



To our Shareholders and Interested Parties

In this issue, we report on the sales trend experienced in 2005 and provide reasons for the low sales growth. We highlight several important elements of the 2005 annual financial statements and include an initial 2006 outlook. In addition, we outline other current issues related to our company.

Sales in 2005

Consolidated gross sales achieved in transactions with third parties increased by 7.7%, i.e. from USD 16.79 million to USD 18.29 million. For the first time, this figure includes power station-related sales in the amount of USD 2.66 million achieved over a seven-month period and Precious Woods Europe (formerly trading as A. van den Berg) sales of USD 1.87 million realized during a period of five weeks. Adjusted for acquisitions, sales fell by 14% (preliminary unaudited figures).

This sales decrease was mainly due to a 44% drop experienced by Precious Woods Pará (PWP). As already reported in our letter to the shareholders issued in December 2005, we obtained the harvesting permit only in mid-December instead of June. In previous years, this permit had been

granted as a matter of routine. In the third quarter, we were able to conduct a second harvest in last year's compartment, yet these trunks provided only a low yield. There were no harvesting activities whatsoever from October to mid-December. Also, the sawmill had to temporarily cease production. This resulted in only a minimum amount of sales achieved in the fourth quarter, which had always been the strongest period in the past. Since the end of December, harvesting activities have been back to normal level again. The sawmill could gradually resume operations in January and has again been working to full capacity from the last week of January. The fact that PWP had not been able, for several months, to pursue its production and supply activities on a normal scale unfortunately resulted in a negative impact also on trading companies towards

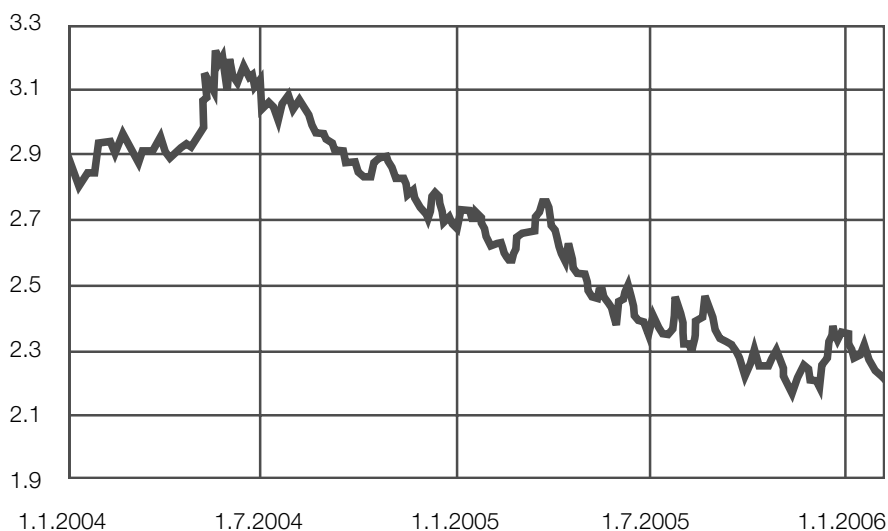
the end of the year. PWP would have had to make a major part of its staff redundant if the company did not receive the harvesting permit by the end of the year. In addition, numerous orders from customers would have been at risk. This situation was extremely serious indeed, and we were thus greatly relieved about the positive change that occurred shortly before Christmas.

Precious Woods Amazon increased its invoiced gross sales by 5.9%, i.e. from USD 8.59 million to USD 9.10 million. Precious Woods Energia's sales amounted to USD 2.66 million and were thus exactly in line with budget. Precious Woods Switzerland achieved sales of USD 2.62 million, i.e. virtually the same amount as in the previous year. Precious Woods Europe (A. van den Berg) sales were consolidated as of 22nd November 2005. Achieved sales of USD 1.87 million were in line with expectations. Precious Woods Costa Rica made a small contribution to sales amounting to USD 0.17 million.

Revenue

Consolidated financial statements will be prepared at a later stage and published in April 2006. Nonetheless we are already aware of the factors adversely affecting year-end 2005.

BRL/USD



Exchange rate trend: USD value compared to the Brazilian real (BRL/USD)

In our Brazilian core business, the revenue situation was inadequate in the first half-year (as already reported in spring 2005) and became even worse in the second half: Compared to the prior year situation, the real (BRL), the Brazilian currency, experienced an appreciation of approx. 25% till autumn. This resulted in the fact that costs incurred in BRL were stable but 25% higher following translation into USD.

As a result of a government decree stipulating a nominal 22% increase of the minimum wage set by the state, Precious Woods Brazil was faced with a 20% personnel cost increase. Due to the fact that remuneration is bound to the set minimum wage level in a large number of cases, such a minimum wage increase will always affect the entire payroll structure. As a result, Precious Woods Brazil had to face, within a period of only a few

months, a cost increase of over 40% that was driven by external factors. It was hardly possible to compensate for this cost increase in the short term by pushing through higher prices or increasing efficiency. We repeatedly reported on these cost factors in the course of 2005. For the full year of 2005, we do not only expect a profit underperformance but an operating loss for our Brazilian subsidiaries. Instead of a profit of approx. USD 2 million budgeted one year ago, Precious Woods Brazil will state a significant loss. This of course begs the question why we did not enter into any hedging transactions to account for the appreciation of the Brazilian currency. With hindsight, this would have been an excellent precaution to offset part of the cost increase. However, the continuous depreciation of the BRL in relation to the US dollar had almost always been considered a "law of nature". If

one entered into hedging, then this would have been done to account for this currency depreciation. Such transactions were expensive and unnecessary from the point of view of an exporting company.

Revenues achieved by the other group companies were in line with expectations, with two significant exceptions: In the wake of the real estate boom, the value of the developed land in Liberia, Costa Rica, which forms part of our non-operating assets, was significantly enhanced by USD 1.6 million. This was reported in our letter to the shareholders issued last December. The other exception is the revenue anticipated from CO₂ rights. Back in summer, we had expected to achieve a revenue of approx. 5 euros per tonne for the anticipated rights for 500,000 tonnes of CO₂ that were to be generated at Itacoatiara until the end of 2005. We have now received offers that are significantly higher. Unfortunately, we have not yet been able to overcome all existing administrative barriers. Also, it is still unclear whether, and up to which amount, any value might be recognized already for 2005. At any rate, this would generate a substantial upside amounting to several million euros.

Situation of the Brazilian Timber Industry

Cost increases on the one hand and the delayed issuance of harvesting permits on the other led to the loss of over 30,000 jobs in the forest and

timber sector in the state of Mato Grosso alone. We assume an equally high number of redundancies in the other Amazonian states. Of the FSC-certified companies, the Itacoatiara-based Gethal business discontinued operations completely while Cikel reduced its amount of work at one of its two certified forest operations and Orsa also significantly lowered its activity. For Precious Woods, the delayed issuance of the harvesting permit had a very negative impact. On the other hand, we were finally granted this permit, in contrast to many other operations.

Outlook

For the Brazilian subsidiaries, it was difficult to prepare a 2006 budget that would achieve break-even. As a result, we had to go through the pain of implementing a substantial restructuring programme, which involved the loss of approx. 150 jobs. The veneer production will be temporarily stopped. Pending further developments, some unknown wood species will not be harvested since their utilization would not generate positive margins given the current cost situation. We will be reviewing these actions once the currency situation or selling prices change. We expect positive trends for all other subsidiaries. Provided we are able to prevent losses in Brazil, the 2006 year-end result will continue the positive development experienced in previous years. 2005 was the last year during which Precious Woods had to rely on its dominant Brazilian core business

and on the growth in Central America. From 2006, the Precious Woods Group will be much more diversified. However, it should be noted that both the power station - with the related CO2 rights - and the trading business will to a significant extent depend on the timber production in Brazil. Sustainable forest management has always been, and will continue to be, key to the success of Precious Woods.

Termination of Invasion in the Pacajá II Forest

At the end of December, the police force and Ibama officers cleared the Pacajá II forest. Chain saws and firearms were found and confiscated. Heavy timber harvesting machines and trucks were removed before as the illegal loggers had apparently been informed of the upcoming police operation. The settlers' families were expelled from the forest and the erected bridge destroyed. The site is currently under surveillance by a private security service provider.

Because of its ethically and socially responsible approach, Precious Woods is reluctant to evicting landless settlers' families. In the superior interest of defending the forest against its conversion to farmland, however, Precious Woods is opposed to any settling activity in intact forests. There exist a large number of cleared areas in Brazil that can be used for settlements. It is wrong if landless farmers take hold of more and more forest areas instead of cul-

tivating land that has been cleared already. In the case at hand, the settlers were also abused by illegal loggers who wanted to let their criminal acts look as if they were socially motivated. Precious Woods Pará has entered into an agreement with Incra, the Land Use Authority, to develop controlled settlements of landless families along the river banks in the Pacajá forest area. However, in the course of this scheme coordinated with the authorities, no clearance of valuable forest areas is permitted.

The individuals who orchestrated the illegal invasion were identified and brought to justice. Unfortunately these people do not stop their activity. Instead, they are terrorizing Precious Woods managers by issuing death threats. These threats must be taken very seriously as illegal loggers have committed murder on numerous occasions already. In the evening hours of 6th January 2006, the Precious Woods Pará office building was fired at from a moving motorcycle. Precious Woods is cooperating with the Brazilian authorities and expects the police force to take effective protective measures and to act robustly against illegal loggers.

Congo

Negotiations with our Congolese partners are nearing completion. Nearly all of the controversial issues have been resolved.

During the last half-year, the political situation in the Democratic Republic

of Congo has slightly improved. In preparation of the constitutional referendum held in November, millions of Congolese people were officially registered for the very first time. They are proud of carrying an ID card for the first time in their lives, and thus of having official proof of their existence. The constitutional referendum seems to have taken place without any irregularities. Parliamentary and presidential elections are scheduled for spring and summer, respectively. To date, progress was according to plan. It remains to be seen whether the elections will stabilize or destabilize the country. To date, there has hardly been any democratic tradition in the Congo. It will be difficult for the unsuccessful candidates to accept the outcome of the elections. It is also uncertain whether the winners will take the positions of the losers into account. The Monuc UN peace-keeping forces have taken a robust stance during the past few months: they disarmed some of the militias, which resulted in a more peaceful situation also in the eastern part of the country (where the Precious Woods partners do not do business). Following their establishment in the middle of the last century, our partner companies survived all crises in the country. Labour-intensive businesses in the rural periphery were less affected by political changes than, say, the banking sector, diamond extraction and other highly profitable industries.

We would like to conclude this letter to our shareholders with


**a personal address by the new CEO,
Andreas Heusler:**

“Coming from the processing industry, which is under a constant challenge due to the existing cost pressure and the necessary increase in efficiencies, I consider the current environment in which Precious Woods is operating in Brazil an extremely interesting yet very familiar field of activity. Together with my management team, I am sure that we will set our Itacoatiara and Belém operations back on track so that they achieve positive results again. In this endeavour, we will be strongly supported by the close cooperation with the trading and sales entity in the Netherlands (which is now part of the PW Group). Open and honest relationships with the local Brazilian authorities are very important to me, first of all with Ibama, who are playing an outstanding part in protecting the Amazon forests, despite being faced with a difficult environment involving a lot of conflicting interests.

I am particularly pleased with the progress made with regard to CO2 certificates, which will become a significant source of income in the future. Precious Woods has every right to be proud of its pioneering role in sustainable forest management and FSC certification in Latin America. Precious Woods is also blazing the trail for CO2 emission rights. This pioneering approach involves complex and time-

consuming processes that require a lot of patience and perseverance. Dear Shareholders of our company, you can take pride in having invested in an enterprise that will soon be employing the Kyoto instruments in order to secure its possibility.”

Yours sincerely,



Andres Gut

Chairman of the Board of Directors



Andreas Heusler

CEO

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