

Annual Report 2019

PRECIOUS WOODS Annual Report 2019



PRECIOUS WOODS

◀ **Cover:**

Picture of tree in Brazil

Back:

25-year anniversary of PW Amazon in June 2019, Brazil

Precious Woods 2019 – Operational progress

Increase in production volume in Brazil

33.0 %

EBITDA margin

13.2 %

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Precious Woods is one of the world’s larger companies active in the sustainable management and use of tropical forests. The images in this Annual Report provide insight into Precious Woods’ manifold activities, emphasizing the company’s principle of creating triple added value: environmental, social and economic.

Key figures and information for investors

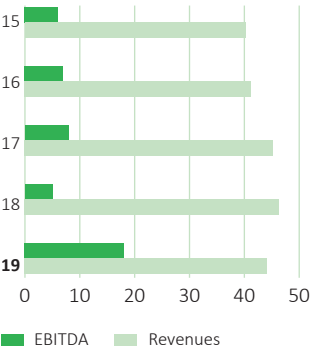
5-year summary of key financial data (in thousand EUR)

	2015 ¹	2016	2017	2018	2019
Revenues	39 994	41 319	44 997	46 349	44 380
Depreciation, amortization and impairments	5 195	5 277	4 681	3 416	4 494
Depreciation and amortisation	5 213	5 356	4 699	3 435	2 239
Impairments	−18	−79	−18	−19	635
EBITDA	6 060	6 889	8 210	5 111	18 450
in % of revenues	15.2%	16.7%	18.2%	11.0%	41.6%
EBIT	865	1 612	3 529	1 695	13 956
in % of revenues	2.2%	3.9%	7.8%	3.7%	31.4%
Net result	−4 265	−2 752	1 643	−1 717	7 973
in % of revenues	−10.7%	−6.7%	3.7%	−3.7%	18.0%
Balance sheet total	65 302	69 288	71 405	73 435	131 076
Shareholders' equity	11 828	19 440	20 095	11 614	55 104
in % of the balance sheet total	18.1%	28.1%	28.1%	15.8%	42.0%
Net indebtedness	30 696	30 526	31 283	34 441	39 457
Cash flow from operating activities	3 972	2 229	3 351	3 307	3 806
Investments/acquisitions	−1 887	−2 320	−2 244	−3 542	−4 650
Average full-time-equivalent employee	1 209	1 209	1 340	1 408	1 498

¹ Restated due to change of presentation currency

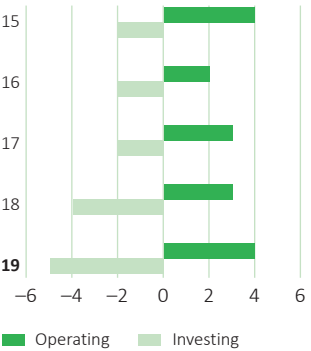
EBITDA and Revenues

EUR million



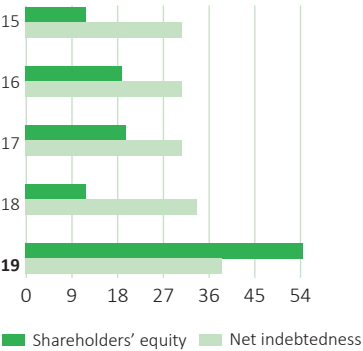
Cash flow from operating and investing activities

EUR million

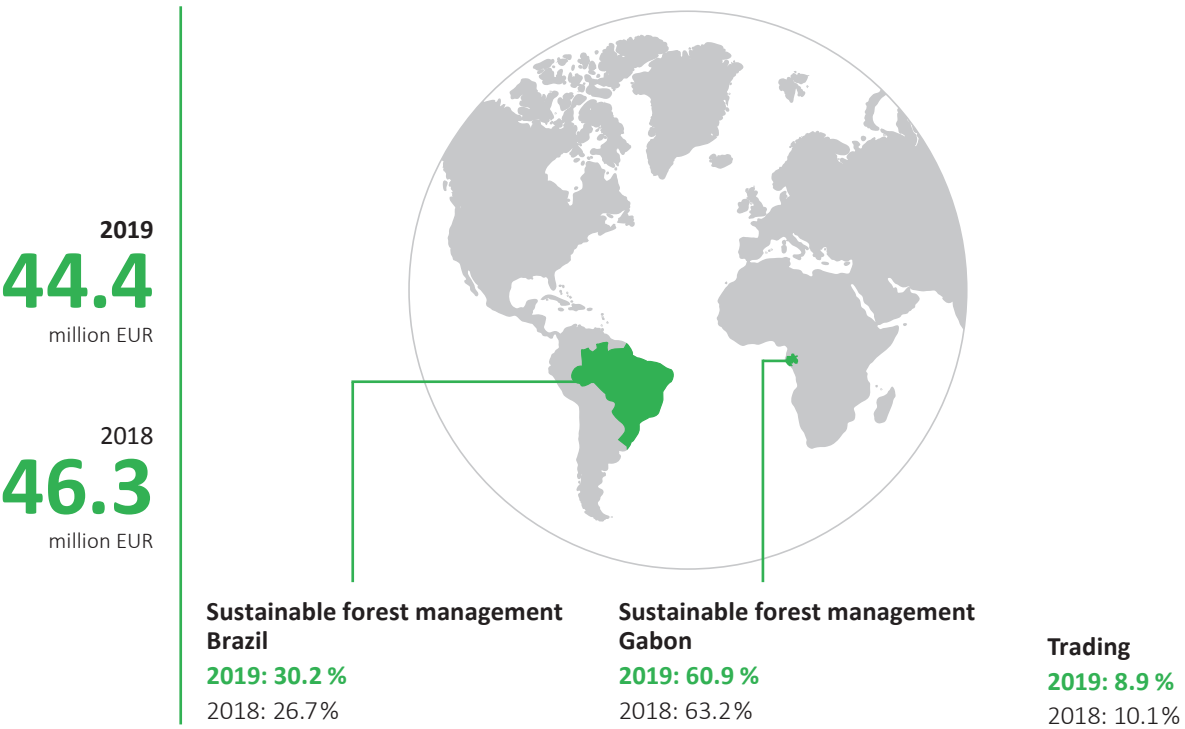


Shareholders' equity and Net indebtedness

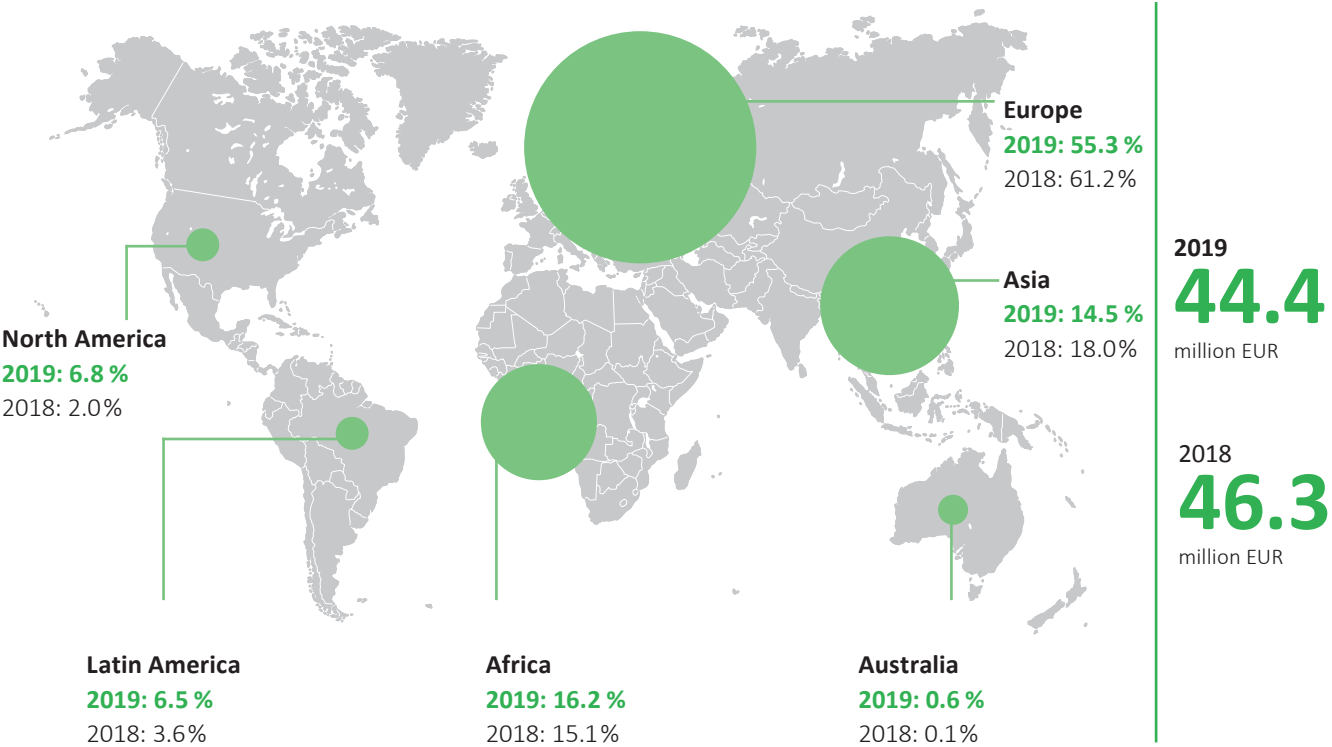
EUR million



Revenues by business segment



Revenues by market region



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Shareholders' letter



« If the company *Precious Woods* did not yet exist, it would have to be invented immediately. All the contributions we make will be even more appreciated in the future. »

Katharina Lehmann, Chairwoman



Picture large: Ground of Precious Woods Gabon
Picture small: Employees' homes in Gabon

To our shareholders



Katharina Lehmann
Chairwoman of the BoD

Dear Shareholders

The positive news up front: Precious Woods has made tremendous progress operationally, and our volumes of sawn timber production have increased in both Gabon and Brazil. And despite massive disruptions to our activities at both locations, we improved EBITDA during the reporting year from 11% to 13% on a normalized level.

2019: An accumulation of challenges

The disruptions described in the following report, especially in Gabon but also in Brazil, posed a major challenge for management and our operating sites and demanded an extraordinarily high degree of attention, good decision-making, and strong nerves. The outcome of these efforts can be summarized as follows: We missed our targets, but with great effort we maintained our result. Or to put it another way: when so many obstacles have to be overcome and a result like this is achieved anyway, things can only get better!

Undiminished faith in Precious Woods

Not only our experienced and stable team in Switzerland, Gabon, and Brazil makes me confident that our progress will be reflected in our facts and figures in the near future as well – we also made substantial investments at both locations, creating the prerequisites for increased production and enhanced productivity. Processes have also been optimized and ensured, and we are always learning how to do even better. In 2020, our new hardwood sawmill in Bambio will begin operations, and I am convinced that this project will have a positive impact. All of this – plus the large and small things we can improve – will help us to make great operational progress.

Our business model takes on an entirely new meaning in light of the current climate debate. Our core activity continues to be the sustainable production of products from tropical woods, maintaining a high standard of compliance with economic as well as environmental and social criteria. One of the benefits of our work is our contribution to binding and reducing carbon. Our work helps to maintain the ecological functions of our intact forest areas, and our harvesting activities increase carbon sequestering and CO₂ reduction thanks to demonstrably greater tree growth and long-term carbon storage in our manufactured wood products. Here as well, we see optimization potential for Precious Woods – for example by recycling residual wood in Bambio and increasing yield at both locations.

Increase in value – both operational and financial

The operational improvements are unfortunately not reflected in our figures. High inventory levels due to delivery delays, unrealized margins, and special effects have had a negative impact on our income statement and liquidity. During the current reporting period, investments in the amount of EUR 5.7 million were made, which will certainly increase the value of our company in future. We are currently intensively pursuing projects for qualitative and quantitative growth and are convinced that we will be able to take advantage of opportunities that will arise in this regard.

During the current reporting period, the biomass situated in our forest areas was reassessed at fair value due to current regulations, and land values in Brazil were also revalued. These adjustments pursuant to regulation led to an improvement in our equity ratio but also to a more realistic presentation of the intrinsic value of our company.

Criteria for sustainable investment

I have now had the privilege of accompanying Precious Woods for more than ten years. And I am convinced that if the concept of sustainability is understood correctly, it will be difficult for any company refinanced on the capital market to keep up with us. The fact that we are still having difficulty refinancing ourselves and unrealistic expectations are being placed on Precious Woods in terms of capital costs and returns shows that the valuation criteria of traditional financing institutions evidently are not aligned with our standards. We will not give up influencing the framework conditions in this regard.

Outlook and thanks

Numerous events beyond our control had a negative impact on our 2019 result. We were nevertheless able to create the conditions for a successful 2020, and we will do everything we can to reach our defined targets. We will succeed in doing so unless factors – institutional or infrastructural restrictions, as well as the effects of the COVID-19 virus – will hinder our work too much. At the time of writing this annual report, the consequences for our company of this global crisis are still difficult to assess.

As mentioned above, my confidence in Precious Woods is based in part on our dedicated, motivated, and experienced team. Numerous specialists and managers in Gabon and Brazil work hard every day to master the demanding tasks as well as the setbacks in their everyday work. And in Switzerland, our Group Management, support and sales staff make tremendous efforts for the benefit of our customers, our Group, and our mission. On behalf of the Board of Directors, I would therefore like to thank our approximately 1 500 employees for their incredible dedication. I would also like to thank Markus Brüttsch for his extraordinary commitment, reliability, professionalism, and nerves of steel especially du-

ring 2019. And I would like to thank my colleagues on the Board of Directors for their great commitment and good co-operation.

My last but all the more important thanks go to our shareholders. Precious Woods, the Board of Directors and I personally thank you sincerely for your loyalty and your continued interest in and support for our mission, activities, and commitment – and perhaps also for introducing our work to new stakeholders.

Yours faithfully,



Katharina Lehmann
Chairwoman of the Board of Directors

Sustainability





Tropical forests account for about half of the total forest area of the earth. They are a haven for biodiversity and the green lungs of our planet. We are committed to the sustainable management of these forests and thus to their long-term preservation.



Picture large: Elephant of Gabon

Picture small: Elephant of Gabon, taken with camera traps

Precious Woods – sustainability in the focus of entrepreneurial philosophy

Precious Woods is one of the leading companies in sustainable management of tropical rainforests globally and is regarded as a pioneer in many areas. Certification according to the standard of the Forest Stewardship Council (FSC) has been part of the entrepreneurial philosophy of Precious Woods for many years. Since 2017, the entire Group has also been certified according to the PEFC/PAFC standard. These standards define all essential criteria for sustainability in forestry. The certification schemes cover forestry processes as well as operational timber production, trading, and the handling of social and environmental demands in the context of tropical forest management. Precious Woods thus guarantees 100 %-certified products from its PW Amazon, PW Gabon, and PW Holding operations. The core business is the production and sale of certified sawn and semi-finished tropical timber products. In Brazil, Precious Woods holds a 40 % share in a biomass power plant allowing the company to also sell certified emission reductions (CERs) by utilizing residual wood from production. The aim of all activities is a high level of customer value while preventing deforestation of tropical forests through sustainable forest management and the associated added value. Economic success ensures the social and environmental sustainability of activities and is essential for the long-term conservation of tropical forests. The Precious Woods Group is headquartered in Switzerland and employed around 1 500 people in Brazil, Gabon and Switzerland in 2019.

Indicators training 2019 (2018)



Training hours
784 (1 895)



Training hours per
employee
0.5 (1.3)

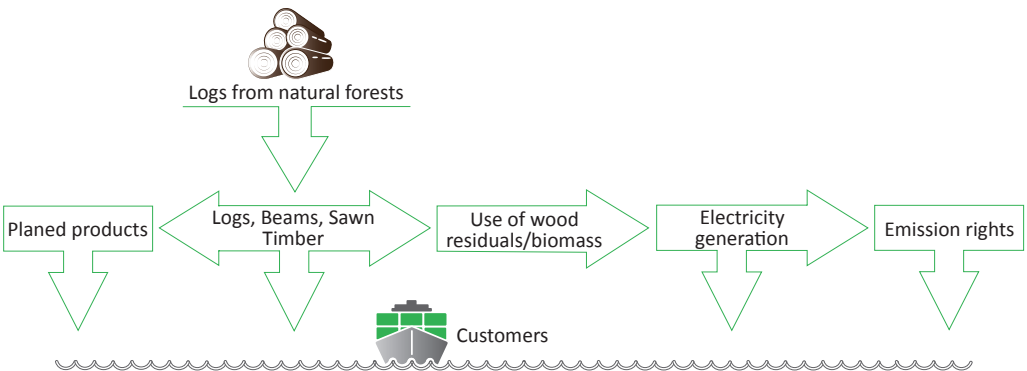
Vision

As an economically successful company, Precious Woods creates jobs and supports local communities and contributes to the long-term preservation of tropical forests and their positive impact on sustainability goals such as biodiversity and the natural water cycle through sustainable forestry and the marketing of the resulting products.

Products and markets

Precious Woods produces and sells logs and sawn timber (beams, poles, boards), planed products, and veneer made from high-quality tropical timber from more than 70 tree species. Main target groups are the marine and hydraulic engineering sector, garden, building and road construction, as well as outdoor furniture manufacturers in the European, Brazilian, Asian, and US markets. Thanks to continuous public campaigning by prominent non-governmental organizations, awareness of the environmental and social consequences of uncontrolled exploitation of tropical forest resources is increasing and leading to a positive change in framework conditions. This development offers Precious Woods – with its consistent strategy aimed at sustainability – a growing market share.

Market orientation and continuous optimization of the value chain



Thanks to its holistic approach ranging from sustainable forest management and timber production to marketing, Precious Woods promotes certification of the whole chain of custody and

complete traceability. The procurement of additional timber products for Precious Woods' own trading focuses on forestry and processing companies that are also certified. Lesser-known species of wood are continuously tested and introduced on the market. For that purpose, Precious Woods examines uses for about 70 different timber species and puts this knowledge into practice to satisfy customer and market demands. At the same time, this preserves the quality of tropical forests and enables sustainable economic management over the long term.

Goal of sustainable growth

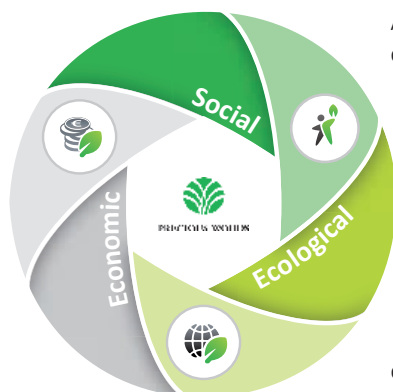
Following acquisitive growth between 2000 and 2008, the company has since aimed at organic, sustainable growth. Medium-term goals are an EBITDA margin of 20% of net annual sales and an equity ratio of about 40%. In order to secure its operational activities, Precious Woods must have sufficient liquidity to absorb seasonal fluctuations and political risks. Not least of all, Precious Woods wants to secure 100% certification according to the highest standards in all its activities.

Management organization with strong market orientation

Precious Woods consists of four business units and a Group Management that focuses on the realization of strategic goals, sales and marketing, communication, as well as financial management and control. These areas as well as their activities and results are documented in detail in this annual report.

Sustainable forestry in all dimensions

Selective logging is not at all equivalent to sustainable forestry. FSC/PEFC-certified tropical forest management as practiced by Precious Woods is based on careful planning and selection of the trees to be harvested, without endangering the diversity of tree species, the stocks, or the regenerative capacity. Average logging at Precious Woods is 1 to 3 trees per hectare during a cycle of 25 or 35 years. The legal foundations would permit a far higher logging quota, which would also result in lower costs. But this is not an option for Precious Woods, because we would then be unable to fulfil our environmental or social responsibility. Our activities are independently verified each year and documented by scientific studies. In this way, we can demonstrate that timber can be harvested in tropical forests without negatively affecting the ecosystem. Thanks to this insight, it is possible to secure employment and generate local added value even in remote regions of emerging countries.



At the same time, Precious Woods makes a wide range of contributions to improving local earning opportunities. Precious Woods ensures social added value not only through the creation of jobs, but also through targeted basic and continuing on-the-job training in Brazil and Gabon, schools, health clinics, as well as other infrastructure in remote tropical forest areas. In doing so, the company makes an important contribution to economic and social development and stability in these regions. Precious Woods actively aims to improve the living conditions of its employees, their families, and the communities.

Added value in ecological terms means managing Precious Woods' forest areas consistently with sustainable practices to preserve these renewable natural resources – including their bio-

Indicators Health and safety 2019 (2018)



Accidents at work
128 (112)

Accidents per
1 000 employees
85 (80)



Days lost per
accident
8.8 (9.2)



Fatal accidents at work
- (-)

Indicators employees 2019 (2018)



Number of employees
total (yearly-Ø)

1 498 (1 408)

Brazil

591 (524)

Gabon

893 (872)

Europe

1 (1)

Corporate

13 (11)

diversity – also for future generations. The social and environmental engagement of Precious Woods is also described in detail in the reports on the individual business segments.

		Brazil	Gabon
Forest area	in ha	506 699	596 800
Net forest area	in %	78	92
Employees		591	893
Communities		9	44
Harvest volume per year	in m ³	140 000	240 000
Harvested area per year	in ha	11 700	22 000
Harvest volume per ha	in m ³	12	12
Harvest cycle	in years	35	25

Market opportunities thanks to sustainability certificates for tropical wood

Both certification standards go far beyond the minimum requirements of legality, setting out more extensive demands in regard to environmental and social sustainability in forestry as well as an uninterrupted chain of custody. The increasingly stringent legal requirements in importing countries will benefit trade in sustainably certified timber in the medium term. The total forest area under FSC certification was 195 million hectares at the end of 2018, which is greater than the area of Germany, France, Spain and Italy combined. But only about 10% of that area covers tropical and subtropical forests and afforestations, which means they are still highly underrepresented in terms of FSC certification. Precious Woods manages about 7% of the total FSC-certified tropical and subtropical forest area.

Contribution to the UN Sustainable Development Goals

In 2015 the United Nations issued the 2030 Agenda for Sustainable Development with the 17 Sustainable Development Goals (SDG) as its central element covering a wide range of social, economic, and environmental development issues. Within the SDG, protecting biodiversity and guaranteeing the livelihoods of the local population are addressed as priorities and targets for 2030. Precious Woods through its certified and sustainable activities in the Congo Basin and Amazon rainforest is a strong contributor to these Sustainable Development Goals.

Moreover, the 2015 Paris Agreement of the UN Framework Convention on Climate Change (UNFCCC) underlines that practicing sustainable forest management is a key element for limiting climate change and its impacts.

Precious Woods Amazon: Close ties with the local population

In 1997, PW Amazon was the first FSC-certified company in Brazil. More far-reaching investments have been made not least of all in the fields of workplace safety, accident prevention, and training. We maintain partnerships with educational institutions in order to promote schooling as well as professional training for the employees, their families, and the local inhabitants of Itacoatiara (the neighbouring city with approximately 80 000 inhabitants) and the surrounding communities.

Precious Woods attaches great importance to a good understanding with the local population: In 2016, PW Amazon began a socioeconomic survey of the local communities, which is repeated

every year. We draw on this survey to gain insights about environmental, ethnic, and religious aspects and the measures we should take to promote participation by the local population.

Since 2018, Precious Woods has organized capacity building courses and projects for the benefit of the local communities. These are described in more detail in the segment reports.

In cooperation with the HAFL (University of Applied Sciences, School of Agricultural, Forest and Food Sciences) and other educational institutions, we regularly accompany bachelor's and master's theses of prospective forest engineers. In that way, we gain important insights into the impact of our activities, the regenerative capacity of our forest areas, and any potential for improvement. And sometimes we even succeed in attracting managers, bachelor and master students for our locations in Brazil and Gabon.

Precious Woods in Gabon – Projects for the protection of flora, fauna, and biodiversity

As a company, PW Gabon goes far beyond the sustainability standard required by FSC and PEFC certification – for example in our monitoring and inspection of concession areas, the analysis of timber harvest and usage areas, as well as the professional and environmentally sound disposal of fuels, lubricants, accumulators, and chemical substances. Over the past few years, an average of only 1.4 trees per hectare have been logged in the protected zones of the concession, corresponding to about 14 m³/ha. Thanks to this gentle use, the share of the forest impacted by logging has been kept very low. Cutting, access roads, and loading areas take up less than 2% of the used area on average, which is four times better than the average in Gabon as determined by a study of the Food and Agriculture Organization (FAO).

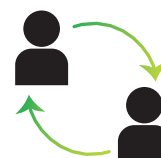
Precious Woods devotes special attention to wildlife protection: The company is involved in the training and education of its employees and the local population together with the Wildlife Conservation Society (WCS). In cooperation with the WCS, PW Gabon also works to collect data on big game, the diversity of species, and other aspects of biodiversity. We also combat illegal activities, especially poaching. Today, poaching in our concession areas is largely under control. In this context, it is important to prevent access via forestry roads and back paths into the zones that have already been used.



Women
in %
9.6 (10.7)



Men
in %
90.4 (89.3)



Rate of employee
turnover
in %
3.4 (2.3)

Indicators Forest management 2019 (2018)



Forest protection total
area in ha
1 069 400 (1 103 500)



FSC share of timber
Production sold in %
100 (100)



PEFC share of traded
timber sold in %
100 (100)

Our contribution to ongoing protection of the forests

4 : 1

- Up to 4 m³/ha/year growth in sustainably managed forests compared with less than 1 m³/ha/year in protection zones
- 20 years measurement of wood volume growth



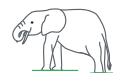
330 000 000 tC

- Carbon sequestered by PW forest areas (calculated at 300 tC/ha)



Fauna / Flora

- Large populations of elephants and gorillas (Gabon)
- Most effective protection of biodiversity through RIL (reduced-impact logging)



Sounding Board

The responsibility for ensuring and further developing the sustainability of the entire Group lies with the Board of Directors. The Board of Directors draws on experts for individual cases and on the Sounding Board on a regular basis. The Sounding Board discusses new developments with Precious Woods in regard to the sustainable management of tropical forests and supports the company in its relations with local and international stakeholders and professional organizations. Topics include recommendations for reporting by Precious Woods and the fulfilment of sustainability goals in their economic, environmental, and social dimensions.

Institutional framework as opportunity and challenge


The important function of tropical forests in carbon sequestration and the conservation of the enormous biodiversity is gradually becoming established in the public consciousness. The global community and tropical forestry are increasingly being viewed in the light of global resource depletion. When selecting suitable locations for its forestry operations, Precious Woods not only assesses availability, accessibility, and quality of the forest resources, but also places special emphasis on the framework conditions and reliability of the countries in question. Precious Woods respects the legal and institutional structures, local environmental and forestry policies, and relevant legislation, as well as their implementation in practice.

Illegal logging threatens certified timber trade and sustainable development

Illegal logging and trade grew to threatening dimensions at the beginning of the century, especially in tropical countries. A study by Chatham House estimated the global damage from illegal logging to timber producing countries at USD 15-20 billion annually. The consequences are deforestation, loss of biodiversity, increase in carbon emissions, but also often conflicts with indigenous peoples, violence, and human rights abuses. It is up to the producing as well as importing countries to prevent illegal logging and trade, as set out in the G8 Action Programme on Forests. Since then, various measures by governments and the private sector have been initiated. Implementation of these measures has started to produce results, but governments have been sluggish in implementing them.

Carbon Footprint

The carbon emissions generated by Precious Woods are recorded in three categories according of World Resources Institute (WRI) classification, in 2019.

		Total in metric tons of CO₂	26 315	100.0 %
	Category 1	Direct emissions from fuel consumption	14 241	54.1 %
	Category 2	Indirect emissions from electricity consumption	3 482	13.2 %
	Category 3	Flights Transportation	624 7 968	2.4 % 30.3 %

The role of forestry in the current climate change debate

Over the past decades, large forest areas have been deforested or degraded, especially in moist tropical forest areas. There are multitudinous causes: the continuing demand for areas to convert into commercial agricultural land, livestock pastures and agricultural land, slash-and-burn subsistence farming, the increasing exploitation of mineral resources in tropical forests, uncontrolled forest fires, illegal logging for firewood and sawn timber, or simply non-sustainable forestry. Deforestation has still been a cause for great concern in recent years. This is mainly due to its negative impact on global warming and the special climate regime of large forest massifs. Today, deforestation in the tropics and non-sustainable forestry contribute about 11% to greenhouse gas emissions. After the adoption of the Paris Agreement in December 2015, the REDD+ concept (reducing emissions from deforestation and forest degradation, sustainable management of forests and enhancement of forest carbon stocks) has become a key component of carbon compensation schemes for preserving forests in tropical countries. Many countries with tropical forest areas, international organizations, NGOs, scientific institutes and companies are currently engaged in creating methods and capacities for such compensation schemes and projects. Sustainable forestry as applied and advocated by Precious Woods will play an important role in this regard. We will continue to pursue the development of REDD+ activities and carefully review our eligibility for participating in REDD+ compensation projects or other international initiatives.

Indicators Energy and emissions 2019 (2018)



Reduction of CO₂ emissions in t
34 651 (54 664)



CO₂-emissions in t CO₂-equivalents
17 700 (17 800)



Electricity consumption in GJ
34 700 (35 900)



Fossil fuel consumption in GJ
191 600 (179 400)

Milestones Precious Woods

1990 Precious Woods is founded by Swiss Investors. The company begins in Costa Rica with reforestation of uncultivated pasture.

1993 With the founding of Precious Woods Ltd. the private company opens its doors to shareholders.

1994–1997 Market entry in Brazil. Precious Woods Amazon is founded with the establishment of a sustainable forestry operation. In 1997, it is the first company in the region to be certified according to Forest Stewardship Council (FSC) standards.

2001 Precious Woods together with the Dutch timber trading company A. van den Berg B.V. founds another forestry business in the Brazilian state of Pará (Precious Woods Pará).

2002 Precious Woods Holding AG becomes a public company by being listed at the SIX Swiss Exchange.

2003 Precious Woods continuously expands its activities and extends reforestation operations in Central America and Nicaragua.

2005 In Itacoatiara, Brazil, Precious Woods acquires 80% of BK Energia, a biomass power plant affiliated to PW Amazon's sawmill, which has been in operation since 2002. In the same year Precious Woods acquires its largest customer and partner, the Dutch company A. van den Berg B.V., which was continued as Precious Wood Europe.

2006 Precious Woods sells its first carbon emission rights, thereby expanding its activities in the business segment of non-timber products from tropical forests.

2007 Acquisition of the forestry company Compagnie Equatoriale des Bois (CEB) and the veneer company Tropical Gabon Industrie (TGI) in Gabon. Acquisition of a minority stake in the company Nordsudtimber in the Democratic Republic of Congo.

2008 In October 2008, the subsidiary Precious Woods Gabon receives the FSC-certificate for its forestry operation (Forest Management Certificate) and the product chain certification (Chain of Custody Certificate) for the sawmilling and moulding activities. The lack of stable legal and institutional frameworks in the Brazilian state of Pará is forcing Precious Woods to give up its forestry operation.

2009 The FSC certification for the TGI veneer factory makes Precious Woods the first company in the world whose entire production line in the forestry and timber industry in the tropics is comprehensively certified.

2010 The radical restructuring of the Precious Woods Group intensifies; issues from the past being resolved, the productivity increased and the market position strengthened. Precious Woods receives the environmental award from the Swiss Environmental Foundation (Umweltpreis der Schweizerischen Umweltstiftung).

2011 In October, the partial sale of 75% of PW Central America to two existing Swiss shareholders approved by the 2011 General Meeting of Shareholders will be completed, resulting in a partial debt reduction for the Holding company.

2012 The Extraordinary General Meeting approves the increase of the ordinary, sold to the existing co-shareholders and the debt is reduced further. The Group sells 40% of its shares in BK Energia to the co-shareholder, holding now only 40% of the shares.

2013 On 15 March 2013, the capital increase was carried out successfully. The share capital was increased by CHF 309 451 to CHF 3 747 806 by 309 451 shares with a nominal value of CHF 1.00. The delisting from SIX Swiss Exchange effected on August 2013. In November 2013, it was decided to dissolve the sales company PW Europe in the Netherlands and to transfer its activities to Precious Woods Holding. **2014** Successful conversion of the distribution structure over the PW Holding of the B2B of PW Amazon.

2015 On 30 December 2015, the right to convert convertible loans was exercised to purchase shares. The capital increase amounted to 1 216 214 shares with a nominal value of CHF 1 each to CHF 4 984 020.

2016 On 28 June 2016, the share capital increased with authorized capital in the amount of CHF 806 798 (806 798 shares with a nominal value of CHF 1.00 each). Furthermore, the share capital increased with conditional capital in the amount of CHF 93 850 (93 850 shares with a nominal value of CHF 1.00 each) in August 2016.

2019 The land areas and biomass in Brazil were assessed and reported at fair value.

Increased profitability, but decline in sales due to delivery problems

Precious Woods achieved consolidated net sales of EUR 44.4 million in fiscal year 2019. This was 4.2 % below the previous year's sales (EUR 46.3 million). Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 18.4 million and EUR 5.9 million on a normalized level (previous year: EUR 5.1 million). Earnings before interest and taxes (EBIT) amounted to EUR 14.0 million and EUR 1.4 million on a normalized level (previous year: EUR 1.7 million). The net result was EUR 8.0 million and EUR -1.1 million on a normalized level (previous year: EUR -1.7 million).

in EUR million	2019	2018	Index	Change
Net Sales Precious Woods Group	44.4	46.3	95.8 %	-2.0
Sawmills in Gabon	21.2	22.1	95.9%	-0.9
Veneer plant in Gabon	10.5	12.7	82.7%	-2.2
Net Sales Precious Woods Gabon	27.1	29.3	92.4%	-2.2
Net Sales Precious Woods Amazon	13.4	13.0	103.2%	+0.4
Net Sales Precious Woods Trading	3.9	4.7	84.4%	-0.7

Income statement

Total income

The net sales in 2019 amounted to EUR 44.4 million, which is 4.2% less than in the previous year (EUR 46.3 million). Currency effects amounted to 0.1%, volumes fell by 5.2%, and shifts in the price/product mix impacted sales by -1.0%. While no emission certificates were sold in the previous year, sales in emission certificates amounted to EUR 0.1 million in the reporting year.

Everyday operations in Gabon were affected by numerous incidents. In the first half of the year, deliveries were impaired by official action and intervention against the illegal timber trade and corruption. As a result, customs clearance was no longer ensured, and the timber volumes could not be loaded for a long time. In the second half of the year, there were massive bottlenecks in rail transport. These resulted in an interruption of more than one month in the veneer plant, given that no logs could be delivered. The road to Libreville was also impassable, preventing us not only from delivering our products to the port but also from supplying diesel to Bambidie, which is necessary for the operation of our generators and vehicles. As a result, the sawmills also stood still for more than a month. All of this led to additional costs, reduced sales, production losses, and consequently to liquidity bottlenecks and once again to excessive inventories.

Due to these circumstances, we recorded a decline in sales from Gabon in 2019 of about EUR 2.2 million or 7.6% less than the previous year. In contrast, sales from Brazil increased by EUR 0.4 million or 3.2%. Trading sales in logs and sawn timber from Europe decreased by 15.6% from the previous year, given that demand – especially from China – was not great. While no emission certificates were sold in the previous year, sales in emission certificates amounted to EUR 0.1 million in the reporting year.

Operational development: Costs and market

The production volume of sawn timber in Brazil increased by 33.0%. Production volume increased especially in the second half of the year. Some of this additional volume could not yet be delivered. We are therefore recording a disproportionately low increase in sales. Yield was about 4% higher than in the previous year, and fixed costs increased only marginally, resulting in a disproportionately high increase in our operating result.

Net Sales

44.4

EUR million

Capex
5.7
EUR million

The sawmills in Gabon processed 3.8% fewer logs and at the same time a total of 1.3% more sawn timber. This was due to an increase in yield of about 5%. Since export sales were 11.4% lower than in the previous year, the inventories of the sawmills increased substantially.

In the veneer plant in Gabon, production volume fell by 4.9%, while 10.8% fewer logs were processed. Yield increased by 6.7% and sales were 18.3% lower than the previous year. Inventories of veneer ready for shipment also increased enormously.

The investment volume was EUR 5.7 million (previous year: EUR 3.5 million). The focus was on the new hardwood sawmill in Gabon, which began production in April 2020. Replacement investments in machinery and vehicles, renewal projects in road construction, and expansion of seasoning capacities for sawn timber were also carried out. These targeted investments will improve the Group's earning power. Maintenance work at all plants was carried out on schedule.

The average prices for sawn timber across the Group were 1% below the previous year's level. Market development was volatile, first and foremost in Asia and especially China. A special challenge for us continues to be the search for markets and applications for the 50 or so different timber species that we process each year. With our dual certification and credibility, we have good arguments and a head start here, given that sustainability is playing an ever-greater role in the procurement of tropical woods. However, the major challenge remains to establish even small quantities of lesser-known species on the markets and with customers. Europe continues to be our main sales market with a share of about 55.3%, followed by Africa with 16.2%, Asia with 14.5%, and other countries with 14.0%. The share in Europe decreased by 5.9 percentage points.

Operational costs

Production costs increased by 4.5% across the Group, and the operational contribution increased by 2.3% or EUR 0.7 million compared with the previous year. This was despite one-off costs of EUR 0.4 million in Brazil due to the interruption of deliveries from 2018, given that the last containers were not released until the second quarter of 2019. The interruption of operations in Gabon (sawmills and veneer plant) also had a negative impact on production costs.

Operating result (EBITDA)

Earnings before interest, taxes, depreciation and amortization (EBITDA) on a normalized basis amounted to EUR 5.9 million, which was EUR 0.8 million or 15.0% higher than in the previous year (EUR 5.1 million). This corresponds to an EBITDA margin of 13.2% (previous year: 11.0%). With the valuation of the biomass in Brazil a one-time effect resulted and the EBITDA amounted to EUR 18.4 million.

PW Amazon's EBITDA margin without one-time effect increased by EUR 1.2 million and reached 22.3% (previous year: 12.4%). At PW Gabon, the EBITDA margin fell by EUR 0.4 million to 18.5% (previous year 18.9%). Consolidated depreciation was EUR 4.5 million, 32% higher than in the previous year (EUR 3.4 million). This was due to replacement and new investments. At Group level, earnings before interest and taxes (EBIT) on a normalized level reached EUR 1.4 million (previous year: EUR 1.7 million). This corresponds to a margin of 3.1% (previous year: 3.7%). Taking account the one-time-effect EBIT reached EUR 14.0 million.

EBITDA margin
13.2 %

EBIT margin
3.1 %

Financial result

At EUR -2.3 million, the financial result was below the previous year's figure of EUR -2.8 million. At the end of the year, net debt was significantly higher; on average we did not record a significant increase and in some cases, we were able to refinance ourselves more cheaply. At EUR -0.2 million, the currency effect was practically at the previous year's level of EUR -0.3 million. Net debt was EUR 7.2 million higher than in the previous year and amounted to EUR 41.6 million (previous year: EUR 34.4 million).

Net result

The net profit amounted to EUR 8.0 million compared with a loss of EUR 1.7 million in the previous year. This net profit was significantly influenced by the valuation of biomass, which could not be performed in the past due to a lack of basis for the valuation. The net purely from operating activities was EUR -1.1 million (previous year: EUR -1.7 million).

Outlook

Production capacities in Brazil and Gabon were expanded, creating the prerequisites for higher processing volumes and improved yield. The total harvest volumes will be slightly higher in 2020. The hardwood sawmill in Gabon was completed in April 2020. Production volume will be increased mainly through yield optimization in Gabon and higher sawn timber volumes in Brazil. The increase in net sales will be between 5% and 8%, and it should also be possible to sell the inventories from 2019. The costs will not develop linearly and will be optimized again, resulting in a strong improvement in the operating result. The investment volume in 2020 is about EUR 7 million. The precondition for this is new loans in Brazil.

Balance sheet

Total assets amounted to EUR 131.1 million, EUR 57.6 million higher than in the previous year. As mentioned above, biomass and the value of our forest area in Brazil were reported at fair value. The change in land values is reflected only in the balance sheet, while the valuation of biomass must be recorded in the income statement.

Shareholders' capital amounted to EUR 55.1 million (previous year: EUR 15.9 million). The equity ratio as of the balance sheet date was 42.0% (previous year: 21.6%). The higher total assets are a result of land valuation, investments, and increased working capital. The land valuation as well as the net profit have led to a significant increase in the equity ratio, which now shows a realistic picture of our Group.

Cash flow from operating activities increased by EUR 0.5 million to EUR 3.8 million. The change in working capital was EUR -0.3 million. Investments in tangible fixed assets amounted to EUR 4.7 million. Cash flow from financing activities was EUR 0.6 million.

Financial result

-2.3

EUR million

Net profit

8.0

EUR million

Assets

131.1

EUR million

Equity

55.1

EUR million

Operating cash flow

3.8

EUR million

PW Amazon





Sustainable forestry without endangering the ecosystem guarantees the preservation of our forests.



Picture large: Aerial view of the Acampamento in Brazil
Picture small: Forest workers from PW Amazon

Precious Woods Amazon – positive development

PW Amazon's net sales amounted to EUR 13.4 million, 3.2 % above the previous year's figure of EUR 13.0 million. Export sales increased by 0.6 %, and the sales from deliveries of biomass for the energy plant were 17.4 % higher than in the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 16.4 million and on a normalized level EUR 2.8 million (previous year: EUR 1.6 million), corresponding to a margin of 22.3 % (previous year: 12.4 %). Earnings before interest and taxes (EBIT) amounted to EUR 15.3 million and on a normalized level EUR 1.7 million (previous year: EUR 1.2 million). This corresponds to an increase of EUR 0.5 million over the previous year period. This result includes one-off charges of EUR 0.4 million due to the delayed release of the last 19 containers that had been blocked since 2018 and one-time effect of the valuation of the biomass of EUR 13.5 million.

in EUR million	2019	2018	Index	Change
Net Sales	13.4	13.0	103.2 %	+0.4
EBITDA	16.4	1.6	1020.4 %	+14.8
EBIT	15.3	1.2	1262.2 %	+14.1

Key figures Environmental in 2019 (2018)



Energy consumption in GJ
56 600 (48 100)



Direct CO₂ emissions in t
2 800 (2 400)



FSC share for timber
production sold in %
100 (100)

Higher harvest volume, increased production volumes, higher yield Increases in volume and yield

The harvest volume was 156 100 m³, 1.1% more than in the previous year. The sawmill processed 155 300 m³ of logs, 27.5% more than in the previous year. PW Amazon was once again able to increase yield. This resulted in a 33.0% higher sawn timber production of 34 350 m³ (previous year: 25 820 m³). The production year began in mid-January. The annual maintenance work could be carried out as scheduled and staggered throughout the year, so that production was only marginally restricted.

The harvest area was divided into two different sectors in 2019. The ministry granted us the harvest permit for the new sector too late, but fortunately this caused only insignificant delays in the work. Harvesting activity was much more impacted by early and heavy rainfall, which began in September already. Normally heavy rains begin only in December, when the timber has already been harvested, but the logs have not yet been completely transported out of the forest. These exceptional weather conditions meant that we were unable to complete the harvest on schedule in mid-November, but instead had to work until the end of December and this under difficult conditions. The log transport should have been completed in February 2020 according to the schedule. However, this was prevented by a wrongful blockade of logistics by the ministry. This obstruction is once again a clear case of abuse of authority and corruption, which will lead to further legal action on our part. Already in 2019, we filed a claim against the government for damages in the amount of approximately EUR 0.9 million, due to the impairments and events that took place in 2018.

The investment volume in Brazil was about EUR 0.8 million. This was spent on the expansion of the road network, new infrastructure, renovation measures at the sawmill, and transport equipment.

The local currency (BRL) increased in value by about 2.7% against the euro. 85% of sales are made in EUR, 10% in USD, and 5% in BRL, while nearly 100% of costs are in BRL. This had a slightly negative currency impact on the income statement.

Legal rules and our commitment to the sustainable use of tropical forests require our company in Brazil to harvest many different species of timber. This constitutes also a great challenge and also entails greater complexity for our operational activity. Our ongoing task is to establish and promote lesser-known and lesser-used timber species on the export markets, to examine their

areas of application and to increase their familiarity. On the local market, prices remain very low, and transport costs to the populated areas in the south of the country are high. There is also a lack of awareness in regard to legally produced timber, and we are competing in the domestic market with illegally harvested and therefore cheaper sawn timber. As a consequence, our competitiveness on the local sales market remains limited. We are all the more pleased that we are regularly able to gain new customers in Europe, the United States, and Asia for the use of lesser-known timber species exported from Brazil. Increasingly, we are successful in educating customers, persuading them to buy these timber species, entering into promising partnerships, and opening up markets for products with specific applications for the wood.

Continued high resources for legacies and special factors

About 370 000 hectares of forests (own forest and smaller concessions) are currently available for harvest. We have made further efforts to legalize the land titles that have not yet been secured and to evaluate and secure new concessions. We are also trying to exchange land areas located in protected zones (around 41 000 ha) against productive, usable areas. We are currently negotiating with the government in this regard.

In fiscal year 2019, value adjustments were made on about 60 000 ha of land that had previously only been partially depreciated. This was done on the basis of our current assessment as we are likely to lose the legal dispute over this land.

At the same time, negotiations with the “new” owners are taking place with the aim of concluding a concession agreement so that we can still use this forest area.

In the reporting year, there was no new information concerning the pending threat of two major fines dating back to 2002 and 2007. The threatened fine by the Brazilian environmental protection agency IBAMA and a threatened property tax fine continue to be legal cases that our lawyers are working on, and we expect that the matter can be resolved within the scope of provisions already set aside.

Precious Woods Amazon in brief

Precious Woods has been operating in the state of Amazonas, Brazil, since 1996. PW Amazon runs sustainable forestry operations on 472 576 hectares of its own land and concessions (as of the end of 2019) near Itacoatiara, 170 kilometres east of Manaus. PW Amazon has been certified according to FSC criteria since 1997. In December 2017, PW Amazon was additionally certified according to PEFC guidelines. Certified forests are managed sustainably on the basis of an audited harvesting plan under which only two or three trees per hectare of forest are harvested in a 35-year cycle. At the same time, this gentle and sustainable use generates a source of income for the local population, which in turn contributes further to the protection of the forest. The harvested timber is processed into sawn timber, planed timber, construction piles, and finished products at the company’s own factory. The wood products are exported to Europe, the United States, and Asia as well as being sold on the local market.

Key figures Economic in m³ 2019 (2018)



Sales sawn and
industrialized wood
31 800 (27 400)



whereof export
22 800 (22 200)



Sales logs and piles
500 (400)



Sales biomass
94 800 (91 600)



Harvest volume
156 100 (154 400)

Key figures

Social in 2019 (2018)



Employees
591 (524)



Women in %
11.0 % (12.5%)



Men in %
89.0 % (87.5%)



Accidents at work
29 (24)



Days lost per accident
7.5 (6.7)

Social and environmental sustainability

Precious Woods Amazon passed the recertification audits for FSC and PEFC with excellent results, credibly documenting that we set standards in regard to the sustainable use of our forest areas. We also passed the annual audit of the ministry responsible for forestry, IBAMA, without reservations. We are still working on several scientific projects to examine our activity over the medium and long term and to obtain information to optimize and document our forestry operations. We are also in close and intensive contact with the regional communities, allowing us to undertake useful joint projects. The focus is on forestry training for the local population and work security, but also support for local small businesses through several development projects.

We also engaged in the following activities in the reporting year:

- The partnership programmes initiated and renewed in 2018 were continued. Directly or indirectly, they benefit more than 1 000 inhabitants.
- Together with the military police of Itacoatiara, investigations of poaching and illegal wood-cutting were conducted in the region. The patrols to secure our forest areas were also intensified, and activities were expanded – for example by installing warning signs, distributing information brochures and initiating a series of lectures.
- In cooperation with EMBRAPA (Brazilian Agricultural Research Corporation), we started a project on the measuring of tree growth after harvesting and the productivity capacity of the tree population. This project is being continued, providing valuable analysis data over time for scientific purposes. In 2018, 80 permanent monitoring areas were reviewed, and another 100 in 2019.
- More than 20 different research projects on the environment and sustainability are currently underway in collaboration with INPA (research institute), UFAM (Federal University of Amazonas), EMBRAPA (Brazilian Agricultural Research Corporation), UEA (Amazonas State University), and HAFL (Bern University of Applied Sciences, School of Agricultural, Forest and Food Sciences)).
- We continue to strive to promote products from the agricultural production of the communities, such as cassava flour, fruit pulp, tucumã, rambutan, and vegetables. This enriches the diet of the local population, and we ourselves are an important purchaser of the products. We also continue to support the extraction of non-timber forest products (oils, resins, seeds, and other natural essences). These are traditionally processed by the communities, and the marketing thereof contributes to their income.
- In addition, we continue to be active in offering courses for vocational development and improvement of skills for the manufacture of handicrafts. This program is done in partnership with CETAM (Center for Technological Education of Amazonas) and SENAI (National Industrial Learning Service). These courses provide the local population with the opportunity to improve their income with the manufacture and sale of handmade products.

Outlook for 2020

We expect harvest volumes to be about 10% higher. The aim is to increase production and sales volume by about 15%. Local banks will provide loans of approximately EUR 5 million, which we intend to invest in the renewal of the machinery in the forest and in the sawmill. With these measures, costs can be reduced and productivity increased, so that an even higher operating result can be expected in 2020 compared with the already good result in 2019. Our ambition continues to gain a foothold in the local Brazilian market with sustainably produced sawn wood products. We are committing substantial resources for this purpose. At the same time, we want to cultivate our long-standing clients and partnerships and intensify our activities in our traditional European, North American, and Asian markets.

PW Gabon





Two of our values: sustainable management/processing and social commitment to employees and surrounding communities.



Picture large: Transport in the forest area of PW Gabon

Picture small: Children's event at the Centre Culturelle in Bambidie

Precious Woods Gabon – major political and infrastructural obstacles

PW Gabon generated net sales of EUR 27.1 million (previous year: EUR 29.3 million), 7.6 % lower than in the previous year and far below expectations. Earnings before interest, taxes, depreciation and amortization (EBITDA) reached EUR 5.0 million (previous year: EUR 5.5 million). The EBITDA margin was 18.5 %, lower than the previous year's level of 18.9 %. Earnings before interest and taxes (EBIT) amounted to EUR 1.7 million (previous year: EUR 2.5 million). This corresponds to a margin of 6.2 % (previous year: 8.6 %). The most significant negative impact of these figures was the lack of sales in the amount of about EUR 5 million due to delays in delivery and the resulting unrealized margin. The interruption of operations of more than one month at both locations led to a massive worsening of profitability.

in EUR million	2019	2018	Index	Change
Net Sales	27.1	29.3	92.4 %	-2.2
EBITDA	5.0	5.5	90.4 %	-0.5
EBIT	1.7	2.5	66.5 %	-0.8

Key figures Environmental in 2019 (2018)



Energy consumption in GJ
161 100 (165 400)



Direct CO₂ emissions in t
14 900 (15 400)



FSC share of timber
Production sold in %
100 (100)

Negative development of productivity and profitability

The harvest volume in 2019 was 237 100 m³, a decline of 2.6% from the previous year (243 500 m³). The sawmills in Bambidie processed 120 200 m³ of logs, a reduction of 3.8%. Sawn timber production amounted to 42 300 m³ (previous year: 41 750 m³). Government action against the illegal timber trade and corruption made delivery more difficult in the first half of the year. In addition, the at times insufficient rail capacity made it difficult to deliver logs and sawn timber to Libreville and to supply diesel to Bambidie. As a consequence, our operations could no longer be maintained for over a month, given that both our motor vehicles and machines and the installed power generators run on diesel. The road was intermittently not passable, and various strikes at the customs authorities also affected our everyday work. This led to a delay in deliveries, high inventory levels, but also to more difficult import conditions for components for the new hardwood sawmill as well as for spare parts for ongoing operations. Consequently, maintenance work and commissioning of the new sawmill was delayed.

The veneer plant (TGI) processed 48 700 m³ (previous year: 54 600 m³) with increased yield. Overall, the production volume of veneer decreased by 16.7% in 2019. The market environment is currently undergoing major changes, given that numerous sawn timber and veneer producers have settled in the newly formed industrial zone in Gabon and are increasingly seeking and finding access to the European market. Some of these are already FSC- or PEFC-certified. This means increased competition in the sales markets for sawn timber and veneer, but also opportunities in the sale of FSC-certified logs within Gabon.

PW Gabon's total investments in the amount of EUR 5.7 million were used for buildings (EUR 2.4 million), forestry machinery (EUR 1.4 million), homes for employees and their families in Bambidie (EUR 0.5 million), and sawmill machinery (EUR 1.0 million). Construction of the new sawmill for Azobé sawn timber started in 2019 and will start production in spring 2020. From that time on, we will harvest more hardwood in our concessions than we would be able to process without the new sawmill.

The team in Gabon remained stable, and the fluctuation among the foreign managers was in line with the usual pattern. Several people have already been added in light of the construction and operation of the new sawmill.

The input tax credit with the Gabonese government amounts to EUR 4.5 million and is similar to the previous year (EUR 4.7 million). The investments made could be financed with bank loans from local institutions. However, the delays in sales and the increased costs from business interruptions again led to a tight liquidity situation. Inventories increased by about EUR 2.5 million and tied up liquid assets. We assume that the situation will ease, even though this was not yet the case at the beginning of 2020. For the first time, the government is acting in a coordinated manner among the various ministries, weaknesses in infrastructure and processes have been identified, and measures have been taken. The incipient fight against corruption will cause further difficulties in the short term, given that government authorities are hiring mostly new staff and changes in operational procedures are being planned, but have not yet been successfully implemented. We are confident, however, that progress will be visible and tangible in the first half of the year.

More difficulties than usual

Infrastructure problems are part of our everyday work, and we have learned to adapt and deal with them. In 2019, however, the large number of events combined with political instability almost exceeded what can reasonably be managed. The situation was already difficult in the previous year, but everyday obstacles became a dominant element in the 2019 fiscal year. Management was required to react quickly to interruptions in operations, even where the duration could not be gauged or there were no contact persons for finding a solution. The result is a worsened EBIT margin. Although it is still above the industry average, it does not satisfy our standards. We have proven in the past that higher profitability is possible, and we will achieve it again.

Working capital increased again by EUR 1.0 million, of which EUR 2.5 million is due to inventory build-up. Because of the reduction in deliveries and invoicing, accounts receivable decreased by about EUR 2.7 million and accounts payable by EUR 0.9 million. This means our tied-up capital now amounts to 43.5% of net sales (previous year: 36.9%). The objective continues to be to achieve a reasonable level of about 25%, which would mean cash flow of EUR 2.5 million. Net debt at PW Gabon increased by EUR 4.5 million over the previous year.

Progress in social and environmental sustainability

At both sites – Bambidie and Owendo – FSC and PAFC recertification audits were carried out for both forestry management and chain of custody (CoC). These take place every year and once again concluded very successfully. The continuous high level of our work was once again confirmed by independent third parties. We continue to be the only companies with dual certification.

We are also working on the following projects:

- The wide range of activities in “Maison de la Culture” opened last year in Bambidie were financially supported by CEB and PWH.
- Numerous training sessions took place for our logging teams. The goal is to improve knowledge and skills in the area of reduced impact logging and to secure the processes.
- First aid classes were held in cooperation with the Red Cross, as well as advanced training of the company fire brigade in cooperation with governmental organizations.
- A project against poaching was supported and accompanied in cooperation with the ministry responsible for forestry, the Gabon National Park Agency, and NGOs.

Key figures Economic in m³ 2019 (2018)



Sales sawn and industrialized wood
32 100 (37 300)



Sales logs
67 900 (53 300)



Sales rotary veneer
20 900 (25 100)



Harvest volume
237 100 (243 500)

Key figures Social in 2019 (2018)



Employees
893 (872)



Women in %
8.1 % (9.1%)



Men in %
91.9 % (90.9%)



Accidents at work
99 (88)



Days lost per accident
7.8 (8.3)

- Cooperation with the Research Institute in Tropical Ecology (IRET) for research on and further development of non-timber products was continued.
- The Dynafor project was also continued with P3FAC. The goal of this project is to study the dynamics and enrichment of the forest and in order to plan future forest management and harvesting.
- The joint project with the WCS (Wildlife Conservation Society) was further refined, with the goal of developing a monitoring protocol for surveying and evaluating biodiversity in our concessions. It will include a survey of fauna in the future.

Precious Woods Gabon in brief

PW Gabon consists of two companies: CEB (Compagnie Equatoriale des Bois) and TGI (Tropical Gabon Industrie). Since 2007, PW Gabon has been managing a tropical forest in Eastern Gabon across a concession area of 596 800 hectares. In 2014, a protected area of 19 900 hectares was separated out. PW Gabon employs around 893 persons and harvests approximately 240 000 cubic meters of logs each year. The company operates according to a sustainable forest management plan that ensures that no more timber is harvested per hectare than will grow back within a harvest cycle of 25 years. PW Gabon runs two sawmills and a small molding plant in Bambidie, the centre base of PW Gabon's forestry operation. TGI's rotary veneer factory for Okoumé veneer is located in Owendo, a suburb of the port city Libreville. The main export markets for PW Gabon's manufactured timber products are Europe, South Africa, and Asia. PW Gabon's forestry operation has been FSC-certified since October 2008 and the TGI chain of custody since January 2010. The forestry operation has also been PAFC-certified since 2017. Both operations were PAFC-certified for CoC in 2018.

Outlook for 2020

The new hardwood sawmill will begin operations in 2020. Further improvements in production workflows and a cost reduction program will also be implemented. The yield is to be increased at roughly the same harvest volume, leading to further sales growth. In the veneer plant, we expect an increase of 3% in production. Sales growth in 2020 will be between 7% and 9%. Margins will improve significantly again if no unexpected events lead to setbacks or delivery delays. At the beginning of 2018, we carried out preparatory work to advance the project of a biomass power plant in Bambidie. However, as the new forestry law has not yet been adopted, we will leave it at preparatory work for now and only invest in it once there is legal clarity. In parallel, we are currently evaluating possibilities to use and process residual wood, given that not the entire volume of biomass can be expected to be useable for electricity production even once a power plant is installed.

We are also investigating additional concession areas with the intention of managing them sustainably and supplying the logs to the market. The demand for logs on the domestic market has risen massively because a number of companies have settled in a specially established industrial zone in Libreville for the first transformation (processing stage).

PW Trading



Picture : Forest image of France

Precious Woods Trading – reduced activities and decline in sales by about 16 %

Trading in logs and sawn timber from Europe complements the current product range of Precious Woods and expands our knowledge in the sales and procurement market. It supplements our core business, namely the processing and trading of tropical sawn timber and veneer from Brazil and Gabon.

Net sales from the trading business in the 2019 reporting year amounted to EUR 3.9 million, corresponding to a decrease of 15.6 % from the previous year (2018: EUR 4.7 million).

in EUR million	2019	2018	Index	Change
Net Sales	3.9	4.7	84.4%	-0.7
EBITDA	0.1	0.4	22.9%	-0.3
EBIT	0.1	0.4	22.9%	-0.3

The main sales market for our traded products is China, whose demand declined in the fiscal year. Demand was lower than supply, which put so much pressure on prices that this business was no longer profitable for us. It is difficult to assess future development. Despite adverse effects due to the COVID-19 epidemic, we expect the situation to recover somewhat in 2020. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 0.1 million. The EBITDA margin was 2.5% (previous year: 9.3%).

For Precious Woods, trading activities in Europe are strategically important, because this activity secures expertise in the sales and procurement market and creates synergies with our other business areas in production. The challenge will be to apply the insights specifically to our operations in Africa and Brazil and to use them for the benefit of our customers. In future, the range of products will be supplemented by the sale of tropical timber from other FSC-certified operations in Central and South America. Some of these projects are carried out by local communities, in which cooperation with the environmental organization Rainforest Alliance is sought or already in the implementation phase.

Precious Woods Trading in brief

After the decision to close PW Europe, the administration of that company was taken over by PW Holding in Zug from 2014, and goods were delivered directly from the production plants in Brazil and Gabon.

In 2014, activities were expanded to include the trading of certified European logs and sawn timber. This now complements our diverse range of products.

Key figures Environmental in 2019 (2018)



Direct CO₂ emissions in t
0.3 (0.3)



PEFC share of timber
Sold in %
100 (100)

Key figures Economic in m³ 2019 (2018)



Sales logs and sawn wood
16 600 (18 700)

Carbon and energy



Picture: Burning kiln of BK Energia, Brazil

Carbon & Energy – trading in CER emission certificates

34 024 emission certificates were sold in 2019, paid out on the basis of the 2017 figures. The market prices for the certificates are very low and, in addition, the valuation basis has been changed, which means that approximately 30 % fewer CERs were credited.

The contracts with BK Energia, the city of Itacoatiara, and myclimate were successfully renewed in 2016. This means biomass deliveries and future contributions to profit from CER sales are ensured. Due to the market development, however, major sales will no longer be possible.

Emission certificates thanks to residual wood in Brazilian

BK Energia's 9-megawatt power plant in Brazil supplies the households of the neighbouring city of Itacoatiara with electricity. The production site of Precious Woods Amazon also requires around 2 MW. All of the power plant's electricity (heat for wood seasoning and electrical energy) is generated from the residual wood of the PW Amazon sawmill, i.e., renewable biomass.

BK Energia not only produces electricity and steam or heat. Our activities resulted in a total of 29 868 tons of CO₂ equivalents in 2018 and 34 651 tons in 2019, which can be counted towards carbon reduction and thus contribute to global climate protection. However, the amount that can be offset will not be reflected in the figures until 2020/21, given that the proceeds will be received with a time delay.

The biomass power plant in Itacoatiara remains very important for Precious Woods: firstly, from an operational perspective (inexpensive electricity and heat supply); secondly due to the opportunity to sell residual wood from timber harvesting and the sawmill; and thirdly because complete utilization of the harvested wood makes an important contribution to avoiding CO₂ emissions and can therefore replace heat and power generation using fossil fuels.

Emission trading together with myclimate

This small-scale project was the first worldwide that generated emission certificates on the basis of sustainably harvested biomass from FSC-certified forestry activities. The woodchip power plant with 9 MW of electric output is located on the site of the sawmill of Precious Woods in Itacoatiara. Precious Woods now owns 40% of the shares.

The plant produces up to 45 000 MWh of electricity each year, for which otherwise about 10-15 million litres of diesel would be consumed. This replaces several diesel generators and provides the neighbouring city's approximately 100 000 inhabitants with climate-friendly power. Thanks to the power plant, the local population benefits from lower energy prices and stable energy supply (fewer outages and transport losses). The waste heat generated during electricity production is used for the sawmill's wood seasoning plants.

"A complete and sensible use of the harvest volume makes a crucial contribution to sustainability."

Precious Woods

For the production of this electrical and thermal power, about 100 000 tons of wood are required each year. This residual wood is delivered in the form of wood cuttings and sawdust from the sawmill. All this biomass comes from sustainable forestry in accordance with FSC guidelines. Prior to start-up of the plant, this residual wood was rotting in large piles on the property or in the forests. The sustainable use of the residual wood reduces emission of the greenhouse gases CO₂ and methane.

Precious Woods Carbon & Energy

The Precious Woods business segment Carbon & Energy comprises trade in CERs and shares of a power plant fuelled with residual wood. Starting in 2005, Precious Woods operated a biomass power plant in Itacoatiara, Brazil, that had been in operation since 2002. Effective 1 April 2012, Precious Woods sold 40% of its shares in the biomass plant and consequently reduced its stake from 80% to 40%. The sawmill of PW Amazon is still the sole biomass supplier of the plant. The plant is listed as a climate change relevant project replacing diesel with biomass and thus renewable energy. The project complies with the Clean Development Mechanism (CDM) of the Kyoto Protocol. The resulting emission certificates have been traded since 2011 by the myclimate¹ foundation on behalf of Precious Woods.

¹ myclimate is a Switzerland-based organization set up in 2002 to provide environmentally responsible solutions to individuals and companies. www.myclimate.org

Corporate Governance



Precious Woods guarantees the sustainable management of tropical forests, and this requires a strong team to implement this together.



Picture large: Image from the forests of Gabon
Picture small: Image above the forests of Gabon

Corporate Governance

Clearly defined lines of responsibility and a high degree of transparency are vital factors in the success of Precious Woods' efficient business management and strong, responsible corporate culture. We believe that by embracing the principles of corporate responsibility we are benefiting all stakeholder groups of Precious Woods: shareholders, employees, customers, suppliers and communities.

The following Corporate Governance Report is based on the Corporate Governance Directive of the SIX Swiss Exchange. To avoid repetition, some sections contain cross-references to other chapters in this Annual Report and to Precious Woods' website (www.preciouswoods.com). The following abbreviations are used:

BoD = Board of Directors
GM = Group Management

1. Group structure and shareholders

Precious Woods consists of four operational business segments: sustainable forestry in Brazil, sustainable forestry in Gabon, Trading and Carbon & Energy. For more information about the individual segments, please refer to pages 20 to 33 of the Annual report.

Precious Woods Holding Ltd was the only listed company within the Group. The delisting from the SIX Swiss Exchange took place on 9 August 2013. Precious Woods Holding Ltd has its headquarters in Zug. More information about Precious Woods' shares can be found on page 43 of this report. For more detailed information about the holding company and the direct subsidiaries (name, headquarters, share capital and percentage ownership), please refer to note 1 and 4 of the Financial Statements of PW Holding. A list of shareholders with more than 3% of the voting rights can be found in note 24 of the Consolidated Group Financial Statements. There are no cross-shareholdings or sharehol-

ders' agreements. Further information on shareholders is published on our website (Investor Relations – Share information) and on the website of the OTC ZKB platform.

2. Capital structure

The ordinary share capital on 31 December 2019 stood at CHF 7 052 745 (7 052 745 registered shares at CHF 1.00 each).

As of 31 December 2016, the conditional share capital amounted to CHF 348 573 (348 573 shares with a nominal value of CHF 1.00 each). On 18 May 2017, the Annual General Meeting authorized to increase the conditional share capital to CHF 1 500 000 (1 500 000 shares with a nominal value of CHF 1.00 each) in accordance with Article 3a of the Articles of Association. On 18 May 2017, the conversion right of a loan to subscribe for shares was exercised. The capital increase amounted to CHF 150 000 (150 000 shares nominal value of CHF 1.00 each). No change occurred in 2019. As of 31 December 2019, the conditional capital amounts to CHF 1 396 638 (1 396 638 shares with a nominal value of CHF 1.00 each).

On 16 May 2019, the Annual General Meeting approved an authorized share capital of CHF 1 000 000 (1 000 000 shares with a nominal value of CHF 1.00 each). The BoD is thus authorized to increase the share capital at any time until 15 May 2021 by a maximum amount of CHF 1 000 000 by way of issuance of no more than 1 000 000 registered shares that are to be fully paid in with a nominal value of CHF 1.00 each. In 2019, no capital increase from authorized share capital was executed. On 31 December 2019, the amount of the authorized capital is CHF 1 000 000 in shares (1 000 000 shares with a nominal value of CHF 1.00 each). More information about the capital structure can be found in note 23 of the Consolidated Group Financial Statements.

Two loans in the amount of CHF 2.7 million were repaid in April and October 2019. On October 2019, two loans of CHF 1.25 million each with maturity until October 2022 were obtained.

3. Board of Directors

The BoD is responsible for strategy and organizational development and supervises and controls the operational management. It defines the Group's business principles and keeps itself regularly informed about the company's business performance. The BoD is authorized to make decisions on all matters that are not reserved for the Annual General Meeting or are conferred to another governing body of the company by law, the Articles of Association or other regulations.

The members of the BoD of Precious Woods contribute experience and expertise from a wide range of different fields and have both the skills and the time required, to ensure that they can critically and constructively engage with the GM and are able to form independent opinions. Members of the BoD are elected by the Annual General Meeting for a term of one year.

The BoD is a self-constituting body and appoints the Chair from among its own members for a term of one year. After reaching one's 70th birthday, the respective member of the BoD will step down from its post at the company's next Annual General Meeting. At the Annual General Meeting on 16 May 2019 the re-elections of Katharina Lehmann, Markus Brüttsch, Jürgen Blaser and Robert Hunink lined up. They were re-elected for a year on a proposal from BoD. The composition of the BoD is as follows on 31 December 2019: Katharina Lehmann (Chairwoman), Markus Brüttsch (Delegate), Jürgen Blaser (Member), and Robert Hunink (Member).

Members of the Board of Directors

The Precious Woods BoD has four members. The following statement about the members of the BoD and their activities at Precious Woods and cross-involvements represents the situation on 31 December 2019.

Additional information about the members of the BoD can be found in their profiles on our website (Investor Relations – Corporate Governance)



Katharina Lehmann (lic. oec. HSG)

Swiss citizen, born in 1972

Chairwoman since 18 May 2017

BoD member since 2008, mandate ends in 2020

Other activities and interests:

- Since 1996 Chair of the Board of Directors and Delegate of the companies that make up Erlenhof AG, i.e. Lehmann Holzwerk AG and Blumer-Lehmann AG
- BoD member of Frutiger AG, Thun
- BoD member of Blumer Techno Fenster AG, Waldstatt
- Board member of Industrie- und Handelskammer (IHK), St. Gallen/Appenzell
- Chairwoman of Association Senke Schweizer Holz (SSH)

“The Board of Directors, the Executive Board and the responsible persons in Switzerland and in the national subsidiaries are committed to our customers and the further development of our company with great dedication and expertise. It is therefore a great privilege to work for Precious Woods”



Markus Brüttsch

Swiss citizen, born in 1960

BoD member (Delegate) since 2017, mandate ends in 2020

Other activities and interests:

- CEO/CFO of Precious Woods Holding Ltd since January 2014
- Executive Chairman of BoD of Oro de Cacao Ltd. since August 2019

»Our business model is demanding, challenging and extremely complex. The interaction with business, governments and NGOs is varied and intensive – the positive effect of our work is priceless«



Jürgen Blaser

Swiss citizen, born in 1955

BoD member since 2015, mandate ends in 2020

Other activities and interests:

- Professor of International Forestry and Climate Change at University of Applied Sciences, Agricultural, Forest and Food Sciences
- Global Advisor on Tropical Forests, especially for the World Bank Group

»Precious Woods is unique in its focus and values. Over more than two decades, the company has gained valuable experience in protecting the rainforests through sustainable management. I am proud to make my contribution to this corporate culture«



Robert Hunink

Dutch citizen, born in 1953

BoD member since 2015, mandate ends in 2020

Other activities and interests:

- President of ATIBT (Association Technique Internationale des Bois Tropicaux), until October 2019

“It is a privilege to be involved with a Group where a very dedicated team has made Precious Woods one of the leading companies in the industry when it comes to responsible forest management with all that this entails”

Committees of the Board of Directors

The committee meetings have been integrated with in the regular BoD meetings, due to the small size of the BoD no separate committee meetings are taking place.

The whole Board of Directors monitors the concordance between budgets, finances and organization, examines the interim statements and the Annual Financial Report as well as the budget and oversees the relations with the external auditors. It is also the responsibility of the whole BoD to ensure the monitoring of the internal control system (IKS) and risk-management procedures as well as overseeing the processes for compliance with legal and regulatory requirements.

Katharina Lehmann is leading for strategy questions and shareholders’ relations, thus for the topics that were previously assigned to the Remuneration & Nomination Committee (RNC) within the Board of Directors. The whole Board of Directors ensures adequate terms and conditions of engagement for GM and the senior executives of the subsidiaries; it evaluates new members of the BoD and GM, determines remuneration guidelines and oversees corporate governance.

The BoD met a total of seven times during 2019. Each meeting lasted between two and eight hours. The BoD keeps itself informed of business matters by means of consolidated, periodic, operational and financial reports. All relevant documents are made available to the BoD on a regular and timely basis. Chairman and Delegate of the board/CEO/CFO realized interim meetings and visited the local management in Gabon and Brazil regularly.

Further information about the decision-making process as well as the areas of responsibility and control mechanisms can be found in the bylaws, which are published on Precious Woods’ website (Investor Relations – Corporate Governance).

4. Group Management

The GM under the leadership of the CEO is responsible for the operational management of the company. The organization, roles and responsibilities of the GM and its members are defined in the bylaws, which are set by the BoD. More information is available on the website (Investor Relations – Corporate Governance).

Additional information about the members of the GM can be found in their profiles on the Precious Woods website (Investor Relations – Corporate Governance).

In the reporting year, the GM consisted of the members:



Markus Brüttsch

Swiss citizen, born 1960

- Since January 2014, CFO of Precious Woods Group
- In July 2014, additionally CEO of Precious Woods Group
- Before CFO at Cicor Group and Winterthur Technology Group

“It is a privilege to lead a group that is committed to sustainability in the tropical forests and therefore also to climate change. Working with the local teams is a real pleasure, as they are all committed to our common goal”



Stéphane Glannaz (Master in Marketing and Intl. Business)
French and Swiss citizen, born in 1972

- Since 1 October 2013, CCO of Precious Woods Group
- Before vice-president of Olam Intl. Ltd. Singapore, Timber Division and Head of Marketing and Sales

“I have joined Precious Woods in 2013 at its most difficult time because I have always been confident that this company has the right DNA to become a successful story. I am extremely proud to be part of this positive story, same as our customers once they fully realise their positive contribution to build a better world”

5. Compensation, shareholdings, loans

Employment contracts and the “Compensation Regulations for the Board of Directors of PWH” provide the framework for the compensation and stock option plans of the BoD, GM and the senior managers of the subsidiaries. In the case of services provided by members of the BoD in request of the company that are clearly outside the usual scope of Board activities, compensation is determined by the Board of Directors. Members can be compensated for their individual activities on the basis of effective time invested. Decisions regarding compensation and shareholdings for BoD and GM are made annually on the basis of the Compensation Regulations for the BoD based on market criteria.

The regulations mentioned as well as a detailed list of compensation granted to the members of the BoD and GM can be found on the website (Investor Relations – Corporate Governance), in note 26 of the Consolidated Group Financial Statements and in note 7 of the Financial Statement of PW Holding. All management personnel and employees are insured in accordance with the minimum legal requirements of the countries in which they are employed.

In 2019, no leave settlements, loans or other benefits have been granted to any of the members of the governing bodies.

No cash compensation, shares, options, loans or other payments are made to former governing body members. A list of shares held by members of the BoD can be found on the website (Investor Relations – Corporate governance) and in note 7 of the Financial Statements of PW Holding.

6. Shareholders’ rights of participation

Shareholders of Precious Woods enjoy all the rights to which they are entitled to without any statutory restrictions on voting rights. There are also no clauses differing from the legal provisions regarding statutory quota. All shareholders entered in the share register four weeks before the Annual General Meeting are eligible to participate in the Annual General Meeting. No changes affecting voting rights are made to the share register after the mailing of invitations to the Annual General Meeting. Requests to add items to the agenda of

the Annual General Meeting can be made up to 30 days before the ordinary Annual General Meeting. At the ordinary Annual General Meeting held on 16 May 2019, all statutory items on the agenda were approved. The minutes of the Annual General Meetings are published on the website (Investor Relations – Annual General Meeting).

7. Changes of control and defense measures

The agreements with the members of the BoD and GM contain no statutory “opting-out” or “opting-up” clauses or clauses on changes of control with the following exception: The CEO/CFO Markus Brüttsch has a change of control clause in the employment contract defining a half-year salary in addition to the notice period.

8. Auditor

The Annual General Meeting selects an external auditor that possesses the independence and professional qualifications as stipulated by law for the term of one fiscal year. Procedures and subject of the audit are in accordance with legal provisions. Since the reporting year 2010 Ernst & Young, Zurich, has assumed the role of Group auditor. The auditing fees paid to Ernst & Young for auditing the accounts of PWH, the Group and the companies worldwide amounted to EUR 210 616 in 2019. Ernst & Young also received an additional EUR 49 642 in non-audit services in 2019. Ernst & Young audited the relevant subsidiary companies. The Board of Directors monitors the efficiency and effectiveness of the external audit. Detailed information can be found in the bylaws, which are published on our website (Investor Relations – Corporate Governance).

9. Information policy

Precious Woods pursues a pro-active and transparent information policy. Shareholders of the company are informed regularly about current affairs through the Annual Report and the Half-Year Report. Precious Woods maintains an informative website (www.preciouswoods.com), which is updated on a regular basis.

Further information can be obtained from Communications (phone +41 41 726 13 16 or media@preciouswoods.com)

Information



Picture: Tree image from the forests of PW Amazon

Shareholder information

Share capital

On 31 December 2019, the fully paid-in share capital of PW Holding amounted to CHF 7 052 745. It is divided into 7 052 745 registered shares with a nominal value of CHF 1.00 each. Additionally, the company has conditional capital of CHF 1 396 638 and authorized capital of CHF 1 000 000 to cover option and conversion rights. Further information on the share capital can be found in note 1 to 3 to the 2019 financial statements of Precious Woods Holding.

Equivalent to 100 shares

Precious Woods is owner or concession holder of 472 576 hectares of forest in Brazil, and manages a forest concession in Gabon of 596 800 hectares. With the purchase of 100 shares, a shareholder had indirectly access to around 67 006 square meters of forests (2018: 71 844 square meters) in the Amazon and 84 620 square meters of forests (2018: 84 620 square meters) in Gabon in 2019.

Stock market listing

The shares of PW Holding were listed on the SIX Swiss Exchange in Zurich between 18 March 2002 and 9 August 2013. Since 12 August 2013 the shares are traded on the OTC ZKB platform.

Stock type: registered share
Nominal value: CHF 1.00
Security number: 1 328 336
ISIN: CH0013283368

Share register information

(Entries, transfers, changes of address, etc.)
ShareCommService AG
Europastrasse 29
CH-8152 Glattbrugg
Phone +41 44 809 58 58
Fax +41 44 809 58 59
preciouswoods@sharecomm.ch

Company headquarters

Precious Woods Holding Ltd
Untermüli 6
CH-6300 Zug
Phone +41 41 726 13 13
Fax +41 41 726 13 19
www.preciouswoods.com
office@preciouswoods.com

Stock price development

At the beginning of 2019, the share price was quoted at CHF 8.00 on the OTC ZKB platform. The lowest share price was recorded in October 2019 at CHF 6.94 and the highest share price at the end of November 2019 was at CHF 8.43. The closing price of the share on 31 December 2019 was at CHF 8.30.

Information for investors

		2019	2018	2017	2016	2015
Share price per 31.12.	in CHF	8.30	8.00	6.50	6.00	3.85
Stock market capitalization	in CHF million	59	56	46	41	19
Basic earnings per share	in EUR	1.13	-0.24	0.23	-0.43	-1.13
Equity (book value) per share	in EUR	7.81	2.25	2.85	2.82	2.37

Assets per share

Primary forest in Brazil (ownership and concession)	in m ²	670	718	718	734	1 017
Primary forest in Gabon (concession)	in m ²	846	846	846	865	1 197



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Consolidated statement of profit or loss

in thousand EUR	Notes	2019	2018
Revenues	4	44 380	46 349
Initial recognition of fair value from biological assets	12	13 455	–
Changes in inventories of finished goods and work in progress	15	1 796	489
Raw materials		–2 835	–3 844
Consumables used	5	–10 960	–10 508
Other production costs	5	–5 093	–4 850
Labour costs	6	–20 741	–19 351
Other operating expenses	7	–2 757	–3 949
Other operating income	7	767	505
Share of profits/(losses) of associates	14	438	270
Earnings before interest, tax, depreciation and amortization (EBITDA)		18 450	5 111
Depreciation, amortization and impairment	8	–4 494	–3 416
Earnings before interest and tax (EBIT)		13 956	1 695
Financial income	9	640	74
Financial expenses	9	–2 985	–2 825
Earnings before tax (EBT)		11 611	–1 056
Income tax (expenses)/income	29	–3 638	–661
Net profit/(loss) for the period		7 973	–1 717
Allocation of net (loss)/profit:			
Equity owners of Precious Woods Holding Ltd		7 988	–1 716
Non-controlling interests		–15	–1
Basic earnings per share	25	1.13	–0.24
Diluted earnings per share	25	1.13	–0.24

Consolidated statement of comprehensive income

in thousand EUR	Notes	2019	2018
Net profit/(loss) for the period		7 973	-1 717
Gain/(loss) on defined benefit plans	30	-258	-38
Tax effect on gain/(loss) on defined benefit plans		24	3
Gain on land revaluation	11	42 669	-
Tax effect on gain on land revaluation		-14 226	-
Items that will not be reclassified to profit or loss		28 209	-35
Currency translation effects, net of tax		3 067	-2 488
Items that may be reclassified subsequently to profit or loss		3 067	-2 488
Total other comprehensive income/(loss) for the period		31 276	-2 523
Total comprehensive income/(loss) for the period		39 249	-4 240
Attributable to:			
Equity owners of Precious Woods Holding Ltd		39 278	-4 239
Non-controlling interests		-29	-1

Consolidated statement of financial position

in thousand EUR	Notes	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents		2 578	2 798
Trade and other receivables	17	10 778	11 584
Inventories	15	16 807	14 917
Prepayments	16	534	861
Total current assets		30 697	30 160
Non-current assets			
Property, plant and equipment	10, 11	77 083	35 217
Right-of use assets	22	3 249	–
Biological assets	12	13 158	–
Intangible assets	13	3 514	4 005
Investments in associates	14	1 066	799
Non-current financial assets	18	25	466
Other non-current assets		804	680
Recoverable taxes		480	487
Deferred tax assets	29	–	1 620
Total non-current assets		99 379	43 275
Assets held for sale	18	1 000	–
Total assets		131 076	73 435
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	19	14 115	13 983
Current income tax payables	29	295	108
Current financial liabilities	20	8 213	11 251
Short-term lease liabilities	22	776	1 065
Current provisions	27	–	156
Total current liabilities		23 399	26 563
Non-current liabilities			
Non-current financial liabilities	20	33 822	24 088
Long-term lease liabilities	22	1 397	835
Deferred tax liabilities	29	12 928	1 571
Non-current provisions	27	4 426	4 522
Total non-current liabilities		52 573	31 017
Equity			
Share capital	23	5 731	5 731
Additional paid-in capital		64 938	64 938
Revaluation surplus on land	10	28 457	
Foreign currency translation reserve		8 401	5 334
Retained earnings		–52 519	–60 273
Equity attributable to owners of Precious Woods Holding Ltd		55 008	15 730
Non-controlling interests		96	125
Total shareholders' equity		55 104	15 855
Total liabilities and shareholders' equity		131 076	73 435

Consolidated statement of changes in equity

in thousand EUR	Attributable to equity holders of Precious Woods Ltd						Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Revaluation ¹ surplus on land	Currency translation effects	Retained earnings	Total		
Balance 1 January 2018	5 731	64 938		7 822	-58 522	19 969	126	20 095
Net profit/(loss) for the period	–	–	–	–	-1 716	-1 716	-1	-1 717
Other comprehensive income/(loss) for the period	–	–	–	-2 488	-35	-2 523	–	-2 523
Total comprehensive income/(loss) for the period	–	–	–	-2 488	-1 751	-4 239	-1	-4 240
Balance 31 December 2018	5 731	64 938	–	5 334	-60 273	15 730	125	15 855
Net profit/(loss) for the period	–	–	–	–	7 988	7 988	-15	7 973
Other comprehensive income/(loss) for the period	–	–	28 457	3 067	-234	31 290	-14	31 276
Total comprehensive income/(loss) for the period	–	–	28 457	3 067	7 754	39 278	-29	39 249
Balance 31 December 2019	5 731	64 938	28 457	8 401	-52 519	55 008	96	55 104

¹ Further details about Revaluation surplus on land are described in Note 11

Consolidated statement of cash flows

in thousand EUR	Notes	2019	2018
Net cash flow from operating activities			
Profit/(loss) for the period		7 973	–1 717
Income taxes (income)/expenses	29	3 638	661
Interest expenses	9	2 509	2 185
Dividend income on non-current financial assets	9	–42	–175
Profit/(loss) for the period before interest and tax		14 078	954
Depreciation, amortization and impairment	8	4 494	3 416
Value adjustment on non-current assets	9, 18	–576	–
(Profit)/loss on sale of non-current assets	18	–495	–24
Share of (profit)/losses of associates	14	–438	–270
Disposal of financial liabilities as a result of forgiveness		–66	–
Changes in provisions	27	–560	356
Increase obsolence reserve on inventories	15	1 235	260
Change in fair value of biological assets	12	–13 455	–
Other non-cash items		–73	476
Operating cash flow before working capital changes		4 143	5 167
Decrease/(increase) in trade and other receivables	17	943	–1 021
Decrease/(increase) in inventories	15	–3 210	–978
Decrease/(increase) in prepayments	16	812	–196
Increase/(decrease) in trade payables and other liabilities	19	1 288	796
Income tax (paid)/received	29	–170	–460
Net cash flow operating activities		3 806	3 307
Cash flow from investing activities			
Purchase of intangible assets	13	–53	–5
Proceeds from sale of property, plant and equipment	7, 10	950	25
Purchase of property, plant and equipment	10	–5 691	–3 935
Proceeds from disposal of other non-current assets		27	314
Purchase of other non-current assets		–161	–35
Increase/(decrease) in recoverable taxes		–23	–81
Dividends received on investment in associates	14	259	140
Dividends received on non-current financial assets	9	42	35
Net cash flow investing activities		–4 650	–3 542
Cash flow from financing activities			
Proceeds from borrowings	20	7 796	4 676
Repayment of borrowings	20	–5 668	–2 677
Interests paid		–1 426	–1 121
Interest expenses on leases	22	–65	–
Payment of principal portion of lease liabilities	22	–86	–
Net cash flow financing activities		552	878
Increase/(decrease) in cash and cash equivalents		–292	642
Translation effect on cash		72	20
Cash and cash equivalents, at the beginning of the year		2 798	2 136
Total Cash and cash equivalents, at the end of the year		2 578	2 798

Notes to the consolidated financial statements

1. Basis of presentation and general accounting policies

Basis of presentation

Precious Woods Group (hereinafter referred to as “Precious Woods” or “the Group”) is one of the leading companies in sustainable management of tropical forests globally. The parent company, Precious Woods Holding Ltd., has its registered office in Zug. The Group’s subsidiaries are organized and operate under the laws of Brazil, Gabon, Netherlands, British Virgin Islands and Luxembourg.

The consolidated financial statements for the Precious Woods Group have been prepared on a historical cost basis, except for leasing, biological assets and land, that have been measured at fair value, and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Further changes in 2019 are explained below.

The consolidated financial statements are presented in euros, as the Group’s revenues, profits and cash flows are principally denominated in euros. All values are rounded to the nearest thousand (in thousand EUR), except when otherwise indicated. The functional currency of the parent company Precious Woods Holding Ltd. is Swiss francs.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

Changes in basis of preparation in 2019

The changes in the basis of preparation, implemented in 2019, are further explained below:

- Land has been revalued at fair value and not at cost anymore, according to the revaluation model of IAS 16 Property, Plant and Equipment. The change in accounting policy was applied prospectively, according to IAS 8.17. The increase as a result of the revaluation was recognized in other comprehensive income and accumulated in equity under revaluation surplus. For further explanation see Note 11.
- Forest has been remeasured at fair value less costs to sell instead at cost, according to IAS 41 Agriculture, since the fair value of these biological assets became reliably measurable. The changes in fair value were recognized in the consolidated statement of profit or loss. For detailed information see Note 12.

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the

reporting period. The resulting accounting estimates will, by definition, rarely equal the related actual results.

The estimates and assumptions, which may have a significant risk of causing a material impact on the consolidated financial statements, relate primarily to

- Biological assets (see Note 10.2),
- Leasing and right-of-use assets (see Note 22),
- Deferred income tax assets (see Note 29),
- Land titles in Brazil (see Note 10),
- Provisions (see Note 27),
- Contingencies (see Note 28) and
- Defined benefit obligations (see Note 30)

New or revised IFRS standards, amendments and interpretations

Certain IFRS and interpretations were revised or introduced. The relevant ones for the Group are,

effective on or after 1 January 2019:

- *IFRS 16 Leases* – The new standard replaces IAS 17 and requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019, therefore the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. Initial carrying amounts of recognized assets and liabilities of leases previously classified as finance leases applying IAS 17 remained unchanged. The requirements of IFRS 16 were applied to those leases as per 1 January 2019. For lease contracts previously classified as operating leases a right-of-use asset was recognized, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payment relating to that lease. The Group uses the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). Lease payments for these types of contracts are still recognized as operating expenses. Payments for lease liabilities are recognized as depreciations and interest expenses. The weighted average IBR applied on transition was 7.45 %. The quantitative impact on the transition to IFRS 16 on the consolidated statement of financial position as of 1 January 2019 is disclosed in Note 22 on a line by line basis. Precious Woods is not a lessor and also subleases do not occur within the Group.
- *IFRIC 23 Uncertainty over tax treatment* – This amendment had no impact on the consolidated financial statements.

effective on or after 1 January 2020:

The Group does not expect any impact on its consolidated financial statements from new or revised IFRS standards and amendments effective for annual periods beginning on or after 1 January 2020.

The general accounting policies are as follows:

a. Currency

The subsidiaries' accounting records are maintained in the legal currency of the country in which they operate and which is their functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized through profit or loss. The currency translations rates are presented in Note 31.

The financial statements of the subsidiaries have been translated from their functional currencies to the presentation currency (EUR). All assets and liabilities are translated by using the rate of exchange prevailing at the reporting date.

Shareholders' equity accounts are translated at historical exchange rates. The statement of profit or loss is translated at the average rate for the year. Translation differences are recognized as currency translation effects in other comprehensive income.

b. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Such assessment occurs on the basis of events or changes in circumstances, which indicate that the value of an asset may be impaired. If such indications exist, the recoverable amount will be determined for the respective asset. If the asset does not generate cash inflows that are largely independent from other assets, the recoverable amount is determined on the lowest group of assets for which cash inflows are separable. An impairment loss is recognized, if the carrying value exceeds the recoverable amount. The recoverable amount is the higher of value in use and fair value less costs of disposal. The impairment is recorded in the statement of profit or loss.

All specific accounting policies may be found adjacent to the corresponding note on the following pages.

2. Financial risk management

In the normal course of business, the Group is exposed to changes in market risk, liquidity risk and credit risk.

Precious Woods financial risk management seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by the Group finance department under conditions approved by the Board of Directors and Group Management. The Group Management takes decisions covering specific areas, such as foreign exchange risk, on a case-by-case basis.

Market risk

The market risk includes interest rate risk, foreign exchange risk and equity price risk.

Interest rate risk

Precious Woods has no significant interest-bearing assets. The Group's interest rate risk arises from loans. Loans issued at variable rates expose Precious Woods to cash flow interest rate risks.

Management's policy is to maintain its borrowings in fixed rate instruments. There was no material variable interest rate borrowing on 31 December 2018 as well as on 31 December 2019.

Foreign currency risk

Precious Woods operates internationally and is exposed to foreign currency risk arising from various currency exposures. The XAF is in a fix relation to the EUR. Most of the sales out from Gabon are denominated in EUR and largely all costs are in XAF. The sales out of Brazil are denominated in EUR and USD, the costs are in BRL. Therefore, the currency risk for the local books is given. Foreign currency risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. Group loans are denominated in CHF, BRL, EUR and XAF.

To manage their foreign currency risk arising from future commercial transactions the Group may use forward contracts, transacted by the Group finance department. The Group did not use this instrument in the past two years.

The sensitivity analysis below is based on the exposure on 31 December based on assumptions that have been deemed reasonable by Management, showing the impact on profit or loss before tax as well as on equity. The Group uses historical volatilities of the currency pairs below to determine the reasonable shift.

The following table summarizes the Group's sensitivity to currency exposures regarding the positions in the statement of financial position of the main currencies on 31 December:

in thousand EUR	31.12.19 Reasonable shift	31.12.19 "Impact" on profit or loss before tax	31.12.19 "Impact" on equity	31.12.18 Reasonable shift	31.12.18 "Impact" on profit or loss before tax	31.12.18 "Impact" on equity
EUR/CHF	+/-10%	+/-253	+/-2 156	+/-10%	+/-278	+/-2 153
USD/CHF	+/-10%	+/-72	+/-987	+/-10%	+/-39	+/-971
USD/BRL	+/-15%	+/-15	+/-676	+/-15%	+/-5	+/-1 206
CHF/BRL	+/-15%	+/-0	+/-6 997	+/-15%	+/-0	+/-6 798
XAF/CHF	+/-10%	+/-0	+/-1 572	+/-10%	+/-0	+/-1 486

Price risk

Precious Woods is exposed to equity securities price risks because of unlisted investments held by the Group and classified as measured at fair value through OCI. For details about the exposure please see Note 18.

Liquidity risk

Liquidity risk management is centralized at the Groups head office and monitored through cash-flow forecasts. The subsidiaries provide regular forecasts based on the expected cash-inflows and -outflows. Excess funds are pooled in accounts managed by the holding company. Cash deficits are funded by the holding company in general. Group administration raises the majority interest-bearing debt centrally. The Group seeks to reduce liquidity risks through sufficient cash reserves and credit facility arrangements.

The following table analyses the Group's remaining contractual maturity for financial liabilities and derivative financial instruments.

in thousand EUR	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
31 December 2019				
Trade and other payables	14 115	—	—	14 115
Lease liabilities	776	1 336	61	2 173
Loans and other financial liabilities	8 213	8 886	24 936	42 035
Non-derivative financial liabilities	23 104	10 222	24 997	58 323

in thousand EUR	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
31 December 2018				
Trade and other payables	13 983	—	—	13 983
Finance lease liabilities	1 065	591	244	1 900
Loans and other financial liabilities	11 251	2 839	21 250	35 340
Non-derivative financial liabilities	26 299	3 430	21 494	51 223

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Where banks and financial institutions are concerned, generally independently rated parties with a minimum rating of "A" are accepted. Precious Woods has one main relation with a bank, which has a rating of "A+". Most of the sales are CAD (Cash Against Documents) or L/C (Letter of Credit) and if this does not apply and the customers are independently rated, these ratings are used. The Group has set up a policy to minimize credit risk and monitor its clients. Customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Group therefore monitors its account receivables at individual customer level by payment due date rather than the number of days from invoice date. No concentrations of credit risk are currently present. An allowance on bad debt is determined on both an individual and a collective basis. An individual allowance is determined when a customer disputes the amount due, or if legal steps have been taken to recover the overdue amount. Collective loss allowances are determined based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For detailed information see Note 17.

Capital management

When managing capital, Precious Woods' objectives are to safeguard the Group's ability to continue as a going concern and to maintain an optimal structure to reduce the cost of capital. In order to reach these goals, Precious Woods issue new shares or sells assets to reduce debts. The mid-term target of the Group is to have an equity ratio of >40%. The Group's equity ratio compares the total shareholders equity to the total assets as presented in the consolidated statement of financial position. Capital is considered the equity attributable to holders of Precious Woods Holding. There were no changes in the Group's approach to capital management during the year.

Guarantees and pledges of assets

The Group has pledged assets as follows:

Land	EUR 24.0 million
Buildings and improvements	EUR 3.5 million
Machinery and vehicles	EUR 1.5 million
Leased machinery and vehicles	EUR 3.1 million

3. Financial information by segment

The activities of the Group are primarily organized and presented in four operating segments supported by a central corporate office. Management monitors and evaluates EBITDA of all segments separately for the purpose of making decisions about resources to be allocated and of assessing performance.

- *Sustainable Forest Management Brazil*: operations active in the sustainable management of tropical forests and the processing of tropical timber in Brazil
- *Sustainable Forest Management Gabon*: operations active in the sustainable management of tropical forests and the processing of tropical timber in Gabon
- *Trading*: trading of timber from external sources in Switzerland
- *Carbon & Energy*: trading of Certified Emission Reductions (CERs)

Precious Woods' forests in Brazil and Gabon are managed in a sustainable manner, which means that not more timber is harvested than can simultaneously grow back, and that the value of the forest is preserved. An integral part of Precious Woods' approach to sustainable forestry is the use of waste wood to produce electricity and the registration and sale of carbon emission reductions (CERs). The calculation parameters of the validation and verification standard CDM (Clean Development Mechanism) for project activities, also used in 2019 for the verification, have been partially adjusted. That led to lower volumes of verified CO₂ equivalents than expected. For 2017, the verification confirmed 34 024 tons of CO₂ equivalents – expected were 51 596 tons, and for 2018 the confirmed amount of CO₂ equivalents totalizes to 29 868 tons – instead of the expected 54 664 tons. In 2019, based on the new calculation scheme, 34 651 tons of CO₂ equivalents were produced, but are not yet verified.

Operating segments – for the year ending on 31 December 2019

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other ¹	Total
Revenues						
Third parties	12 476	27 034	3 935	73	–	43 518
Intersegment	74	43	–	–	–117	–
Associates and related parties	862	–	–	–	–	862
Total revenues	13 412	27 077	3 935	73	–117	44 380
Initial recognition of fair value from biological assets	13 455	–	–	–	–	13 455
Profit/(loss) on sale of fixed assets and affiliates	91	404	–	–	–	495
Share of profit of associates	438	–	–	–	–	438
Earnings before interest, tax, depreciation and amortization (EBITDA)	16 407	4 998	99	7	–3 061	18 450
Depreciation and amortization	–494	–3 319	–	–	–33	–3 845
Impairment charges/reversals	–649	–	–	–	–	–649
Profit/(loss) from operating activities (EBIT)	15 266	1 680	99	7	–3 095	13 956
Financial income and expenses	–672	–1 943	–9	–	279	–2 345
Earnings before tax (EBT)					–	11 611
Income taxes	–1 619	–1 976	49	–	–92	–3 638
Segment assets	78 864	49 995	2 091	555	–429	131 076
Investments in associates	1 066	–	–	–	–	1 066
Capital expenditures	695	4 979	–	–	6	5 680
Segment liabilities	64 278	42 654	1 137	129	–32 227	75 972

¹ The eliminations and adjustments consist of the intersegment eliminations and the results from Precious Woods Holding Ltd, the Luxembourg entities and Precious Woods Management Ltd, which are not allocated to a specific segment.

Operating segments – for the year ending on 31 December 2018

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other ¹	Total
Revenues						
Third parties	11 631	29 293	4 664	–	–	45 588
Intersegment	602	–	–	–	–602	–
Associates and related parties	761	–	–	–	–	761
Total revenues	12 994	29 293	4 664	–	–602	46 349
Profit/(loss) on sale of fixed assets and affiliates	23	–	–	–	1	24
Share of profit of associates	270	–	–	–	–	270
Earnings before interest, tax, depreciation and amortization (EBITDA)	1 608	5 526	433	–0	–2 456	5 111
Depreciation and amortization	–417	–3 000	–	–	–18	–3 435
Impairment charges	19	–	–	–	–	19
Profit/(loss) from operating activities (EBIT)	1 209	2 526	433	–0	–2 473	1 695
Financial income and expenses	–901	–1 670	272	–	–452	–2 751
Earnings before tax (EBT)					–	–1 056
Income taxes	–310	–332	–50	–	31	–661
Segment assets	21 736	48 052	2 887	479	281	73 434
Investments in associates	799	–	–	–	–	799
Capital expenditures	980	4 019	–	–	18	5 017
Segment liabilities	51 664	37 515	1 282	224	–33 105	57 580

¹ The eliminations and adjustments consist of the intersegment eliminations and the results from Precious Woods Holding Ltd, the Luxembourg entities and Precious Woods Management Ltd, which are not allocated to a specific segment.

Geographic information

in thousand EUR	2019		2018	
Revenues				
Europe	24 559	55.4%	28 386	61.1%
Latin America	2 885	6.5%	1 666	3.6%
Africa	7 201	16.2%	6 970	15.0%
Asia	6 448	14.5%	8 352	18.0%
Australia	263	0.6%	45	0.1%
North America	3 024	6.8%	930	2.0%
Total revenues	44 380	100.0 %	46 349	100.0 %
Location of non-current assets				
Switzerland	123	0.1%	77	0.2%
European Union	3	0.0%	3	0.0%
Latin America	71 109	71.6%	14 344	35.4%
Africa	28 119	28.3%	26 070	64.4%
Total non-current assets	99 354	100.0 %	40 494	100.0 %

Accounting policies

Operating segments are reported in the manner consistent with the internal reporting to the chief operating decision

maker, which is the Group Management of Precious Woods. Group Management is responsible for allocating resources and assessing the performance of the operating segments.

4. Revenue from contracts with customers

in thousand EUR	2019	2018
Revenues from sales of timber and roundwood	44 307	46 349
Revenue from sales of certified emission reductions (CERs)	73	–
Total revenues	44 380	46 349

Accounting policies

Revenue from contracts with customers – according to IFRS 15 – is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group generates revenues from sale of logs and sale of sawn timber products and recognizes the revenue at a point in time when the goods are at the point the customer purchases them. Payment of the transaction price is due immediately at the point the customer purchases the goods, or

within 30 days for account holding customers. For international sales the Group recognizes the revenue for goods when the payment for the goods is received and the original shipping documents, for clearance at destination port, are released.

BK Energia – the associate of Precious Woods – generates CERs (Certified Emission Reductions) in the Amazon region of Brazil. These CERs are purchased by Precious Woods Holding. The produced CERs are recognized as inventory and valued at the lower of cost or net realizable value as long as the certification is not yet achieved, and sold afterwards.

5. Consumables used and other production costs

in thousand EUR	2019	2018
Fuel, oil and lubricants	5 454	4 683
Energy – third parties	696	597
Maintenance and spare parts	4 810	5 228
Total consumables used	10 960	10 508

in thousand EUR	2019	2018
Logistics, transportation costs and freight	2 113	1 203
Forest taxes & expenses	1 636	1 848
Insurances (production)	271	268
Rent and lease (production)	31	39
Capitalized own production	–527	–262
Miscellaneous production costs	1 569	1 754
Total other production costs	5 093	4 850

6. Labour costs

in thousand EUR	2019	2018
Wages and salaries	15 224	13 731
Social security costs	2 590	2 172
Pension costs – defined contribution plans	163	650
Pension costs – defined benefit plans	319	285
Other employment benefits	2 445	2 513
Total labour costs	20 741	19 351

in thousand EUR	2019	2018
Forest and processing costs	15 594	14 536
Administration and other labour costs	5 147	4 815
Total labour costs	20 741	19 351

7. Other operating income and expenses

in thousand EUR	2019	2018
Other operating income		
Gain on disposal of fixed assets	495	24
Other income	272	481
Total other operating income	767	505
Other operating expenses		
Audit fees	211	195
Legal and tax fees	229	238
Other consulting fees	211	176
Travel expenses	546	563
IT expenses	179	158
Insurances (non-production)	138	150
Other administrative expenses	1 243	2 469
Total other operating expenses	2 757	3 949

In other administrative expenses communication and investor relation expenses, marketing, non-income tax expenses and the change in expected credit loss allowance are included.

8. Depreciation, amortization and impairment

in thousand EUR	2019	2018
Depreciation of owned assets	2 239	2 920
Depreciation of right-of-use assets	1 106	
Amortization	514	515
Impairment of property, plant and equipment	650	–
Reversal of impairment of property, plant and equipment	–15	–19
Total depreciation, amortization and impairment	4 494	3 416

In 2018, the depreciation of finance-lease assets is included in Depreciation of owned assets.

9. Financial income and expenses

in thousand EUR	2019	2018
Financial income		
Dividends on non-current financial assets	42	35
Reversal of impairment of financial assets at fair value through OCI ¹	576	–
Other financial income	22	39
Total financial income	640	74
Financial expenses		
Interest expenses	2 509	2 185
Foreign-exchange losses	197	250
Other financial expenses	279	390
Total financial expenses	2 985	2 825

¹ For further information, see Note 18

10. Property, plant and equipment

The carrying amounts of all assets summarized in property, plant and equipment, are as follows:

in thousand EUR	2019	2018
Land	56 331	14 204
Forest roads	5 460	5 657
Buildings and improvements	5 764	5 529
Machinery and vehicles	3 702	3 872
Leased machinery and vehicles	—	2 559
Furniture and fixtures	522	554
Construction in progress	4 451	1 330
Advanced payments for PPE	853	1 511
Total carrying amounts	77 083	35 217

The Group uses different valuation methods for its assets. Beside the land in Brazil and Gabon, which, since 2019, is disclosed at fair value according to the revaluation model of IAS 16 Property, Plant and Equipment, the assets are held at cost. The effects of this revaluation are presented in other comprehensive income and form the revaluation surplus on land in equity, details including land movements within PPE are presented in Note 11.

Since 2019, the leased assets are disclosed separately according to IFRS 16 Leases, details are presented in Note 22. Also since 2019, the forests in Brazil are disclosed separately as biological assets, according to IAS 41 Agriculture and are further detailed in Note 12.

Assets held at cost

in thousand EUR

	Forest roads	Buildings and improvements	Machinery and vehicles	Leased machinery and vehicles	Furniture and fixtures	Construction in progress	Advanced payments for PPE	Total PPE at cost
Cost								
At 1 January 2018	11 421	20 536	29 883	3 591	2 254	390	2 889	67 373
Additions	374	275	1 272	1 082	182	1 833	–	3 935
Disposals	–	–	–1 010	–	–218	–	–	–1 228
Reclassifications land	124	405	247	105	–	–881	–4	–108
Currency effects	–471	–230	–709	–	–26	–12	–307	–1 755
At 31 December 2018	11 448	20 986	29 683	4 778	2 192	1 330	2 578	72 996
Reclassification finance leases to right-to-use assets				–4 778				–4 778
At 1 January 2019	11 448	20 986	29 683	–	2 192	1 330	2 578	68 218
Additions	150	874	790		120	3 747	–	5 681
Disposals	–	–910	–1 693		–0	–42	–	–2 645
Reclassifications	–	410	145		28	–583	–	–
Currency effects	–70	–34	–84		–0	–1	–40	–230
At 31 December 2019	11 528	21 326	28 841	–	2 340	4 451	2 538	71 024
Accumulated depreciation and impairment								
At 1 January 2018	5 694	14 888	26 301	1 618	1 707	–	1 196	51 404
Charge for the year	311	715	1 138	584	172	–	–	2 920
Reversal of impairment	–15	–	–	–	–	–	–4	–19
Elimination on disposals	–	–	–1 010	–	–218	–	–	–1 228
Reclassifications	–	–	–17	17	–	–	–	–
Currency effects	–199	–146	–601	–	–23	–	–126	–1 095
At 31 December 2018	5 791	15 457	25 811	2 219	1 638	–	1 066	51 982
Reclassification finance leases to right-to-use assets				–2 219				–2 219
At 1 January 2019	5 791	15 457	25 811	–	1 638	–	1 066	49 763
Charge for the year	323	712	1 024		180	–	–	2 239
Impairment charge	–	–	–		–	–	650	650
Reversal of impairment	–15	–	–		–	–	–	–15
Elimination on disposals	–	–586	–1 631		–0	–	–	–2 217
Currency effects	–31	–21	–65		–0	–	–31	–148
At 31 December 2019	6 068	15 562	25 138	–	1 817	–	1 685	50 272
Carrying amount								
At 31 December 2018	5 657	5 529	3 872	2 559	554	1 330	1 511	21 013
At 1 January 2019	5 658	5 529	3 872	–	555	1 330	1 511	18 455
At 31 December 2019	5 460	5 764	3 702	–	522	4 451	853	20 752

For certain land acquired by Precious Woods in Brazil, the land title registration is not yet finalized. These transactions are disclosed as advanced payments for property, plant and equipment at historical cost. For advanced payments for land titles with a certain risk of losing the land, an allowance is recorded based on Management's estimate of the probability of not being able to prove the ownership of the land. Despite the continued efforts to clean the land titles from legal issues, Precious Woods was not able to reclassify in 2019 any advanced payments for property, plant and equipment to land (2018: EUR 3 535).

Accounting policies

In general, assets in property, plant and equipment are recorded at cost less accumulated depreciation and any impairment in value. Depreciation is applied using the straight-line method over the estimated useful life of the assets as follows:

Permanent forest roads:	25 years
Buildings and improvements:	3 to 25 years
Machinery and vehicles:	4 to 10 years
Furniture and fixtures:	5 to 10 years

The assets' residual values and useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of profit or loss.

11. Land

The land owned by Precious Woods was valued at cost in the past. To better reflect its economic value, Precious Woods decided in 2019 to apply the revaluation model according to IAS 16 Property, Plant and Equipment for all its land assets. Independent valuers performed a revaluation of the land in Brazil and Gabon according to the revaluation model of IAS 16.31. The fair value of the land in Brazil was measured as of 31 December 2019. In Gabon, the valuation used, was performed in 2019 in relation with a possibility for the acquisition of a directly bordering lot of land. The carrying amount, that would have been recognized for those assets by using the cost model, would have been EUR 13.7 million.

Land revaluation Brazil and Gabon

The revaluations were performed by BDO Brazil for the land assets in Brazil and by A.N. Dengue for the land assets in

Gabon. These valuers are not connected to the Group and have recent experience in location and category of the land being valued. The valuation was based on the market value. The sales comparison approach is used to determine market value. This approach consists of comparing the subject land to similar land that were sold in the recent past in an open market situation, and making appropriate adjustments to the value for market trends. This results in a market value for the land.

The fair value measurement for the land has been categorized as a level 2 fair value based on the inputs to the valuation technique used.

Reconciliation of carrying amount of level 2 land revaluation

in thousand EUR	2019 at Fair Value	2018 at cost
At 1 January	14 204	14 790
Disposals	−468	—
Revaluation adjustment	42 669	—
Reclassifications advanced payments for PPE	—	4
Currency effects	−74	−590
At 31 December	56 331	14 204

Land is part of the total PPE, as presented in Note 10.

Accounting policies

The land value is measured at fair value with any changes in value recognized in Other Comprehensive Income under Revaluation surplus.

12. Biological assets

in thousand EUR	2019
At 1 January	–
Initial recognition of fair value	13 455
Currency effects	–297
At 31 December	13 158

The forests of Precious Woods in Brazil are organized as one single forest management and are managed in a sustainable manner, which means that no more than the incremental growth will be harvested and the substance of the forest will be preserved. The forests were not recorded at fair value in the past since fair value measurement was not possible due to a not adapted management system in place. In 2019, independent experts BDO Brazil did the first appraisal of the Group's naturally grown forests according to IAS 41 Agriculture and IFRS 13 Fair Value Measurement. The implementation of the new management system allowed to collect sufficient data to measure the fair value of the forests reliably. The fair value of forests was measured as of 31 December 2019.

Accounting policies

Biological assets are measured at their fair value less costs to sell, with any resultant gain or loss recognized in the consolidated statement of profit or loss. The fair value of biological assets was estimated by applying the income approach, considering the discounted cash flow method. The income approach reflects current market expectations in relation to future values. The costs to sell are made up of harvesting, transporting and processing costs.

Valuation process

The Group has a team within the Internal Reporting department that performs the valuation of biological assets. The valuations will be updated internally at the end of each reporting period. If indicators of major changes are noted, a new external independent appraiser is engaged to recalculate the fair value of the assets. When considering the appropriate input data, the team reviews available information such as quantity of tree harvest: expected yield, current market prices, expected harvest costs through to harvest and the expected timing of harvest.

The valuation policies and procedures, as well as changes in the fair value measurements are reviewed by the chief financial officer (CFO) annually. The CFO is responsible for the Group's internal valuation team. The Group's internal valuation team comprises two employees, both of whom hold relevant internationally recognized professional qualifications and are experienced in valuations in the forest industry.

Methodology and assumptions used in determining fair value

Since management was able to provide reliable cash flow estimates, the group utilized the Income Approach, specifically the Discounted Cash Flow (DCF) Method for determine

the fair value of the biological assets. The DCF Method is a commonly used method for valuing biological assets based on its expected future cash flows.

The following significant assumption were adopted by the group to determine the fair value of the forest:

Volumes: The biological assets consist of a variety of naturally grown trees native to the region, which are cut from 50 cm in diameter and have a natural renewal cycle of 35 years. For value estimation and still considering the characteristics of the evaluated assets and the sustainable management, an annual exploration area of 11 000 to 13 000 hectares was considered. The exploration area of effective forest management area is calculated from the total area of forests owned by Precious Woods (in order to obtain the exploration approval) excluding 20 % of the permanent preservation area.

For the estimation of the fair value of the forest, a certain volume of exploration area was considered, according to the evolution through years and the Group's management expectation of exploration for the coming years. Based on historical data, a weighted average productivity was applied to get an average projected volume per year. The harvesting volume is calculated on effective quantities achieved in the last 20 years of activity in this area with 16 m³/ha/year. The total harvesting volume is expected to be 180 000 m³/year.

Volume adjustment factor: The logs will be transformed to sawn timber in various dimensions. An average yield factor was applied.

Prices: The average price applied on the volume to generate revenues were derived from the segregation between export or domestic market, type of product (commercial / non-commercial) and the corresponding prices. Generally, the costs contain cutting, transportation and processing as well as the depreciation expenses of the related fixed assets. For the export market, additional costs for drying and packaging are added. The majority of timber is for the export market and related to market prices.

Operating costs: The costs include all cost related to the sustainable forest management and the production cost in the industry.

Cost to sell: On top of operating cost there are cost for packaging, administration, sales activities and transportation respected. All cost excluding financial costs and income taxes.

Level 3 fair value

The valuation model considers the present value of the net cash flows expected to be generated from the natural forest management activities in the next 4 years. The forest for the 31 years remaining part of the cycle is regarded as non-productive forest, even if a harvesting will follow, as the forest is naturally re-generated during the cycle of 35 years. There-

fore, the values remain +/- the same if there are no major market price differences than the ones applied.

Key assumption used in the determination of the discount rate

In determining the after tax weighted average cost of capital (WACC) a group rate of 7.1% used in Brazil has been applied considering the following inputs:

	2019
Unlevered beta factor	1.19
Risk free rate	2.4%
Equity risk premium	5.2%
Debt/Equity ratio	39.4%
Tax rate	34.0%

Sensitivity analysis

Assuming all other unobservable inputs are held constant, the following changes in these above assumptions will cause a change in the fair value of the forest:

in thousand EUR	FV	Effect
Assumption 31 December 2019	13 158	
Sales prices-5.0%	9 855	-25%
Costs +5.0%	10 585	-20%
Volumes-10.0%	7 505	-43%
Discount rate +50.0%	12 368	-6%

The above sensitivity analysis shows how the present value of the discounted cash flows would be affected if the key valuation parameters were attributed other values than those that form the basis of the current valuation of the discounted cash flows. An increase by the same percentage would have the opposite effect on the valuation.

The Group is exposed to a number of risks relevant to its natural forest management activities, namely:

Regulatory and environmental risk: The Group has established environmental policies and procedures aimed at compliance with environmental legislation. Management performs regular reviews to identify environmental risks and to ensure that the management systems in place are adequate. The Group manages its natural forest in compliance with FSC and PEFC standards since 1994 or 2017 respectively.

Supply and demand risk: The Group is exposed to risks arising from fluctuations in the price and demand for log products. When possible, the Group manages these risks by aligning its harvest volumes to market demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with expected demand on a sustainable basis.

Climate and other risk: The Group's forests are exposed to the risk of damage from climatic changes, diseases and other natural forces.

13. Intangible assets

in thousand EUR	Trademarks and licences	Other	Total
Cost			
At 1 January 2018	12 319	8 131	20 450
Additions	–	5	5
Currency effects	–	–215	–215
At 31 December 2018	12 319	7 921	20 240
Additions	–	53	53
Reclassifications	–	–2	–2
Currency effects	–	–15	–15
At 31 December 2019	12 319	7 957	20 276
Accumulated amortization and impairment			
At 1 January 2018	10 277	5 436	15 713
Charge for the year	282	234	515
Currency effects	–	7	7
At 31 December 2018	10 558	5 677	16 235
Charge for the year	282	232	514
Currency effects	–	13	13
At 31 December 2019	10 840	5 922	16 762
Carrying amount			
At 31 December 2018	1 761	2 244	4 005
At 31 December 2019	1 479	2 035	3 514

Other intangible assets mainly include forest concessions and software.

Accounting policies

Forest concessions are not classified as lease contracts, as the right to direct the use of the concession is not with the Group, but with the Gabonese government. Acquired trademarks and licenses have a finite useful life and are carried at

cost less accumulated amortization and impairment loss. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives as follows:

Acquired trademarks:	12 to 24 years
Licenses:	12 to 24 years
Other intangible assets:	12 to 50 years

14. Investment in associates

in thousand EUR	2019	2018
At 1 January	799	765
Share of profit of associates including impairment	438	270
Dividends received	-259	-140
Currency effects	88	-96
At 31 December	1 066	799

BK Energia

The renewable-power-generation plant BK Energia generates CERs (Certified Emission Reductions) in the Amazon region of Brazil. It complies with all the necessary conditions established in the Kyoto Protocol and by the UNFCCC (United Nations Framework Convention on Climate Change). Carbon

emissions are avoided by substituting diesel fuel with wood waste from the sawmill and from forest operations for generation of electricity.

The investment of 40% is valued using the equity method as Precious Woods has no control over BK Energia.

in thousand EUR (representing 100%)	Assets	Liabilities	Revenues	Profit
Key figures 2018	2 639	377	4 455	676
Key figures 2019	3 198	532	5 004	1 095

Accounting policies

Certified Emission Reductions (CERs) are granted by the United Nations Framework Convention on Climate Change (UNFCCC) for Greenhouse Gas Reduction per metric ton of CO₂ equivalent.

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operational policy decisions of the investee,

but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

15. Inventories

in thousand EUR	2019	2018
Logs	3 730	3 756
Sawn timber	3 851	3 114
Veneers	1 618	1 087
Industrialized products	1 175	1 060
Certified Emission Reductions (CERs)	129	224
Export products in transit	3 368	2 622
Spare parts and other	4 693	3 582
Obsolescence reserve	-1 757	-528
Total inventories	16 807	14 917

Obsolescence reserve

in thousand EUR	2019	2018
At 1 January	528	632
Increase	1 235	260
Reversed	-3	-358
Currency effects	-2	-6
At 31 December	1 757	528

Accounting policies

Inventories are valued at the lower of cost or net realizable value. Logs and finished products are recorded at the average cost of production, less provision for losses, when applicable. Net realizable value is the estimated selling price in the ordi-

nary course of business, less estimated costs of completion and the estimated costs to make the sale. The cost of semi-finished and finished goods contains direct production costs including materials and production costs, as well as production overhead costs.

16. Prepayments

in thousand EUR	2019	2018
Prepaid expenses, prospecting	—	140
Prepaid expenses, other	534	721
Total prepayments	534	861

Prepaid expenses are expenses paid in the current accounting period but relating to a future accounting period. Prospecting

costs are the costs incurred in the collection of data regarding the area to be harvested the next year.

17. Trade and other receivables

in thousand EUR	2019	2018
Trade receivables, third parties	5 232	6 663
Trade receivables, associates	48	5
Allowance for expected credit losses	-785	-914
Total trade receivables net	4 495	5 754
Other short-term receivables	6 283	5 830
Total trade and other receivables net	10 778	11 584

The carrying amounts of the receivables approximate to their fair values. Other receivables mainly contain credit balances from governments, therefore the expected credit loss is 0.

Allowance for expected credit losses

in thousand EUR	2019	2018
At 1 January	914	899
Increase allowance for expected credit losses	-62	112
Decrease allowance for expected credit losses	-56	-6
Currency effects	-11	-91
At 31 December	785	914

The exposure to credit risk is covered with the impairment for expected credit losses under IFRS 9 on trade receivables. It contains collectively assessed positions (Lifetime ECL), using the simplified approach, as well as individually assessed positions (12 month ECL).

Taking into consideration the terms and conditions established with customers, the following table sets forth details of the age of trade receivables:

in thousand EUR	Expected credit loss default rate	2019	2018
Not overdue	0.5–0.6%	3 787	1 172
Less than 30 days overdue	0.5–0.6%	899	3 430
31 to 60 days overdue	1.7–2.0%	138	1 507
61 to 180 days overdue	10.0%	161	317
More than 180 days overdue	15.0%	295	242
Total trade receivables gross		5 280	6 668
Allowance for expected credit losses		-785	-914
Total trade receivables net		4 495	5 754

The standard payment terms for trade receivables are in most instances Cash Against Documents (CAD) or Letter of Credit (L/C). The trade receivables are not interest-bearing, and the Group considers them to be credit impaired when internal or external information give cause for serious concern to receive the outstanding amount. The credit ratings for the lifetime ECL base on the aging buckets of the trade receivables.

Accounting policies

Trade accounts receivable are recognized initially at fair value and subsequently measured at amortized cost less allow-

ances. The allowances base on the simplified approach of full lifetime expected credit losses as defined by the impairment model of IFRS 9. To calculate these allowances the trade accounts receivables are clustered into ageing buckets and each of these buckets weighted with a certain percentage. Doubtful accounts are assessed individually to analyze if a significant increase in credit risk occurred and an individual impairment is needed. Indications for such impairments are substantial financial problems on the part of the customer, a declaration of bankruptcy, or a significant delay in payment occurring.

18. Non-current financial assets

in thousand EUR	2019	2018
NST	–	442
NIBO	25	24
Total non-current financial assets	25	466

The investment in the company Norsudtimber (NST) in Vaduz with a fair value of EUR 1.0 million (2018: EUR 0.4 million) was reclassified to assets held for sale. Further details about the sale are described in Note 33. Norsudtimber holds majority participations in four important forestry companies in the Democratic Republic of the Congo.

The non-current financial assets contain an investment of EUR 24 757 (2018: EUR 23 857) in Nederlandse Internationale Bosbouw Onderneming NV (NIBO). This investment is placed in USD with a value of USD 27 306.

19. Trade and other payables

in thousand EUR	2019	2018
Trade payables, third parties	4 607	4 278
Total trade payables	4 607	4 278
Other current liabilities, third parties	6 349	5 341
Other current liabilities, associates	129	224
Accrued expenses	3 030	4 140
Total other payables	9 508	9 705
Total trade and other payables	14 115	13 983

Further details about financial risk management are described in Note 2.

20. Financial liabilities

Carrying value of financial liabilities

in thousand EUR	2019	2018
Financial liabilities from loans	42 035	35 340
Lease liabilities	2 173	1 900
Total financial liabilities	44 208	37 240
Current financial liabilities	2 317	5 570
Current financial liabilities, related parties with significant influence	5 896	6 747
Short-term lease liabilities	776	1 065
Non-current financial liabilities, third parties	8 792	4 302
Non-current financial liabilities, related parties with significant influence	25 030	19 754
Non-current financial liabilities, associates	–	33
Long-term lease liabilities	1 397	835
Total financial liabilities	44 208	37 240

Interest expenditure from lease liabilities amounted to EUR 0.1 million (2018: EUR 0.1 million).

The changes in liabilities from financing activities are detailed below:

in thousand EUR	Current financial liabilities	Non-current financial liabilities	Total
At 1 January 2018	9 699	23 720	33 419
Cashflows			
Cash inflow	2 990	1 686	4 676
Cash outflow	–1 801	–876	–2 677
Non-cash changes			
Reclassifications	1 229	–1 229	–
Increase in lease liabilities		1 082	1 082
Currency effects	199	541	740
At 31 December 2018	12 316	24 924	37 240
Adjustment due to IFRS 16		584	584
At 1 January 2019	12 316	25 507	37 823
Cashflows			
Cash inflow	–	7 796	7 796
Cash outflow to reflect lease payments	–10	–206	–216
Cash outflow due to redemption	–4 756	–911	–5 668
Non-cash changes			
Reclassifications	1 186	–1 186	–
Increase in lease liabilities	17	1 186	1 203
Increase to reflect interest on lease liabilities	1	64	65
Accrued interests	–	2 278	2 278
Disposal due to renouncement	–	–66	–66
Currency effects	235	758	993
At 31 December 2019	8 989	35 219	44 208

The carrying amounts of financial liabilities are denominated in the following currencies. The amounts are translated into EUR at the exchange rate of the reporting date.

in thousand EUR	2019	2018
Currencies financial liabilities/borrowings denominated in:		
EUR	1 015	3 000
XAF	10 056	6 343
CHF	30 974	25 870
BRL	2 163	2 027
Total financial liabilities	44 208	37 240

The effective interest rates at the reporting date by currency were as follows:

	2019	2018
EUR	1.0 – 4.0%	4.2%
XAF	8.5–11.0%	8.5–11.0%
CHF	1.5 – 6.0%	6.0%
BRL	4.5 – 6.8%	6.5%

Further details about financial risk management are described in Note 2.

21. Financial instruments by category and Fair value hierarchy

Financial instruments by category

in thousand EUR	at amortized costs	at fair value through OCI	Total
31 December 2019			
Assets			
Right-of-use assets	3 249	–	3 249
Cash and cash equivalents	2 578	–	2 578
Trade and other receivables	6 292	–	6 292
Non-current financial assets	–	25	25
Total financial assets	12 119	25	12 144

in thousand EUR	at amortized costs	at fair value through OCI	Total
31 December 2018			
Assets			
Cash and cash equivalents	2 798	–	2 798
Trade and other receivables	7 511	–	7 511
Non-current financial assets	–	466	466
Total financial assets	10 309	466	10 775

in thousand EUR	2019	2018
Liabilities at amortized costs		
Trade and other payables	10 446	9 448
Financial liabilities	42 035	35 340
Lease liabilities	2 173	1 900
Total financial liabilities	54 654	46 688

Accounting policies

Financial assets are categorized as current assets if they are expected to be realized within 12 months from the reporting date otherwise they are included in non-current assets. Trade accounts receivables and other current assets are measured at amortized cost less allowances for expected credit losses. Financial assets at fair value through profit or loss are subsequently measured at fair value, with changes in fair value recorded in the statement of profit or loss. Financial assets at fair value through OCI are subsequently measured at fair value, with changes in fair value recorded in other comprehensive income.

Trade accounts payables and current liabilities are categorized as current liabilities if they are expected to be realized within 12 months from the reporting date otherwise they are included in non-current liabilities. They are measured at amortized cost. Borrowings are classified as current liabilities unless Precious Woods has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. They are initially recorded at fair value, net of transaction costs, and subsequently measured at amortized cost according to the effective interest rate method.

Cash and cash equivalents comprise cash at bank and in hand and short-term highly liquid deposits with an original maturity of three months or less. They are recorded at nominal value. Bank overdrafts are presented within current financial liabilities.

Fair value hierarchy

The carrying amount of financial instruments corresponds approximately to their fair value. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3 – techniques that use inputs, which have a significant effect on the recorded fair value, and which are not based on observable market data

Assets measured at fair value

in thousand EUR	31 December 2019	Level 1	Level 2	Level 3
Non-current financial assets	25	–	–	25
Biological assets	13 158	–	–	13 158
Land	56 331	–	56 331	–
Total assets measured at fair value	69 514	–	56 331	13 183

in thousand EUR	31 December 2018	Level 1	Level 2	Level 3
Non-current financial assets	466	–	–	466
Total assets measured at fair value	466	–	–	466

Reconciliation of fair value measurement of level 3 financial assets

in thousand EUR	2019	2018
At 1 January	466	449
Reversal of impairment	576	–
Reclassification to assets held for sale	–1 024	–
Initial recognition of biological assets	13 158	–
Currency effects	6	17
At 31 December	13 183	466

22. Leasing

As of 31 December, the reconciliation for the new lease liabilities is as follows:

in thousand EUR	1 January 2019
Minimum lease payments under operating leases as of 31 December 2018	227
Recognition addition of operating leases	415
Recognition exemption	
for short-term leases	–335
for leases of low value assets	–3
Effect from discounting at the incremental borrowing rate as of 1 January 2019	–31
Lease liabilities additionally recognized based on IFRS 16 as of 1 January 2019	273
Liabilities from finance leases as of 31 December 2018	1 900
Total liabilities from leases as of 1 January 2019	2 173

Leasing

The Group has entered into several leases for vehicles and machinery. The leases have lifespans of three to four years.

The development of the lease liabilities is as follows:

in thousand EUR	2019	2018
At 1 January	1 900	2 037
Adjustment due to IFRS 16	273	–
At 1 January (adjusted)	2 173	–
Additions	1 514	1 082
Increase to reflect interest on leases	65	–
Disposals	–1 362	–1 219
Lease payments	–217	–
At 31 December	2 173	1 900
Thereof short-term	776	1 065
Thereof long-term	1 397	835

Leased assets

in thousand EUR	Leased buildings and building improvements	Leased PPE	Total
At 31 December 2018	–	2 559	2 559
Adjustment due to IFRS 16	131	500	631
At 1 January 2019	131	3 059	3 190
Additions	–	1 166	1 166
Depreciation	–29	–1 077	–1 106
Currency effects	–	0	0
At 31 December 2019	102	3 148	3 250

As of 31 December, other operating expenses contain the following expenses in connection with leases:

in thousand EUR	2019	2018
Expenses for short-term leases	335	–
Expenses for leases of low value	1	–
Total operating lease expenses	336	–

Accounting policies

For the transition to IFRS 16, the modified retrospective approach was applied. The previous years' figures were not restated and still disclosed according to IAS 17. The requirements of IFRS 16 were applied to those leases as per 1 January 2019.

Policy from 1 January 2019 (according to IFRS 16)

Each contract has to be assessed at inception, whether it constitutes or contains a lease. This is given, when the contract conveys the right to control the use of the identified asset for the period of use in exchange for substantially all of the economic benefits. Precious Woods elected to apply the recognition exemptions to short-term leases and low value leases. For such leases no right-of-use asset and no lease liability are recorded, instead the lease payments are recognized as operating expenses.

At the commencement date, the lease liability is measured at the present value of future lease payments during the fix period of the lease. Incremental borrowing rates are used for the discount rates. The right-of-use asset corresponds initially to the lease liability, plus any initial direct costs, advance

payments and dismantling or removing costs. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term or the useful life. If at the end of the lease term the ownership of the leased asset is transferred to the lessee or the lessee is reasonably certain to exercise the purchase option, then the right-of-use asset has to be depreciated according to the useful life defined for property, plant and equipment.

Policy until 31 December 2018 (according to IAS 17)

Leasing of assets, in which substantially all the risks and rewards incidental to ownership are transferred to the lessee, are classified as finance leases. Finance leases are initially recognized in the statement of financial position at the lower of the fair value of the leased assets, or the present value of the minimal lease payments. The leased asset is depreciated over the shorter of the useful life or the lease term. The corresponding financial obligations are recorded as liabilities. Leased assets, in which substantially all risks and rewards incidental to ownership are effectively held and used by the lessor, are classified as operating leases. Lease payments under an operating lease are recorded in the statement of profit or loss on a straight-line basis over the lease term.

23. Share capital

This supplementary information, the purpose of which it is to show the development of the Group's share capital, is denominated in Swiss francs, the functional currency of

Precious Woods Holding. In the financial statements it is translated into the Group's presentation currency (EUR) using historical exchange rates.

Share capital overview

	Number of shares at a nominal value of CHF 1 2019	Number of shares at a nominal value of CHF 1 2018	Share capital in thousand EUR 2019	Share capital in thousand EUR 2018
Issued and fully paid-in capital				
At 1 January 2019	7 052 745	7 052 745	5 731	5 731
Increase	—	—	—	—
At 31 December 2019	7 052 745	7 052 745	5 731	5 731

The shares rank equally with regard to voting rights and dividends, and the Articles of Association include no restrictions on transfer of the Group's shares. Precious Woods' registered shares are not subject to any restriction on voting, distribution, transfer or other rights that exceed regulations which are unalienable under Swiss law. The authorized share capital and the conditional share capital are intended to be utilized for acquisitions, the purchase of forests or for reforestations, investments, convertible loans, expansions of shareholder base or any other important reason. The shareholders' subscription rights can be excluded in these cases, as well as for firm underwriting agreements.

Ordinary share capital

On 31 December 2019, the issued and fully paid-in share capital amounted to CHF 7 052 745.

Authorized share capital

On 16 May 2019, authorized capital in the amount of CHF 1 000 000 was adopted by the general meeting. It will expire in May 2021.

Conditional share capital

On 31 December 2019, the portion of the conditional share capital which is intended to cover options of employees and board members amounted to CHF 46 638, and the total conditional share capital amounted to CHF 1 396 638.

24. Major shareholders

On 31 December 2019, the major shareholders holding 3% (rounded) or more of Precious Woods Holding outstanding shares were as follows:

	Number of shares 2019		Number of shares 2018	
Fleischmann Werner	1 251 161	17.7%	1 170 616	16.6%
Aires International Investment Inc.	800 000	11.3%	800 000	11.3%
Campdem Development SA	650 000	9.2%	652 130	9.2%
Aage V. Jensen Charity Foundation	455 704	6.5%	455 704	6.5%
Basler Insurances	333 053	4.7%	333 053	4.7%
von Braun	324 324	4.6%	324 324	4.6%
BoD / Management Precious Woods	299 861	4.3%	296 330	4.2%
Monzol Ventures AG	241 808	3.4%	–	
Lindenberg Capital AG	241 533	3.4%	–	
Vasalli Christian	236 000	3.3%	236 000	3.3%
Total number of outstanding shares	7 052 745	100.0 %	7 052 745	100.0 %

The financial liabilities on loans from related parties with significant influence are presented in Note 20.

25. Earnings per share

Calculation of the basic and diluted earnings per share is based on the following data:

In EUR	2019	2018
Net income/(loss) attributable to Group equity holders	7 987 606	–1 715 727
Weighted average number of shares	7 050 798	7 052 656
Basic earnings/loss per share	1.13	–0.24
Weighted average number of shares for diluted earnings per share	7 050 798	7 052 656
Diluted earnings per share	1.13	–0.24

Basic earnings per share (EPS) are calculated by dividing the net income attributable to shareholders of Precious Woods Holding by the weighted average number of shares outstanding during the year. For diluted EPS, the weighted average

number of shares outstanding is adjusted to assume conversion of all potentially dilutive shares arising from options on Precious Woods shares.

26. Related party balances and transactions

An overview of the subsidiaries of Precious Woods is presented in Note 32. Details of transactions between the Group and other related parties are disclosed below. Major share-

holders holding 3% or more of Precious Woods Holding are disclosed in Note 24.

a. Balances and transactions

The balances with related parties, as of 31 December 2019 and 2018, are detailed below:

in thousand EUR	2019	2018
Trade receivables and other current receivables from associates	48	5
Trade and other current liabilities from associates	129	224
Current loans from shareholders with significant influence	5 896	6 747
Non-current loans from shareholders with significant influence	22 727	19 754
Non-current financial liabilities from shareholders with significant influence	2 303	1 154
Paid interest expenses to shareholders with significant influence	485	420
Paid interest expenses to other shareholders	51	—

b. Compensation

During the ordinary course of business in 2019 and 2018, the Group granted compensation to related parties as follows:

in thousand EUR	2019	2018
Group Management		
Short-term employee benefits	742	715
Post-employment employee benefits	118	110
Total Group Management	859	825
Board of Directors		
Short-term employee benefits	205	271
Post-employment employee benefits	10	11
Total remuneration and fees Board of Directors	216	282
Operating management		
Short-term employee benefits	702	684
Post-employment employee benefits	77	56
Total operating management	779	740
Total compensation to key management personnel	1 854	1 847

There was no compensation paid regarding long-term benefits, termination benefits or share-based payments.

27. Provisions

				2019	2018
in thousand EUR	Legal claims	Employee benefits	Others	Total	Total
Short-term provisions	–	–	–	–	156
Long-term provisions	400	3 290	736	4 426	4 522
Total provisions	400	3 290	736	4 426	4 678
At 1 January	409	2 725	1 544	4 679	4 372
Additions	129	498	29	657	1 396
Unused amounts reversed	–126	–	–165	–291	–757
Used during the year	–7	–	–668	–675	–246
Currency effects	–5	66	–5	56	–87
At 31 December	400	3 290	736	4 426	4 678

Legal claims

The amount of EUR 0.4 million represents a provision for certain legal claims brought against the Group by different stakeholders. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant losses beyond the amounts provided for as on 31 December 2019.

Employee benefits and others

The total amount of EUR 4.0 million for other short- and long-term provisions includes provisions for contributions to employee contribution plans (EUR 1.3 million), for contributions to employee benefit plans (EUR 1.9 million) see Note 30, for tax fees (EUR 0.4 million) and for other provisions (EUR 0.4 million).

Accounting policies

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

28. Contingencies

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material payouts other than those for which a provision has been made will arise from contingent liabilities (see Note 13).

Assessment by Brazilian authorities

In 2002, a Brazilian subsidiary was assessed by IBAMA, the Brazilian Institute of Environment and Renewable Natural Resources, in relation to certain log-transporting procedures, which had been in place and approved informally by government agencies for many years. In July 2010, an important administrative case was won against IBAMA. The fines

imposed on the Group, which are not yet settled, amount to approximately EUR 5.5 million. The Group's Management and its attorneys believe that the remaining fines are arbitrary in nature, unjustified, and will also be eventually cancelled, and therefore consider that no material payouts will occur as a result of the final decision on this process; consequently, no accrual was recorded in the Group's consolidated financial statements as of 31 December 2019 (31 December 2018: 0). In 2011, the subsidiary was notified by the Federal Justice to offer assets to pledge or to prepay the penalty. The subsidiary offered 61 907 hectares to pledge. The counterparty has not accepted the pledge and has instead blocked an amount of EUR 0.1 million in cash on Group accounts.

29. Income taxes

Major components of tax expenses/(income)

in thousand EUR	2019	2018
Current tax expenses/(income)	357	322
Deferred tax expenses/(income) relating to temporary differences	3 281	339
Total income taxes	3 638	661

Reconciliation of tax expenses/(income)

in thousand EUR	2019	2018
Earnings before tax	11 611	-1 056
Expected tax expenses/(income) based on a weighted average	3 203	-281
Tax adjustments related to prior years	—	321
Derecognition of previously recognized deferred tax assets	1 539	260
Recognition of previously recognized deferred tax assets	-2 633	—
Minimum tax in Gabon	405	—
Change in permanent differences	292	65
Non-deductible expenses	566	296
Other	266	—
Total income taxes	3 638	661

The weighted average applicable tax rate, considering all profit- and loss-making entities, was 28% (2018: 27%).

Deferred income tax

in thousand EUR	2019	2018
Total deferred tax assets	8 448	3 064
Total deferred tax liabilities	-21 376	-3 015
Net deferred tax assets/(liabilities)	-12 928	49

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset them and when the deferred income taxes relate to the same tax authority.

Deferred income tax assets

in thousand EUR	2019	2018
Inventories	33	—
Property, plant and equipment	—	1 090
Tax loss carry-forwards	2 371	1 011
Provisions	180	—
Financial liabilities	5 062	484
Other	802	479
Total deferred tax assets	8 448	3 064

Deferred income tax liabilities

in thousand EUR	2019	2018
Property, plant and equipment	-16 617	-2 490
Biological assets	-4 474	–
Intangible assets	-285	-368
Financial assets	–	-25
Other	–	-132
Total deferred tax liabilities	-21 376	-3 015
Net deferred tax assets/(liabilities)	-12 928	49
Reported in the balance sheet as follows:		
Deferred tax assets	–	1 620
Deferred tax liabilities	-12 928	-1 571
Net deferred tax assets/(liabilities)	-12 928	49

Net movement of the deferred income tax account is as follows:

in thousand EUR	2019	2018
At 1 January	49	381
Income statement charge	-3 281	-339
Tax charged to other comprehensive income	-9 966	3
Currency effects	270	3
At 31 December	-12 928	49

The Group did not recognize deferred income tax assets on deductible temporary differences of EUR 5.1 million (2018: EUR 15.9 million) and on unused tax losses of EUR 65.7 million (2018: EUR 88.7 million).

These unrecognized tax loss carry-forwards expire as presented in the table below:

in thousand EUR	2019	2018
0–2 years	17 674	28 895
3–4 years	28 851	35 538
5–7 years	366	954
over 7 years	18 764	23 284
Total tax loss carry-forwards	65 655	88 671

EUR 10.1 million of these tax loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 19% (2018: EUR 11.7 million with an applicable tax rate of 20%), EUR 6.8 million belong to the Brazilian operations with an applicable tax rate of 34% (2018: EUR 12.7 million with an applicable tax rate of 34%), EUR 11.9 million belong to the Gabonese operations with an applicable tax rate of 30% (2018: EUR 12.8 million with an applicable tax rate of 30%) and EUR 36.8 million belong to the Swiss operation with an applicable tax rate of 11.91% (2018: EUR 53.9 million with an applicable tax rate of 9.6%).

Accounting policies

The charge for current income tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates for the countries where the Group has operations. Deferred income taxes are

accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements, and the corresponding tax basis used in the computation of taxable profit. Deferred income tax liabilities are generally recognized for all taxable temporary differences, and deferred income tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which, at the time of the transaction, affects neither the taxable profit nor the accounting profit.

30. Employee benefits

The employee benefit plans of the Group are based on legal requirements in the respective countries. Beyond these regulatory requirements, the Group provides meals, housing, education and access to medical care according to the local operating group's policy.

The Group's contribution to defined contribution plans amounted to EUR 0.7 million in 2019 (2018: EUR 0.6 million).

The pension plan for employees in Switzerland is a defined benefit plan and covers the risks of age, death and disability.

Financing occurs by means of employer and employee contributions, defined in the pension fund rules in terms of an age-related sliding scale of percentages of salary, as well as returns from the investments made by the pension fund. The pension fund guarantees the vested benefit amount as confirmed annually to members, as regulated by Swiss law. Interests may be added to member balances at the discretion of the Board of Trustees. At retirement date, members have the right to take their retirement benefit as a lump sum or as an annuity. No plan amendment, curtailment or settlement has occurred during the year.

Changes in the present value of the defined benefit obligation

in thousand EUR	2019	2018
Defined benefit obligation at 1 January	3 801	2 983
Current service costs	307	277
Interest costs	35	22
Contribution by plan participants	97	90
Actuarial losses/(gains)	196	53
Benefits paid/transferred	–2	244
Currency effects	159	132
31 December	4 593	3 801
Plans wholly or partly funded	4 593	3 801
Plans wholly unfunded	–	–

Movement in the fair value of the plan assets

in thousand EUR	2019	2018
Opening fair value of plan assets	2 380	1 772
Interest income	23	14
Return on plan assets excluding interest income	–54	15
Contributions by the employers	177	163
Contributions by plan participants	97	90
Benefits paid/transferred	–2	244
Currency effects	96	82
31 December	2 717	2 380

in thousand EUR	2019	2018
Present value of obligations	4 593	3 801
Fair value of plan assets	2 717	2 380
Net liability	1 876	1 421

Changes in net liability

in thousand EUR	2019	2018
Opening net liability	1 421	1 211
Pension cost recognized in profit or loss	319	285
Pension cost recognized in other comprehensive income	250	38
Employer contributions	–177	–163
Currency effects	63	50
Recognized in balance sheet	1 876	1 421

Amounts recognized in profit or loss in respect of the defined benefit plan are as follows:

in thousand EUR	2019	2018
Current service costs	307	277
Net interest costs	12	8
Recognized in profit or loss	319	285

Amounts recognized in other comprehensive income in respect of the defined benefit plan are as follows:

in thousand EUR	2019	2018
Return of plan assets excluding interest income	–54	15
Changes in financial assumptions	–336	146
Experience adjustments	140	–199
Recognized in other comprehensive income	–250	–38

The assets are invested in a multi-employer plan and are therefore mixed. Thus, it is not possible to disclose the asset allocation as requested in IAS 19.

Principal actuarial assumptions used

	2019	2018
Expected employer contributions	178 861	164 521
Discount rates	0.25%	0.90%
Expected salary increases	1.00%	1.00%
Expected long-term increase of pensions	0.00%	0.00%

Sensitivity to changes in the principal assumptions

in thousand EUR	DBO	Effect
Actuarial assumption 31 December 2019	4 593	
Discount rate +0.5%	4 179	–9.00%
Discount rate –0.5%	5 070	10.40%
Salary increase rate +0.5%	4 638	1.00%
Salary increase rate –0.5%	4 550	–0.90%

Accounting policies

The Group has both defined benefit plans and defined contribution plans.

The obligation and costs of pension benefits are determined using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Past service costs, which comprise plan amendments and curtailments, as well as gains or losses on the settlement of pension benefits are recognized immediately when they occur. Remeasurements, which comprise actuarial gains and losses on the pension obligation, the return on plan assets and

changes in the effect of the asset ceiling excluding amounts included in net interest, are recognized directly in other comprehensive income and are not reclassified to profit or loss in subsequent periods. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is determined by reference to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

Payments to defined contribution pension plans are charged as an expense to the statement of comprehensive income as they fall due.

31. Currency translation rates

The currency translation rates for the consolidated financial statements were as follows:

in EUR		2019				2018			
		Year-end rate	in % of previous year	Average rate	in % of previous year	Year-end rate	in % of previous year	Average rate	in % of previous year
Swiss franc	1 CHF	0.9212	103.8%	0.8988	103.8%	0.8877	103.8%	0.8659	96.1%
Euro	1 EUR	1.0000	100.0%	1.0000	100.0%	1.0000	100.0%	1.0000	100.0%
Brazilian real	1 BRL	0.2216	98.4%	0.2266	97.3%	0.2251	89.4%	0.2330	83.8%
US Dollar	1 USD	0.8915	102.0%	0.8932	105.4%	0.8737	104.7%	0.8472	95.5%
CFA-Franc BEAC	1 XAF	0.0015	100.0%	0.0015	100.0%	0.0015	100.0%	0.0015	100.0%

32. Basis of consolidation

The consolidated financial statements comprise the financial statements of Precious Woods Holding Ltd and its subsidiaries. Control is achieved when Precious Woods Holding Ltd. is exposed, or has rights, to variable returns from its direct or indirect involvement with the investee and has the ability to

affect those returns through its power over the investee. Usually control is achieved through a majority of voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is lost.

The following subsidiaries are included in the consolidated financial statements:

Subsidiary	Country	Ownership	Ownership
		2019	2018
Precious Woods Management Ltd.	British Virgin Islands	100%	100%
Madeiras Preciosas da Amazônia Manejo Ltda. ¹	Brazil		100%
Mil Madeiras Preciosas Ltda.	Brazil	100%	100%
Monte Verde Manejo Florestal Ltda. (Ex Carolina Indústria Ltda.) ²	Brazil	100%	100%
Precious Woods do Pará S.A. ²	Brazil		100%
Precious Woods Manejo Florestal Ltda.	Brazil	100%	100%
Monte Verde Madeiras Ltda. ²	Brazil		100%
Precious Woods Europe B.V.	The Netherlands	100%	100%
Lastour & Co. S.A.	Luxembourg	100%	100%
Unio Holding S.A.	Luxembourg	100%	100%
Precious Woods – Compagnie Equatoriale des Bois S.A.	Gabon	99%	99%
Precious Woods – Tropical Gabon Industrie S.A.	Gabon	100%	100%

¹ Merged with Mil Madeiras Preciosas Ltda.

² Merged to Monte Verde Manejo Florestal Ltda.

In November 2019, the structure of the subsidiaries in Brazil was optimized. The two existing sub-holdings with a total of 6 entities were reduced to three entities. On the one hand, Madeiras Preciosas da Amazônia Manejo Ltda. was merged into MIL Madeiras Preciosas Ltda. On the other hand, Carolina Indústria Ltda., Precious Woods do Pará S.A. as well as Monte Verde Madeiras Ltda. were merged and form together the legal entity Monte Verde Manejo Florestal Ltda.

Accounting policies

For purchases of non-controlling interests, the difference between any consideration paid and the relevant share of non-controlling interest acquired is deducted from equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

33. Subsequent events

The shares in NST (5%), reported in the consolidated statement of financial position as assets held for sale, were sold in March 2020 for EUR 1.0 million to the majority shareholder.

As to the actual COVID-19 situation Precious Woods cannot clearly conclude the potential impact in sales and working capital for the time being.

34. Approval of financial statements and dividends

The financial statements were approved by the Board of Directors on 15 April 2020 and authorized for issue, and are subject for approval by the shareholders at the Annual

General Meeting. The Board of Directors proposes not to pay a dividend for 2019 (2018: no dividend paid).

To the General Meeting of
Precious Woods Holding AG, Zug

Zurich, 15 April 2020

Statutory auditor's report on the audit of the consolidated financial statements



Opinion

We have audited the consolidated financial statements of Precious Woods Holding AG and its subsidiaries (the Group), which comprise the Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity and Consolidated statement of cash flows, and appendix to the consolidated financial statements, including a summary of significant accounting policies, for the year ended December 31, 2019.

In our opinion the consolidated financial statements (pages 46 to 82) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.



Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditor's responsibilities for the audit of the consolidated financial statements

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



Report on other legal and regulatory requirements

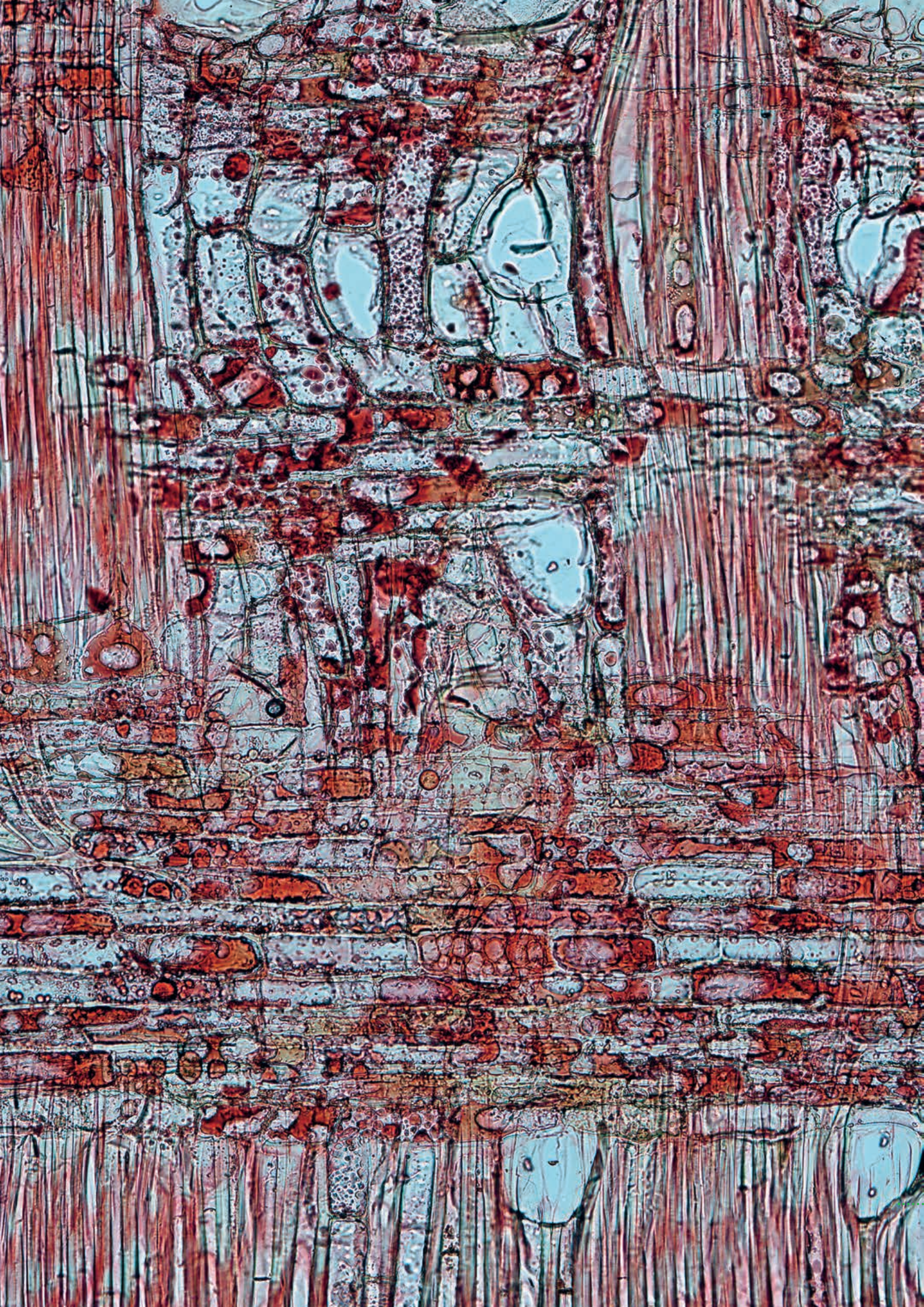
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Kaspar Streiff
Licensed audit expert
(Auditor in charge)

Gianantonio Zanetti
Licensed audit expert



Precious Woods Holding Ltd financial statements

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Balance sheets as of 31 December 2019 and 2018

in thousand CHF	Notes	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents		2 110	2 433
Trade receivables			
against third parties		3 613	5 557
against Group		1 514	1 403
Other short-term receivables			
against third parties		18	84
against Group	9	1 335	2 166
Inventories		262	738
Prepaid expenses		74	81
Total current assets		8 926	12 462
Non-current assets			
Financial assets to Group		48 441	48 276
Investments	4, 8	58 994	53 385
Property, plant, equipment and lease	12	57	25
Intangible assets		47	33
Long-term financial assets		30	30
Total non-current assets		107 569	101 749
TOTAL assets		116 495	114 210
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables			
against third parties		377	819
against Group		2 674	4 260
against shareholders and governing bodies		—	—
Short-term interest-bearing liabilities against shareholders	5	6 400	9 100
Other short-term liabilities		943	774
Accrued expenses and short term provisions		3 445	2 443
Total short-term liabilities		13 839	17 396
Non-current liabilities			
Long-term interest-bearing liabilities against shareholders	6	25 726	23 226
Long-term interest-bearing liabilities against lease	12	26	—
Long-term provisions		74	58
Total long-term liabilities		25 826	23 284
Shareholders' equity			
Share capital	1, 2, 3	7 053	7 053
Legal capital reserves			
Capital contribution reserves		88 924	88 924
Legal retained earnings			
General legal retained earnings		4 534	4 534
Voluntary retained earnings			
Accumulated losses		−26 980	−30 455
Net income for the year		3 300	3 475
Total shareholders' equity		76 830	73 530
TOTAL liabilities & equity		116 495	114 210

See notes to Precious Woods Holding Ltd financial statements on pages 90 to 93.

Statements of income 2019 and 2018

in thousand CHF	Notes	2019	2018
Sales			
Net sales timber products		45 623	52 934
Net sales CO ₂ certificates		82	–
Changes in inventories of finished goods		–49	6
Changes in inventories of CO ₂ certificates		–103	123
General costs of production		–41 702	–48 842
Total operating income		3 851	4 221
Personnel expenses	7	–2 877	–2 641
Administrative expenses		–1 386	–1 389
Audit fees		–165	–139
Earnings before interest, tax, depreciation and amortization (EBITDA)		–577	52
Depreciation, amortization and impairment	8, 12	5 604	3 542
Earnings before interest & tax (EBIT)		5 027	3 594
Financial income		1 678	1 748
Financial expenses	12	–1 971	–1 875
Foreign exchange differences		–1 424	18
Earnings before tax (EBT)		3 310	3 485
Taxes		–10	–10
Net income for the year		3 300	3 475

See notes to Precious Woods Holding Ltd financial statements on pages 90 to 93.

Notes to the financial statements of Precious Woods Holding Ltd

Essential accounting and valuation principles

a. Principles

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

b. Inventories

Inventories and non-invoiced services are recorded at acquisition: If the net realizable value at the balance sheet date is lower than acquisition costs, net realizable values are used. Acquisition costs are calculated using the weighted average cost method.

c. Financial assets and investments

Financial assets and investments are valued at their acquisition cost adjusted for impairment losses.

d. Interest-bearing financial liabilities

Interest-bearing financial liabilities are recognized in the balance sheet at its nominal value.

e. Leasing

Leasing and rental agreements are recorded according to the right-of-use. For this reason, the right-of-use corresponds to the present value of the lease liability at the inception of the contract. The term of the lease agreement is determined by the fixed contract term and any extension options. The lease liability corresponds to the present value of future lease payments, which bear interest at an implicit rate and are reduced by the amortization payments.

f. Revenue from sale of goods and services

Net sales are determined by deducting transportation costs, value added taxes, discounts and returns from gross sales. Revenue trading activities are recognized when the entity has transferred the significant risks and rewards of ownership of the goods to the buyer, when the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when the amount of revenue can be measured reliably, and when it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1. General

The company is the holding company of the Precious Woods Group.

The Precious Woods Group is active in the field of sustainable forest management in South America and Africa following the guidelines for sustainable forest management laid out by the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). The PW Group is also active in the trading of timber products as well as the sale of CO₂ emission rights.

The company was founded on 17 December 1990 as Precious Wood Ltd, duly registered in Tortola, British Virgin Islands.

On 23 March 1992 the company was renamed Precious Woods Ltd.

On 25 June 2001, the Board of Directors and the Annual General Meeting of the company resolved to change the corporate domicile from Tortola, British Virgin Islands, to Zug, Switzerland, and to continue the incorporation of the company under Swiss law. The company was registered in its present form on 11 October 2001 in the commercial register of the canton of Zug, Switzerland.

The share capital as of 31 December 2019 was composed of 7 052 745 (2018: 7 052 745) fully paid-in registered shares, each with a nominal value of CHF 1.00.

2. Authorized share capital

On 16 May 2019, the Annual General Meeting approved an authorized share capital of CHF 1 000 000 (1 000 000 shares with a nominal value of CHF 1.00 each). The Board of Directors is thus authorized to increase the share capital at any time until 15 May 2021 by a maximum amount of CHF 1 000 000 by way of issuance of no more than 1 000 000 registered shares that are to be fully paid in with a nominal value of CHF 1.00 each. In 2019, no capital increase was car-

ried out from authorized share capital. On 31 December 2019, the amount of the authorized capital is thus CHF 1 000 000 in shares (1 000 000 shares with a nominal value of CHF 1.00 each).

The remaining authorized share capital expires on 15 May 2021.

3. Conditional share capital

As of 31 December 2019, the company had the following conditional share capital:

- a. As of 31 December 2016, the conditional capital thus amounted to CHF 301 935 (301 935 shares with a nominal value of CHF 1.00 each). On 18 May 2017, the Annual General Meeting authorized to increase the conditional share capital from CHF 301 935 to CHF 1 500 000 (1 500 000 shares with a nominal value of CHF 1.00 each) according to Article 3a of the Articles of Association. On 18 May 2017, the right to convert a convertible loan was exercised to purchase shares. The capital increase amounted to CHF 150 000 (150 000 shares with a nominal value of CHF 1.00 each). The exercise price was CHF 3.20 per share. There was no

change in 2019. As of 31 December 2019, the conditional share capital amounted to CHF 1 350 000 (1 350 000 shares with a nominal value of CHF 1.00 each).

- b. Additionally, according to Article 3b of the Articles of Association, the share capital of the company may be increased by the maximum amount of CHF 46 638 by the issuance of no more than 46 638 (2018: 46 638) registered shares that are to be fully paid in and have a nominal value of CHF 1.00 each; this increase being the result of the exercise of option rights that can be granted to employees of the company or of affiliated companies. As of 31 December 2019, the conditional share capital thus amounted to CHF 46 638 (46 638 shares with a nominal value per CHF 1.00 each).

4. Investments in subsidiaries

The company holds the following direct and indirect investments:

Company	Currency	31 December 2019		Currency	31 December 2018	
		Nominal share capital	Voting rights and Participation		Nominal share capital	Voting rights and Participation
Precious Woods Management Ltd. British Virgin Islands (dormant company)	USD	20 000	100.00%	USD	20 000	100.00%
MIL Madeiras Preciosas Ltda. Brazil (land and forest operations, 40% owner of BK Energia)	BRL	72 474 251	100.00%	BRL	68 074 251	97.30%
Madeiras Preciosas de Amazonia Manejo Ltda. (merged into MIL Madeiras Preciosas Ltda.) Brazil (dormant company)	BRL	—	—	BRL	4 400 000	99.98%
Monte Verde Manejo Florestal Ltda. ¹ Brazil (land owner, former subsidiary of Precious Woods do Para)	BRL	36 121 294	100.00%	BRL	—	—
Precious Woods do Pará S.A. (merged into Monte Verde Manejo Florestal Ltda.) ¹ Brazil (former sub-holding company)	BRL	—	—	BRL	1 003	100.00%
Precious Woods Manejo Florestal Ltda. Brazil (dormant company)	BRL	24 429 917	100.00%	BRL	24 429 917	100.00%
Precious Woods Europe B.V. Netherlands (timber trade)	EUR	18 000	100.00%	EUR	18 000	100.00%
Unio S.A. Luxembourg (sub-holding for Precious Woods Tropical Gabon Insutries S.A. (TGI))	EUR	1 000 000	100.00%	EUR	1 000 000	100.00%
Lastour & Co. S.A. Luxembourg (sub-holding for Precious Woods Compagnie Equatoriale des Bois S.A. (CEB))	EUR	372 575	100.00%	EUR	372 575	100.00%

¹ Merger of Brazilian entities: Precious Woods do Pará S.A., Carolina Industria Ltda. as well as Monte Verde Madeiras Ltda. were merged and form together the legal entity Monte Verde Manejo Florestal Ltda.

BRL – Brazilian real, EUR – European euro, USD – US dollar

For further information on investments, we refer to note 32 to the consolidated group financial statements.

5. Other short-term interest-bearing liabilities

As of 31 December 2019, the short-term liabilities consist of two loans from shareholders in the amount of CHF 6.4 million. The loans have an interest of 6%. The maturities are

agreed from December 2020. Two loans in the amount of CHF 2.7 million were repaid in 2019.

6. Long-term interest-bearing liabilities

As of 31 December 2019, the long-term liabilities consist of one loan in the amount of CHF 20.0 million and three loans in the amount of EUR 1.0 million each from shareholders. The loans have an interest at 6%, 4.5% and 4.0% and have terms

until December 2022, December 2021, March 2021 and April 2021. In addition, the long-term liabilities include two further loans from shareholders in the amount of CHF 1.25 million each expiring in October 2022 and bearing interest at 1.5%.

7. Board and Executive compensation

As of the balance sheet date, there are no loans and credits between the Company and the Board of Directors. The compensation and the number of shares held by the Board of Directors are composed as follows:

in thousand CHF	Fix in cash	Fix in shares	Other compensation	Total	Ownership of shares
For the year 2019					
Katharina Lehmann	90	—	—	90	95 053
Markus Brüttsch	30	—	—	30	176 308
Jürgen Blaser	30	—	—	30	3 500
Robert Hunink	30	—	18	48	17 500
Total	180	—	18	198	292 361

in thousand CHF	Fix in cash	Fix in shares	Other compensation	Total	Ownership of shares
For the year 2018					
Katharina Lehmann	90	—	—	90	91 522
Markus Brüttsch	30	—	—	30	176 308
Jürgen Blaser	30	—	3	33	3 500
Robert Hunink	30	—	23	53	17 500
Former board member ¹	11	—	—	11	3 000
Total	191	—	26	217	291 830

¹ This Board member was elected in May 2017 and ended in May 2018

As of the balance sheet date, there are no loans and credits between the Company and the Group Management. The compensation and the number of shares held by the Group Management are composed as follows:

in thousand CHF	Salary Fix in cash	Salary ¹ Variable in cash	Employer ² social contributions	Total	Ownership of shares
For the year 2019					
Markus Brüttsch, CEO / CFO	375	125	80	580	176 308
Group Management Total	700	125	131	956	183 808

in thousand CHF	Salary Fix in cash	Salary ¹ Variable in cash	Employer ² social contributions	Total	Ownership of shares
For the year 2018					
Markus Brüttsch, CEO / CFO	375	130	78	583	176 308
Group Management Total	700	130	129	959	183 808

¹ During 2019 and 2018 no share-based compensation was made to the Group Management.

² These amounts comprise payments to pension plans (mandatory and non-mandatory), ESPPs and other social contributions.

No compensation was made to former members of the Board of Directors or Group Management. Furthermore, no payments at more favorable conditions were made to active

or former members of the Board of Directors or Group Management.

8. Depreciation, amortization and impairment

As of 31 December 2019, in addition to the regular depreciation on property, plant and equipment, there is a reversed impairment of CHF 5.0 million of financial assets against

group companies (previous year: CHF 3.6 million). A revaluation of investments in the amount of CHF 0.5 million was also made due to the intention to sell.

9. Major shareholders

For the overview of major shareholders as of 31 December 2019 we refer to the note 24 to the consolidated group financial statements.

10. Pledged assets / other securities

As of 31 December 2019, Precious Woods Holding Ltd had no pledged assets, but the liabilities include CHF 26.0 million (see notes 6 and 7) land securities in Brazil.

11. Other note / Full time employment

For the full-time employment of Holding employees for the years 2019 and 2018, we refer to the social key figures in the sustainability report on page 10.

12. Other note / Lease liabilities

The leasing liabilities are recorded in the balance sheet on the basis of the economic approach, which includes all leasing contracts with the exception of short-term contracts (up to

12 months term) and low-value assets. The right-of-use is capitalized in the balance sheet and the leased assets are depreciated over the term of the lease.

in CHF	Asset class	Useful life	2019
Position of balance			
Property, plant, equipment and lease (rights-of-use assets)	Vehicles	3 years	25 918
	IT equipment	5 years	9 093
Total rights-of-use assets			35 011
Leasing liabilities			25 895
Position of income statement			1.1.-31.12.2019
Depreciation (rights-of-use assets)			-6 585
Interest expenses lease liabilities			-541

13. Other note / Significant events after the reporting date

For additional information on significant events after reporting date, we refer to the note 33 of the consolidated group financial statements.

To the General Meeting of
Precious Woods Holding AG, Zug

Zurich, 15 April 2020

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Precious Woods Holding AG, which comprise the balance sheet, income statement and notes (pages 88 to 93), for the year ended 31 December 2019.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements for the year ended 31 December 2019 comply with Swiss law and the company's articles of incorporation.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Kaspar Streiff
Licensed audit expert
(Auditor in charge)

Gianantonio Zanetti
Licensed audit expert

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Cautionary note on forward-looking statements: This Annual Report contains forward-looking statements that reflect Precious Woods' current views with respect to future events. These forward-looking statements are based on assumptions and involve risks and uncertainties with regard to future global economic conditions, foreign exchange rates, regulatory rules, market conditions, environmental factors, the actions of competitors and other factors. These risks and uncertainties could cause actual results to differ materially from those contained in the forward-looking statements. Precious Woods does not assume any obligation to update information or forward-looking statements set forth in this document.

The Precious Woods Annual Report is available in both German and English. The printed English text is the binding version.



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