



# *Annual Report 2014*

PRECIOUS WOODS Annual Report 2014



PRECIOUS WOODS

#### ◀ Cover:

Production of rotary veneer in Gabon

### Precious Woods 2014 – Positive Dynamic and Quality

- Restructuring, the company's many efforts began to pay off in 2014
- Restructuring of debt and convertible loans
- Full filling our demanding qualitative goals

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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' manifoldly activities, emphasizing the company's principle of creating triple added value: environmental, social and economic.



Key figures and information for investors

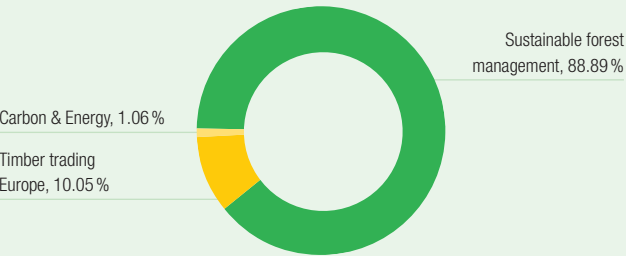
5-year summary of key financial data (in TUSD)

	2014	2013	2012 <sup>1</sup>	2011	2010 <sup>1</sup>
<b>Total revenue</b>	<b>47 123</b>	<b>45 342</b>	<b>43 886</b>	<b>68 974</b>	<b>69 959</b>
Amortization & Depreciation, Impairments	7 815	6 689	9 437	6 330	46 699
Amortisation & Depreciation	7 796	7 891	7 933	10 090	11 716
Impairments	19	−1 202	1 504	−3 760	34 983
<b>EBITDA</b>	<b>3 715</b>	<b>−8 776</b>	<b>−3 857</b>	<b>−2 129</b>	<b>−9 861</b>
in % of the total revenue	7.88 %	−19.36 %	−8.79 %	−3.09 %	−14.10 %
EBIT	−4 100	−15 465	−13 295	−8 459	−56 560
in % of the total revenue	−8.70 %	−34.11 %	−30.29 %	−12.26 %	−80.85 %
<b>Net result</b>	<b>−10 189</b>	<b>−20 595</b>	<b>−17 765</b>	<b>−56 156</b>	<b>−66 013</b>
in % of the total revenue	−21.62 %	−45.42 %	−40.48 %	−81.42 %	−94.36 %
Balance sheet total	87 406	103 816	116 765	145 394	224 404
<b>Shareholders' equity</b>	<b>20 276</b>	<b>32 921</b>	<b>52 971</b>	<b>71 798</b>	<b>112 347</b>
in % of the balance sheet total	23.20 %	31.71 %	45.36 %	49.38 %	50.06 %
<b>Net indebtedness</b>	<b>42 604</b>	<b>46 389</b>	<b>34 782</b>	<b>34 437</b>	<b>58 045</b>
<b>Cash flow from operating activities</b>	<b>1 093</b>	<b>−2 680</b>	<b>−5 580</b>	<b>−9 101</b>	<b>−3 800</b>
Investments/acquisitions	217	−2 050	−1 226	41 054	−343
Average full-time-equivalent employee	1 209	1 217	1 183	1 511	1 557

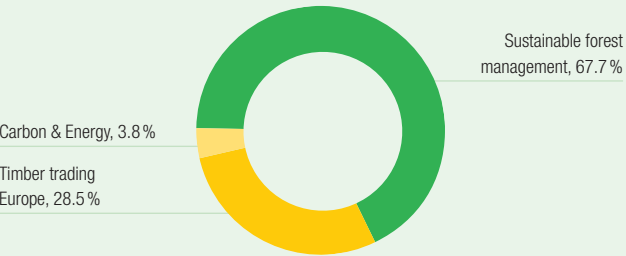
<sup>1</sup> The prior-year figures have been restated.

Total revenue by business segment

2014: TUSD 47 123

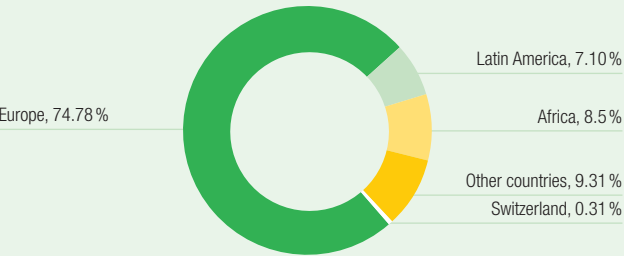


2013: TUSD 45 342

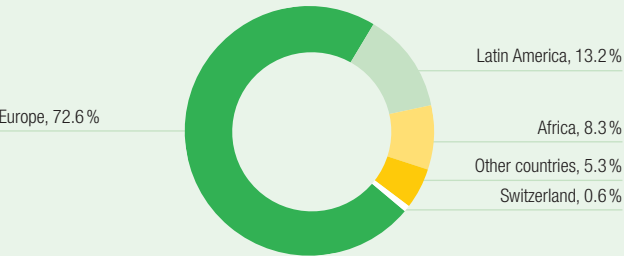


Total net sales by market region

2014: TUSD 46'622

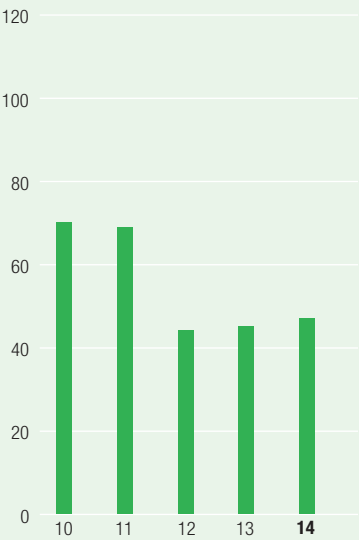


2013: TUSD 43 605



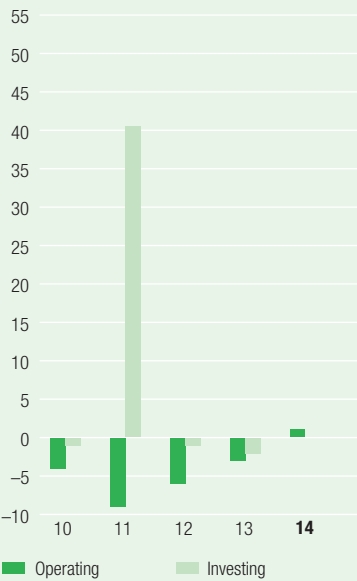
Total revenue

USD million



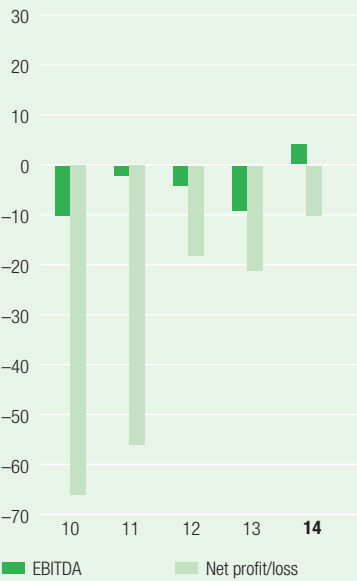
Cash flow from operating and investing activities

USD million



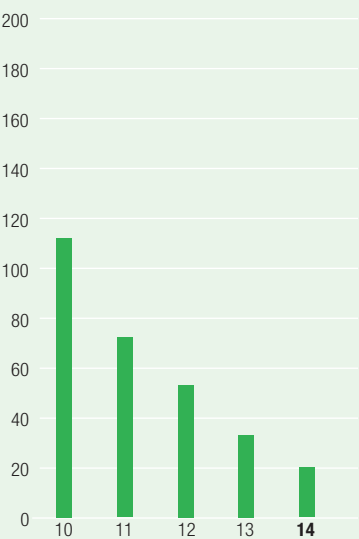
EBITDA and net profit/loss

USD million



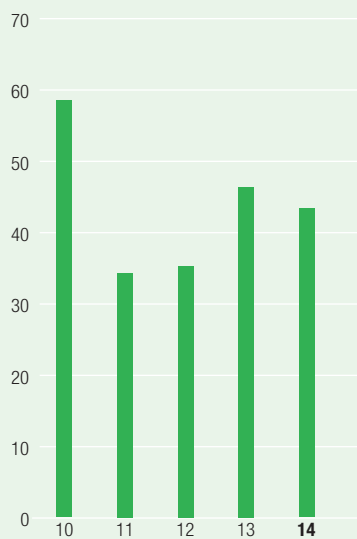
Shareholders' equity

USD million



Net indebtedness

USD million



Information for investors

	2014
Share price in CHF	2.46
Stock market capitalization in CHF million	9
Earnings per share in USD	−2.73

# Contents

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## ***Operational review***

- 3** To our shareholders
- 5** About Precious Woods
- 8** Group results
- 11** Brazil
- 15** Gabon
- 19** Europe
- 21** Carbon & Energy
- 23** Sustainability
- 27** Corporate governance
- 31** Shareholder information

## ***Financial report***

- 33** Precious Woods Group financial statements
- 71** Precious Woods Holding Ltd financial statements
- 80** Contact addresses







## To our shareholders

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### Dear Shareholders

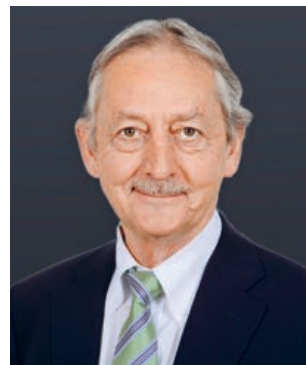
After four difficult and demanding years of restructuring, the company's many efforts began to pay off in 2014. The operating result – EBITDA – is clearly positive at USD 3.7 million, an improvement of USD 12.5 million over the previous year. Better productivity, higher sales, and increased cost efficiency at all levels were the most important drivers of this gratifying result. The local Managements in Brazil and Gabon, along with their teams, showed great dedication, led and supervised by our small but effective Management at the Holding. Again in 2015, we expect further progress in our operations and also in the success of the sales team.

Despite this operational progress, EBIT was negative at USD –4.1 million. While this is an improvement of USD 11.4 million over the previous year, it of course does not match our goals. The reasons are clear: Depreciation continues to be high, and logistics costs have risen.

The only partial reimbursement of VAT in Gabon continues to be a problem, which has delayed local debt reduction and the associated decrease of the high capital costs. For 2015, we expect EBIT to be balanced under the assumption that the local business conditions do not deteriorate heavily.

The Board of Directors and Management spent a lot of energy on the timely restructuring of debt and convertible loans. Not least of all thanks to the engagement of several key investors, we were largely able to implement the redemption and in some cases the extension of the convertible loans that became due. But this does not yet conclude the need for debt reduction. Talks with interested investors were intensified during the reporting year and are likely to lead to a partial success in 2015. A new capital is important for the higher operating costs associated with the envisaged sales growth as well as for the reduction of capital costs.

The bulk of all these financial and quantitative goals have been achieved while retaining our demanding qualitative goals: Both in Brazil and in Gabon, we passed the FSC audits fully and realized a high quality of sustainable forestry management. The associated efforts in a complex local environment should not be underestimated. The informal and in some cases illegal competition also puts pressure at least on the local – and often also the international – tropical timber markets. While good laws exist, their implementation and enforcement is full of gaps and partially corruption in most countries. On the basis of internal and external studies, we know that our activities create high ecological and social added value. A more systematic and independently accompanied impact measurement study will be carried out and published in 2015. We want to show in an even more tangible way that a company like PRECIOUS WOODS produces not only timber products, but also substantial volumes of “global goods” in the fields of biodiversity, quality of life of the local population, climate protection, and integrity.



Ernst A. Brugger  
Chairman of the Board of Directors

The positive dynamic in 2014 is combined with high quality – and this synergy is likely to continue in 2015 as well. The Board of Directors expresses its sincere gratitude to the Management of the Holding and of the two companies in Brazil and Gabon, but also to all 1,270 employees of our company. Thank you for your engagement, persistence, assertiveness, and commitment to the creation of threefold added value: economic, ecological, and social. We would also like to express our thanks with great verve to you, dear Shareholders: Your engagement is a great motivation for us all.

Sincerely, yours

A handwritten signature in black ink, appearing to read 'E. Brugger'.

Ernst A. Brugger  
Chair of the Board of Directors







# Precious Woods – a sustainable forestry company

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*Precious Woods is one of the leading companies in sustainable management of tropical rainforests globally, and is regarded as a pioneer in many areas. Its core business is the production and sale of FSC-certified 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 (CER) by utilizing waste wood from the manufacturing process. The aim of all activities is highest customer value while preventing deforestation in tropical forests in utilizing them sustainably. Economic success ensures the socially and ecologically sustainable activities and is essential for the long-term conservation of tropical forests. The Precious Woods Group is headquartered in Switzerland and employed an average of 1200 people in Brazil, Gabon, The Netherlands and Switzerland in 2014.*

## **Vision**

As an economically successful company, Precious Woods contributes to the long-term preservation of tropical forests and their positive impact on biodiversity and natural water cycle, through sustainable forestry and the marketing of the resulting products.

## **Focus on economic, social and ecological added value**

Precious Woods creates added value in economic terms through sustainable use of tropical forest resources. The broad range of timber and non-timber products generates added value which goes beyond the traditional forestry industry and which secures the long-term development of the Group. Precious Woods ensures added value socially through the creation of jobs, schools and health clinics as well as other infrastructure, in remote tropical forest areas. Thereby, the company provides an important contribution to economic and social development in these regions. Precious Woods actively engages to improve the living conditions of its employees, their families and communities. Added value in ecological terms means managing Precious Woods' forest areas consistently with sustainable practices to preserve these renewable, natural resources and their biodiversity also for future generations. (A comprehensive description of Precious Woods' social and ecological engagement is provided in the Sustainability chapter on pages 23–25 as well as in the reports on the individual business segments.)

## **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. Main target groups are the marine- and hydraulic engineering sector, garden-, building- and road construction as well as outdoor furniture manufacturers in markets across Europe, Brazil, Asia and the United States. Thanks to continuous public campaigning of prominent non-governmental-organisations, awareness of the ecological 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 strategy aimed consequently at sustainability, an increasing market potential.

## **Global and economic challenges in a dynamic environment**

The important function of tropical forests in carbon sequestration is gradually becoming established in the consciousness of the world community and tropical forestry is 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 of the respective countries. Precious Woods respects the legal and institutional structures, forest policies and the relevant legislation, as well as their implementation.

## **A pioneer – more than FSC certification**

Precious Woods defines and measures the sustainability of all its activities on the basis of the principles and criteria of the Forest Stewardship Council (FSC), which was founded in 1993. Independent FSC auditors assess regularly Precious Woods. Precious Woods is convinced that in the long term, countries with tropical forest resources will grant new concessions to those companies who comply with sustainability criteria and that certification strengthens the company's position on the market. Especially customers in the public sector are putting increasing pressure on producers and suppliers of tropical timber and demanding sustainably produced wood. Precious Woods played a leading role in the introduction of FSC certification in Brazil, and also provides guidance in harvest planning with GPS as well as road and land use planning in the forest. Furthermore, Precious Woods is also a pioneer in the use of non-timber products from forest resources. This includes the generation of electricity from biomass in Brazil as well as trade in certified emission reductions (CER) (since 2006), which is an additional income source, managed since 2011 in collaboration with the renowned myclimate foundation.



### Strategy: market orientation and continuous optimisation of the value chain

Due to the holistic approach, ranging from sustainable forest management through timber production to marketing and distribution, 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 companies that are also FSC-certified. Ongoing unknown new species of wood are tested and introduced in the market. In this case, Precious Woods examines applications for about 90 different timber species to ensure to meet customer and market demands and to enable sustainable economic management over the long term.

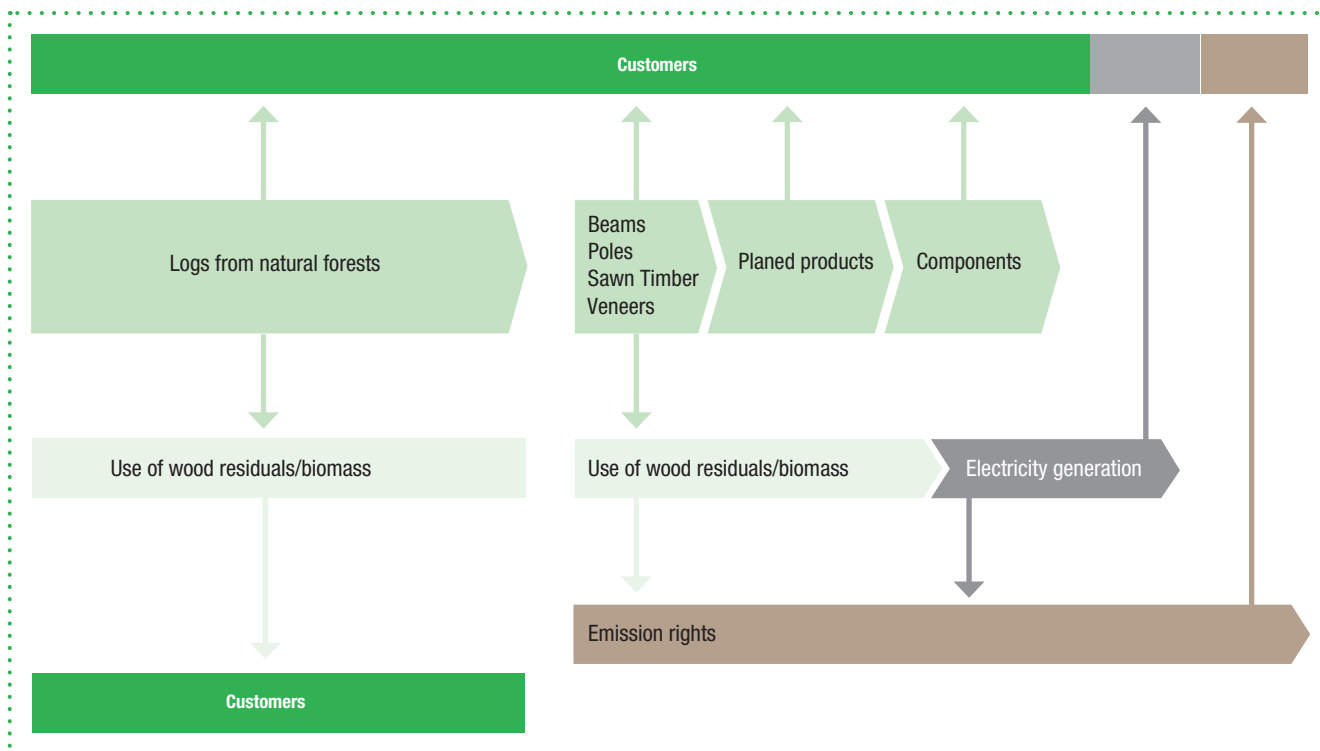
### Midterm targets: sustainable growth

Following the acquisition-driven growth between 2000 and 2008, the company aims since then for an organic, sustainable growth. Midterm targets are an EBITDA margin of around 20 % of net annual sales and an equity ratio of about 40 %. In order to secure the operational activities and political risks, Precious Woods has to ensure sufficient liquidity so that also seasonal fluctuation can be absorbed. In addition, Precious Woods wants to secure the 100 % FSC-certification in all activities.

### Management organisation with increased market orientation

Precious Woods consisted of four business units and a Group management that focuses on the realisation of strategic goals, sales and marketing, communication as well as financial management and control. Due to the termination of the sales organisation in Europe and the remaining minority shareholding in the biomass plant in Brazil, only three business units will be shown in the future, which reflects in the management structure.

### Products and value chain



## 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** Precious Woods acquires BK Energia in Itacoatiara, Brazil, which is a wood chip based power plant operating since 2002. BK Energia is directly linked to the Precious Woods Amazon sawmill. Precious Woods takes over its largest customer and business partner, the Dutch A. van den Berg B.V.

**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** Precious Woods ventures into West Africa: Acquisition of the forestry company Compagnie Equatoriale des Bois (CEB) and the veneer company Tropical Gabon Industrie (TGI) in Gabon.

**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 market environment demands rapid adaptation in terms of productivity, marketing and organisational structure. Precious Woods becomes the first company globally whose production line in the tropical forestry and timber industry is fully FSC-certified after the TGI veneer company receives FSC certification.

**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** The 2011 Annual General Meeting approves the partial divestment of 75 % of the shares in Precious Woods Central America (PWCA) to two existing Swiss shareholders. This results in a significant partial debt reduction at the Holding.

**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. On November 2013, it was decided to close the sales company (PW Europe) in the Netherlands.

**2014** Successful conversion of the distribution structure over the PW holding of the B2B of PW Amazon.





# 2014 results of the Precious Woods Group

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*Consolidated net sales in the reporting year were USD 47.1 million and thus 3.9% higher than in the previous year (USD 45.3 million). The positive exchange rate effect contained in that figure amounts to merely 0.1%. Earnings before interest, taxes, depreciation, and amortization (EBITDA) amounted to USD 3.7 million in 2014 (previous year: USD -8.8 million). The net loss was USD -10.2 million compared with USD -20.6 million in the previous year.*

## **Income statement**

### **Operating income**

In 2014, the Precious Woods Group achieved net sales of USD 47.1 million, 3.9% more than the USD 45.3 million in the previous year. Because average exchange rates diverged only insignificantly from those of the previous year, the exchange rate effect was merely +0.1%. At the end of 2013, most of the inventory in the Netherlands was sold off, which had an impact on the 2013 results. Without this effect, the rise in net sales would have been 10.6% over the previous year. PW Gabon achieved an increase in sales of 29.5%, PW Amazon fell by 5.1%, and PW Europe fell by 63.4%.

During the reporting year, the operational activities of PW Europe were transferred to the Holding, and its sales have now been consolidated with PW Amazon. Although the revenue of PW Amazon was lower than in the previous year, the transition to B2B can be regarded as successful and complete.

### **Operational development: Costs and prices**

During the 2014 business year, the impact of major logistical disruptions was low. We did experience some rail transport bottlenecks in Gabon, which entailed additional costs. There were also some strikes involving customs authorities, but these did not have any impact on productivity or costs. At PW Amazon, the harvest was concluded as planned in December before the beginning of the rainy season.

The production volume in the Amazon rose by 4.4% over the previous year. The difference from the sales decline of 5.1% is due to the increase in inventory, which became necessary after the elimination of the sawn timber warehouse in the Netherlands. Our veneer plant in Gabon increased production by 26.8%. Significant influences here included the increase in efficiency as well as the nearly two-month strike of the year 2013 as a comparison period. The sawmills in Gabon increased production by 13.2%. This was primarily due to the investments that became operational before the beginning of the year.

The sales market was stable until mid-year at a good price level. After the summer holidays, however, demand weakened, and prices came under pressure. Our production capacity in Brazil and Gabon was largely fully utilized during 2014 and the product mix and volumes were optimized. In general, the Asian sales market is becoming increasingly important for us. The demand for legally produced and especially FSC-certified timber is increasing. Entry into the Asian market is very time-consuming, however, and the impact will be seen only over the course of time.

### **Operational contribution**

Although net sales rose by only 3.9% in total, the operational contribution was increased by USD 8.8 million or 49.3%. Especially in regard to maintenance work, USD 1 million was saved through replacement investments. Logistics costs have a negative impact of USD 0.9 million on the result, however. Of this, about USD 0.4 million was due to additional costs arising from the delayed harvest in 2013/2014. The largest influence on the strong improvement consisted in changes to inventory.

### **Operating result (EBITDA)**

Positive EBITDA of USD 3.7 million was generated in 2014 (previous year: USD -8.8 million). This corresponds to an increase of USD 12.5 million over the previous year. In addition to the improvements in the operational contribution amounting to USD 8.8 million, personnel expenses in the amount of USD 0.5 million were saved in production, USD 1.3 million in administration, and an additional USD 0.9 million in other operational expenses.

It is gratifying that EBITDA increased strongly in both production countries. This result could have been even better if the necessary investments could have been made in a timely manner, but this was not possible due to the financial bottleneck.

### **Financial result**

At USD -5.3 million, the financial result is somewhat lower than the USD -4.7 million generated in the previous year. This has to do solely with exchange rate effects, given that average level of debt fell by USD 4 million. Interest expenses increased by USD 0.3 million compared with the previous year.

### **Balance sheet**

The balance sheet fell by about USD 16 million year-on-year. The decline was primarily attributable to tangible fixed assets, because investments were lower than depreciation. At 24.7% of net sales, working capital was within target range, and net debt fell by USD 3.8 million.

Due to the loss in the reporting year, the equity ratio ended up at 23.2% (previous year: 31.7%). The goal for 2015 is to obtain new equity and thus to reduce debt.

### ***Cash flow statement***

The cash flow from operating activities was USD 1.1 million, compared with the cash drain of USD -2.7 million in the previous year. The change in working capital was USD +0.1 million, and net investments were USD 0.2 million. These include revenue from the sale of the Dutch company GWW. The net cash flow from financing activities amounted to USD -1.5 million.







## Brazil – successful transition of sales structure

***At USD 13.5 million, the net sales of PW Amazon were 5.1% lower than in the previous year. The export share transacted through the Holding was USD 7.5 million (previous year USD 1.1 million). Export sales to PW Europe were USD 1.8 million (previous year: USD 5.2 million). The transition from resale via PW Europe to direct client business was thus successfully implemented during the reporting year.***

Earnings before interest, taxes, depreciation, and amortization (EBITDA) were USD 1.5 million, an increase of USD 3 million. Operating profit (EBIT) was USD 0.9 million and thus USD 2 million better than in the previous year. Because the previous year's EBIT benefited from the reversal of land depreciation in the amount of USD 1.1 million, the effective increase in the reporting year was USD 3.1 million.

### ***Further increase of profitability***

With lower sales, EBIT ended up at USD 0.9 million (EBIT margin of 6.9%). While this margin was below our expectations, it still represented a significant improvement over the previous year (USD -1.1 million). Profitability was impacted negatively by the delayed transport of logs from the 2013 harvest until March 2014. The additional costs amounted to approximately USD 350 000.

The investments were used for the expansion of the forest road network. Thanks to excellent maintenance work, the machinery did not have to be renewed.

Sales of biomass were about 20 % lower than in the previous year. The supply contract with a local buyer of biomass from the forest could not be renewed, and supplies to BK Energia fell by 8.4 % thanks to better sawmill yield.

Log harvest rose by 2.4 %, while the sale of raw timber on the local market fell by 60 %. A total of approximately 111 000 m<sup>3</sup> of logs were processed in the sawmill, representing an increase of 5.4 % over the previous year. The transition to direct client business led to an increase in the inventory of sawn timber in Brazil, so that delivery capacity could be ensured at all times. The total inventory including remaining inventory at PW Europe fell significantly, however, and is now only a fraction of the previous inventory.

By law, our company in Brazil must harvest many different types of wood. This constitutes a great challenge: Because some types of wood have very low volumes, not all woods can be processed and sold. Our ongoing task is therefore to establish unfamiliar types of woods on the export market and to examine their areas

of application. On the local market, market prices are very low, and our competitiveness is still limited. The reasons for this are the sale of illegally harvested timber on the local market and the high logistics costs for delivery to the main domestic market in the south of the country.

### ***Continuous efforts on legacies and exceptional factors***

Currently, about 372 000 hectares of forests (own forest and smaller concessions) are available for harvest. The negotiations on legal clarification of about 60 000 hectares were successfully concluded toward the end of the year. The negotiations on the sale of three remote forest areas of about 45 000 hectares are continuing. No quick solution is in sight, however.

There were no new developments in 2014 regarding the pending threat of two major fines. One is a threatened fine from the Brazilian environmental protection authority IBAMA dating back to 2002 and the other a threatened property tax fine from the year 2007. We are expecting to resolve both cases in collaboration with our lawyers within the scope of provisions already set aside.

### ***Social and ecological sustainability***

Precious Woods holds FSC certification in Brazil for the period from 2012 to 2017. The Chain of Custody certification for forest and sawmill has been extended for another year.

#### **Precious Woods Amazon in brief**

Precious Woods has been operating in the state of Amazon, Brazil, since 1996. PW Amazon runs sustainable forestry operations on 506 699 hectares (end 2014) of its own land and concessions near Itacoatiara, 250 kilometres East of Manaus. In 2008, Precious Woods discontinued its operational activities in the state of Pará, where the company had managed around 46 000 hectares of forest (from a total of 76 000 hectares) since 2001. PW Amazon has been certified according to FSC-standards since 1997. FSC forests are managed sustainably on the basis of a forestry management plan under which only two or three trees per hectare are harvested during a 25-35 year cycle. Simultaneously, the moderate 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, to the United States and to Asia as well as sold on the local market.



In addition to the existing contracts, we concluded new scientific cooperation agreements with the following organizations in 2014:

- UFAM (Federal University of Amazonas)
- INPA (National Institute of Amazonian Research) and
- EMBRAPA (Brazilian Corporation of Agricultural Research)

Agreements like these facilitate the exchange of experience and the development of new ways to use the forest for the common good.

In addition to the scientific collaborations, PW Amazon maintains intensive and close contact with the local communities, facilitating the implementation of joint projects. These important projects include training in forestry management, security, and support for local businesses.

In addition to the social components, we are able to report on the following activities in 2014:

- In cooperation with EMBRAPA, we started a project on the measurement of tree growth and the productivity capacity of the forest.

- Research project for monitoring the carbon dynamic in managed forests in the Amazon, which is carried out in our forests by INPA through CADAF (Carbon Dynamics of Amazonian Forest). The goal of this project is to define the methodology for measuring carbon sequestration in managed forest areas in the Amazon in order to prevent offsets of emission credits.
- Job offering programme for inhabitants of the communities, selection of potential agricultural labourers in accordance with the absorption capacity of the company.
- Purchase of products from the communities, such as: cassava flour, fruit pulp, tucumã, cassava, rambutã, and vegetables, which are used in our canteens.
- Support in the extraction of non-timber products (oils, resins, seeds, etc.) that traditionally are processed by the communities. This program is carried out in partnership with the NGO AVIVE (Green Life Association of Amazonia) for the production of soaps, candles, fragrances, etc. The products are sold by AVIVE representatives in several cities and via their website. The Association invests the proceeds in similar projects.
- Offering of courses for vocational development and improvement of skills for the manufacture of handicrafts. This programme is in partnership with CETAM (Center for Technological Education of Amazonas) and SENAI (National Industrial Learning Service).

#### Key figures Precious Woods Amazon

		2014	2013	Change
<b>Economic</b>				
Sales sawn and industrialized wood	in m <sup>3</sup>	18 400	21 800	-15.6 %
whereof export	in m <sup>3</sup>	15 200	12 200	24.6 %
Sales logs and piles	in m <sup>3</sup>	4 500	11 200	-59.8 %
Sales biomass	in m <sup>3</sup>	80 600	106 800	-24.5 %
Timber harvest	in m <sup>3</sup>	132 400	129 400	2.3 %
Net sales	in USD million	13.5	14.2	-4.9 %
Operating result (EBITDA)	in USD million	1.6	-1.5	-206.7 %
<b>Environmental</b>				
Energy consumption	in GJ	50 200	61 000	-17.7 %
CO <sub>2</sub> emissions	in t	2 700	3 700	-27.0 %
FSC share of timber production sold	in %	100	100	-
<b>Employment</b>				
Employees (yearly average)		466	473	-1.5 %
Women	in %	13.1	15.6	-16.0 %
Accidents at work		75	46	63.0 %
Days lost per accident		2.3	5.6	-58.9 %

These courses aim to give the local population the opportunity to improve their income with the manufacture and sale of hand-made products.

### ***Harvest and production planning for 2015***

After the successful transition of the sales channel to direct client business, the harvest plan and the production capacities were optimized and adjusted to the strategy. We continue to believe that the local market – with the exception of biomass – is unattractive for us. For this reason, we are advancing exportable products, increasing volumes, and establishing new export markets. For the traditional market in the Benelux countries, we do not expect major changes in the current year.







## Precious Woods Gabon – increase in sales and productivity

*The net sales of PW Gabon were USD 30.2 million and thus 29.5% higher than the USD 23.3 million in the previous year. Earnings before interest, taxes, depreciation, and amortization (EBITDA) were USD 5.3 million, an increase of USD 3.3 million. The EBITDA margin of 17.5% (previous year: 8.4%) was slightly lower than we had expected. Operating profit (EBIT) improved strongly by USD 3.1 million, but still ended up negative at USD -1.8 million.*

### **Significant increase in profitability and productivity**

The investments made in 2013 that became operational before the beginning of the year had an impact. Gross profit improved from 13.5% to 25.6%. While sales increased by 29.5%, production costs rose by only 10.7%. As already mentioned in the interim report, transport costs were significantly higher than expected due to a bottleneck in rail transport. This had a negative impact on the operating result in the amount of approximately USD 0.7 million.

Due to the lack of liquid assets, fewer investments could be made in 2014 than planned. In total, only USD 1.1 million was invested in absolutely necessary production improvements and optimizations. Unfortunately, this meant that not all improvement potential could be fully realized.

The log harvest volume grew by 9.5%, and sawmill output rose by 13.2%. Production in the veneer plant increased by 26.8%, after a 2-month interruption of production in 2013.

### **Positive development despite financial bottleneck**

With the EBITDA margin of 17.5% achieved in 2014 (previous year: 8.4%), significant operational improvement can be seen. Without the additional burden caused by higher transport costs, the goal of >20% could have been reached. Sales growth of 29.5% tied up working capital that could otherwise have been employed for additionally necessary investments and maintenance work. Moreover, reimbursement of the input tax paid to the state has been late, so that we have an outstanding amount of USD 4 million from the state of Gabon. Loans in the amount of USD 5 million promised in the spring were also not disbursed until the late autumn, and then only in the amount of USD 1.5 million. Despite these adverse circumstances, we were able not only to further develop operations but also to improve profitability.

Five strikes by customs officials took place in 2014. These strikes delayed deliveries but did not interfere with our production.

### **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 616 700 hectares. In 2011, a small concession of 57 300 hectares was added. Occasionally, PW Gabon manages sustainably community forests for communities based on annually allocated felling quotas. In 2014, a protected area was additionally separated in extent of 19 900 hectares. PW Gabon employs around 727 staff and harvests approximately 180 000 cubic metres of logs each year. The company operates according to a 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 moulding 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 is FSC-certified since October 2008, and the TGI-chain-of-custody since January 2010.



### ***Report on further progress in social and ecological sustainability***

At both locations – Bambidie and Owendo – FSC audits were conducted and successfully concluded in 2014.

- On the basis of the FSC recommendations, we have increased the protected area within our concession from 2 % to 6 %.
- Training was offered for our nurses in collaboration with AGIR.
- Research cooperation with the Research Institute in Tropical Ecology (IRET) on non-timber products was continued.
- We also continued the Dynafor project in collaboration with Natur+, which researches the dynamic and enrichment of the forest.
- Together with the WCS (Wildlife Conservation Society), a monitoring protocol for surveying and to the evaluation of the biodiversity was included in our concessions.

### ***Outlook***

In 2014, we were able to prove that our operations in Gabon are also successful in economic terms. We will continue along this path in 2015, making replacement investments, carrying out necessary maintenance work, and further increasing our production volumes. We continuously adjust our product mix to demand, and we are further optimizing production processes and logistics. We expect these measures to improve our margins, albeit to a lesser extent than in 2014. The measures are accompanied by further cost reductions and an increase in financial resources. We are also persistently continuing our great efforts to obtain a reimbursement of the input tax.

Uncertainties exist in terms of isolated political risks. Strikes by the public authorities or state-run enterprises of Gabon are possible and may entail corresponding risks.

### Key figures Precious Woods Gabon

		2014	2013	Change
<b>Economic</b>				
Sales sawn and industrialized wood	in m <sup>3</sup>	33 800	26 000	30.0 %
Sales rotary veneer	in m <sup>3</sup>	24 100	17 500	37.7 %
Sales sliced veneer	in m <sup>2</sup>	440 100	495 200	-11.1 %
Sales logs	in m <sup>3</sup>	15 900	15 900	—
Timber harvest	in m <sup>3</sup>	183 000	167 100	9.5 %
Net sales	in USD million	30.2	23.3	29.6 %
Operating result (EBITDA)	in USD million	5.3	2.0	165.0 %
<b>Environmental</b>				
Energy consumption	in GJ	191 000	143 700	32.9 %
CO <sub>2</sub> emissions	in t	23 200	12 900	79.8 %
FSC share of timber production sold	in %	100	100	—
<b>Employment</b>				
Employees (yearly average)		727	724	0.4 %
Women	in %	19.8	9.7	104.1 %
Accidents at work		128	51	151.0 %
Days lost per accident		11.9	21.3	-44.1 %







# Precious Woods Europe – operational activities transferred to Holding

*After the decision in November 2013 to close PW Europe, its operations were gradually transferred to PW Holding. In 2014, net sales of USD 4.7 million were generated, compared with USD 12.9 million in the previous year. Earnings before interest, taxes, depreciation, and amortization (EBITDA) were USD -0.6 million and have worsened by another USD 0.1 million compared with the interim report. Since June 2014, only 3 employees had still been working at PW Europe, responsible for inventory sales, the settlement of transit orders, and the sale of fixed assets. The goal of selling all inventory by 31 October 2014 was achieved to a large extent, but not completely. Because the rental agreement runs until 31 March 2015 anyway, however, this did not result in any significant additional costs.*

PW Europe continues to exist as a company in order to settle any transit imports to the EU area. However, no additional inventory is being created, and no further business can be processed.

Contracts with employees expire on 31 March 2015. The salesman responsible for the Benelux countries was integrated into the PW Holding sales team effective 1 January 2015.

## Precious Woods Europe in brief

PW Europe (based in The Netherlands) was established following the acquisition of A. van den Berg B.V. by the Precious Woods Group in 2005. According to the shutdown decision end of 2013, PW Europe employed only 3 employees at the end of 2014. The activities were taken over by the PW holding and the customers were supplied now directly from the production works in Brazil and Gabon. The BENELUX is further an important market for the Precious Woods Group. The support of the customers effected further via the proven team, the stock from sawn timber was only dissolved. In the year 2014 besides the trade of certified European logs was taken up and completes now the rich offer.

## Key figures Precious Woods Europe

		2014	2013	Change
<b>Economic</b>				
Sales sawn and industrialized wood	in m <sup>3</sup>	5 100	18 400	-72.3 %
Net sales	in USD million	4.7	12.9	-63.6 %
Operating result (EBITDA)	in USD million	-0.6	-6.9	-91.3 %
<b>Environmental</b>				
Energy consumption	in GJ	2 500	6 900	-63.8 %
CO <sub>2</sub> emissions	in t	200	500	-60.0 %
FSC share of timber production sold	in %	100	100	—
<b>Employment</b>				
Employees (yearly average)		8	13	-38.5 %
Women	in %	7.8	9.2	-15.2 %
Accidents at work		—	—	—
Days lost per accident		—	—	—







## Carbon & Energy – Trade with emission rights CER

*The certification and the following sales of emission rights for the year 2013 were successfully concluded in 2014. The net turnover in 2014 amounted to USD 0.5 million in relation to the previous year by USD 1.7 million. The big difference justifies itself by the fact that in the year 2013 the emission rights were sold from the years 2010, 2011 and 2012.*

The contracts with BK Energia, the city Itacoatiara and with MyClimate still run until 2016. Thus the biomass deliveries and future profits from CER trading are guaranteed.

### **CERs from Brazilian biomass**

BK Energia's 9-megawatt power plant in Brazil provided the city of Itacoatiara and the sawmill of Precious Woods with electricity in the reporting year 2014. All electricity is generated from the sawmill's wood rest of PW Amazon, i.e. renewable biomass.

As in preceding years, the power plant Itacoatiara operated continuously for eleven months (one month maintenance) and generated a total of 46 671 metric tons of CO<sub>2</sub> equivalents in 2014, which amounts to an increase of 12.2% compared to the previous year.

The biomass power plant will continue to play an important role for Precious Woods also in the future: be it from an operational perspective (efficient electricity and waste heat supply for seasoning of wood), or from sustainability considerations because of complete utilization of the harvested wood and avoidance of carbon emission.

### **Precious Woods Carbon & Energy**

The Precious Woods business segment Carbon & Energy comprises of trade in CERs and until 31 March 2012 a biomass power plant. Precious Woods ran this biomass power plant in Itacoatiara, Brazil, which has been in operation since 2002 and was acquired by Precious Woods in 2005. As of 1 April 2012 Precious Woods has sold 40% of its shares in the biomass plant to the existing minority shareholder and thus reduced its share from 80% to 40%. Therefore, the biomass plant was not fully consolidated any longer as per 1 April 2012. Precious Woods' sawmill remains to be the sole biomass supplier of the plant. The plant is a climate project, replacing diesel with biomass. Climate projects comply with the Clean Development Mechanism (CDM) of the Kyoto Protocol. The resulting CERs are traded since 2011 by the myclimate foundation on behalf of Precious Woods.

### **Carbon markets and emissions trading**

According to the World Bank, global carbon markets have had a constant growth since 2005 and are now worth USD 142 billion. Since 2010 the market is stagnant, mainly because of lack of clarity around the continuation of the Kyoto Protocol, which was still not resolved at the United Nations Framework Convention on Climate Change (UNFCCC) held in Durban in November 2011 or subsequently at the conference in Doha a year later. A binding climate protection agreement should be concluded no later than 2015 and enter into force in 2020. It is also envisioned that the United States, India and China will be signing on to the agreement for the first time.

The EU adheres to her reduction targets for 2020 and endeavours strongly to improve the current market situation in the emissions certificate trading. The European emissions trading system (EU ETS) has seen major changes for its obligation period 2013–2020. The emission rights are now allocated uniformly centrally rather than according to national allocation plans of (NAPs) as until now. A greater and still increasing share is auctioned to enterprises rather than allocated at no charge as until now. Moreover, the EU has obligated the intra-european air traffic to participate in the EU ETS since the year 2012.

Already in 2010, the European market share of the global carbon market, including secondary Clean Development Mechanism (CDM) transactions, rose to 97%. From 2005 to 2010, Precious Woods benefited from prices of up to EUR 20 per metric ton of avoided CO<sub>2</sub>-emissions of its CDM projects, e.g. the biomass power plant in Itacoatiara (Brazil). In 2010, an oversupply of CERs from CDM projects developed. Dubious projects, lax auditing, loopholes and criminal activities against the EU ETS cast a bad light on the carbon market. The UNFCCC tightened the rules and increased pressure on the certification bodies in response. Consequently, prices dropped in general and therefore also the achievable prices for Precious Woods, to EUR 8 per metric ton of avoided CO<sub>2</sub>-emissions. The new calculation method for the project in Brazil cut the number of CERs in half, and conservative calculating by the certifier reduced the figure by a further 15%.

<sup>1</sup> myclimate is a Switzerland-based organisation setup in 2002 to provide environmentally responsible solutions to individuals and companies. [www.myclimate.org](http://www.myclimate.org)







# Sustainability as a corporate principle

*The FSC standard is the definitive benchmark for sustainability for Precious Woods: 100% of PW Amazon's and Gabon's products are FSC-certified. Since the certification is developed regularly, constant efforts have to be performed to conform to the standards. Thanks to its firm commitment to sustainability, Precious Woods remains one of the quality leading company in the area of tropical forestry.*

## **Illegal logging threatens certified timber trade**

Illegal logging and trade have increased to threatening dimensions in the beginning of the 21<sup>st</sup> century, especially in tropical countries. A study by Chatham House has estimated the global damage from the illegal fellings to the producing countries to USD 15–20 billion annually. The consequences are deforestation, loss of biodiversity, increase in carbon emissions, and 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 it has been determined also in the G8 action plan 1998–2002. Since then, various measures by governments and the private sector have been initiated, their implementation has started to produce results but is rather slow.

## **EU FLEGT action plan**

Faced with the deteriorating situation of illegal logging and timber trade, which increasingly competed with legal sources and not least FSC-certified timber, the EU launched the FLEGT (Forest Law Enforcement, Governance and Trade) action plan in 2003. The EU is still one of the largest consumers of timber globally and can therefore significantly contribute to influencing legality in producing countries. Ways to do this consist, for example, in the supports of the producing countries and in controls or subsidies of relevant initiatives in the private sector. These are agreed with producer countries as part of Voluntary Partnership Agreements (VPAs). The first VPAs have now been signed and more are in the ratification process. 2013, the EU Timber Regulation (EUTR) has been set as a sort of transitional arrangements in force. EUTR is prohibiting any products, which are sourced from illegally harvested or illegally traded timber on the market in all of the 28 European Member States, and obliges all importers of timber and timber products to a due diligence system. The Lacey Act in the United States was similarly amended in 2008 and Switzerland introduced already in 2010 the declaration of origin for timber products.

## **Opportunities for FSC-certified timber**

The FSC certification, in fact goes beyond the minimal requirements with respect to legality, and provides additional standards in ecological and social sustainability in forestry and throughout the chain of custody. Tightening regulations in consumer countries should benefit trade with FSC-certified timber, not only because it is likely that FSC certification will be accepted by the enforcement authorities in future, but also because the pressure of competition from illegal and subsequently lower priced timber should decline. However, the proportion of illegally traded wood did so far not diminish.

In the beginning of 2014, a total of 182 million hectares of forest areas were FSC-certified, which corresponds to the area of Germany, France, Spain and Italy. Only around 11 % are tropical and subtropical forests, and are thus still highly under-represented in FSC certification; Precious Woods manages around 6 % of FSC-certified tropical forest areas.

## **The role of forestry in the climate debate**

Over the last decades, large areas have been deforested or degraded, especially in the tropics. Causes are non-sustainable forest use, in particular illegal logging, and conversion to commercial agricultural land, slash and burn practices for subsistence farming as well as exploitation of mineral resources. The negative impact of deforestation on global warming has caused increasing concerns in recent years. Deforestation currently contributes around 12 – 15 % of global greenhouse gas emissions. Negotia-

### **Sustainability as the corporate principle of Precious Woods**

With tropical forestry, Precious Woods has taken on one of the greatest sustainability challenges of humanity. Sustainability means creating economic, ecological and social value – for investors, employees, business partners and stakeholder groups. Depending on the tropical forest region, only one to three trees per hectare are harvested during the course of one harvest cycle (usually 25 years). Particularly valuable forest habitats remain untouched and are protected by Precious Woods. Forests are attributed an economic value, which is significantly reducing the risk of forest conversion to agricultural monocultures. The achievements of Precious Woods in economic, environmental and social sustainability thereby contribute to the long-term preservation of the whole ecosystem of a country; they provide compensation to a certain extent in the unfortunately often occurring cases of state failures. However, political stability and some degree of institutional reliability and efficiency are essential for engagement in the long term. Finding the right balance between the different sustainability values keep a continuous challenge for Precious Woods.



tions are still continuing in anticipation of a binding global deal under the UN Framework Convention on Climate Change (UNFCCC) to prevent further carbon emissions from deforestation. REDD+ (Reducing Emissions from Deforestation and Forest Degradation) is a key part of that and provides a compensation scheme for developing countries for avoided deforestation. Many state governments, international organisations, NGOs and corporations are currently engaged in creating the methodology and capacities for such a compensation scheme. REDD+ initiatives

cover many forest-use related development activities. Sustainable forestry has to play a key role in REDD+ activities and could also benefit from compensation credits.

### ***Social sustainability: Precious Woods leads the way***

Precious Woods aims to create additional value in social and environmental aspects. The limited financial possibilities created a huge challenge but were very well managed. While the total numbers of employees remained unchanged we could increase the

## **Environmental and social key performance indicators**

<b>Environmental indicators</b>		<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Forest management</b>				
Sustainably managed forest area	total area in ha	1 160 737	1 123 300	1 123 300
FSC share of timber production sold	in %	100	100	99
<b>Energy consumption and emissions</b>				
Reduction of CO <sub>2</sub> emissions	in t	46 671	41 591	45 900
CO <sub>2</sub> emissions	in t CO <sub>2</sub> -equivalents	26 100	17 100	15 836
Production of renewable energy	in GJ	—	—	40 000
Electricity consumption	in GJ	73 800	26 500	24 400
Fossil fuel consumption	in GJ	171 000	186 400	173 900
<b>Social indicators</b>				
<b>Employees (yearly average)</b>				
Number of employees (yearly average)		1 209	1 217	1 183
Brazil		466	473	472
Gabon		727	724	644
Europe		8	13	17
Carbon & Energy		—	—	40
Corporate		8	7	10
Women	in %	17	12	9
Rate of employee turnover	in %	3	3	4
<b>Health and safety</b>				
Accidents at work		203	97	175
Accidents per 1000 employees		161	81	148
Days lost per accident		9.0	12.5	5.0
Fatal accidents at work		1	1	—
<b>Training</b>				
Training hours		610	933	1 394
Training hours per employee		0.5	0.8	1.2

number of employees in Gabon and Amazon due to higher production and compensate the redundancies in our company in the Netherlands. Social benefits for communities and families in Africa and Brazil have been maintained at an equivalent level (housing, electricity and drinking water supplies, schools, medical care, etc.). The social contributions provided by Precious Woods extend considerably beyond legal requirements.

#### Sustainability Advisory Committee (SAC)

The Sustainability Advisory Committee (SAC) advises Precious Woods on new developments in sustainability in tropical forestry and supports the company in relations with local and international stakeholder groups and associations. It gives recommendations for achieving Precious Woods economic, ecological and social sustainability objectives and related reporting requirements. SAC continued operating in 2014 under the chairmanship of Claude Martin and has been mainly focussing on FSC-certification as well as the FLEGT, EUTR and REDD+ mechanisms.

#### SAC members:

Claude Martin, Dr. dipl. phil. II (Biol.) University of Zurich (Chairman)

- Chancellor of Int. University in Geneva. Former Director General of WWF International and former Board member of Precious Woods.

Jürgen Blaser, Dr. dipl. Forst-Ing., ETH Zurich

- Professor for International Forestry and Climate Change, Bern University of Applied Sciences. Former Senior Forestry Officer at the World Bank and former Deputy Director of Intercooperation.

Heiko Liedeker, MSc. Forest Ecology, University of Vermont

- Head of EU – FLEGT and REDD at the European Forest Institute. Former Executive Director FSC International.

Ralph Ridder, Dr. MSc. Forestry, Ludwig Maximilian University Munich

- Director General, Association Technique des Bois Tropicaux (ATIBT). Former head of EU – FLEGT and REDD departments and former head of Global Forest Program, World Resources Institute, Washington.

#### Carbon footprint

The CO<sub>2</sub> emissions generated by Precious Woods are recorded in three categories on the basis of World Resources Institute (WRI) classification (see illustration):

- (1) direct emissions from fossil fuels (diesel, oil and gas consumption),
- (2) indirect emissions from the consumption of electricity from the grid,
- (3) other indirect emissions from business flights and the transport of timber while still in the possession of Precious Woods. This also applies to the holding.

The total emissions amount to 30 077 metric tons of CO<sub>2</sub> equivalents, 36.5 % more than in the previous year.

Precious Woods footprint	Category 1	Category 2	Category 3		Total
	Direct emissions from fuel consumption	Indirect emissions from electricity consumption	Flights	Transportation	
In metric tons of CO <sub>2</sub>	12 681	13 419	515	3 461	30 077
Share per category	42 %	44 %	2 %	12 %	100 %







***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](http://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, timber trading in Europe and Carbon & Energy. For more information about the individual segments, please refer to pages 11 to 21 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 31 of this report. For more detailed information about the holding company and the consolidated subsidiaries (name, headquarters, share capital and percentage ownership), please refer to note 1 of the consolidated Financial Statements of PW Holding. A list of shareholders with more than 3% of the voting rights can be found in note 31 of the Group Financial Statements. There are no cross-shareholdings or shareholders' agreements. Further information on shareholders is published on our website (Investor Relations – Corporate Governance – Shareholder Structure) and on the website of the OTC ZKB platform.

## 2. Capital structure

The ordinary share capital on 31 December 2014 stood at CHF 3 767 806 (3 767 806 registered shares at CHF 1 each). The increase of the ordinary capital by CHF 309 451 to CHF 3 747 806 was successfully carried out on 15 March 2013. On 14 November 2013, the conversion of convertible loan was exercised to purchase by shares. The capital increase stood at CHF 20'000 (20'000 shares with nominal value of CHF 1).

The General Meeting agreed on the same day to increase the conditional capital from CHF 1 590 488 to CHF 1 719 177 (1 719 177 shares each with a nominal value of CHF 1) and the authorized capital from CHF 800 000 to CHF 1 547 260 (1 547 260 shares each with a nominal value of CHF 1). This allows for a capital increase at a suitable moment (p.e. conversion of convertible loans). On 14 November 2013, a capital increase of CHF 20 000 (20 000 shares with nominal value of CHF 1) was carried out from the conditional capital. The conditional capital on 31 December 2013 amounted to CHF 1 699 177 (1 699 177 shares with nominal value of CHF 1). On 21 Mai 2014, the Annual General Meeting renewed the authorized capital by two years. More information about the capital structure can be found in note 17 of the consolidated Group Financial Statements.

The convertible bond in the amount of 17 million was due and new loan agreements were completed in December 2014. All agreements were timely signed. There was still a slight delay and the convertible bond was fully paid on 8 January 2015. The new loan agreements have a term of five years and one year. For additional information about the capital structure, please refer to note 16 of the consolidated Group Financial Statements.

On 23 December 2014, a loan agreement with a term of one year was added in order to secure liquidity.

On 14 November 2013, a due convertible loan of CHF 2 million was repaid and was re-placed with a new convertible loan of CHF 2 million. The term is two years and the coupon rate is 6%. The convertible loan was split into a liability and an equity component.

On 18 January 2013, a second partial amount of a new convertible loan of CHF 1 million was placed with a term until November 2013 and a coupon rate of 6%. On February and March 2013, an amount of a further convertible loan of CHF 2 million was placed with a term until the end of November 2013. That convertible loan was early repaid on 20 August 2013.

On 18 December 2012, a partial amount of a new convertible loan of CHF 1 million (total amount of CHF 2 million) was placed with a term of approximately one year and a coupon rate of 6% in order to secure liquidity. The convertible loan was split into a liability and an equity component. Two convertible loans with a total nominal value of CHF 7 million were repaid early on 22 November 2012. At the same time two loans totaling USD 5 million, which were due for payment end of 2012, have been repaid.



On 17 May 2011, two convertible loans at a total nominal value of CHF 5.5 million and a term of 4 years were issued and on 15 December 2009 convertible notes over 17 million were placed with a 5 year term.

### 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 in staggered successions at the Annual General Meeting for a maximum term of three years.

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 70<sup>th</sup> 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 21 May 2014 the re-election of Katharina Lehmann lined up and she was elected for another year. The composition of the BoD is as follows on 31 December 2014: Ernst A. Brugger (Chair), Katharina Lehmann (Delegate) and Dominik Mohr (Member).

### Members of the Board of Directors

The Precious Woods BoD has three 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 2014.

**Prof. Ernst A. Brugger** (Prof. Dr. phil. II), Swiss citizen, born in 1947, BoD chair since 18 May 2009, member of the RNC, BoD member since 2004, and mandate ends 2015. Other activities and interests:

- Chair of the Board of Directors of BHP – Brugger und Partner AG, Zürich
- Chair of the Board of Directors of BlueOrchard Finance S.A., Geneva
- Chair of the Board of Directors of Lausanne Hospitality Consulting, Lausanne
- Chair of the Board of Sanu Future Learning AG



(from left) Stéphane Giannaz (CCO), Dominik Mohr (VR), Ernst A. Brugger (VRP), Katharina Lehmann (VR), Markus Brüttsch (CEO, CFO)

- Chair of the Board of Directors of the SV Group, Zürich
- Member of the Board of Directors of BG Bonnard & Gardel Holding SA, Lausanne
- Member of the Board of Directors of Energie 360° Schweiz, Zurich
- Member of the Board of Directors of Paul Reinhart AG, Winterthur

**Katharina Lehmann** (lic. oec. HSG), Swiss citizen, born in 1972, BoD member since 2008, mandate ends in 2015. Other activities and interests:

- Since 1996 Chair of the Board of Directors and Chief Executive of the companies that make up Erlenhof AG, i.e. Holzwerk Lehmann AG und Blumer-Lehmann AG

**Dominik Mohr** (Dipl. "Institut d'Etudes Politiques Strasbourg" and MBA "Institut Supérieur du Commerce Paris"), German and French citizen, born in 1964, BoD member since 2012, mandate ends 2015. Other activities and interests:

- Managing Partner of the company Commercial Importation et Distribution SA (CID), Nantes, France

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

### ***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 budget, finances and organisation, 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.

Ernst A. Brugger is leading 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 8 times during 2014. 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, Delegate of the board and the CEO realised 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 – Articles of Association and Bylaws).

### ***4. Group Management***

The GM under the leadership of the CEO is responsible for the operational management of the company. The organisation, 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 – Articles of Association and Bylaws).

In the reporting year, the GM consisted of the interim management by Katharina Lehmann until June 2014 and of the members Markus Brüttsch, CFO and CEO (from 1 July 2014), Stéphane Glannaz, CCO and Stefan Meinhardt, COO (until 31 March 2014).

Markus Brüttsch, born 1960, Swiss citizen, has been CFO of Precious Woods Group since 1 January 2014. In July 2014, he was also elected as CEO of Precious Woods Group. Before he worked as CFO at Winterthur Technology Group and Cicor Group.

Stéphane Glannaz (Master in marketing and intl. business), born in 1972, French citizen, has been CCO of Precious Woods Group since 1 October 2013. Stéphane Glannaz was the Vicepresident of Olam Intl. Ltd. Singapore, Timber Division and Head of Marketing and Sales.

Stefan Meinhardt (Merchant in wholesale and foreign trade), born in 1964, German citizen, has been COO of the Precious Woods Group between 1 May 2012 and 31 March 2014.

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

### ***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 – Remuneration Policy), in note 18b of the Group Financial Statements and in note 5 of the statutory Annual Financial Statement of PWH. All management personnel and employees are insured in accordance with the minimum legal requirements of the countries in which they are employed.

In 2014, 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 – Remuneration Policy) and in note 5 of the Group Financial Statements of PWH.

## **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 21 May 2014, all statutory items on the agenda were approved. The minutes of the Annual General Meetings are published on the Website (Investor Relations – General Meeting).

## **7. Changes of control and defence measures**

The agreements with the members of the BoD and GM contain no statutory "option-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 2010 reporting year 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 USD 289 433 in 2014. 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 – Articles of Association and Bylaws).

## **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](http://www.preciouswoods.com)), which is updated on a regular basis.

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

# Shareholder information

## Share capital

On 31 December 2014, the fully paid-in share capital of PW Holding amounted to CHF 3 767 806. It is divided into 3 767 806 registered shares with a nominal value of CHF 1 each. Additionally, the company has conditional capital of CHF 1 699 177 and approved capital of CHF 1 547 260 to cover option and conversion rights.

## Equivalent to 100 shares

Precious Woods is owner or concession holder of 506 699 hectares of forest in Brazil, and holds a forest concession in Gabon of 654 100 hectares. With the purchase of 100 shares, a shareholder had indirectly access to around 134 480 square metres of forests (2013: 135 500 square metres) in the Amazon and 173 600 square metres of forests (2013: 178 900 square metres) in Gabon in 2014.

## 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.)

Nimbus AG

Ziegelbrückstrasse 82

CH-8866 Ziegelbrücke

Phone +41 55 617 37 37

Fax +41 55 617 37 38

preciouswoods@nimbus.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 2014, the share price was trading at CHF 2.60 on the OTC ZKB platform; on 30 June 2014, the price was a little lower at CHF 2.345. In May 2014, a maximum high of CHF 3.20 was recorded also in August with over CHF 3.80. By the end of 2014, the share price underwent several fluctuations between CHF 3.20 and CHF 2.75. The closing price of the shares was at CHF 2.46 on 31 December 2014.

## Information for investors

		2014	2013	2012	2011	2010
Share price per 31.12.	in CHF	2	2	3	10	22
Stock market capitalization	in CHF million	9	9	10	34	76
Basic earnings per share	in USD	-2.73	-5.53	-5.07	-16.33	-18.81
Equity (book value) per share	in USD	5.38	8.74	15.49	20.88	32.67
<b>Assets per share</b>						
Primary forest in Brazil						
(ownership and concession)	in m <sup>2</sup>	1 345	1 345	1 473	1 473	1 376
Primary forest in Gabon (concession)	in m <sup>2</sup>	1 736	1 789	1 960	1 960	1 794







## Precious Woods Group financial statements

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34	Consolidated statement of financial position
35	Consolidated statement of profit or loss
36	Consolidated statement of comprehensive income
37	Consolidated statement of changes in equity
38	Consolidated statement of cash flows
39	Notes to the consolidated financial statements
39	1. Basis of presentation and accounting policies
47	2. Financial risk management
49	3. Trade and other receivables
50	4. Inventories
50	5. Other current assets
51	6. Property, plant and equipment
52	7. Forest, forest improvements
52	8. Intangible assets
53	9. Investment in associates
53	10. Non-current financial assets
53	11. Non-current assets held for sale
54	12. Trade and other payables
54	13. Financial liabilities
55	14. Provisions
55	15. Financial instruments by category
57	16. Convertible bonds and loans
58	17. Share capital
59	18. Related party balances and transactions
60	19. Employee benefits
62	20. Net sales from trading activities
62	21. Revenue from emission reduction activities
62	22. Other production costs
62	23. Depreciation, amortization and impairment
63	24. Direct and indirect labour costs
63	25. Other operating income and expenses
63	26. Financial income and expenses
64	27. Leasing
64	28. Earnings per share
65	29. Contingencies
65	30. Financial information by segment
67	31. Major shareholders
67	32. Income taxes
68	33. Divestments and acquisitions
68	34. Subsequent events
68	35. Approval of financial statements and dividends
69	Report of the statutory auditor on the consolidated financial statements



## Consolidated statement of financial position

in TUSD	Notes	2014	2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		2 769	3 185
Trade and other receivables	3	10 945	9 017
Inventories	4	11 789	14 818
Other current assets	5	1 648	1 872
<b>Total current assets</b>		<b>27 151</b>	<b>28 892</b>
<b>Non-current assets</b>			
Property, plant and equipment	6, 7	48 450	59 824
Intangible assets	8	9 094	11 326
Investments in associates	9	1 228	2 726
Non-current financial assets	10	531	587
Other non-current assets		855	147
Deferred income tax assets	32	91	314
<b>Total non-current assets</b>		<b>60 249</b>	<b>74 924</b>
Non-current assets held for sale	11	6	–
<b>TOTAL</b>		<b>87 406</b>	<b>103 816</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	12	15 618	13 620
Current income tax liabilities		194	228
Short-term convertible bonds and loans	13, 16	7 306	18 468
Current financial liabilities	13	19 164	12 660
Current provisions	14	205	758
<b>Total current liabilities</b>		<b>42 487</b>	<b>45 734</b>
<b>Non-current liabilities</b>			
Long-term convertible bonds and loans	13, 16	–	7 535
Non-current financial liabilities	13	18 902	10 912
Deferred tax liabilities	32	91	300
Non-current provisions	14	5 650	6 414
<b>Total non-current liabilities</b>		<b>24 643</b>	<b>25 161</b>
<b>Equity</b>			
Share capital		3 278	3 278
Additional paid-in capital		67 659	67 660
Foreign currency translation reserve		13 400	15 429
Retained earnings		–64 207	–53 481
<b>Equity attributable to owners of Precious Woods Holding Ltd</b>		<b>20 130</b>	<b>32 886</b>
<b>Non-controlling interests</b>		<b>146</b>	<b>35</b>
<b>Total shareholders' equity</b>		<b>20 276</b>	<b>32 921</b>
<b>TOTAL</b>		<b>87 406</b>	<b>103 816</b>

## Consolidated statement of profit or loss

	Notes	2014	2013
in TUSD			
Net sales from trading activities	20	46 622	43 605
Revenue from emission reduction activities	21	501	1 737
<b>Total revenue</b>		<b>47 123</b>	<b>45 342</b>
Changes in inventories of finished goods and work in progress		-4 025	952
Raw materials and consumables used		966	-9 431
Other production costs	22	-17 469	-19 053
<b>Operational contribution</b>		<b>26 595</b>	<b>17 810</b>
Direct and indirect labour costs	24	-20 772	-22 541
Other operating expenses	25	-2 405	-4 992
Other operating income	25	297	947
<b>Earnings before interest, tax, depreciation and amortization (EBITDA)</b>		<b>3 715</b>	<b>-8 776</b>
Depreciation, amortization and impairment	23	-7 815	-6 689
<b>Earnings before interest and tax (EBIT)</b>		<b>-4 100</b>	<b>-15 465</b>
Financial income	26	1 020	2 706
Financial expenses	26	-6 334	-6 780
Share of (losses)/profits of associates	9	62	-590
<b>Earnings before tax (EBT)</b>		<b>-9 352</b>	<b>-20 129</b>
Income taxes (expenses)/income	32	-837	-466
<b>Net (loss)/profit for the period</b>		<b>-10 189</b>	<b>-20 595</b>
<b>Allocation of net (loss)/profit:</b>			
Equity owners of Precious Woods Holding Ltd		-10 304	-20 377
Non-controlling interests		115	-217
<b>Basic earnings per share</b>	28	<b>-2.73</b>	<b>-5.53</b>
<b>Diluted earnings per share</b>	28	<b>-2.74</b>	<b>-5.53</b>



## Consolidated statement of comprehensive income

	2014	2013
in TUSD		
<b>Net (loss)/profit for the period</b>	<b>-10 189</b>	<b>-20 595</b>
Actuarial gains and losses	-421	682
Tax effect on actuarial gains and losses	37	-81
Foreign currency translation differences	-32	24
<b>Items that will not be reclassified to profit or loss, net of tax</b>	<b>-416</b>	<b>625</b>
Unrealised gains and losses financial assets available for sale	3	7
Foreign currency translation differences	-2 005	-1 508
<b>Items that may be reclassified subsequently to profit or loss, net of tax</b>	<b>-2 002</b>	<b>-1 501</b>
<b>Total other comprehensive (loss)/income for the period</b>	<b>-2 418</b>	<b>-877</b>
<b>Total comprehensive (loss)/income for the period</b>	<b>-12 607</b>	<b>-21 471</b>
<b>Allocation of total comprehensive (loss)/income:</b>		
Equity owners of Precious Woods Holding Ltd	-12 714	-21 255
Non-controlling interests	107	-216

## Consolidated statement of changes in equity

in TUSD	Notes	Attributable to equity holders of Precious Woods Ltd					Non-controlling interests	Total equity
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total		
<b>Balance 1 January 2013</b>		<b>2 923</b>	<b>66 594</b>	<b>16 939</b>	<b>-33 736</b>	<b>52 720</b>	<b>251</b>	<b>52 971</b>
Net (loss)/profit for the period		—	—	—	-20 377	<b>-20 377</b>	-217	<b>-20 595</b>
Other comprehensive (loss)/income for the period		—	—	-1 510	632	<b>-878</b>	1	<b>-877</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>—</b>	<b>—</b>	<b>-1 510</b>	<b>-19 746</b>	<b>-21 255</b>	<b>-216</b>	<b>-21 471</b>
Purchase of treasury shares		—	—	—	—	—	—	—
Proceeds from issue of shares		355	995	—	—	<b>1 350</b>	—	<b>1 350</b>
Equity component convertible loans	16	—	192	—	—	<b>192</b>	—	<b>192</b>
Costs of capital increase/transaction costs		—	-121	—	—	<b>-121</b>	—	<b>-121</b>
Change in consolidation scope		—	—	—	—	—	—	—
<b>Balance 31 December 2013</b>		<b>3 278</b>	<b>67 660</b>	<b>15 430</b>	<b>-53 482</b>	<b>32 886</b>	<b>35</b>	<b>32 921</b>
Net (loss)/profit for the period		—	—	—	-10 304	<b>-10 304</b>	115	<b>-10 189</b>
Other comprehensive (loss)/income for the period		—	—	-2 030	-380	<b>-2 410</b>	-8	<b>-2 418</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>—</b>	<b>—</b>	<b>-2 030</b>	<b>-10 684</b>	<b>-12 714</b>	<b>107</b>	<b>-12 607</b>
Purchase of treasury shares		—	-1	—	—	<b>-1</b>	—	<b>-1</b>
Proceeds from issue of shares		—	—	—	—	—	—	—
Equity component convertible loans	16	—	—	—	—	—	—	—
Costs of capital increase/transaction costs		—	-0	—	—	<b>-0</b>	—	<b>-0</b>
Change in consolidation scope		—	—	—	-41	<b>-41</b>	4	<b>-37</b> <sup>1</sup>
<b>Balance 31 December 2014</b>		<b>3 278</b>	<b>67 659</b>	<b>13 400</b>	<b>-64 207</b>	<b>20 130</b>	<b>146</b>	<b>20 276</b>

<sup>1</sup> Increase in participation Precious Woods – Tropical Gabon Industrie S.A. from 96% to 99%



## Consolidated statement of cash flows

in TUSD	Notes	2014	2013
<b>Net cash flow from operating activities</b>			
Profit/(loss) for the period		-10 189	-20 595
Income taxes (income)/expenses	32	837	466
Interest income	26	-2	-5
Interest expenses	26	4 313	3 969
Dividend income	26	-109	-156
<b>Profit/loss for the period before interest and tax</b>		<b>-5 150</b>	<b>-16 321</b>
Depreciation and amortization	23	7 796	7 891
Impairment on property, plant and equipment	6	45	-
Impairment of intangible assets	8	1	32
Reversal of impairment of non-current assets	23	-27	-1 234
Value adjustment on financial assets and investment property		-	-0
(Profit)/loss on sale of non-current assets and liabilities	25	41	-186
Share of (losses)/profits of associates	9	-221	590
Fair value adjustments of financial liabilities		-32	1 009
Changes in provisions		-1 006	532
Allowances on inventories		-91	203
Other non-cash items		-340	-507
<b>Operating cash flow before working capital changes</b>		<b>1 016</b>	<b>-7 991</b>
Decrease/(increase) in trade and other receivables		-3 659	1 750
Decrease/(increase) in inventories	4	1 689	5 086
Decrease/(increase) in other current assets		21	523
Increase/(decrease) in trade payables and other liabilities		2 041	-2 062
Income tax (paid)/received		-15	14
<b>Net cash flow operating activities</b>		<b>1 093</b>	<b>-2 680</b>
<b>Cash flow from investing activities</b>			
Purchase of intangible assets	8	-4	-8
Proceeds from sale of property, plant and equipment		29	292
Purchase of property, plant and equipment	6	-1 224	-2 622
Proceeds from disposal of subsidiaries, net of cash disposed		-	216
Proceeds from disposal of associates		1 276	-
Proceeds from disposal of financial assets		33	-
Purchase of financial assets		-4	-89
Dividends received		109	156
Interests received		2	5
<b>Net cash flow investing activities</b>		<b>217</b>	<b>-2 050</b>
<b>Cash flow from financing activities</b>			
Purchase of own shares		-1	-
Proceeds from borrowings		6 315	5 663
Repayment of borrowings		-5 914	-1 605
Proceeds from convertible loans	16	-2	3 444
Repayment of bonds		-	-1 031
Interests paid		-1 857	-3 954
<b>Net cash flow financing activities</b>		<b>-1 459</b>	<b>2 517</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>-149</b>	<b>-2 213</b>
<b>Translation effect on cash</b>		<b>-267</b>	<b>41</b>
<b>Cash and cash equivalents, at the beginning of the year</b>		<b>3 185</b>	<b>5 357</b>
<b>Total Cash and cash equivalents, at the end of the year</b>		<b>2 769</b>	<b>3 185</b>

### 1. Basis of presentation and accounting policies

#### Basis of presentation

Precious Woods Holding Ltd (the Group) was incorporated as an international business group on 17 December 1990 under the laws of the British Virgin Islands. In 2001 the corporate domicile was relocated to Switzerland. The registered office is located in Zug. The Group's subsidiaries are organized and operate under the laws of Brazil, Gabon, the British Virgin Islands, the Netherlands and Luxembourg.

The activities of the Group are primarily organized and presented in four operating segments supported by a central corporate office.

- *Sustainable Forest Management Brazil*: operations active in the sustainable management of tropical forests and the processing of tropical hardwoods commenced in 1996 in Brazil
- *Sustainable Forest Management Gabon*: operations active in the sustainable management of tropical forests and the processing of tropical hardwoods commenced in 2007 in Gabon
- *Timber Trading Europe*: timber trading, which became a major additional distinct operational area in 2005 but discontinued during 2014; additional trading of wood from external sources started in 2014 in Switzerland
- *Carbon & Energy*: trading of Certified Emission Reductions (CERs)

Unless specified otherwise, all figures are reported in TUSD. 1 TUSD = USD 1000.

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.

The consolidated financial statements for the Precious Woods Group have been prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared according to the historical costs convention with the exception of investment property, financial assets at fair value through profit or loss and available-for-sale financial assets, which are valued at fair value.

#### Significant accounting judgments, estimates and assumptions

The Group makes estimates and assumptions concerning the future. 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 provisions, land titles in Brazil, valuation of convertible bonds and loans and non-current assets held for sale.

##### *Provisions*

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 the income statement net of any reimbursement.

##### *Land titles Brazil*

For certain land acquired by Precious Woods in Brazil, the land title registration is not yet finalized. These transactions are disclosed as pre-payments. For pre-payments for land titles with a certain risk of losing the land, an allowance is recorded based on Management's estimate of the outcome. This required an estimate of the probability to be able to prove the ownership of the land (see Note 6).

##### *Government grants / Certified Emission Reductions*

The power plant BK Energia in Brazil generates CERs (Certified Emission Reductions). These CERs are purchased from BK Energia, an associate of PW Group, and sold by Precious Woods Holding. CERs are on stock as long as the certification is not yet achieved and sold afterwards (see Note 21).



#### *Valuation of derivative financial instruments / convertible bonds and loans*

Where the fair value of derivative financial instruments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of management judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Notes 15 and 16).

### **Debt restructuring / refinancing**

#### **1. Background**

The Group has been in a turnaround phase for several years. As a result of various restructuring measures, the operational results (EBITDA) increased significantly and the net loss situation improved during the reporting period to an amount of USD 10.3 million. Further, the company was successful in refinancing the convertible loans in the amount of CHF 17 million, which fell due in December 2014. Parts of the refinancing, however, have been on a short-term basis and net results have been still negative.

As a consequence of the points mentioned before and considering short term financial liabilities, which were not subject to refinancing, the liquidity situation of the Group remains stressed. Current financial liabilities amount to USD 26.4 million (USD 7.3 million convertible bonds and USD 19.1 million other financial liabilities). Whereas the refinancing of approximately USD 12.8 million is secured through guarantees a remaining amount of USD 13.6 million (mainly bank overdrafts and third party financial liabilities in Gabon and Brazil, mostly secured by assets) need to be refinanced or extended.

#### **2. Debt restructuring / refinancing**

The Board of Directors and Management work on various paths in order to solve the Group's refinancing obligations and to ease the current liquidity situation. The following actions have been taken:

- Discussions to increase and extend current credit lines with banks in Gabon
- Preliminary discussions to extend current credit lines with banks in Brazil
- Meetings with existing investors to discuss extension of short-term loans
- Meetings with new investors, who might be interested to contribute additional funds

#### **3. Uncertainties**

According to the liquidity plan the Group might face liquidity constraints. In the past, the Group has proven its ability to refinance its short-term financial liabilities. Additionally, operational results improved compared to previous years. Should, however, the efforts of the Board of Directors and Management not materialize as expected, then the group might not be in a position to fulfill its short term financial obligations.

#### **4. Conclusion**

The Board of Directors and Management expect that the proposed measures will be successful, and their effects will be to restore the liquidity of the Group and assure its financial stability in the long term. Therefore, the Board of Directors and Management believe that the existing uncertainties are not material in nature and the going concern assumption of the Precious Woods Group is given.

### **New and amended standards and interpretations**

Certain International Financial Reporting Standards (IFRS) and IFRIC interpretations were revised or introduced by the International Accounting Standards Board (IASB), effective on or after 1 January 2014.

- *IFRS 10 Investment Entities (amendments to IFRS 10, IFRS 12 and IFRS 27)* – These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. The amendments had no impact on the financial statement of the Group.
- *IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* – This amendment updates the application guidance in IAS 32 'Financial instruments: Presentation' to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment had no impact on the financial statement of the Group.
- *IAS 36 Impairment of Assets: Recoverable Amount for Disclosures for Non-Financial Assets* – These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments had no material impact on the financial statement of the Group.

- *IAS 39 Financial instruments: Recognition and measurement – Novation of Derivatives and Continuation of Hedge Accounting* – These narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulation, if specific conditions are met. The amendments had no impact on the financial statement of the Group.
- *IFRIC 21 Levies* – This interpretation is on IAS 37 Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation had no impact on the financial statement of the Group.

#### **Future changes in IFRS**

The Group is currently assessing the potential impact of the new standards that will be effective for annual periods beginning on or after 1 July 2014 and beyond, which include:

- IFRS 9 Financial Instruments: Classification and Measurement – effective on or after 1 January 2018.
- IFRS 10 Consolidated Financial Statements / IAS 28 Investment in Associates and Joint Ventures (amendments): Inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture – effective on or after 1 January 2016.
- IFRS 11 Joint Arrangements (amendments): Accounting on Acquisition of Interests in Joint Operations – effective on or after 1 January 2016.
- IFRS 14 Regulatory Deferral Accounts – effective on or after 1 January 2016.
- IFRS 15 Revenue from Contracts with Customers – effective on or after 1 January 2017.
- IAS 19 Employee Benefits (amendments): Defined Benefit plans: Employee Contributions – effective on or after 1 July 2014.
- IAS 16 Property, Plant and Equipment / IAS 38 Intangible Assets (amendment): Depreciation and Amortization – effective on or after 1 January 2016.
- IAS 27 Separate Financial Statements (amendments): Equity method – effective on or after 1 January 2016.
- Improvements to IFRSs – Annual Improvements 2012 (cycle 2010-2012) and 2013 (cycle 2011-2013) – effective on or after 1 July 2014.



**The significant accounting policies are as follows:**

**a. Basis of consolidation**

The consolidated financial statements include the balances and transactions of Precious Woods Holding Ltd and its subsidiaries. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. 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	
		2014	2013
Precious Woods Management Ltd.	British Virgin Islands	100 %	100 %
Madeiras Preciosas da Amazônia Manejo Ltda.	Brazil	100 %	100 %
Mil Madeiras Preciosas Ltda.	Brazil	100 %	100 %
Carolina Indústria Ltda.	Brazil	100 %	100 %
Precious Woods do Pará S.A.	Brazil	100 %	100 %
Precious Woods Manejo Florestal Ltda.	Brazil	100 %	100 %
Monte Verde Madeiras Ltda.	Brazil	100 %	100 %
Precious Woods Europe B.V.	The Netherlands	100 %	100 %
Geveltin Houtimport 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 %	96 %
Precious Woods – Tropical Gabon Industrie S.A.	Gabon	100 %	100 %

The acquisition method is used to account for the acquisition of subsidiaries by the Group. On the acquisition date all identifiable assets and liabilities of the subsidiary are measured at fair value. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed.

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.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. 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.

**b. Cash and cash equivalents**

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

**c. Trade receivables**

Trade accounts receivable are recognized initially at fair value and subsequently measured at amortized cost less allowances. Doubtful accounts are individually measured and impaired. Indications for such impairments are substantial financial problems on the part of the customer, a declaration of bankruptcy or a financial reorganization being likely, or a delay in payment occurring. A general allowance based on past experiences is made in addition to these individual measurements.

**d. Inventories**

Inventories include raw materials, auxiliary materials and supplies, semi-finished goods, finished goods and trading goods. Inventories are valued at the lower of cost or net realizable value. Round wood 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 ordinary 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.

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

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:

Land:	not depreciated
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 are reviewed, and adjusted if appropriate, at each reporting date. The effect of such change is recognized immediately in the statement of profit or loss. The forests in Brazil are valued at cost as fair values cannot be reliably measured in sustainable management of existing tropical forest. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of profit or loss.

#### **f. Intangible assets**

Acquired trademarks and licenses have a finite useful life and are carried at historical cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (12 to 24 years).

Other intangible assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the costs of intangible assets over their estimated useful lives (12 to 50 years).

#### **g. 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 results, if the carrying value exceeds the recoverable amount. The recoverable amount is the higher of value in use or fair value less costs of disposal. The impairment is recorded in the statement of profit or loss.

#### **h. Leases**

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.

#### **i. Financial assets**

Financial assets are designated to the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose of the financial asset. Management determines the categories of its financial assets at initial recognition and re-evaluates the classification at each reporting date.

##### *Financial assets at fair value through profit or loss*

This designation is split into two sub-categories: financial assets held for trading and those which Management designated at their fair value through profit or loss at inception. A financial asset is held for trading if it is principally purchased for the purpose of selling in the short term. Derivatives, including separated embedded derivatives are classified as held for trading, unless they are used for hedge accounting. Financial assets at fair value through profit or loss are categorized as current assets if they are either held for trading or if they are expected to be realized within 12 months from the reporting date.



Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with defined payments that are not quoted in an active market. They are classified as current assets if their maturity does not exceed 12 months after the reporting date. Otherwise they are included in non-current assets.

#### *Available-for-sale investments*

Available-for-sale investments are non-derivative financial assets that are either designated as available-for-sale investments or that are not designated to any of the other categories. They are included in non-current assets, unless Management has decided to sell within 12 months after the reporting date.

All purchases and sales of financial assets are recorded on the trade date. Trade date is the date on which the Group commits itself to the purchase or sale of the asset.

Financial assets not categorized at fair value through profit or loss are initially recorded at fair value plus transaction costs. Financial assets categorized as at fair value through profit or loss are initially measured at the actual price paid. The related transaction costs are recorded directly in the statement of profit or loss. Financial assets are derecognized if the contractual rights to the cash flows from the financial asset expire, or are transferred, and the Group has substantially transferred all the risks and rewards of ownership of the financial asset.

Loans and receivables are measured at amortized cost, using the effective interest method. 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. Available-for-sale investments are subsequently measured at fair value with unrealized profits or losses resulting from changes in the fair value of available-for-sale investments recorded in other comprehensive income. Upon sale or impairments of available-for-sale investments the accumulated fair value adjustments in other comprehensive income are recycled through profit or loss.

The fair value of financial assets is based on current market prices. In case there is no active market for a financial asset and hence no current market prices are available, the Group determines the fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, book value analysis, or discounted cash flow analyses.

The Group assesses at each reporting date whether there is objective evidence that loans and receivables are impaired. In such cases, Management estimates the future cash flows. An impairment loss is recorded in the statement of profit or loss when the carrying value is higher than the present value of estimated future cash flows of the financial asset. If in a subsequent period the impairment loss of loans and receivables decreases and can be objectively allocated to an event that occurred after the impairment was recorded, the reversal amount is recognized through profit or loss for that period at a maximum of the previously recognized impairment loss.

#### **j. Derivative financial instruments and hedging activities**

Derivatives are initially recognized at fair value on the date a derivative contract is concluded and are subsequently measured at fair value. The Group does not apply hedge accounting. Consequently, all changes in fair value are recognized in the statement of profit or loss.

#### **k. Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized over the period of the borrowings, using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## **I. Convertible bonds and loans**

Convertible bonds and loans represent compound financial instruments consisting of a liability as well as an equity component or a derivative financial instrument. The fair value of the liability component is determined by discounting the future cash flows with an equivalent market interest rate for non-convertible instruments.

The difference between cash received before the allocation of the transaction costs at the date of inception and the fair value of the liability component represents the fair value of the embedded equity conversion option or the fair value of the derivative financial liability. The value included in shareholders' equity, net of tax, is not re-measured subsequently.

The costs of issuing the convertible bonds are allocated to the liability and equity component at the date of inception. The part of the costs that is allocated to the equity component will be netted.

The interest expense of the liability component equals a market interest rate for comparable non-convertible bonds.

## **m. Revenue recognition**

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. For information on revenue from emission reduction activities, please refer to chapter t on government grants.

## **n. Currency**

As the business of Precious Woods started in Costa Rica the presentation currency of the Group is the United States dollar (USD). The subsidiaries' accounting records are maintained in the legal currency of the country in which they operate and which is their functional currency. The currency translation rates for the consolidated financial statements are as follows:

in USD		31 December 2014	Average 2014	31 December 2013	Average 2013
Swiss franc	1 CHF	1.0105	1.0938	1.1230	1.0790
Brazilian real	1 BRL	0.3722	0.4257	0.4232	0.4645
Euro	1 EUR	1.2155	1.3290	1.3766	1.3280
Central African CFA franc	1 XAF	0.0019	0.0020	0.0021	0.0020

## **o. Currency translation**

The financial statements of the subsidiaries have been translated from their functional currencies to the presentation currency (USD). Therefore, 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 foreign currency translation in other comprehensive income.

## **p. Currency transactions**

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.

## **q. Taxation**

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 recognized 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 affects neither the taxable profit nor the accounting profit.



**r. Pension plans**

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

In a defined benefit plan the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation is defined. Professionally qualified independent actuaries value the defined benefit obligations on a regular basis. 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 a subsequent period. 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. A net pension asset is recorded only to the extent that it does not exceed the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

**s. Segment reporting**

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.

**t. Certified Emission Reductions (CERs)**

Certified Emission Reductions (CERs) are granted by the United Nations Framework Convention on Climate Change (UNFCCC) for Greenhouse Gas Reduction of one metric ton of CO<sub>2</sub> equivalent.

**u. Non-current assets held for sale**

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

## 2. Financial risk management

In the normal course of business the Group is exposed to changes in currency exchange rates, financing risk, changes in interest rates and credit risks.

The Precious Woods Group's financial risk management seeks to minimize potential adverse effects on financial performance.

The Group may use derivative financial instruments to economically hedge financial risks. In the reporting period, the Precious Woods Group did not apply hedge accounting.

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

The Group has no significant interest-bearing assets. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risks. Group borrowings are denominated in CHF, BRL, EUR and XAF.

Management's policy is to maintain its borrowings in fixed rate instruments. There was no material variable interest rate borrowing on 31 December 2013 as well as on 31 December 2014.

#### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The XAF is in a fix relation to the EUR. As most of the sales out from Gabon are denominated in EUR and all cost in XAF the currency risk is limited to the translation into USD for the presentation. The sales out of Brazil are denominated in EUR and USD, the cost are in BRL. Therefore the currency risk for the local books is given.

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. To manage their foreign exchange risk arising from future commercial transactions the Group may use forward contracts, transacted by the Group finance department.

The sensitivity 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 TUSD	31.12.14 Reasonable shift	31.12.14 "Impact" on profit or loss before tax	31.12.14 "Impact" on equity	31.12.13 Reasonable shift	31.12.13 "Impact" on profit or loss before tax	31.12.13 "Impact" on equity
EUR/CHF	+/-15 %	+/-544	+/-3 898	+/-10 %	+/-354	+/-3 599
USD/CHF	+/-15 %	+/-88	+/-1 667	+/-10 %	+/-29	+/-1 112
USD/BRL	+/-15 %	+/-17	+/-2 082	+/-15 %	+/-17	+/-1 561
CHF/BRL	+/-15 %	+/-0	+/-6 528	+/-15 %	+/-0	+/-6 018
CHF/XAF	+/-15 %	+/-0	+/-458	+/-10 %	+/-0	+/-651

All the loans in Precious Woods Holding are denominated in CHF and were replaced by new CHF loans. The situation will be monitored very closely when it comes to a due date of a loan whether it shall be replaced or repaid in CHF and hedged before.



### Price risk

The Group is exposed to equity securities price risks because of unlisted investments held by the Group and classified as available for sale or at fair value through profit or loss. At the reporting date, the exposure to unlisted equity securities at fair value was USD 0.5 million (2013: USD 0.6 million). Please refer to Note 10.

### Liquidity risk

Liquidity risk management is centralized at the Group 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 TUSD	Less than 1 year	Between 1 and 2 years	Over 2 years
<b>31 December 2014</b>			
Trade and other payables	15 618	–	–
Financial liabilities	26 471	5 082	13 820
<b>Non-derivative financial liabilities</b>	<b>42 089</b>	<b>5 082</b>	<b>13 820</b>

Net settled derivative financial instruments	–	–	–
<b>Derivative financial instruments</b>	<b>–</b>	<b>–</b>	<b>–</b>

in TUSD	Less than 1 year	Between 1 and 2 years	Over 2 years
<b>31 December 2013</b>			
Trade and other payables	13 620	–	–
Financial liabilities	31 127	11 908	6 539
<b>Non-derivative financial liabilities</b>	<b>44 747</b>	<b>11 908</b>	<b>6 539</b>

Net settled derivative financial instruments	–	–	–
<b>Derivative financial instruments</b>	<b>–</b>	<b>–</b>	<b>–</b>

### Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments 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. The Group has one main relation with a bank, which has a rating of "AAA". Most of the sales are CAD (Cash Against Documents) 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 accounts receivable 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 general 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. A general allowance on bad debt is determined for all other amounts based on past experience. For detailed information see Note 3.

### Capital management

When managing capital, the Precious Woods Group's 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, the Precious Woods Group issues new shares or sells assets to reduce debts. The mid-term target of the Group is to have an equity ratio of >40%. 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

Precious Woods Tropical Gabon Industrie has pledged buildings in the amount of USD 9.5 million (2013: USD 10.5 million), has pledged machinery and equipment in the amount of USD 3.2 million (2013: USD 3.6 million) and leased property and plants by USD 0.1 million (2013: USD 0) to secure bank loans. Precious Woods Compagnie Equatoriale des Bois has pledged machinery and equipment in the amount of USD 5.6 million (2013: USD 6.2 million), leased property and plants by USD 2.0 million (2013: USD 3.6 million) and inventories in the amount of USD 1.6 million (2013: USD 0). Precious Woods Holding Ltd has no pledged assets, but other securities in the amount of USD 2.0 million in connection with loans (2013: USD 0).

### 3. Trade and other receivables

in TUSD	2014	2013
Trade receivables, third parties	6 737	4 608
Trade receivables, associates	81	109
Less allowance for bad debts	-1 363	-1 470
<b>Total trade receivables net</b>	<b>5 455</b>	<b>3 247</b>
Other short-term receivables	5 490	5 770
<b>Total</b>	<b>10 945</b>	<b>9 017</b>

The carrying amounts of the receivables approximate to their fair values.

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

in TUSD	2014	2013
Not overdue	5 861	1 727
Less than 30 days overdue	4	1 450
31 to 60 days overdue	—	25
61 to 180 days overdue	9	56
More than 180 days overdue	944	1 459
<b>Total trade receivables gross</b>	<b>6 818</b>	<b>4 717</b>
Allowance for bad debts	-1 363	-1 470
<b>Total trade receivables net</b>	<b>5 455</b>	<b>3 247</b>

#### Allowances for bad debts

in TUSD	2014	2013
At 1 January	1 470	2 044
Addition in allowance for bad debts	91	227
Release of allowance for bad debts	-13	-575
Translation differences	-185	-226
<b>At 31 December</b>	<b>1 363</b>	<b>1 470</b>

Trade receivables net include amounts denominated in the following currencies:

in TUSD	2014	2013
EUR	4 434	2 474
USD	383	243
BRL	168	393
XAF	470	137
<b>Total trade receivables net</b>	<b>5 455</b>	<b>3 247</b>



#### 4. Inventories

in TUSD	2014	2013
Logs	4 078	3 239
Sawn wood	3 425	6 465
Veneers	990	1 047
Industrialized products	330	407
Certified Emission Reductions (CERs)	140	125
Export products in transit	1 736	2 564
Spare parts and other	1 405	1 531
Less obsolescence reserve	–315	–560
<b>Total inventories</b>	<b>11 789</b>	<b>14 818</b>

In 2013, the inventory of Precious Woods Europe is – due to restructuring – revaluated to net realizable value. This revaluation did decrease the value of the inventory by TUSD 4968. Per 31 December 2014 the inventory was reduced by sales to a net amount of TUSD 629.

#### Obsolescence reserve

in TUSD	2014	2013
At 1 January	560	3 979
Increase	–91	203
Decrease	–108	–3 617
Translation differences	–46	–5
<b>At 31 December</b>	<b>315</b>	<b>560</b>

#### 5. Other current assets

in TUSD	2014	2013
Prepaid expenses, prospecting	927	1 284
Prepaid expenses, other	719	585
Marketable securities	2	3
<b>Total other current assets</b>	<b>1 648</b>	<b>1 872</b>

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.

## 6. Property, plant and equipment

in TUSD	Forest and land	Forest roads	Buildings and improvements	Machinery and vehicles	Leased machinery and vehicles	Furniture and fixtures	Construction in progress	Advanced payment for property, plant and equipment	Total
<b>Cost</b>									
<b>At 1 January 2013</b>	<b>22 289</b>	<b>15 631</b>	<b>25 622</b>	<b>32 157</b>	<b>3 045</b>	<b>4 038</b>	<b>1 020</b>	<b>6 184</b>	<b>109 986</b>
Additions	3	—	44	1 253	2 794	181	1 141	—	5 416
Disposals	—	—	—49	—729	—	—315	—	—	—1 093
Change in consolidation scope	—	—	—	—	—	—	—	—	—
Reclassifications	—83	1 120	101	467	—	—	—1 688	83	—
Translation differences	—734	—471	558	—420	292	70	—27	—829	—1 561
<b>At 31 December 2013</b>	<b>21 475</b>	<b>16 280</b>	<b>26 276</b>	<b>32 728</b>	<b>6 131</b>	<b>3 974</b>	<b>446</b>	<b>5 438</b>	<b>112 748</b>
Additions	—	349	16	279	—	69	511	—	1 224
Disposals	—	—	—	—644	—	—9	—	—	—652
Reclassifications	—147	—	—	—	—	—	—	147	—
Reclassification of assets held for sale	—	—	—	—668	—	—1	—	—	—669
Translation differences	—2 248	—1 759	—2 591	—3 315	—584	—412	—68	—674	—11 651
<b>At 31 December 2014</b>	<b>19 080</b>	<b>14 870</b>	<b>23 701</b>	<b>28 380</b>	<b>5 547</b>	<b>3 622</b>	<b>889</b>	<b>4 911</b>	<b>101 000</b>
<b>Accumulated depreciation</b>									
<b>At 1 January 2013</b>	<b>—</b>	<b>5 313</b>	<b>11 778</b>	<b>24 137</b>	<b>1 376</b>	<b>2 948</b>	<b>—</b>	<b>3 433</b>	<b>48 985</b>
Charge for the year	—	639	2 003	2 514	1 297	306	—	—	6 759
Impairment charge	—	—	—	—	—	—	—	—	—
Reversal of impairment	—	—268	—	—	—	—	—	—966	—1 234
Elimination on disposals	—	—	—36	—668	—	—311	—	—	—1 015
Change in consolidation scope	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—	—
Translation differences	—	—153	328	—555	134	44	—	—369	—571
<b>At 31 December 2013</b>	<b>—</b>	<b>5 531</b>	<b>14 073</b>	<b>25 428</b>	<b>2 807</b>	<b>2 987</b>	<b>—</b>	<b>2 098</b>	<b>52 924</b>
Charge for the year	—	652	1 762	2 283	1 732	241	—	—	6 670
Impairment charge	—	—	—	21	—	10	—	15	46
Reversal of impairment	—	—27	—	—	—	—	—	—	—27
Elimination on disposals	—	—	—	—634	—	—9	—	—	—643
Reclassifications	—	—	—	—	—	—	—	—	—
Reclassification of assets held for sale	—	—	—	—662	—	—1	—	—	—663
Translation differences	—	—628	—1 483	—2 709	—354	—328	—	—255	—5 757
<b>At 31 December 2014</b>	<b>—</b>	<b>5 528</b>	<b>14 352</b>	<b>23 727</b>	<b>4 185</b>	<b>2 900</b>	<b>—</b>	<b>1 858</b>	<b>52 550</b>
<b>Carrying amount</b>									
<b>At 31 December 2013</b>	<b>21 475</b>	<b>10 749</b>	<b>12 203</b>	<b>7 300</b>	<b>3 324</b>	<b>987</b>	<b>446</b>	<b>3 340</b>	<b>59 824</b>
<b>At 31 December 2014</b>	<b>19 080</b>	<b>9 342</b>	<b>9 349</b>	<b>4 653</b>	<b>1 362</b>	<b>721</b>	<b>889</b>	<b>3 053</b>	<b>48 450</b>

Despite the continued efforts to clean the land titles from legal issues, Precious Woods had on the one hand to reclassify additional land of TUSD 147 in 2014 (2013: TUSD 83) as advanced payments for property, plant and equipment as new information on potential claims became available. On the other hand it was possible to reverse in 2013 impairments on land titles in the amount of TUSD 1234. Please refer to “Land titles Brazil”, Note 1.

## 7. Forest, forest improvements

The forests of Precious Woods in Brazil 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. These forests and forest improvements are valued at the lower of cost or market. The fair value approach cannot be applied due to the lack of reliable information about biological growth rates for more than 300 species in the field and associated market prices for potential harvest quantities.

## 8. Intangible assets

in TUSD	Trademarks and licences	Other	Total
<b>Cost</b>			
<b>At 1 January 2013</b>	<b>16 194</b>	<b>12 062</b>	<b>28 256</b>
Additions	–	7	7
Translation differences	777	–156	621
<b>At 31 December 2013</b>	<b>16 971</b>	<b>11 913</b>	<b>28 885</b>
Additions	–	4	4
Translation differences	–1 704	–1 240	–2 945
<b>At 31 December 2014</b>	<b>15 267</b>	<b>10 677</b>	<b>25 944</b>
in TUSD	Trademarks and licences	Other	Total
<b>Accumulated amortization and impairment</b>			
<b>At 1 January 2013</b>	<b>9 237</b>	<b>6 375</b>	<b>15 612</b>
Charge for the year	934	198	1 132
Impairment	32	–	32
Translation differences	478	304	782
<b>At 31 December 2013</b>	<b>10 681</b>	<b>6 877</b>	<b>17 558</b>
Charge for the year	932	191	1 123
Impairment	–	1	1
Translation differences	–1 152	–680	–1 832
<b>At 31 December 2014</b>	<b>10 461</b>	<b>6 389</b>	<b>16 850</b>
<b>Carrying amount</b>			
<b>At 31 December 2013</b>	<b>6 290</b>	<b>5 036</b>	<b>11 326</b>
<b>At 31 December 2014</b>	<b>4 806</b>	<b>4 288</b>	<b>9 094</b>

Other intangible assets mainly include forest concessions and software.



## 9. Investment in associates

in TUSD	2014	2013
At 1 January	2 726	3 488
Share of profit of associates including impairment	221	-590
Additions	–	–
Dividends earned	-159	–
Disposal	-1 316	–
Translation differences	-244	-172
<b>At 31 December</b>	<b>1 228</b>	<b>2 726</b>

### BK Energia

On 31 March 2012, Precious Woods transferred 40 % of the shares of BK Energia to the former minority shareholder. The investment was recognized at fair value on the date the Group lost control and has since been valued using the equity method. It amounts to TUSD 1228 as of 31 December 2014 (2013: TUSD 1362).

in TUSD (representing 100 %)	Assets	Liabilities	Revenues	Profit
Key figures 2013	4 188	702	5 599	432
Key figures 2014	3 786	585	5 059	552

### GWW Houtimport B.V.

On 28 March 2014 the 50 % participation in GWW Houtimport – held since 2005 – was sold to C.A. Hoogendoorn Beheer B.V. for the amount of TUSD 1315 (TEUR 960) retroactively by 1 January 2014. The loss from sale of the participation in the amount of TUSD 40 (TEUR 30) is included in the financial result. In 2013 the investment was valued using the equity method and amounted to TUSD 1364 as of 31 December 2013 (also see note 33).

in TUSD (representing 100 %)	Assets	Liabilities	Revenues	Profit
Key figures 2013	7 220	4 492	11 081	-133
Key figures 2014	–	–	–	–

## 10. Non-current financial assets

in TUSD	2014	2013
NST	504	560
NIBO	27	27
<b>At 31 December</b>	<b>531</b>	<b>587</b>

The non-current financial assets contain an investment of TUSD 504 (2013: TUSD 560) in Norsudtimber Company (NST) in Vaduz and an investment of TUSD 27 (2013: TUSD 27) in Nederlandse Internationale Bosbouw Onderneming NV (NIBO). Norsudtimber holds majority participations in four important forestry companies in the Democratic Republic of the Congo. This investment is placed in EUR and has a value of TEUR 410 (2013: TEUR 410), whilst the NIBO investment is directly held in USD.

## 11. Non-current assets held for sale

In 2013 the remaining assets of the non-current assets held for sale in Brazil were sold.

In 2014, Precious Woods Europe reclassified – based on the decision of the shut-down of the operational activities in November 2013 – several non-current assets from property, plant and equipment to non-current assets held for sale as soon as these items were not in use anymore.

## 12. Trade and other payables

in TUSD	2014	2013
Trade payables, third parties	5 583	5 889
Trade payables, associates	—	—
Trade payables, related parties	—	81
<b>Total trade payables</b>	<b>5 583</b>	<b>5 970</b>
Other current liabilities, third parties	5 965	4 236
Other current liabilities, associates	160	125
Other current liabilities, related parties	—	—
Other accrued liabilities	3 910	3 289
<b>Total other payables</b>	<b>10 035</b>	<b>7 650</b>
<b>At 31 December</b>	<b>15 618</b>	<b>13 620</b>

## 13. Financial liabilities

The carrying amount of financial liabilities corresponds approximately to their fair value.

### Net book value of financial liabilities

in TUSD	2014	2013
Financial liabilities from borrowings	43 272	45 758
Financial liabilities finance-lease	2 101	3 816
<b>Total financial liabilities</b>	<b>45 373</b>	<b>49 574</b>
Total current financial liabilities	26 471	31 127
Non-current financial liabilities, third parties	17 703	16 740
Non-current financial liabilities, associates	1 199	1 707
<b>Total financial liabilities</b>	<b>45 373</b>	<b>49 574</b>

Interest expenditure from finance-lease liabilities amounted to TUSD 301 (2013: TUSD 285). Finance-lease liabilities are secured effectively as the rights to the leased asset revert to the lessor in the event of a breach of contract.

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

in TUSD	2014	2013
<b>Currencies financial liabilities</b>		
<b>Borrowings denominated in:</b>		
EUR	2 039	—
XAF	13 245	18 727
CHF	26 644	26 157
BRL	3 445	4 690
<b>Total financial liabilities</b>	<b>45 373</b>	<b>49 574</b>

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

	2014	2013
EUR	6.5 %	—
XAF	8.0-11.0 %	8.0-11.0 %
CHF	11.5-12.6 %	11.5-12.6 %

## 14. Provisions

in TUSD	Legal claims	Restructuring	Others	2014 Total	2013 Total
Short-term provisions	–	205	–	205	758
Long-term provisions	1 405	–	4 245	5 650	6 414
<b>Total</b>	<b>1 405</b>	<b>205</b>	<b>4 245</b>	<b>5 855</b>	<b>7 172</b>
At 1 January	1 725	758	4 689	7 172	7 158
Additions	208	89	260	557	1 961
Unused amounts reversed	–227	–57	–733	–1 016	–1 487
Used during the year	–112	–541	–37	–690	–97
Reclassifications	–	–	565	565	–
Translation adjustments	–189	–44	–500	–733	–363
<b>At 31 December</b>	<b>1 405</b>	<b>205</b>	<b>4 245</b>	<b>5 855</b>	<b>7 172</b>

### Legal claims

The amounts represent 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 2014.

### Restructuring

The provision for restructuring of Precious Woods Europe in the Netherlands was reduced to the amount of TUSD 205 (2013: TUSD 758). The amount contains provisions for salaries, social costs for employees and rental contracts.

### Others

The total amount of TUSD 4245 for long-term provisions includes employee benefits (TUSD 1724), provisions for social security (TUSD 459), provisions for tax fees (TUSD 1632) and other provisions (TUSD 430).

## 15. Financial instruments by category

in TUSD	Loans and receivables	Assets at fair value through profit and loss	Available- for-sale assets	Total
<b>31 December 2014</b>				
<b>Assets</b>				
Cash and cash equivalents	2 769	–	–	2 769
Trade and other receivables	7 639	–	–	7 639
Available-for-sale financial assets	–	–	531	531
Other financial assets at fair value through profit and loss	–	2	–	2
<b>Total</b>	<b>10 408</b>	<b>2</b>	<b>531</b>	<b>10 941</b>
in TUSD		Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	Total
<b>31 December 2014</b>				
<b>Liabilities</b>				
Trade and other payables		–	11 664	11 664
Convertible bonds/loans		–	7 306	7 306
Financial liabilities		–	38 067	38 067
Derivative financial instruments		–	–	–
<b>Total</b>		<b>–</b>	<b>57 037</b>	<b>57 037</b>



in TUSD	Loans and receivables	Assets at fair value through profit and loss	Available-for-sale assets	Total
<b>31 December 2013</b>				
<b>Assets</b>				
Cash and cash equivalents	3 186	–	–	3 186
Trade and other receivables	5 495	–	–	5 495
Available-for-sale financial assets	–	–	587	587
Other financial assets at fair value through profit and loss	–	2	–	2
<b>Total</b>	<b>8 681</b>	<b>2</b>	<b>587</b>	<b>9 270</b>

in TUSD	Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	Total
<b>31 December 2013</b>			
<b>Liabilities</b>			
Trade and other payables	–	10 265	10 265
Convertible bonds/loans	–	26 003	26 003
Financial liabilities	–	10 264	10 264
Derivative financial instruments	–	–	–
<b>Total</b>	<b>–</b>	<b>46 532</b>	<b>46 532</b>

#### Fair value hierarchy

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 TUSD	31 December 2014	Level 1	Level 2	Level 3
Available-for-sale financial assets	531	–	–	531
Other financial assets at fair value through profit and loss	2	–	–	2
<b>Total</b>	<b>533</b>	<b>–</b>	<b>–</b>	<b>533</b>

#### Liabilities measured at fair value

in TUSD	31 December 2014	Level 1	Level 2	Level 3
Financial liabilities	–	–	–	–
Derivative financial instruments	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

#### Assets measured at fair value

in TUSD	31 December 2013	Level 1	Level 2	Level 3
Available-for-sale financial assets	587	–	–	587
Other financial assets at fair value through profit and loss	2	–	–	2
<b>Total</b>	<b>589</b>	<b>–</b>	<b>–</b>	<b>589</b>

**Liabilities measured at fair value**

in TUSD	31 December 2013	Level 1	Level 2	Level 3
Financial liabilities	–	–	–	–
Derivative financial instruments	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

**Reconciliation of fair value measurement of level 3 financial assets**

in TUSD	2014	2013
At 1 January	589	574
Sales	–	–
Purchases	–	–
Gains and losses recognized in the statement of profit or loss	–56	15
<b>At 31 December</b>	<b>533</b>	<b>589</b>

**16. Convertible bonds and loans**

On 17 May 2011, two new convertible loans at a total par value of CHF 5.5 million were placed. They are repayable in 4 years or can be converted into shares at the rate of 100 shares per CHF 2250, if the conversion requirements are met. These convertible loans are split into a liability and an equity component.

On 17 December 2012, a new convertible loan at a par value of CHF 1 million was placed. On January and February 2013, the Group placed two additional convertible loans at a total par value of CHF 3 million at a conversion price of CHF 3.00 per share. CHF 2 million of these convertible loans were repayable by December 2013 or could be converted into shares; on 20 August 2013 the Group has repaid this convertible loan. The remaining CHF 1 million in addition to the convertible loan of CHF 1 million placed on December 2012 has been repaid on 14 November 2013 with TCHF 1940 and TCHF 60 have been converted into shares. On the same date a new convertible loan at a par value of CHF 2 million has been placed. It will be repayable in 2 years or can be converted into shares at the rate of CHF 3.70 per share. The convertible loan was split into a liability and an equity component.

On 8 December 2014, new loan contracts were signed in the amount of CHF 17.6 million. They were used to pay back the convertible bond at a par value of CHF 17 million, placed on 15 December 2009, which was due on 17 December 2014. The new loan contracts are split into a loan in the amount of CHF 12 million, repayable in 5 years and several loans in the total amount of CHF 5.6 million, repayable in 1 years' time. Also in December 2014 a loan in the amount of CHF 2 million has been placed and will be repayable in December 2015.

The total carrying amount of the convertible bonds and loans (financial liabilities) amounts to TUSD 7306 (2013: TUSD 26 003), all recognized as short-term convertible bonds and loans. The initial recognition was calculated using market interest rates for equivalent non-convertible bonds of 11.5-12.6% (2013: 10.2-12.7%).

## 17. Share capital

This supplementary information, whose purpose is to show 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 (USD) using historical exchange rates.

### Share capital overview

	Number of shares 2014	CHF 2014	Number of shares 2013	CHF 2013
<b>Issued and fully paid-in capital beginning of year</b>	<b>3 767 806</b>	<b>3 767 806</b>	<b>3 438 355</b>	<b>3 438 355</b>
Increase of issued and fully-paid capital	–	–	329 451	329 451
<b>Issued and fully paid-in capital end of year</b>	<b>3 767 806</b>	<b>3 767 806</b>	<b>3 767 806</b>	<b>3 767 806</b>
Authorized share capital – authorized during the year	–	–	–	–
Authorized share capital – eliminated during the year	–	–	–	–
<b>Authorized share capital at the end of the year</b>	<b>1 547 260</b>	<b>1 547 260</b>	<b>1 547 260</b>	<b>1 547 260</b>
Conditional share capital – authorized during year	–	–	–	–
Conditional share capital – eliminated during year	–	–	–20 000	–20 000
<b>Conditional share capital at end of the year</b>	<b>1 699 177</b>	<b>1 699 177</b>	<b>1 699 177</b>	<b>1 699 177</b>

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. The Group's 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. Additionally, a part of the conditional share capital is intended to cover options of employees and board members.

In 2012, the existing authorized share capital of CHF 800 000 was renewed, increased to CHF 1 547 260 and the link with the conditional capital was cancelled. Therefore in 2012, the authorized capital is counted in full. Additionally, the conditional share capital was increased from CHF 1 590 488 to CHF 1 719 177.

In March 2013, the group successfully increased its ordinary capital by 309 451 shares with CHF 1.00 par value each to CHF 3 747 806. In addition, on 14 November 2013, as a result of the exercise of the conversion rights in connection with convertible bonds amounting to CHF 20 000, the registered share capital was increased to CHF 3 767 806 and the conditional share capital was decreased to CHF 1 699 177.

In May 2014 the existing authorized share capital of CHF 1 547 260 was prolonged until May 2016.



## 18. Related party balances and transactions

An overview of the subsidiaries of Precious Woods is presented on page 41. Balances and transactions between Precious Woods and its subsidiaries, which are related parties of Precious Woods, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. Major shareholders holding 3 % or more of Precious Woods Holding are disclosed in Note 31. The transactions with related parties are performed on normal commercial terms and conditions that would also be provided to unrelated third parties ("at arm's length").

### a. Balances and transactions

The balances with related parties, as of 31 December 2014 and 2013, are detailed below:

in TUSD	2014	2013
Trade receivables and other current receivables, associates	81	109
Current loans from shareholders with significant influence	–	12 164
Current loans from other shareholders	12 359	5 474
Trade and other current liabilities, associates	160	–
Non-current loans from other shareholders	12 126	8 571
Sales of wood, related parties	45	–
Interest expenses to shareholders with significant influence	–	702
Interest expenses to other shareholders	310	643

### b. Compensation

During the ordinary course of business in 2014 and 2013, the Group granted compensation to related parties as follows:

in TUSD	2014	2013
<b>Group Management</b>		
Short-term employee benefits	751	1 084
Post-employment employee benefits	106	125
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
<b>Total Group Management</b>	<b>857</b>	<b>1 209</b>
<b>Board of Directors</b>		
Short-term employee benefits	421	455
Post-employment employee benefits	18	101
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
<b>Total remuneration and fees Board of Directors</b>	<b>439</b>	<b>556</b>
<b>Operating management</b>		
Short-term employee benefits	630	618
Post-employment employee benefits	38	27
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
<b>Total operating management</b>	<b>668</b>	<b>645</b>
<b>Total compensation to key management personnel</b>	<b>1 964</b>	<b>2 410</b>

## 19. Employee benefits

### 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 TUSD 19 in 2014 (2013: TUSD 50). 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. Interest 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 material plan amendment, curtailment or settlement has occurred during the year.

### Changes in the present value of the defined benefit obligation

in TUSD	2014	2013
Defined benefit obligation at 1 January	1 051	3 691
Current service costs	171	335
Interest costs	23	44
Contribution by plan participants	80	66
Actuarial losses/(gains)	338	-711
Benefits paid/transferred	155	-2 364
Past service costs	—	—
Settlements	—	—
Exchange differences	-164	-10
<b>31 December</b>	<b>1 654</b>	<b>1 051</b>
Plans wholly or partly funded	1 654	1 051
Plans wholly unfunded	—	—

### Movement in the fair value of the plan assets

in TUSD	2014	2013
Opening fair value of plan assets	705	2 895
Interest income	18	31
Return on plan assets excluding interest income	-83	-29
Contributions by the employers	148	119
Contributions by plan participants	80	66
Benefits paid/transferred	155	-2 364
Settlements	—	—
Exchange differences	-95	-13
<b>31 December</b>	<b>928</b>	<b>705</b>

in TUSD	2014	2013
Present value of obligations	1 654	1 051
Fair value of plan assets	928	705
(Surplus)/deficit in the plan	726	346
Net actuarial gains/(losses) not yet recognized	—	—
<b>Net liability</b>	<b>726</b>	<b>346</b>

**Changes in net liability**

in TUSD	2014	2013
Opening net liability	346	796
Pension cost recognized in profit or loss	177	349
Pension cost recognized in other comprehensive income	421	-682
Employer contributions	-148	-119
Exchange differences	-70	2
<b>Recognized in profit or loss</b>	<b>726</b>	<b>346</b>

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

in TUSD	2014	2013
Current service costs	171	335
Net interest costs	5	13
Past service costs	-	-
<b>Recognized in profit or loss</b>	<b>177</b>	<b>348</b>

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

in TUSD	2014	2013
Return of plan assets excluding interest income	-83	-29
Changes in demographic assumptions	-	-
Changes in financial assumptions	-289	44
Experience adjustments	-49	667
<b>Recognized in other comprehensive income</b>	<b>-421</b>	<b>682</b>

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**

	2014	2013
Expected employer contributions in CHF	136 000	110 000
Discount rates	1.10 %	2.00 %
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 TUSD	DBO	Effect
Actual assumption 31 December 2014	1 654	
Discount rate +0.5 %	1 497	-9.5 %
Discount rate -0.5 %	1 836	11.0 %
Salary increase rate +0.5 %	1 680	1.6 %
Salary increase rate -0.5 %	1 629	-1.5 %

**Number of insured persons**

in TUSD	2014	2013
Number of insured persons	11.0	10.0
Number of insured retired persons	-	-
Average weighted duration in years	20.0	14.0



## 20. Net sales from trading activities

in TUSD	2014	2013
Sales of wood	57 113	50 277
Sales deductions	-10 491	-6 672
<b>Net sales</b>	<b>46 622</b>	<b>43 605</b>

## 21. Revenue from emission reduction activities

in TUSD	2014	2013
Revenue from Certified Emission Reductions (CERs) over book value	501	1 737
<b>Revenue from emission reduction activities</b>	<b>501</b>	<b>1 737</b>

The Precious Woods Group obtains the CERs from its BK Energia renewable-power-generation project located in the Amazon region of Brazil, complying 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 electricity generation. The CERs produced during 2013 and 2014 are recognized as inventory and valued at the lower of cost or net realizable value. The Group sold the CERs generated from 2009 to 2012 (Total of 149 701 CERs) after the final verification was received in 2013. The 41 591 CERs produced in 2013 were issued by UNFCCC in August 2014 and Precious Woods sold them in November 2014. The verification of the 46 671 CERs produced in 2014 is expected in 2015.

## 22. Other production costs

in TUSD	2014	2013
Logistics, transportation costs and freight	2 866	2 006
Fuel, oil and lubricants	4 679	4 403
Energy – third parties	675	678
Forest taxes & expenses	1 586	1 379
Maintenance and spare parts	5 058	6 074
Insurances (production)	279	308
Rent and lease (production)	819	1 445
Capitalized own production	-317	–
Miscellaneous production costs	1 824	2 760
<b>Total</b>	<b>17 469</b>	<b>19 053</b>

## 23. Depreciation, amortization and impairment

in TUSD	2014	2013
Depreciation and amortization	7 796	7 891
Impairment of property, plant and equipment	45	–
Impairment of intangible assets	1	32
Reversal of impairment of property, plant and equipment	-27	-1 234
<b>Total</b>	<b>7 815</b>	<b>6 689</b>

In 2014 the impairment of property, plant and equipment amounted to TUSD 45 (2013: TUSD 0). Details about the reversal of impairment of TUSD 27 in 2014 (2013: TUSD 1234) are given in Note 6.

## 24. Direct and indirect labour costs

in TUSD	2014	2013
Wages and salaries	15 057	15 406
Social security costs	3 001	3 163
Pension costs – defined contribution plans	19	50
Pension costs – defined benefit plans	177	349
Other employment benefits	2 518	3 573
<b>Total</b>	<b>20 772</b>	<b>22 541</b>

in TUSD	2014	2013
Forest and processing costs	16 791	17 291
Administration and other labour costs	3 981	5 250
<b>Total</b>	<b>20 772</b>	<b>22 541</b>

## 25. Other operating income and expenses

in TUSD	2014	2013
<b>Other income</b>		
Gain on disposal of fixed assets	27	215
Other income	270	732
<b>Total other operating income</b>	<b>297</b>	<b>947</b>
<b>Other expenses</b>		
Audit fees	289	281
Legal and tax	279	369
Other consulting fees	449	1 093
Travel	782	788
IT expenses	298	367
Insurances (non-production)	235	228
Loss on disposal of fixed assets	6	1
Other administrative expenses	67	1 865
<b>Total other operating expenses</b>	<b>2 405</b>	<b>4 992</b>

In other administrative expenses communication and investor relation expenses, marketing, non-income tax expenses and the change in allowance for bad debts are included. The net gain on sale of fixed and intangible assets amount to TUSD 20 (2013: TUSD 191) and in 2013 the loss on the liquidation of Precious Woods Corporation (USA) was included in other administrative expenses (TUSD 5).

## 26. Financial income and expenses

in TUSD	2014	2013
<b>Financial income</b>		
Interest income and dividends	111	162
Foreign-exchange gains	910	2 477
Other financial income	–1	67
<b>Total financial income</b>	<b>1 020</b>	<b>2 706</b>
<b>Financial expenses</b>		
Interest expenses	4 312	3 969
Foreign-exchange losses	1 296	2 206
Other financial expenses	726	605
<b>Total financial expenses</b>	<b>6 334</b>	<b>6 780</b>

## 27. Leasing

### Operating leasing

The Group has entered into various operating leases for vehicles and buildings. The operating leases have lifespans of one to five years. Certain leases include renewal options.

As of 31 December future minimum lease payments under significant non-cancellable operating leases are as follows:

in TUSD	2014	2013
Within one year	197	561
Within two to five years	192	384
<b>Total lease payments</b>	<b>389</b>	<b>945</b>

### Finance leasing

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

As of 31 December future minimum lease payments under finance lease are as follows:

in TUSD	2014	2013
Within one year	1 279	1 809
Within two to five years	1 049	2 595
Total lease payments	2 328	4 404
Minus interest expense component	-227	-588
<b>Total lease payments</b>	<b>2 101</b>	<b>3 816</b>

## 28. Earnings per share

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

In USD	2014	2013
Net loss/income attributable to Group equity holders	-10 304 052	-20 377 287
Weighted average number of shares	3 767 806	3 685 893
<b>Basic loss/earnings per share</b>	<b>-2.73</b>	<b>-5.53</b>
Weighted average number of shares for diluted earnings per share	3 767 425	3 685 893
<b>Diluted earnings per share</b>	<b>-2.74</b>	<b>-5.53</b>

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.



## 29. 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 liabilities other than those for which a provision has been made will arise from contingent liabilities (see Note 14).

### 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 USD 8 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 loss 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 2014 (31 December 2013: 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 instead blocked an amount of TUSD 230 in cash on Group accounts.

## 30. Financial information by segment

The Group's reportable segments are Sustainable Forest Management Brazil, Sustainable Forest Management Gabon, Timber Trading Europe and Carbon & Energy. 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 rights.

Management monitors and evaluates EBITDA of all segments separately for the purpose of making decisions about resources to be allocated and of assessing performance.

### Operating segments – 31 December 2014

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other <sup>1</sup>	<b>Total 31.12.2014</b>
<b>Revenue</b>						
Third parties	10 496	30 165	4 677	501	–	45 839
Intersegment	1 801	–	–	–	–1 801	–
Associated and related parties	1 178	45	61	–	–	1 284
<b>Total revenue</b>	<b>13 475</b>	<b>30 210</b>	<b>4 738</b>	<b>501</b>	<b>–1 801</b>	<b>47 123</b>
Loss/profit on sale of fixed assets and affiliates	15	7	–1	–	–	21
<b>EBITDA</b>	<b>1 547</b>	<b>5 277</b>	<b>–598</b>	<b>140</b>	<b>–2 651</b>	<b>3 715</b>
Depreciation and amortization	–636	–7 041	–50	–	–69	–7 796
Impairment charges/reversals	13	–	–32	–	–	–19
<b>Loss/profit from operating activities (EBIT)</b>	<b>924</b>	<b>–1 764</b>	<b>–680</b>	<b>140</b>	<b>–2 720</b>	<b>–4 100</b>
Financial income and expenses	–613	–2 302	–541	–	–1 858	–5 314
Share of profit of associates						62
<b>Net (loss)/profit before tax</b>					<b>–</b>	<b>–9 352</b>
Income taxes	–29	110	–1	–	–917	–837
<b>Segment assets</b>	<b>28 799</b>	<b>54 971</b>	<b>2 930</b>	<b>136</b>	<b>569</b>	<b>87 405</b>
Investments in associates	1 228	–	–	–	–	1 228
Capital expenditures	390	832	–	–	–	1 222
<b>Segment liabilities</b>	<b>54 655</b>	<b>40 104</b>	<b>7 191</b>	<b>159</b>	<b>–34 979</b>	<b>67 130</b>

<sup>1</sup> 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 – 31 December 2013

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other <sup>1</sup>	<b>Total 31.12.2013</b>
<b>Revenue</b>						
Third parties	6 053	23 337	12 509	1 737	–	43 636
Intersegment	6 870	–	–	–	–6 870	–
Associated and related parties	1 282	–	424	–	–	1 706
<b>Total revenue</b>	<b>14 205</b>	<b>23 337</b>	<b>12 933</b>	<b>1 737</b>	<b>–6 870</b>	<b>45 342</b>
Loss/profit on sale of fixed assets and affiliates	198	10	2	–	4	214
<b>EBITDA</b>	<b>–1 478</b>	<b>1 964</b>	<b>–6 935</b>	<b>1 597</b>	<b>–3 924</b>	<b>–8 776</b>
Depreciation and amortization	–848	–6 869	–72	–	–102	–7 891
Impairment charges	1 234	–	–32	–	–	1 202
<b>Loss/profit from operating activities (EBIT)</b>	<b>–1 093</b>	<b>–4 905</b>	<b>–7 039</b>	<b>1 597</b>	<b>–4 025</b>	<b>–15 465</b>
Financial income and expenses	–508	–2 014	–576	–	–976	–4 074
Share of profit of associates						–590
<b>Net (loss)/profit before tax</b>					<b>–</b>	<b>–20 129</b>
Income taxes	–516	–78	0	–	128	–466
<b>Segment assets</b>	<b>30 683</b>	<b>64 669</b>	<b>7 413</b>	<b>108</b>	<b>943</b>	<b>103 816</b>
Investments in associates	1 379	–	1 364	–17	–	2 726
Capital expenditures	832	4 541	19	–	–	5 392
<b>Segment liabilities</b>	<b>55 222</b>	<b>67 288</b>	<b>11 539</b>	<b>125</b>	<b>–63 280</b>	<b>70 894</b>

<sup>1</sup> 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 TUSD	<b>2014</b>		<b>2013</b>	
<b>Net sales from trading activities</b>				
Switzerland	146	0.3 %	269	0.6 %
European Union	34 863	74.8 %	31 655	72.6 %
Latin America	3 313	7.1 %	5 750	13.2 %
Africa	3 961	8.5 %	3 622	8.3 %
Other countries	4 339	9.3 %	2 309	5.3 %
<b>Total</b>	<b>46 622</b>	<b>100.0 %</b>	<b>43 605</b>	<b>100.0 %</b>
<b>Location of non-current assets</b>				
Switzerland	52	0.1 %	157	0.2 %
European Union	24	0.0 %	871	1.2 %
Latin America	21 660	36.4 %	24 104	32.9 %
Africa	37 724	63.4 %	48 123	65.7 %
<b>Total</b>	<b>59 460</b>	<b>100.0 %</b>	<b>73 256</b>	<b>100.0 %</b>

## Reconciliation of reportable segment profit or loss

in TUSD	<b>2014</b>	<b>2013</b>
Total EBITDA for reportable segments	6 366	–4 852
EBITDA Other	–2 651	–3 924
<b>EBITDA of continuing operations</b>	<b>3 715</b>	<b>–8 776</b>
Depreciation, amortization and impairment	–7 815	–6 689
<b>EBIT</b>	<b>–4 100</b>	<b>–15 465</b>
Financial income and expenses	–5 314	–4 074
Share of profit of associates	62	–590
<b>Earnings before tax from continuing operations</b>	<b>–9 352</b>	<b>–20 129</b>

### 31. Major shareholders

On 31 December 2014, the major shareholders holding 3 % (rounded) or more of Precious Woods Holding registered shares were as follows:

	Number of shares 2014		Additional number of shares in case of conversion of convertible bonds/ loans 2014		Number of shares 2013		Additional number of shares in case of conversion of convertible bonds/ loans 2013	
Fleischmann Werner	419 318	11.13 %	–	–	367 252	9.75 %	–	–
Baloise Holding	333 053	8.84 %	–	–	333 053	8.84 %	–	–
Round Enterprises Ltd.	201 203	5.34 %	–	0.00 %	201 203	5.34 %	126 316	3.35 %
Franke Artemis Holding AG	189 571	5.03 %	–	0.00 %	189 571	5.03 %	73 684	1.95 %
Novartis Pooling Fund I	140 000	3.72 %	–	–	140 000	3.72 %	–	–
Aires International Investment Inc.	20 000	0.53 %	762 762	20.24 %	–	–	762 762	20.24 %

<sup>1</sup> Calculation is based on the current number of shares. Please also refer to note 16 for information on convertible bonds/loans.

### 32. Income taxes

#### Major components of tax expenses/(income)

in TUSD	<b>2014</b>	<b>2013</b>
Current tax expenses/(income)	10	–235
Deferred tax expenses/(income) relating to temporary differences	827	701
<b>Total</b>	<b>837</b>	<b>466</b>

#### Reconciliation of tax expenses/(income)

in TUSD	<b>2014</b>	<b>2013</b>
<b>Accounting loss before taxes</b>	<b>–9 352</b>	<b>–20 129</b>
Expected tax expenses/(income)	–2 644	–5 856
Tax adjustments related to prior years	88	–235
Effect of revaluation of DTA	3 348	6 662
Various	45	–105
<b>Total income taxes from continuing and discontinued operations</b>	<b>837</b>	<b>466</b>

The weighted average applicable tax rate, considering all profit and loss making entities, was 28 % (2013: 30 %).

#### Deferred income tax

in TUSD	<b>2014</b>	<b>2013</b>
Total deferred income tax assets	4 918	7 899
Total deferred income tax liabilities	–4 918	–7 885
<b>Net deferred income tax assets/(liabilities)</b>	<b>–</b>	<b>14</b>

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 TUSD	<b>2014</b>	<b>2013</b>
Inventories	–	21
Tax loss carry-forwards	4 645	7 451
Provisions	299	294
Other	–26	133
<b>Total deferred income tax assets</b>	<b>4 918</b>	<b>7 899</b>



**Deferred income tax liabilities**

in TUSD	2014	2013
Inventories	45	-78
Property, plant and equipment	-4 717	-5 625
Intangible assets	-1 239	-1 662
Other	993	-520
<b>Total deferred income tax liabilities</b>	<b>-4 918</b>	<b>-7 885</b>
<b>Net deferred income tax assets/(liabilities)</b>	<b>-</b>	<b>14</b>
<b>Reported in the balance sheet as follows:</b>		
Deferred income tax assets	91	314
Deferred income tax liabilities	-91	-300
<b>Net deferred income tax assets/(liabilities)</b>	<b>-</b>	<b>14</b>

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

in TUSD	2014	2013
At 1 January	14	-29
Income statement charge	-827	701
Tax charged to other comprehensive income	796	-718
Translation difference	17	60
<b>At 31 December</b>	<b>-</b>	<b>14</b>

The Group did not recognize deferred income tax assets of TUSD 34 926 (2013: TUSD 45 727) in respect of unused tax losses amounting to TUSD 227 172 (2013: TUSD 257 176). These tax loss carry-forwards expire as shown in the table below:

in TUSD	2014	2013
0-2 years	15 975	5 378
3-5 years	126 433	149 657
5-7 years	30 487	37 199
over 7 years	54 277	64 942
<b>Total tax loss carry-forwards and deductible differences</b>	<b>227 172</b>	<b>257 176</b>

TUSD 28 655 of these loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 25 % (2013: TUSD 31 724 with an applicable tax rate of 25 %), TUSD 20 412 belong to the Brazilian operations with an applicable tax rate of 34 % (2013: TUSD 21 874 with an applicable tax rate of 34 %), TUSD 24 213 belong to the Gabonese operations with an applicable tax rate of 30 % (2013: TUSD 32 941 with an applicable tax rate of 30 %) and TUSD 153 892 belong to the Swiss operation with an applicable tax rate of 8.8 % (2013: TUSD 170 636 with an applicable tax rate of 12 %).

**33. Divestments and acquisitions**

There were no acquisitions in 2013 and 2014. On 11 December 2013, the dormant subsidiary Precious Woods Corporation, located in Delaware, USA, was liquidated. End of March 2014 (retroactively by 1 January 2014) the 50 % participation of GWW Houtimport B.V. was sold.

**34. Subsequent events**

There were no significant events after the reporting period.

**35. Approval of financial statements and dividends**

The financial statements were approved by the Board of Directors on 24 April 2015 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 2014 (2013: no dividend paid).

To the General Meeting of  
**Precious Woods Holding AG, Zug**

Zurich, 24 April 2015

## **Report of the statutory auditor on the consolidated financial statements**

As statutory auditor, we have audited the consolidated financial statements of Precious Woods Holding AG, which comprise the balance sheet, statement of profit and loss, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements (Pages 34 to 68) for the year ended 31 December 2014.

### **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### **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 paragraph 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 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



Rico Fehr  
Licensed audit expert  
(Auditor in charge)



Olaf Reich  
Licensed audit expert







## *Precious Woods Holding Ltd financial statements*

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72	Balance sheets as of 31 December 2014 and 2013 (in TCHF)
73	Statements of income and accumulated deficit 2014 and 2013 (in TCHF)
74	Notes to the financial statements of Precious Woods Holding Ltd
74	1. General
74	2. Investments in subsidiaries
75	3. Authorized capital
75	4. Conditional share capital
76	5. Board and Executive compensation
77	6. Major shareholders
77	7. Enterprise-wide risk management
77	8. Debt restructuring / refinancing
78	9. Pledged assets/other securities
78	10. Fire insurance value
79	Report of the statutory auditor on the financial statements

## Balance sheets as of 31 December 2014 and 2013 (in TCHF)

ASSETS	Notes	2014	2013
<b>Current assets</b>			
Cash and cash equivalents		1 719	1 355
Trade receivables third		4 591	1 570
Trade receivables Group		—	3 030
Short-term receivables third		138	175
Short-term receivables Group		11 723	15 725
Inventories		165	111
Prepaid expenses		143	175
<b>Total current assets</b>		<b>18 479</b>	<b>22 142</b>
<b>Non-current assets</b>			
Fixed assets, net		21	83
Loans to Group		23 773	19 111
Investments	2	63 386	63 383
Long-term financial assets		30	60
Intangible assets		—	—
<b>Total non-current assets</b>		<b>87 210</b>	<b>82 637</b>
<b>TOTAL</b>		<b>105 689</b>	<b>104 779</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade payables third		760	264
Trade payables Group		3 226	2 380
Trade payables relates parties		—	72
Other payables		1 059	10
Accrued expenses		1 777	718
Short term financial liabilities		14 142	17 137
<b>Total current liabilities</b>		<b>20 964</b>	<b>20 581</b>
<b>Non-current liabilities</b>			
Long-term liabilities		12 000	7 005
<b>Total non-current liabilities</b>		<b>12 000</b>	<b>7 005</b>
<b>Shareholders' equity</b>			
Share capital	1	3 768	3 768
General reserve		29 532	29 534
Reserve from contribution in kind		78 961	78 961
Accumulated losses		−39 536	−35 069
<b>Total shareholders' equity</b>		<b>72 725</b>	<b>77 193</b>
<b>TOTAL</b>		<b>105 689</b>	<b>104 779</b>

See notes to Precious Woods Holding Ltd financial statements on pages 74 to 78.

**Statements of income and accumulated deficit 2014 and 2013 (in TCHF)**

<b>INCOME</b>	<b>Notes</b>	<b>2014</b>	<b>2013</b>
<b>Sales</b>			
Net trading-sales timber products		40 526	25 772
Net trading-sales CO <sub>2</sub> certificates		467	1 720
General costs of production		-37 657	-23 076
<b>Total income, net</b>		<b>3 336</b>	<b>4 416</b>
<b>OPERATIONAL EXPENSES</b>			
Personnel expenses	5	-2 327	-2 514
Administrative expenses		-1 319	-1 670
Audit fees		-164	-126
<b>Total operating expenses</b>		<b>-3 810</b>	<b>-4 309</b>
Interest expenses and bank charges		-2 521	-2 520
<b>Total non-operating expenses</b>		<b>-2 521</b>	<b>-2 520</b>
<b>OTHER INCOME/(EXPENSES)</b>			
Foreign exchange differences		690	1 145
Other expenses		-44	-297
Amortizations		-3 486	-8 547
Other income		1 368	1 473
<b>Total other income/expenses, net</b>		<b>-1 472</b>	<b>-6 226</b>
<b>Profit before taxes</b>		<b>-4 467</b>	<b>-8 640</b>
Taxes		-	50
<b>Net profit / (loss)</b>		<b>-4 467</b>	<b>-8 590</b>

See notes to Precious Woods Holding Ltd financial statements on pages 74 to 78.



## Notes to the financial statements of Precious Woods Holding Ltd

### 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 Latin America and Africa following the guidelines for sustainable forest management laid out by the Forest Stewardship Council (FSC), and is also active in the trading of timber products as well as the sale of CO<sub>2</sub> 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 2014 is composed of 3 767 806 (2013: 3 767 806) fully paid-in registered shares, each with a nominal value of CHF 1. Additional information about the capital can be found in Note 3 and 4.

### 2. Investments in subsidiaries

The company holds the following direct investments:

Company	Currency	31 December 2014		Currency	31 December 2013	
		Nominal share capital	Participation		Nominal share capital	Participation
<b>Precious Woods Management Ltd.</b> British Virgin Islands (sub-holding)	USD	20 000	100.00 %	USD	20 000	100.00 %
<b>Madeiras Preciosas de Amazonia Manejo Ltda.</b> Brazil (sub-holding company) 0.02 % of the shares are held by Precious Woods Management Ltd., B.V.I.	BRL	4 400 000	99.98 %	BRL	4 400 000	99.98 %
<b>MIL Madeiras Preciosas Ltda.</b> Brazil (land and forest operations) 2.7 % of the shares are held by Madeiras Preciosas de Amazonia Manejo Ltda., Brazil	BRL	68 074 251	97.30 %	BRL	68 074 251	97.30 %
<b>Precious Woods do Pará S.A.</b> Brazil (sub-holding company, land and forest operations)	BRL	1 003	100.00 %	BRL	1 003	100.00 %
<b>Precious Woods Manejo Florestal Ltda.</b> Brazil (land and forest operations)	BRL	24 429 917	100.00 %	BRL	24 429 917	100.00 %
<b>Precious Woods Europe B.V.</b> Netherlands (sub-holding, timber trade)	EUR	18 000	100.00 %	EUR	18 000	100.00 %
<b>Unio S.A.</b> Luxembourg (sub-holding for Gabonese entities)	EUR	1 000 000	100.00 %	EUR	1 000 000	100.00 %
<b>Lastour &amp; Co. S.A.</b> Luxembourg (sub-holding for Gabonese entities)	EUR	372 575	100.00 %	EUR	372 575	100.00 %

BRL – Brazilian real

EUR – European euro

USD – US dollar

### 3. Authorized capital

On 21 May 2014, the ordinary General Meeting permitted the authorized capital in the amount of CHF 1 547 260 (1 547 260 shares nominal CHF 1.00). The Board of Directors is thus authorized to increase the share capital at any time before 20 Mai 2016 by a maximum amount of CHF 1 547 260 by way of issuance of no more than 1 547 260 registered shares that are to be fully paid in with a nominal value of CHF 1 each. During 2013 no new shares were issued by the company under the authorized share capital.

The authorized share capital expires on 20 Mai 2016.

### 4. Conditional share capital

As of 31 December 2014, the company had the following conditional share capital:

- a. On 18 December 2012 the extra ordinary General Meeting authorized the company to increase its conditional capital according to Article 3a of the Articles of Association from CHF 1 450 000 to 1 578 689. (1 578 689 shares each with a nominal value of CHF 1). On 14 November 2013, the right to convert a convertible bond was exercised to purchase shares. The capital increase amounted to CHF 20 000 (20,000 shares nominal value CHF 1.00). The exercise price was CHF 3.00 per share. As of 31 December the conditional share capital amounts newly CHF 1 558 689 (1 558 689 shares with a nominal value of CHF 1.00 each). In the year 2014 no changes took place.
- 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 140 488 by the issuance of no more than 140 488 (2012: 140 488) registered shares that are to be fully paid in and have a nominal value of CHF 1 each; this increase being the result of the exercise of option rights that can be granted to Board members and employees of the company or of affiliated companies. In the year 2014 no changes took place.

## 5. Board and Executive compensation

### Compensation

The compensation of the Board of Directors was as follows:

For the year 2014	Compensation Fix in cash	Compensation Fix in shares	Compensation For part. in committees	Other <sup>1</sup> compensation	Total compen- sation	Loans and credits	Numbers of shares
all amounts in TCHF							
Ernst A. Brugger	200	–	–	–	200	–	29 833
Katharina Lehmann	114	–	–	8	122	–	9 468
Dominik Mohr	38	–	–	9	47	–	–
<b>Total</b>	<b>352</b>	<b>–</b>	<b>–</b>	<b>17</b>	<b>369</b>	<b>–</b>	<b>39 301</b>

For the year 2013	Compensation Fix in cash	Compensation Fix in shares	Compensation For part. in committees	Other compensation	Total compen- sation	Loans and credits	Numbers of shares
all amounts in TCHF							
Ernst A. Brugger	248	–	–	–	248	–	28 333
Katharina Lehmann <sup>3</sup>	60	–	–	4	64	–	9 468
Dominik Mohr	53	–	–	19	72	–	–
Werner Fleischmann <sup>2</sup>	27	–	–	2	29	–	367 252
<b>Total</b>	<b>388</b>	<b>–</b>	<b>–</b>	<b>25</b>	<b>413</b>	<b>–</b>	<b>405 053</b>

<sup>1</sup> These amounts comprise social contributions for all other members of the Board

<sup>2</sup> This Board member resigned as of December 2013

<sup>3</sup> Including Compensation of CEO a.i. from October 2013

The compensation of the Group Management was as follows:

For the year 2014	Salary Fix in cash	Salary <sup>1</sup> Variable in cash and shares	Other <sup>2</sup> compensation	Total compen- sation	Loans and credits
all amounts in TCHF					
Markus Brüttsch, CFO / CEO	315	–	50	365	–
<b>Group Management Total</b>	<b>687</b>	<b>–</b>	<b>97</b>	<b>784</b>	<b>–</b>

For the year 2013	Salary Fix in cash	Salary <sup>1</sup> Variable in cash and shares	Other <sup>2</sup> compensation	Total compen- sation	Loans and credits
all amounts in TCHF					
Gerhard Willi, CFO (until October 2013)	397	–	40	437	–
<b>Group Management Total</b>	<b>1 004</b>	<b>–</b>	<b>116</b>	<b>1 120</b>	<b>–</b>

<sup>1</sup> During 2014 and 2013 no share-based compensation was made to the Group Management.

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

There was no compensation made to former members of the Board of Directors or Group Management. Neither was any compensation, which was not at arm's length, made to any persons related to any current or former members of the Board of Directors or the Group Management.



## 6. Major shareholders

	Number of shares 2014		Additional number of shares in case of conversion of convertible bonds/ loans 2014		Number of shares 2013		Additional number of shares in case of conversion of convertible bonds/ loans 2013	
Fleischmann Werner	419 318	11.13 %	–	–	367 252	9.75 %	–	–
Baloise Holding	333 053	8.84 %	–	–	333 053	8.84 %	–	–
Round Enterprises Ltd.	201 203	5.34 %	–	0.00 %	201 203	5.34 %	126 316	3.35 %
Franke Artemis Holding AG	189 571	5.03 %	–	0.00 %	189 571	5.03 %	73 684	1.95 %
Novartis Pooling Fund I	140 000	3.72 %	–	–	140 000	3.72 %	–	–
Aires International Investment Inc.	20 000	0.53 %	762 762	20.24 %	–	–	762 762	20.24 %

<sup>1</sup> Calculation is based on the current number of shares. Please also refer to note 16 for information on convertible bonds/loans.

## 7. Enterprise-wide risk management

The Group Management regularly performs risk assessments in cooperation with the affiliates, and implements the necessary actions to minimize business risks. The objective is to identify potential threats to the achievement of objectives at an early stage and to implement responses to these risks. The Group Management informs the Audit Committee as well as the other members of the Board about the risk-management framework, the processes and the strategy for Board approval.

An internal control system exists to ensure adequate financial reporting. Key risks were identified for the relevant business processes and adequate controls were implemented accordingly. The internal control system is reviewed and updated on a regular basis.

## 8. Debt restructuring / refinancing

### 8.1. Background

The Group has been in a turnaround phase for several years. As a result of various restructuring measures, the operational results (EBITDA) increased significantly and the net loss situation improved during the reporting period to an amount of USD 10.3 million. Further, the company was successful in refinancing the convertible loans in the amount of CHF 17 million, which fell due in December 2014. Parts of the refinancing, however, have been on a short-term basis and net results have been still negative.

As a consequence of the points mentioned before and considering short term financial liabilities, which were not subject to refinancing, the liquidity situation of the Group remains stressed. Current financial liabilities amount to USD 26.4 million (USD 7.3 million convertible bonds and USD 19.1 million other financial liabilities). Whereas the refinancing of approximately USD 12.8 million is secured through guarantees a remaining amount of USD 13.6 million (mainly bank overdrafts and third party financial liabilities in Gabon and Brazil, mostly secured by assets) need to be refinanced or extended.

### 8.2. Debt restructuring / refinancing

The Board of Directors and Management work on various paths in order to solve the Group's refinancing obligations and to ease the current liquidity situation. The following actions have been taken:

- Discussions to increase and extend current credit lines with banks in Gabon
- Preliminary discussions to extend current credit lines with banks in Brazil
- Meetings with existing investors to discuss extension of short-term loans
- Meetings with new investors, who might be interested to contribute additional funds

### 8.3. Uncertainties

According to the liquidity plan the Group might face liquidity constraints. In the past, the Group has proven its ability to refinance its short-term financial liabilities. Additionally, operational results improved compared to previous years. Should, however, the efforts of the Board of Directors and Management not materialize as expected, then the group might not be in a position to fulfill its short term financial obligations.

#### **8.4. Conclusion**

The Board of Directors and Management expect that the proposed measures will be successful, and their effects will be to restore the liquidity of the Group and assure its financial stability in the long term. Therefore, the Board of Directors and Management believe that the existing uncertainties are not material in nature and the going concern assumption of the Precious Woods Group is given.

#### **9. Pledged assets/other securities**

As of 31 December 2014, Precious Woods Holding Ltd has no pledged assets, but other securities in the amount of CHF 2 million in connection with loans.

#### **10. Fire insurance value**

The fire insurance value of tangible fixed assets amounts to CHF 160 000.

To the General Meeting of  
**Precious Woods Holding AG, Zug**

Zurich, 24 April 2015

## **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 72 to 78), for the year ended 31 December 2014.

### **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 2014 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 paragraph 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



Rico Fehr  
Licensed audit expert  
(Auditor in charge)



Olaf Reich  
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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