of £186.6 million comprises £181.4 million portfolio value of forestry and afforestation assets, with an additional £2.5 million carbon credit valuation and cash balances of £3.8 million comprising cash of £1.6 million in the Company and £2.2 million in the project companies, offset by £1.1 million of other net liabilities (£1.8 million of other assets in the Company and £2.9 million of other liabilities in the project companies).

At 31 March 2023, the Group's Revolving Credit Facility of £30.0 million remained undrawn. The GAV is equal to the sum of the NAV and the outstanding debt as described in the alternative measures table on page 33. The GAV as at 31 March 2023 was £186.6 million.

FINANCIAL REVIEW CONTINUED

Net assets continued

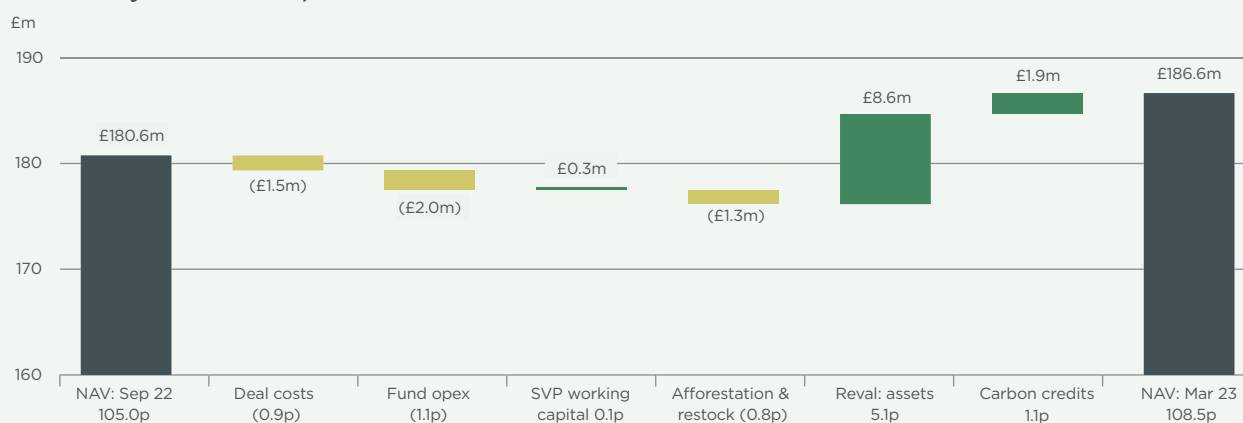
Analysis of the Group's net assets at 31 March 2023

All amounts presented in £million (except as noted)	As at 31 March 2023	As at 30 September 2022
Red Book valuation ¹	181.4	144.2
Carbon credits valuation ²	2.5	0.6
Portfolio Value	183.9	144.8
Project companies' cash	2.2	2.0
Project companies' other net liabilities	(2.9)	(0.5)
Investments at fair value through profit or loss	183.2	146.3
Company's cash	1.6	34.3
Company's other net assets	1.8	—
Net Asset Value	186.6	180.6
Number of shares	172,056,075	172,056,075
Net Asset Value per share (pence)	108.5	105.0

1. Classified as the fair value of the underlying forestry assets held through the SPVs.

2. The carbon credit valuation noted is based on value ascribed to progress towards creation of carbon credits.

NAV bridge from 30 September 2022 to 31 March 2023



Net Asset Value bridge

During the period from 30 September 2022, there was an £8.6 million fair value increase of the afforestation and forestry assets held by the Group, offset by Fund operational expenditure of £2.0 million, £1.3 million of afforestation and restock costs and deal costs of £1.5 million. An additional 107,591 of carbon credits attributed to four underlying afforestation assets where planting has been completed in the period have also been valued at £1.9 million, resulting in a Net Asset Value of £186.6 million at 31 March 2023.

Company performance

Profit and loss

The Company's profit before tax for the six month period to 31 March 2023 was £6.0 million generating earnings of 3.5 pence per share.

For the same period to 31 March 2023, the total return on investments was £7.3 million, which relates to £1.4 million of interest on the FSFC Holdings loan notes and £5.9 million net gains on investments at fair value. The interest income is from the Company's Shareholder loan to FSFC Holding Limited. The net gain on investment is generated by the net fair value movement on the Company's investment in FSFC Holding Limited.

Operating expenses included in the income statement for the period were £1.3 million, in line with expectations. These comprise investment management fees of £0.8 million and £0.5 million of operating expenses. The details on how the investment management fees are charged are set out in note 5 to the financial statements.

All amounts presented in £million (except as noted)	Period from 1 October 2022 to 31 March 2023	Period from incorporation on 31 August 2021 to 30 September 2022
Interest received on FSFC Holdings loan notes	1.4	0.9
Net gain on investments at fair value	5.9	10.1
Total return on investment	7.3	11.0
Operating expenses	(1.3)	(2.2)
Profit before tax	6.0	8.8
Earnings per share (pence)	3.5	6.2

Ongoing charges

The ongoing charges ratio is an indicator of the costs incurred in the day-to-day management of the Fund. FSF uses the AIC-recommended methodology for calculating this ratio, which is an annual figure.

The ongoing charges ratio percentage was 1.4% in September 2022 and remains the same for the six-month period to 31 March 2023 (annualised).

The ongoing charges have been calculated, in accordance with AIC guidance, as annualised ongoing charges (i.e., excluding acquisition costs and other non-recurring items) divided by the average published unaudited Net Asset Value in the period. The ongoing charges percentage has been calculated on the consolidated basis and therefore takes into consideration the expenses of the Company, FSFC Holdings Limited and FSFC Holdings 2 Limited.

The Investment Manager believed this to be competitive for the market in which FSF operates and the stage of development and size of the Fund, demonstrating that management of the Fund is efficient with minimal expense incurred in its ordinary operation.

FINANCIAL REVIEW CONTINUED

Cash flow

The Company held cash balances at 31 March 2023 of £1.6 million. This amount excludes cash held in subsidiaries. The breakdown of the movements in cash during the period is shown below.

Cash flows of the Company for the period to 31 March 2023 (£million)		
	Six months ended 31 March 2023	Period from incorporation on 31 August 2021 to 30 September 2022
Opening cash balance	34.3	—
Gross proceeds from IPO and fundraising	—	175.0
IPO and share issuance costs	—	(3.2)
Investment in FSFC Holdings Limited (equity and loan notes)	(31.0)	(136.2)
Group movements in working capital	(0.4)	0.9
Directors' fees and expenses	(0.1)	(0.1)
Investment management fees	(0.8)	(1.1)
Administrative expenses	(0.5)	(1.0)
Company's closing cash balance	1.6	34.3

Cash flows of the group for the period to 31 March 2023 (£million)

The Group is defined as the Company and its two intermediate holding companies. The cash flows for the Group of £1.9 million include £0.3 million in FSF Holdings 2 Ltd.

Alternative performance measures ("APMs")

Purpose	Calculation	APM value	Reconciliation to IFRS
Gross Asset Value ("GAV")			
A measure of the value of the Company's total assets.	The sum of net assets of the Company as shown on the statement of financial position and the total debt of the Group.	£186.6 million	The calculation uses the Net Asset Value as per statement of financial position on page 37 and total outstanding debt.
Net Asset Value per share			
Allows investors to gauge whether shares are trading at a premium or a discount by comparing the Net Asset Value per share with the share price.	The net assets divided by the number of Ordinary Shares in issuance.	108.5p	As per the closing Net Asset Value per the statement of financial position on page 37, the closing number of Ordinary Shares as per Note 13 of the financial statements on page 48.
Total NAV return since IPO			
A measure of financial performance, indicating the movement of the value of the Fund since IPO and expressed as a percentage.	Closing NAV per share as at 31 March 2023 plus all dividends since IPO assumed reinvested, divided by the NAV at IPO, expressed as a percentage.	10.6%	The calculation uses the Net Asset Value as per the statement of financial position on page 37 and cash dividends as per the statement of cash flows on page 39.
Market capitalisation			
Provides an indication of the size of the Company.	Closing share price as at 31 March 2023 multiplied by the closing number of Ordinary Shares in issuance.	£185.8 million	The calculation uses the closing share price as per key investment metric table on page 29, and closing number of Ordinary Shares as per Note 13 of the financial statements on page 48.
Ongoing charges			
A measure, expressed as a percentage of average net assets, of the regular, recurring annual costs of running the Company per Ordinary Share.	Calculated and disclosed in accordance with the AIC methodology. Annualised expenses divided by average NAV.	1.4%	Ongoing charge is detailed on page 31.

FINANCIAL STATEMENTS

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Disclosure Guidance and Transparency Rules (“DTR”) of the UK Listing Authority require the Directors to confirm their responsibilities in relation to the preparation and publication of the Unaudited Interim Financial Report for the period ended 31 March 2023.

The Directors confirm to the best of their knowledge that:

- (a) The condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4 R
- (b) The interim management report includes a fair review of the information required by DTR 4.2.7 R
- (c) The interim management report includes a fair review of the information required by DTR 4.2.8 R

Richard Davidson

Chair

For and on behalf of Foresight Sustainable Forestry Company Plc

12 June 2023

CONDENSED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD TO 31 MARCH 2023

	Notes	Revenue £'000	Capital £'000	Period from 01 October 2022 to 31 March 2023 (Unaudited) £'000	Period from 31 August 2021 to 31 March 2022 (Unaudited) £'000	Period from 31 August 2021 to 30 September 2022 (Audited) £'000
Return on investment	4	1,470	5,877	7,347	8,868	11,024
Total income		1,470	5,877	7,347	8,868	11,024
Investment management fees	5	(767)	—	(767)	(380)	(1,071)
Operating expenses	6	(568)	—	(568)	(584)	(1,166)
Total expenses		(1,335)	—	(1,335)	(964)	(2,237)
Profit before tax		135	5,877	6,012	7,905	8,787
Tax	8	—	—	—	—	—
Profit for the period		135	5,877	6,012	7,905	8,787
Earnings per share (pence)	9	0.1	3.4	3.5	6.1	6.2

All results are derived from continuing operations.

The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issue by the Association of Investment Companies (“AIC”).

There are no items of other comprehensive income in the current period, other than the profit for the period, and therefore no separate statement of comprehensive income has been presented.

The accompanying notes on pages 40 to 55 form an integral part of the condensed set of financial statements.

CONDENSED UNAUDITED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	31 March 2023 (Unaudited) £'000	31 March 2022 (Unaudited) £'000	30 September 2022 (Audited) £'000
Non-current assets				
Investments at fair value through profit or loss	10	183,195	126,448	146,291
Total non-current assets		183,195	126,448	146,291
Current assets				
Trade and other receivables	11	2,112	1,218	852
Cash and cash equivalents	16	1,595	8,643	34,326
Total current assets		3,707	9,861	35,178
Total assets		186,902	136,309	181,469
Current liabilities				
Trade and other payables	12	(304)	(790)	(886)
Total current liabilities		(304)	(790)	(886)
Total liabilities		(304)	(790)	(886)
Net assets		186,598	135,519	180,583
Equity				
Called up share capital	13	1,721	1,300	1,721
Share premium	13	43,819	126,314	170,075
Revenue reserve		(1,198)	(855)	(1,333)
Capital reserve	14	142,256	8,760	10,120
Shareholders' funds	14	186,598	135,519	180,583
Net assets per share (pence per share)	15	108.5	104.2	105.0

The accompanying notes form an integral part of the condensed set of financial statements.

The condensed set of unaudited financial statements were approved by the Board of Directors and authorised for issue on 13 June 2023.

They were signed on its behalf by:

Richard Davidson

Chair

CONDENSED UNAUDITED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD TO 31 MARCH 2023

	Notes	Called up share capital £'000	Share premium £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 October 2022		1,721	170,075	10,120	(1,333)	180,583
Gross proceeds from share issue		—	—	—	—	—
Share issue costs	13	—	3	—	—	3
Dividends	7	—	—	—	—	—
Share premium cancellation	13	—	(126,259)	126,259	—	—
Total comprehensive income for the period	14	—	—	5,877	135	6,012
Net assets attributable to Shareholders at 31 March 2023		1,721	43,820	142,256	(1,198)	186,598
	Notes	Called up share capital £'000	Share premium £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 24 November 2021		—	—	—	—	—
Gross proceeds from share issue		1,300	128,700	—	—	130,000
Share issue costs	13	—	(2,386)	—	—	(2,386)
Dividends	7	—	—	—	—	—
Total comprehensive income for the period	14	—	—	8,760	(855)	7,905
Net assets attributable to Shareholders at 31 March 2022		1,300	126,314	8,760	(855)	135,519
	Notes	Called up share capital £'000	Share premium £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 24 November 2021		—	—	—	—	—
Gross proceeds from share issue		1,721	173,279	—	—	175,000
Share issue costs	13	—	(3,204)	—	—	(3,204)
Dividends	7	—	—	—	—	—
Total comprehensive income for the period	14	—	—	10,120	(1,333)	8,787
Net assets attributable to Shareholders at 30 September 2022		1,721	170,075	10,120	(1,333)	180,583

The Company's reserves consist of the Capital reserve attributable to fair value unrealised gains on the Fund portfolio's valuation.

There have been no realised gains or losses at the reporting date.

CONDENSED UNAUDITED STATEMENT OF CASH FLOWS

FOR THE PERIOD TO 31 MARCH 2023

	Period from 1 October 2022 to 31 March 2023 (Unaudited) £'000	Period from 31 August 2021 to 31 March 2022 (Unaudited) £'000	Period from 31 August 2021 to 30 September 2022 (Audited) £'000
Profit for the period from continuing operations	6,012	7,905	8,787
Adjustments for:			
Net profit on investments at fair value through profit and loss	(5,877)	(8,760)	(10,120)
Operating cash flows before movements in working capital	135	(855)	(1,333)
Cash flows from operating activities			
(Increase)/decrease in Trade and other receivables	(1,260)	(1,066)	(852)
(Decrease)/increase in Trade and other payables	(579)	638	886
Net cash outflow from operating activities	(1,704)	(1,283)	(1,299)
Cash flows from investing activities			
Investing activities			
Purchase of investments	(31,027)	(117,688)	(136,171)
Net cash used in investing activities	(31,027)	(117,688)	(136,171)
Cash flows from financing activities			
Financing activities			
Gross proceeds from share issue	—	130,000	175,000
Share issue costs	—	(2,386)	(3,204)
Net cash inflow from financing activities	—	127,614	171,796
Net increase/(decrease) in cash and cash equivalents	(32,731)	8,643	34,326
Cash and cash equivalents at beginning of period	34,326	—	—
Cash and cash equivalents at end of period	1,595	8,643	34,326

The accompanying notes form an integral part of the condensed set of financial statements.

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS

FOR THE PERIOD TO 31 MARCH 2023

1. Company information

(a) Statutory information

Foresight Sustainable Forestry Company Plc (the “Company” or “FSF”), is a public limited company limited by shares, was incorporated and registered in England and Wales on 31 August 2021 with registered number 13594181 pursuant to the Companies Act 2006. The Company’s registered address is The Shard, 32 London Bridge Street, London, United Kingdom, SE1 9SG.

(b) Corporate structure

The Company has one investment, FSFC Holdings Limited, and FSFC Holdings Limited in turn has one investment, FSFC Holdings 2 Limited; together this is the “Group”.

FSFC Holdings 2 Limited has three investments: FSFC Company 1 Limited, Blackmead Forestry Limited and Blackmead Forestry II Limited. Blackmead Forestry Limited has two investments: Coull Forestry Limited and Fordie Estates Limited. These five entities together are the special purpose vehicles or “SPVs”.

The Group’s principal activity is investing in UK forestry, afforestation and natural capital assets.

The condensed unaudited financial statements of the Company are for the six-month period to 31 March 2023 and have been prepared on the basis of the accounting policies set out below. The financial statements comprise only the results of the Company, as its direct investments in FSFC Holdings Limited, FSFC Holdings 2 Limited, and all underlying SPVs thereafter, are measured at fair value as detailed in the significant accounting policies below.

2. Significant accounting policies

(a) Basis of preparation

This set of condensed unaudited financial statements has been prepared in accordance with UK adopted International Accounting Standards. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and on a going concern basis. The accounting policies set out below have, unless otherwise stated, been applied consistently to the period presented in these financial statements.

These financial statements have also been prepared in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (“SORP”) issued in April 2021 by the Association of Investment Companies (“AIC”).

The same accounting policies and standards have been observed in these interim financial statements as were applied in the last annual financial statements, with no change to the nature or effect of these standards’ application.

These financial statements are presented in sterling (£) and rounded to the nearest thousand unless otherwise stated. They have been prepared on accounting policies, significant judgements, key assumptions and estimates set out below.

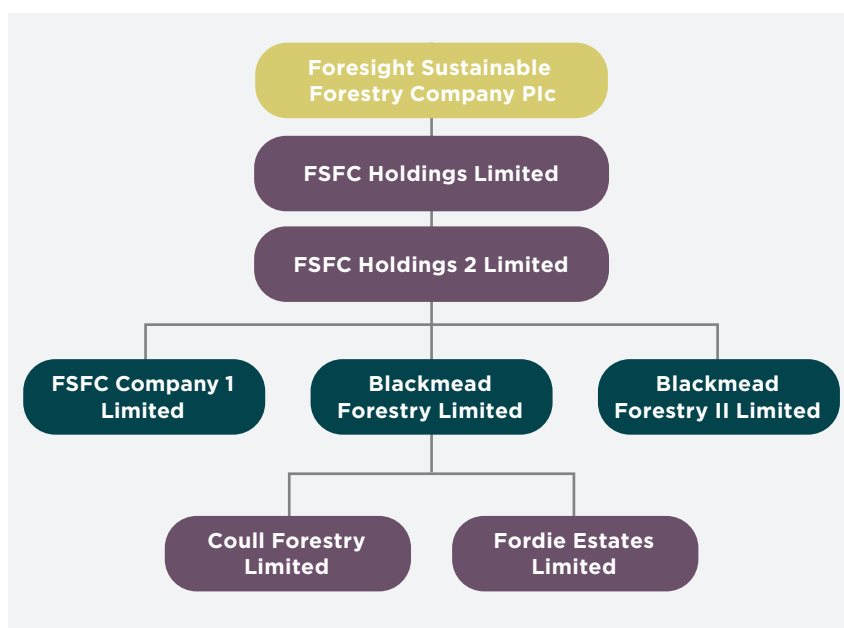
These financial statements do not intend to constitute statutory accounts as defined in Section 434(3) of the Companies Act 2006 as they are unaudited. As such, these statements have been neither audited nor formally reviewed. Statutory accounts in respect of the period to 30 September 2022 have been audited and reported on by the Company’s auditors and delivered to the Registrar of Companies and included the report of auditors.

No statutory accounts in respect of any period after 30 September 2022 have been reported on by the Company’s auditors or delivered to the Registrar of Companies.

Any estimates and underlying assumptions are reviewed on a regular basis and revisions to accounting estimates are recognised in the period when they occur and in any future period affected. The significant estimates, judgements or assumptions are set out in Note 10.

These financial statements comprise the results for the unaudited six-month period to 31 March 2023 as well as comparatives to the audited period ending 30 September 2022 and unaudited period ending 31 March 2022.

Foresight Sustainable Forestry Company Plc



(b) Going concern

The Directors have adopted the going concern basis in preparing the Interim Report. In their assessment of going concern they have reviewed comprehensive cash flow forecasts prepared by the Investment Manager and believe, based on the forecasts and an assessment of the Company's cash position and liquidity of the investment portfolio, that the Company will continue in operational existence for at least 12 months from the date of approval of the financial statements and therefore consider it appropriate to prepare the financial statements on a going concern basis. As at 31 March 2023, the Company had net assets of £186.6 million including £1.6 million of cash, it also has an undrawn £30 million Revolving Credit Facility, held by its indirect subsidiary, which can be utilised for the Company's working capital requirements. As such, with all factors mentioned above, the Company's cash position is considered sufficient to meet all current obligations as they fall due.

The Directors have also assessed the impact of significant potential risks to the operations of the Company since incorporation and the principal risks in the UK forestry and afforestation markets including the various risk mitigation measures in place and do not consider this to have a material impact on the assessment of the Company as a going concern.

Market risk

The Company has assessed its potential exposure to being negatively impacted by a sudden loss of revenue stream. The relevance of this risk has been significant given the recent impacts made by the COVID-19 pandemic and the Ukraine-Russia conflict.

The Company has assessed these risks alongside the potential risk of similar events having a negative impact on revenue recoverability. The potential impacts of such market risks include, but are not limited to:

- (i) Material reductions in timber prices recoverable from the SPVs
- (ii) Material reductions in demand for timber in the United Kingdom
- (iii) Material reductions in forecasted revenues earned from the sale of carbon credits
- (iv) Change to the UK Woodlands Grant scheme

Each of the above potential impacts could have a direct influence on the amount that can be distributed to the Company by its subsidiaries. Foresight has reviewed the portfolio's exposure to these risks and has concluded that if, even in the unlikely case, these adverse impacts on revenue recoverability are material, the Company should still have sufficient funds to continue operations for the foreseeable future. If such impacts were to continue on a long-term basis, continued monitoring processes would need to be actioned.

Liquidity risk

Due to the nature of the Company's operation and deployment strategy, there could be potential exposure to liquidity risk, whereby the entity would encounter difficulties in paying its financial liabilities. The Directors have considered this risk and are satisfied that FSF has adequate financial resources to settle its recurring expenses for the foreseeable future, based on evidence provided from cash flow forecasting and sensitivity testing to satisfy both the Investment Manager and the Directors that the Company has sufficient funds available.

The Directors are satisfied that FSF has sufficient resources to continue to operate for the foreseeable future, a period of no less than 12 months from the date of this report. Accordingly, they have adopted the going concern basis in preparation of these financial statements.

(c) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being an investor in UK forestry and afforestation assets, to generate real returns for investors as well as capital appreciation. The financial information used by the Board to allocate resources and manage the Company presents the business as a single segment comprising a homogeneous portfolio.

(d) Key judgements

Fair valuation of investment assets

The market value of the Company's underlying investment portfolio held through its SPVs consisting of Forestry, Afforestation and Non-core assets (investment portfolio/properties) is determined by an external valuer (see note 10) to be the estimated amount for which an asset should exchange on the date of the valuation in an arm's-length transaction. Properties have been valued on an individual basis. The external valuer prepares their valuations in accordance with the RICS Valuation – Global Standards July 2017 (the "Red Book"). Factors reflected comprise current market conditions, including the comparable market value of similar freehold forestry assets, the potential uplift in land value above current in-use value (relevant to planting land), the location and situation of individual assets, potential vulnerability to winter storms and the developmental status of properties (if afforestation). The market conditions stated are assessed on a bi-annual basis. The significant methods and assumptions used by the external valuers in estimating the fair value of investment assets are set out in note 10. The carbon credit valuations are not determined by an external valuer and are subject to Directors' judgement and estimation.

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD TO 31 MARCH 2023

2. Significant accounting policies continued

(e) Taxation

Income taxes

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set off. In practice, some assets that are likely to give rise to timing differences will be treated as capital for tax purposes. Given capital items are exempt from tax under the Investment Trust Company rules, deferred tax is not expected to be recognised on these balances.

All deferred tax liabilities are offset against deferred tax assets, where appropriate, in accordance with the provisions of IAS 12. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Basis of consolidation

The Company's objective is to invest in UK forestry and afforestation assets through its holding companies, which will typically issue equity and loans to finance the investments.

Assessment as an investment entity

IFRS 10 Consolidated Financial Statements sets out the following essential criterion, necessary for a company to be considered as an investment entity.

Definition of an investment entity/trust:

- (i) It must obtain funds from multiple investors for the purpose of providing its investment management services to those investors
- (ii) It must commit to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both. Similarly, the entity must ensure there is also an exit strategy for such investments
- (iii) It must measure and evaluate the performance of its investments on a fair value basis

In assessing whether the Company meets the definition of an investment entity set out in IFRS 10, the Directors note that:

- (i) The Company is an investment company that invests funds obtained from multiple investors in a diversified portfolio of UK forestry and afforestation assets and has appointed Foresight Group as the Investment Manager to manage the Company's investments
- (ii) The Company's purpose is to invest funds with the intention of providing real returns to investors and capital appreciation driven by global demand for timber. The Company's exit strategy will depend on factors of portfolio balance and/or profit

- (iii) The Board evaluates the performance of the Company's investments on a fair value basis as part of the quarterly management accounts review and the Company values its investments on a fair value basis driven by a RICS valuation provided by Savills (the "external valuer") using various assumptions to reflect current market conditions. This includes, amongst other factors, the comparable market value of similar freehold forestry assets. These fair value assessments happen on a bi-annual basis and are included in the Company's annual and interim financial statements, with the movement in the valuations taken to the condensed statement of comprehensive income and is therefore measured within its earnings

The Directors have concluded that the Company meets the definition of an investment entity in accordance with IFRS 10 after evaluation of the relevant criteria.

IFRS 10 states that investment entities are required to hold subsidiaries at fair value through profit or loss rather than consolidation on a line-by-line basis; this means that the Group's cash, debt and working capital balances are included in the fair value of the investment instead of in the Company's assets and liabilities. The Company has one investee, namely FSFC Holdings Limited, which invests the funds of the FSF investors on its behalf and is effectively performing investment management services on behalf of several unrelated beneficiary investors.

4. Return on investment and interest income

	Period from 1 October 2022 to 31 March 2023 (unaudited) £'000	Period from 31 August 2021 to 31 March 2022 (unaudited) £'000	Period from 31 August 2021 to 30 September 2022 (audited) £'000
Unrealised fair value movement of investments	5,877	8,760	10,120
Interest income - Loans to direct subsidiary	1,260	100	852
Interest income - Bank	210	—	52
Total	7,347	8,860	11,024

5. Investment management fee

	Period ended 31 March 2023 (unaudited) £'000	Period ended 31 March 2022 (unaudited) £'000	Year ended 30 September 2022 (audited) £'000
Investment management fee	767	380	1,071
Total	767	380	1,071

Foresight Group LLP were appointed as the Investment Manager for the Company under an Investment Management Agreement. Under the terms of the agreement, the Investment Manager is entitled to a management fee from the Company, which is calculated quarterly in arrears at 0.85% per annum of NAV up to £500.0 million and 0.75% per annum of NAV.

The Company paid £766,714 during the period. No further investment management fees were billed nor accrued and remained unpaid at period end.

6. Operating expenses

	Period from 1 October 2022 to 31 March 2023 (unaudited) £'000	Period from 31 August 2021 to 31 March 2022 (unaudited) £'000	Period from 31 August 2021 to 30 September 2022 (audited) £'000
Administration services fee	63	42	104
Director fees paid	100	50	140
Other expenses ¹	404	492	922
Total	567	584	1,166

1. Other expenses include adviser fees, independent valuer fees, audit fees, broker fees, depositary fees and other Fund-related costs.

Details of Directors' fees are set out in note 22.

7. Dividends

The Company did not pay any dividend in the period to 31 March 2023.

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD TO 31 MARCH 2023

8. Taxation

The Company received notice on 11 November 2021 confirming it is an approved Investment Trust for accounting periods commencing on or after 23 November 2021. The approval is subject to the Company continuing to meet the eligibility conditions of Section 1158 Corporation Taxes Act 2010. Furthermore, there are also ongoing requirements for approved companies in Chapter 3 of Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999). To maintain its ITC status, the Company must adhere to the following conditions throughout an accounting period:

- (i) The Company must not be a closed company at any time in an accounting period
- (ii) An investment trust must not retain in respect of an accounting period an amount which is greater than 15% of its income for the accounting period, and the relevant distribution must be distributed before the filing date for the investment trust's company tax return for the period
- (iii) An investment trust must notify HMRC of a revised investment policy before the filing date for its tax return for the accounting period in which the investment policy was revised
- (iv) An investment trust must notify HMRC in writing of a breach of any of the conditions in Section 1158 or any of the requirements in the regulations as soon as possible after the investment trust becomes aware of the breach

The Company regularly monitors the conditions required to maintain ITC status.

	31 March 2023 £'000	31 March 2022 £'000	30 September 2022 £'000
Income taxes	—	—	—

	31 March 2023 £'000	30 September 2022 £'000
Current Period to 31 March 2023		
Profit before tax	6,012	8,787
Profit before tax multiplied by the rate of corporation tax in the UK of 25%	1,503	1,670
Effects of:		
Non-taxable capital profits due to UK approved Investment trust company status	(1,469)	(1,923)
Non-taxable dividend income		
Dividend designated as interest distributions	—	—
Prior period deferred tax	—	—
Temporary differences on which deferred tax is not recognised	(34)	253
Total income tax charge in the statement of comprehensive income	—	—

Reconciliation of income taxes in the statement of comprehensive income

The tax charge for the period is different from the standard rate of corporation tax in the UK, currently 19pc (2022: 19pc), and the difference is explained below:

The Company's affairs are directed so as to allow it to meet the requisite conditions to continue to operate as an approved investment trust company for UK tax purposes. The approved investment trust status allows certain capital profits of the Company to be exempt from tax in the UK and also permits the Company to designate the dividends it pays, wholly or partly, as interest distributions. These features enable approved investment trust companies to ensure that their investors do not ultimately suffer double taxation of their investment returns, ie once at the level of the investment fund vehicle and then again in the hands of the investors.

Analysis of tax expense

There was no corporation tax payable during the period to 31 March 2023. As a result, the tax charge for the period is £nil. Investment gains are exempt from owing to the Company's status as an investment trust.

Factors that may affect future total tax charges

Following the March 2022 budget, the corporation tax rate will increase from 19% to 25% with effect from April 2023. The Company is recognised as a UK investment trust for this interim accounting period and is taxed at the main rate of 19%, prevalent at the reporting period end.

At the period end, there is a potential deferred tax asset of £227,000 carried forward. The deferred tax asset is unrecognised at the period end in line with the Company's stated accounting policy.

9. Earnings per share

	Capital reserve £'000	Revenue reserve £'000	Total £'000
Revenue and capital profit attributable to equity holders of the Company	5,877	135	6,012
Average number of Ordinary Shares issued	172,056	172,056	172,056
Net assets attributable to Shareholders at 31 March 2023 (pence)	3.4	0.1	3.5

	Capital reserve £'000	Revenue reserve £'000	Total £'000
Revenue and capital profit attributable to equity holders of the Company	8,760	(855)	7,905
Average number of Ordinary Shares issued	130,000	130,000	130,000
Net assets attributable to Shareholders at 31 March 2022 (pence)	6.7	(0.6)	6.1

	Capital reserve £'000	Revenue reserve £'000	Total £'000
Revenue and capital profit attributable to equity holders of the Company	10,120	(1,333)	8,787
Average number of Ordinary Shares issued	142,847	142,847	142,847
Net assets attributable to Shareholders at 30 September 2022 (pence)	7.1	(0.9)	6.2

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD TO 31 MARCH 2023

10. Investments at fair value through profit and loss

	31 March 2023 £'000	31 March 2022 £'000	30 September 2022 £'000
Fair value at start of the period	146,291	—	—
Loans to intermediate holding companies	26,500	15,000	21,821
Equity investment in holding companies	4,527	102,688	114,350
Unrealised gain on investments at fair value	5,877	8,760	10,120
Total	183,195	126,448	146,291

There is a loan between FSF and FSFC Holdings Limited for £48,321,230. The rate of interest on the loan has been set at 7% per annum. Interest accrued at the period end and outstanding at the reporting date was £2,112,186.

The Company owns 11,887,656,121 shares in FSFC Holdings Limited that was purchased for a consideration of £0.01.

Fair value investments

The Investment Manager has carried out fair value market valuations of the underlying SPV investments as at 31 March 2023 as administered by Savills. The Directors have approved the methodology used, as well as confirming their understanding of all underlying key assumptions applicable. All SPV investments are at fair value through profit or loss and are valued using the IFRS 13 framework for fair value measurement.

Savills includes all investments under ownership by FSF in their portfolio valuation, for both afforestation and forestry properties. The valuations have been prepared in accordance with the RICS Valuation – Global Standards July 2017 (the “Red Book”) and incorporate the recommendations of the International Valuation Standards which are consistent with the principles set out in IFRS 13.

Savills, in forming its opinion, makes various assumptions on the basis of current market conditions; the following are the key assumptions made:

Fair value of assets

- Savills employs a “comparable approach” by analysing comparable market value(s) of similar freehold forestry and afforestation assets from recent transactions, when assessing what fair value is reasonable to attribute to assets with similar features, held by subsidiaries of FSF.

Planting land value

- Savills includes a reasonable view of the potential for afforestation sites’ value uplift over time, rather than viewing the current value of these sites as only attributable to their current use as grazing land.
- Savills takes account of the relevant stage each site is currently at of the forestry grant application process when reaching a judgement.

Location and situation

- Due to the assets under ownership being located across the UK (Scotland, North England and Wales), Savills accounts for the potential differences in market interest associated in different locations.

Winter storm vulnerability

- Savills makes assessments on the basis of the extent of damage suffered by sites due to extreme windblow incidents. Where damage is extensive, Savills will make prudent adjustments to the value of the site, if it is evident that some of the affected timber may be challenging to recover.

Developmental status of afforestation sites

- Due to the nature of operations for the afforestation assets, Savills applies reassessments as to the value of an asset when a new developmental milestone occurs.

The value associated with the carbon credits attached with the establishment stage afforestation properties is excluded from the RICS Red Book valuation of these properties. As previously mentioned in the report, value recognition for carbon credits is ascribed using the Investment Manager's assessment. For further detail, please see an explanation of the methodology on page 11.

Fair value hierarchy

The Group considers that all of its investments fall within Level 3 of the fair value hierarchy as defined by IFRS 13. There have been no transfers between Level 1 and Level 2 during any of the periods, nor have there been any transfers between Level 2 and Level 3 during any of the periods.

The valuations have been prepared on the basis of market value ("MV"), which is defined in the RICS Valuation Standards as: "The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Market Value as defined in the RICS Valuation Standards meets the requirements of fair value defined under IFRS.

11. Trade and other receivables

	31 March 2023 £'000	31 March 2022 £'000	30 September 2022 £'000
Interest receivable from subsidiaries	2,112	100	852
Other Debtors	—	1,118	—
Total	2,112	1,218	852

12. Trade and other payables

	31 March 2023 £'000	31 March 2022 £'000	30 September 2022 £'000
Creditors	14	232	477
Accruals	266	558	385
Intercompany Account	24	—	24
Total	304	790	886

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD TO 31 MARCH 2023

13. Called up share capital

Allotted share capital, issued and fully paid	Number of shares
Opening balance at 31 August 2021	—
Allotted upon incorporation	
Issue of Ordinary Shares at 1 pence per share (31 August 2021)	1
Allotted since incorporation	
Issue of management shares at 1 pence per share (12 October 2021)	50,000
Allotted/redeemed following admission to London Stock Exchange	
Ordinary Shares issued at Initial Public Offering (19 November 2021)	130,000,000
Management shares redeemed	(50,000)
Total number of Ordinary Shares at 31 March 2022	130,000,001
Allotted/redeemed following admission to London Stock Exchange	
Ordinary shares issued at Initial Public Offering (19 November 2021)	130,000,000
Management shares redeemed	(50,000)
Ordinary Shares issued on 28 June 2022	42,056,074
Total number of Ordinary Shares at 30 September 2022	172,056,075
Allotted/redeemed (since 01 October 2022)	
Ordinary Shares issued	—
Management shares redeemed	—
Total number of Ordinary Shares at 31 March 2023	172,056,075

	Share capital £'000	Share premium £'000	31 March 2023 £'000	31 March 2022 £'000	30 September 2022 £'000
Opening balance	1,721	170,075	171,796	—	—
Shares issued	—	—	—	130,000	175,000
Costs associated with share issuance	—	3	3	(2,386)	(3,204)
Cancellation of share premium	—	(126,259)	(126,259)	—	—
Total	1,721	43,819	45,540	127,614	171,796

At the beginning of the period, the total number of Ordinary Shares in issue was 172,056,075. Each Ordinary Share has equal rights to dividends and has equal rights to participate in a distribution arising from a winding up of the Company. The Company has not issued any further Ordinary Shares.

During the period, there was a special resolution to cancel the share premium account which was confirmed by court order and registered by Companies House. The amount cancelled was £126,258,589, with the objective of creating distributable reserves.

14. Retained earnings

	Revenue £'000	Capital £'000	31 March 2023 £'000	31 March 2022 £'000	30 September 2022 £'000
Opening balance	(1,333)	10,120	8,787	—	—
Profit for the period	135	5,877	6,012	7,960	8,787
Cancellation of share premium	—	126,259	126,259	—	—
Dividends paid	—	—	—	—	—
Closing balance	(1,198)	142,256	141,058	7,960	8,787

15. Net Asset Value per Ordinary Share

The total net asset value per Ordinary Share is based on the net assets attributable to equity Shareholders as at 31 March 2023 of £172,056,075 and Ordinary Shares in issue of 172,056,075.

	31 March 2023	31 March 2022	30 September 2022
NAV (£m)	186.6	135.5	180.6
Number of Ordinary Shares issued (million)	172.1	130	172.1
Net Asset Value per Ordinary Share (pence)	108.5	104.2	105.0

16. Cash and cash equivalents

At period end, the Company held cash and cash equivalents of £1.6 million. This balance was held by HSBC Bank plc.

	31 March 2023	31 March 2022	30 September 2022
Cash and cash equivalents:			
HSBC Bank plc - Current account	1,427	8,643	4,283
HSBC Bank plc - Liquidity Fund	168	—	30,043
Total cash and cash equivalents	1,595	8,643	34,326

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD TO 31 MARCH 2023

17. Financial instruments

Financial instruments by category

The Company held the following financial instruments at 31 March 2023. There have been no transfers of financial instruments between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

	Cash and bank balances £'000	Financial assets held at amortised cost £'000	Financial assets at fair value through profit or loss £'000	Financial liabilities at amortised cost £'000	Total £'000
Non-current assets					
Investments at fair value through profit or loss (Level 3)	—	—	183,195	—	183,195
Current assets					
Trade and other receivables	—	2,112	—	—	2,112
Cash and cash equivalents	1,595	—	—	—	1,595
Total financial assets	1,595	2,112	183,195	—	186,902
Current liabilities					
Trade and other payables	—	—	—	(304)	(304)
Total financial liabilities	—	—	—	(304)	(304)
Net financial instruments	1,595	2,112	183,195	(304)	186,598

The Company holds its portfolio of assets at fair value. These assets are held through the Company's underlying subsidiaries/intermediate holding companies ("the Group"). The assets in the Group are valued in accordance with RICS Valuation - Global Standards July 2017 (the "Red Book") methodology, with inspections conducted by an independent valuer ("Savills") at the end of the period.

Savills' fair value assessment of the assets has been completed on a comparable basis by looking at recent transactions of similar assets, to assess current market value, outlined in note 10. As a management review control, the Investment Manager applies discounted cash flow approach ("DCF") to value the assets and provide a precision level for validation of the fair value presented by Savills. Whilst the two methodologies differ, the Investment Manager has recorded an immaterial difference between the respective portfolio valuation results in both the interim period and the year-end period.

The Directors consider the DCF methodology used by the Investment Manager to validate the Red Book valuation to be appropriate. The Board and Investment Manager annually review the valuation inputs and, where possible, make use of observable market data to ensure valuations reflect fair value of the assets. A broad range of assumptions are used in the valuation, which are based on long-term forecasts and are not affected by short-term fluctuations in inputs, be it economic or operational.

For management control purposes of comparing the two valuations on a like-for-like basis, neither the DCF valuation nor RICS valuation conducted by Savills include explicit recognition of Verified Carbon ("VC") value. The Manager has therefore calculated an estimated value on the progress made on obtaining the rights to PIUs. As to date, no PIUs have been authorised by the Woodland Carbon Code.

Sensitivity analysis of the portfolio

The sensitivity of the portfolio to changes in mature forestry asset valuation is as follows:

The portfolio valuation of mature forestry and afforestation assets is based on the RICS Red Book valuation approach. The Directors consider the Red Book market value of the assets, which is a combination of several factors, including timber growth rates, weighted age distribution and yield class, to be the most important unobservable input underpinning the valuation methodology described on page 47. The Directors believe that the provision of market value sensitivity analysis of mature forestry, afforestation and mixed forestry and afforestation assets is appropriate to align with the Company's portfolio composition.

Mature forestry asset valuation

The sensitivity of the portfolio to changes in mature forestry asset valuation is as follows:

The independent valuer conducts inspections of all mature forestry assets on a semi-annual basis, then provides a valuation based on RICS methodology. The base case used for forestry asset value as at 31 March 2023 was £77.0 million. Due to this asset class forming significantly more than 10% of the current portfolio valuation, this was deemed an appropriate sensitivity to sample.

Forestry assets sensitivity	Changes in portfolio valuation	Changes in NAV per share
Forestry assets value increases by 10%	+£7.70m/+4.1%	+4.1p
Forestry assets value decreases by 10%	-£7.70m/-4.1%	-4.1p

Afforestation asset valuation

The sensitivity of the portfolio to changes in afforestation asset valuation is as follows:

The independent valuer conducts inspections of all afforestation assets on a semi-annual basis, then provides a valuation based on RICS methodology. The base case used for afforestation asset value as at 31 March 2023 was £71.8 million. Due to this asset class forming more than 10% of the current portfolio valuation, this was deemed an appropriate sensitivity to sample.

Afforestation assets sensitivity	Changes in portfolio valuation	Changes in NAV per share
Afforestation assets value increases by 10%	+£7.2m/+3.9%	+3.8p
Afforestation assets value decreases by 10%	-£7.2m/-3.9%	-3.8p

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD TO 31 MARCH 2023

17. Financial instruments continued

Sensitivity analysis of the portfolio continued

Mixed forestry and afforestation asset valuation

The sensitivity of the portfolio to changes in mixed forestry and afforestation asset valuation is as follows:

The independent valuer conducts inspections of all mixed assets on a semi-annual basis, then provides a valuation based on RICS methodology. The base case used for the asset value of mixed forestry and afforestation assets as at 31 March 2023 was £26.0 million. Due to this asset class forming more than 10% of the current portfolio valuation, this was deemed an appropriate sensitivity to sample.

Mixed forestry and afforestation assets sensitivity	Changes in portfolio valuation	Changes in NAV per share
Mixed assets value increases by 10%	+£2.60m/+1.4%	+1.4p
Mixed assets value decreases by 10%	-£2.60m/-1.4%	-1.4p

Non-core asset valuation

Due to the relatively small size of the non-core assets in the Company's valuation, the sensitivity to movement in this part of the portfolio is deemed immaterial, so no sensitivity analysis has been conducted.

Capital management

The Group, which comprises the Company and its non-consolidated subsidiaries, manages its capital to ensure that it will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balances. The capital structure of the Group principally consists of the share capital account and retained earnings as detailed in notes 13 and 14. The Group aims to deliver its objective by investing available cash and using leverage whilst maintaining sufficient liquidity to meet ongoing expenses.

Gearing ratio

The Company's Investment Manager reviews the capital structure of the Company and the Group on a semi-annual basis. The Company and its subsidiaries intend to make prudent use of leverage for financing acquisitions of investments and working capital purposes. Under the Company's Articles, and in accordance with the Company's investment policy, the Company's outstanding borrowings, excluding the debts of underlying assets, will be limited to 30% of the Company's Net Asset Value.

As at 31 March 2023, the Company had no outstanding debt. The Company's subsidiary FSFC Holdings 2 Limited has a £30.0 million Revolving Credit Facility, which was undrawn at 31 March 2023.

Financial risk management

The Group's activities expose it to a variety of financial risks: capital risk, liquidity risk, market risk (including interest rate risk, inflation risk and power price risk) and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

For the Company and the intermediate holding companies, financial risks are managed by the Investment Manager, which operates within the Board-approved policies. All risks continue to be managed by the Investment Manager. The various types of financial risk are managed as follows:

Financial risk management - Company only

The Company accounts for its investments in its subsidiaries at fair value, to the extent there are changes as a result of the risks set out below, these may impact the fair value of the Company's investments.

Capital risk

The Company has implemented an efficient financing structure that enables it to manage its capital effectively. The Company's capital structure comprises equity only (refer to the statement of changes in equity). As at 31 March 2023, the Company had no recourse to debt, although as set out above, the Company's subsidiary FSFC Holdings Limited is a guarantor for the Revolving Credit Facility of FSFC Holdings 2 Limited.

Liquidity risk

The Directors monitor the Company's liquidity requirements to ensure there is sufficient cash to meet the Company's operating needs. The Company's liquidity management policy involves projecting cash flows and forecasting the level of liquid assets necessary to meet these. Due to the nature of its investments, the timing of cash outflows is reasonably predictable and, therefore, is not a major risk to the Company. The Company was in a net cash position and had no outstanding debt at the balance sheet date.

Market risk - foreign currency exchange rate risk

All the cash flows and investments are denominated in pounds sterling.

Financial risk management - Company and non-consolidated subsidiaries

The following risks impact the Company's subsidiaries and in turn may impact the fair value of investments held by the Company.

Market risk - interest rate risk

Interest rate risk arises in the Company's subsidiaries on the Revolving Credit Facility borrowings and floating rate deposits. Borrowings issued at variable rates expose those entities to variability of interest payment cash flows. Interest rate hedging may be carried out to seek to provide protection against increasing costs of servicing debt drawdown by the holding company as part of its Revolving Credit Facility. This may involve the use of interest rate derivatives and similar derivative instruments.

Each investment hedges their interest rate risk at the inception of a project. This will either be done by issuing fixed rate debt or variable rate debt which will be swapped into fixed rate by the use of interest rate swaps.

Market risk - inflation risk

Some of the Company's investments will have part of their revenue and some of their costs linked to a specific inflation index at inception of the project. In most cases this creates a natural hedge, meaning a derivative does not need to be entered into in order to mitigate inflation risk.

Market risk - timber price risk

Timber revenue forms a significant majority of forecasted revenues for the Company's investments. Whilst projections suggest a steady income flow through the sale of timber, there is a risk that timber prices will drop due to market forces and minimise the revenues the Fund will receive. This risk is mitigated by the ability of the Company and underlying investments to sustain its liquidity, even in the event of withholding from timber sales, given sub-optimal pricing.

Credit risk

Credit risk is the risk that a counterparty of the Company or its subsidiaries will default on its contractual obligations it entered into with the Company or its subsidiaries. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers.

The Company and its subsidiaries place cash in authorised deposit takers and is therefore potentially at risk from the failure of such institutions. In respect of credit risk arising from other financial assets and liabilities, which mainly comprise of cash and cash equivalents, exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. In order to mitigate such risks, cash is maintained with major international financial institutions. During the period and at the reporting date, the Company maintained relationships with HSBC Bank plc.

	Moody's credit rating	31 March 2023 £'000	31 March 2022 £'000	30 September 2022 £'000
HSBC Bank plc	P1	1,595	8,643	34,326
Total cash and cash equivalents		1,595	8,643	34,326

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD TO 31 MARCH 2023

18. Subsidiaries

The following subsidiaries have not been consolidated in these financial statements as a result of applying the requirements of "Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10)". The Company is not contractually obligated to provide financial support to the subsidiaries and there are no restrictions in place in passing monies up the structure.

Name	Direct or indirect holding	Country of incorporation	Registered address	Principal activity	Proportion of shares and voting rights held
FSFC Holdings Limited	Direct	UK	C/O Foresight Group LLP, The Shard, 32 London Bridge Street, London, England, SE1 9SG	Holding company	100%
FSFC Holdings 2 Limited	Indirect	UK	C/O Foresight Group LLP, The Shard, 32 London Bridge Street, London, England, SE1 9SG	Holding company	100%
FSFC Company 1 Limited	Indirect	UK	C/O Foresight Group LLP, The Shard, 32 London Bridge Street, London, England, SE1 9SG	SPV	100%
Blackmead Forestry Limited	Indirect	UK	The Shard, 32 London Bridge Street, London, England, SE1 9SG	SPV	100%
Blackmead Forestry II Limited	Indirect	UK	C/O Foresight Group LLP, The Shard, 32 London Bridge Street, London, England, SE1 9SG	SPV	100%
Coull Forestry Limited	Indirect	UK	C/O Foresight Group LLP, The Shard, 32 London Bridge Street, London, England, SE1 9SG	SPV	100%
Fordie Estates Limited	Indirect	UK	C/O Foresight Group LLP, Clarence House, 133 George Street, Edinburgh, Scotland, EH2 4JS	SPV	100%

19. Employees and Directors

The Company is governed by an Independent and Non-Executive Board of Directors. There are four Non-Executive Directors. Please refer to the Directors' remuneration report for details as to the Directors' emoluments.

20. Contingencies and commitments

The Company has no guarantees or significant capital commitments as at 31 March 2023.

21. Events after the balance sheet date

The Directors have evaluated the need for disclosures and/or adjustments resulting from post balance sheet events through to the date the financial statements were available to be issued.

There are no other significant events since the period end which would require to be disclosed. There were no adjusting post balance sheet events, and as such, no adjustments have been made to the valuation of assets and liabilities as at 31 March 2023.

22. Related party transactions

Following admission of the Ordinary Shares (refer to note 13), the Company and the Directors are not aware of any person who, directly or indirectly, jointly, or severally, exercises or could exercise control over the Company. The Company does not have an ultimate controlling party.

The transactions between the Company and its subsidiaries, which are related parties of the Company and fair values, are disclosed in note 10. Details of transactions between the Company and related parties are disclosed below.

This note also details the terms of the Company's engagement with Foresight Group LLP, the Investment Manager.

Transactions with the Investment Manager

The Investment Manager, Foresight Group LLP, is entitled to a base fee on the following basis:

- (a) 0.85% per annum of the Net Asset Value of the Fund up to and including £500.0 million
- (b) 0.75% per annum of the Net Asset Value of the Fund in excess of £500.0 million

The investment management fees incurred during the period to 31 March 2023 were £766,714, of which £nil remained unpaid as at 31 March 2023.

Additionally, the Company incurred fees during the period to 31 March 2023 of £63,313, which related to administration services provided by the Investment Manager, in its capacity as Administrator for the Company.

Other transactions with related parties

The amount incurred in respect of Directors' fees during the period to 31 March 2023 was £80,000. The Directors also received £10,000 in acknowledgement of the time commitment required for Board members pertaining to the placing programme undertaken in June 2022. The Directors also received £1,588 in relation to miscellaneous Director expenses. These amounts had been fully paid as at 31 March 2023. The amounts paid to individual Directors were as follows:

Director	Taxable benefits £	Basic and Committee fees £	Fundraising expenses £	Total £
Richard Davidson (Chair)	—	24,000	2,500	26,500
Sarika Patel	167	20,250	2,500	22,917
Christopher Sutton	1,264	17,750	2,500	21,514
Josephine Bush	157	18,000	2,500	20,657
Total	1,588	80,000	10,000	91,588

The Directors held the following shares in the Company:

Director/PDMR/PCA	Number of Ordinary Shares	% of issued Ordinary Share capital
Richard Davidson (Chair)	100,000	0.06
Sarika Patel	24,000	0.01
Christopher Sutton	25,000	0.01
Josephine Bush	19,000	0.01

The above transactions were undertaken on an arm's-length basis.

ADVISERS

Investment Manager, Administrator and Company Secretary

Foresight Group LLP
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32 London Bridge Street
London
SE1 9SG

Registrar and Receiving Agent Computershare Investor Services PLC

The Pavilions
Bridgwater Road
Bristol
BS99 6AH

Depository

NatWest Trustee and Depository Services Limited

250 Bishopsgate
London
EC2M 4AA

Sponsor, Global Co-ordinator and Sole Bookrunner

Jefferies International Limited
Exchange House
Primrose Street
London
EC2A 2EG

Public Relations

SEC Newgate
14 Greville Street,
London
EC1N 8SB

Solicitors to the Company

Gowling WLG (UK) LLP
4 More London Riverside
London
SE1 2AU

Independent Auditor

Ernst & Young LLP
1 More London Riverside
London
SE1 2AF

Valuation Adviser

Savills Advisory Services Ltd
Earn House
Broxden Business Park
Perth
PH11 1RA

GLOSSARY OF TERMS

AIC	The Association of Investment Companies	Intermediate holding companies	Companies within the Group which are used to invest in afforestation and forestry assets, namely FSFC Holdings Limited and FSFC Holdings 2 Limited
AIFMD	Alternative investment fund management directive	Investment Manager	Foresight Group LLP, appointed by Foresight Group CI Limited
AIFMs	Alternative Investment Fund Managers	IPO	Initial Public Offering
AIFs	Alternative Investment Funds	ITC	Investment Trust Company
APMs	Alternative Performance Measures	LSE	London Stock Exchange
Asset Manager	The Company's underlying investments have appointed Foresight Group LLP, a subsidiary of Foresight Group CI, to act as Asset Manager	Main Market	The main securities market of the London Stock Exchange
Company	Foresight Sustainable Forestry Company Plc	NAV	Net Asset Value
EJDF	E.J. Downs Forestry, who have significant experience in the forestry management space and advise the Company on silvicultural decisions	PEFC	Programme for the Endorsement of Forest Certification
Ernst & Young LLP	Ernst & Young is the Company's auditor	Portfolio	The 65 assets in which FSF had a shareholding as at 31 March 2023
ESG	Environmental, Social and Governance	RICS	Royal Institution of Chartered Surveyors
FCA	Financial Conduct Authority	RIDDORS	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
FITF	Foresight Inheritance Tax Fund	RPI	The Retail Price Index
Foresight	Foresight Group LLP	S&ESG	Sustainability and ESG
FSC	Forest Stewardship Council	Savills	Savills Advisory Services Limited
FSF	Foresight Sustainable Forestry Company Plc	SDGs	United Nations Sustainable Development Goal
Fund	Foresight Sustainable Forestry Company Plc	SDR	UK Green Taxonomy and UK Sustainable Disclosure Requirements
Fund Managers	Richard Kelly and Robert Guest	SFDR	The EU Sustainable Finance Disclosure Regulation
GAV	Gross Asset Value on Investment Basis including debt held at Company and subsidiary level	SORP	Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts
H&S	Health and safety	SPV	The Special Purpose Vehicles which hold the Company's investment portfolio of underlying operating assets
HMRC	HM Revenue & Customs	TCFD	Task Force on Climate-related Financial Disclosures
IAS	International Accounting Standard	UK	The United Kingdom of Great Britain and Northern Ireland
IFRS	International Financial Reporting Standards as adopted by the EU	VCM	Voluntary Carbon Market
		WCC	UK Woodland Carbon Code



Foresight
SUSTAINABLE
FORESTRY
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