Annual Report 2016

PRECIOUS WOODS Annual Report 2016

PRECIOUS WOODS

Cover:

Forest photographing from Gabon

Back:

Veneer plant in Gabon

Precious Woods 2016 – Confirmation of development

- Change presentation currency from USD to EUR
- Increased positive result (EBIT) for 2016
- Increased productivity in all operating companies

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

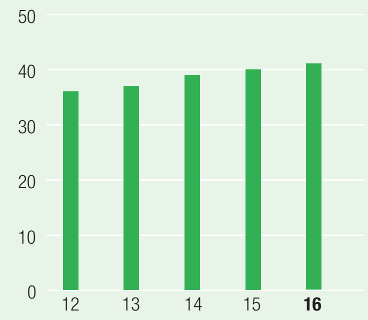
5-year summary of key financial data (in thousand EUR)

	2016	2015 [1]	2014 [1]	2013 [2]	2012 [2]
Total revenue	**41 319**	**39 994**	**38 768**	**37 303**	**36 105**
Amortization & Depreciation, Impairments	5 277	5 195	6 429	5 503	7 764
Amortisation & Depreciation	5 356	5 213	6 414	6 492	6 526
Impairments	–79	–18	15	–989	1 238
EBITDA	**6 889**	**6 060**	**3 056**	**–7 220**	**–3 173**
in % of the total revenue	16.7 %	15.2 %	7.9 %	–19.4 %	–8.8 %
EBIT	1 612	865	–3 373	–12 723	–10 937
in % of the total revenue	3.9 %	2.2 %	–8.7 %	–34.1 %	–30.3 %
Net result	**–2 752**	**–4 265**	**–8 383**	**–16 944**	**–14 615**
in % of the total revenue	–6.7 %	–10.7 %	–21.6 %	–45.4 %	–40.5 %
Balance sheet total	69 288	65 302	71 906	85 409	96 063
Shareholders' equity	**19 440**	**11 828**	**16 681**	**27 084**	**43 579**
in % of the balance sheet total	28.1 %	18.1 %	23.2 %	31.7 %	45.4 %
Net indebtedness	**30 526**	**30 696**	**35 050**	**38 164**	**28 615**
Cash flow from operating activities	**2 229**	**3 972**	**899**	**–2 205**	**–4 590**
Investments/acquisitions	–2 320	–1 887	179	–1 686	–1 009
Average full-time-equivalent employee	1 209	1 209	1 217	1 217	1 183

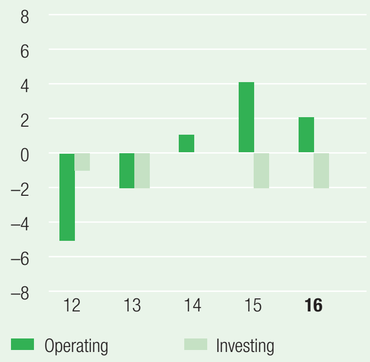
[1] Restated due to change of presentation currency

[2] Converted from USD to EUR with the exchange rates of 2014

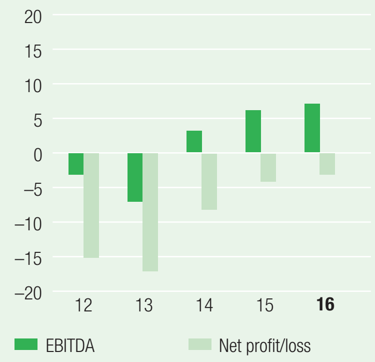
Total revenue*
EUR million



Cash flow from operating and investing activities*
EUR million

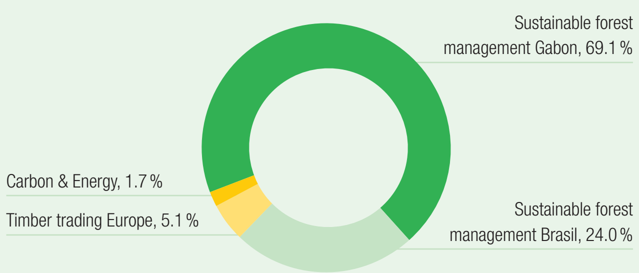


EBITDA and net profit/loss*
EUR million

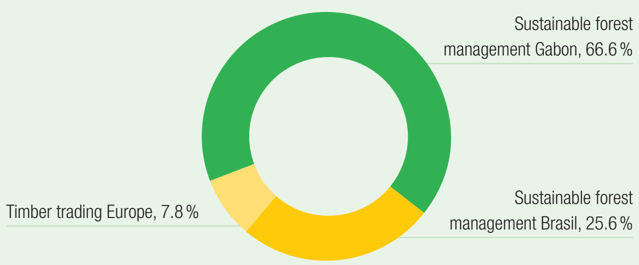


Total revenue by business segment

2016: EUR 41.3 million

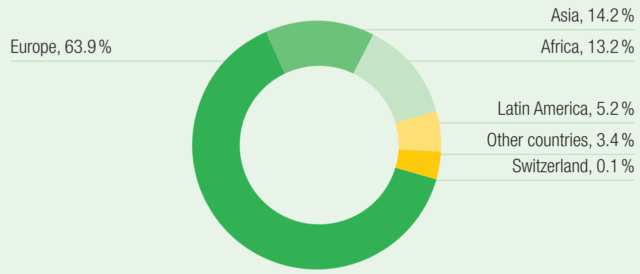


2015: EUR 40.0 million

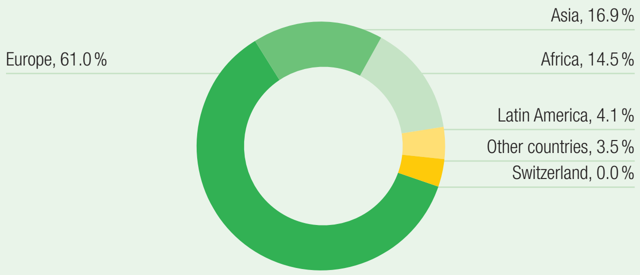


Total net sales by market region

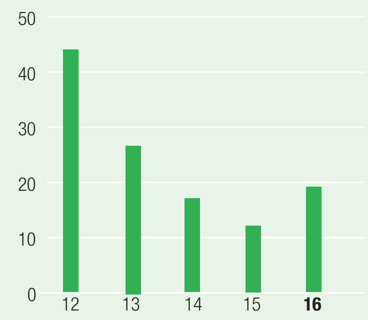
2016: EUR 40.6 million



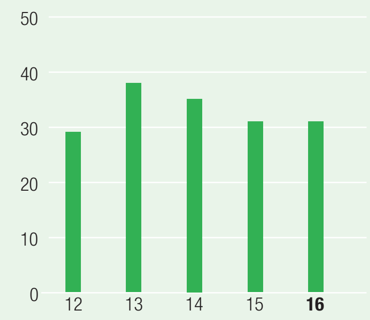
2015: EUR 40.0 million



Shareholders' equity*
EUR million



Net indebtedness*
EUR million



Information for investors

Information for investors	2016
Share price in CHF	6.00
Stock market capitalization in CHF million	41
Earnings per share in EUR	–0.43

* The years 2015 and 2014 have been restated due to change of presentation currency. The years 2013 and 2012 have been converted from USD to EUR with exchange rates of 2014.

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Financial report

To our shareholders

Ernst A. Brugger
Chairman of the Board of Directors

Dear Shareholders

Our company took further great steps toward sustainable success in the 2016 reporting year. We continued to strengthen our economic performances and increase efficiency in all our processes. At the same time, we once again expanded our environmental and sociocultural performance at a high level. And our organizations in Brazil, Gabon and our small headquarter in Zug increased efficiency and gained stability.

We largely achieved our economic goals:

As in the previous year, Precious Woods achieved or even exceeded almost all the goals we had set for the 2016 reporting year: With growing net sales, EBITDA rose by 14 % over the previous year to 16.7 %. Earnings before interest and taxes (EBIT) rose by 86.5 % over the previous year to EUR 1.6 million. Net loss was practically cut in half and amounted at EUR –2.8 million – due to high interest bearing debt, additional cost due to capital increases and a two-month strike by the Brazilian customs authorities at the end of 2016. The products stored at the port of Manaus during that two-month period were finally shipped in early 2017, thus benefiting the 2017 result, which we expect to improve further.

The most important driver of this positive operational and economic performance is the further increase in production and productivity in Gabon and Brazil. The diversity of the species of wood, especially in Brazil,slowed down major productivity gains in the reporting year. Targeted investments in productivity and also in the value chain – like kiln capacity – are planned for both production countries in 2017. Our veneer plant in Gabon (TGI) experienced an especially positive development, achieving about 10 % higher sales at higher prices once the maintenance work was finished. Although the prices for sawn timber declined, increasing demand for FSC timber resulted in growth in sales revenue. Precious Woods was able to further strengthen its brand value in the FSC timber market.

The local management in Brazil and Gabon continuously achieved impressive performance in production, processing, logistics, and marketing. The value chain in both countries is complex: from sustainable management of the forest and processing of diverse types of logs to market performance. The entire value chain comes with a wide range of logistical demands. And our relationship with the local authorities, especially in forestry and logistics, is demanding and requires great administrative effort. The stability we have achieved in the local management team is thus important for our existing and future success.

We have also achieved our high environmental and social goals:

Our strong commitment to social and environmental goals was confirmed by the FSC verification audits at Precious Woods Amazon and at Precious Woods Gabon. In both countries, our companies received the highest marks. Our commitment to biodiversity and sociocultural quality goes even further, however: With scientific projects, we generate additional knowledge for a future-oriented and diverse forestry and timber industry. And together with the local communities, we advocate with care and respect for continuing scholastic quality for children and for the locally supported sociocultural engagement of local groups and municipalities.

Our “impact report” illustrates the impact of our engagement in environmental and social dimensions, but also attempt to capture our local communities’ own engagement.

This engagement is even more important given that the general trend for natural tropical forests is not at all positive. The clearing rate continues to be too high, caused dependent on region by the migration of small farmers and especially by the major investments in mines and large agribusiness (first and foremost oil palms and soy).

In tropical forests in Africa, the threats to elephants, gorillas, and chimpanzees due to professional poachers is increasing; while this development has largely spared Gabon so far, preventive measures are also in our concession necessary. We will further strengthen our engagement in cooperation with government authorities and specialized institutions.

There is no doubt about the fundamental importance of natural tropical forests for climate, CO_2 compensation, biodiversity, and the living environment of local and indigene populations. While all internationally respected institutions emphasize this urgent and growing importance, the international community and science is struggling to plan and – even more so – implement effective programs. The promised financial resources are also flowing too hesitantly, and their administration is demanding. We are increasingly integrated in these discussions and planning, because our sustainable forestry management model is considered a pioneering example of effective, sustaina-

Opening for a children’s playground, Gabon ble management of tropical forests. Sustainable in an environmental and social sense – but based on economic performance that is borne not least of all by strong corporate responsibility with a long-term orientation. increased our goals again for the business year 2017.

Provisional appraisal, outlook, and thanks

The good 2016 results continue the positive momentum of our company since 2014. Looking back on the challenging turnaround years of 2009 to 2013, we can note with satisfaction that a strong positive energy is now driving our company forward. This is evident not least of all in the growth of our shareholders' equity thanks to capital increases of more than 30 % to EUR 19.4 million and a corresponding equity ratio of 28.1 % (previous year: 18.1 %). This is a foundation for our outlook of a positive net result in 2017.

This positive energy is also evident in the dedication of our more than 1300 employees, the great commitment of our local directors (João Cruz in Brazil and Frédéric Ober in Gabon) and their teams – and the management of PW Group headed by Markus Brütsch, whose extraordinary professional and human effort as CEO and CFO has contributed substantially to our efficiency gains and new momentum.

I would also like to thank my highly committed members of the Board of Directors, which not only administers the company, but also shapes it. And on behalf of the Board of Directors, I would like to thank all shareholders for their interest and trust, and for their resulting commitment to our one-of-a-kind enterprise. It has been an honour to put this commitment into practice myself – and even after my retirement as Chair of the Board of Directors at the General Meeting in 2017, I will continue to do so not only as a shareholder, but also in word and deed.

Yours faithfully

Ernst A. Brugger
Chair of the Board of Directors

Precious Woods – a sustainable forestry company

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 1300 people in Brazil, Gabon and Switzerland in 2016.

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 23–26 as well as in the reports on the individual business segments.)

Ecological value

Social value

Economic value

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-organizations, 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.

Rémi Duval (PWG), Frédéric Ober (CEO PWG), Bruno Rodriguez (PWA), João Cruz (CEO PWA) and Philippe Jeanmart (PWG)

Strategy: market orientation and continuous optimization 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.

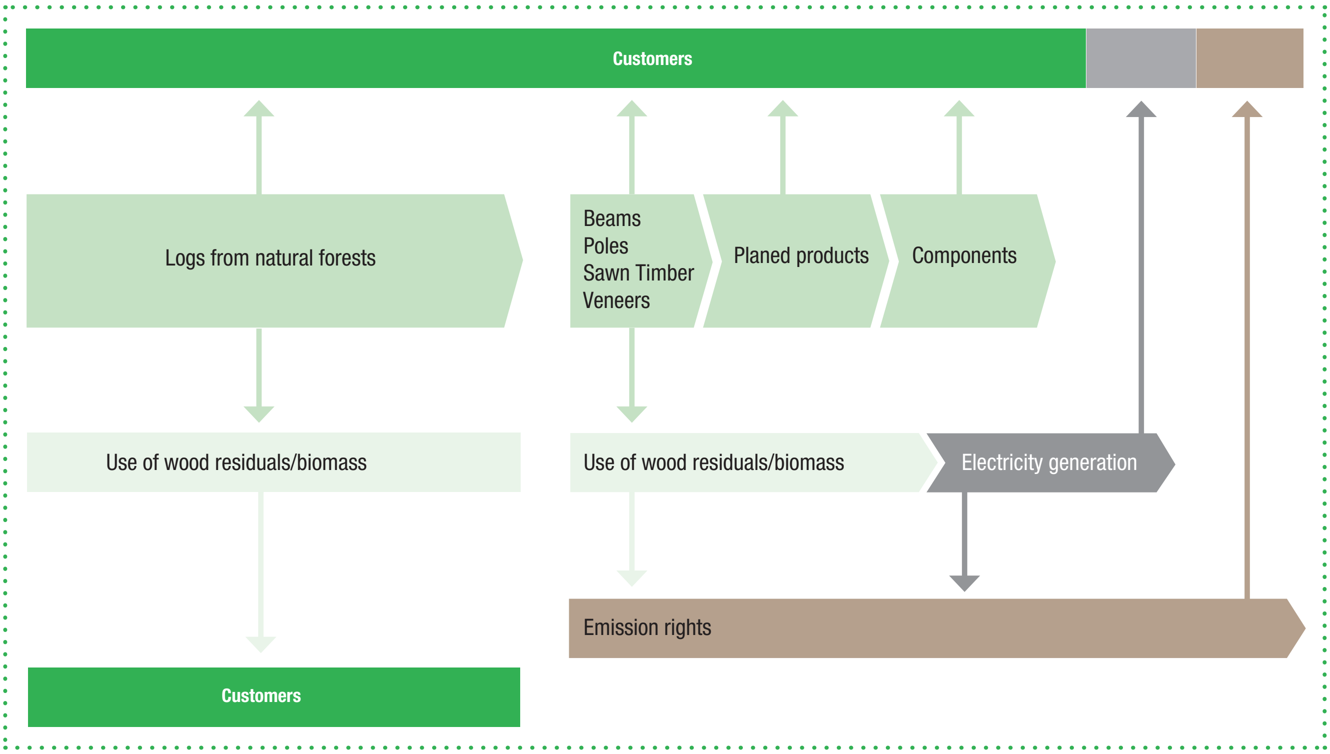
Midterm targets: sustainable growth

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 organization with increased market orientation

Precious Woods consist of three business units and a Group management that focuses on the realization of strategic goals, sales and marketing, communication as well as financial management and control.

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 sucessfully. 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.

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

2016 On 28 June 2016, the share capital increased with authorized capital in the amount of CHF 806 798 shares (a nominal value of CHF 1 each). Furthermore, a share capital increased with conditional capital in the amount of CHF 93 850 shares (a nominal value of CHF 1 each) in August 2016.

2016 improved results of the Precious Woods Group

The annual report will be presented in euros for the first time. We have decided to change our presentation currency from USD to EUR because most of our sales are realized in EUR, and because the CFA franc (XAF) is tied to the EUR and thus most of the costs in Gabon are also incurred in EUR.

Consolidated net sales in the reporting year were EUR 41.3 million and thus 3.3 % higher than the previous year sales of EUR 40.0 million. The negative exchange rate effect was only 0.5 %. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased to EUR 6.9 million in 2016 (previous year: EUR 6.1 million). Earnings before interest and taxes (EBIT) reached EUR 1.6 million (previous year: EUR 0.9 million), which represents an increase of 86.5 %. The net loss was EUR –2.8 million (previous year: EUR –4.3 million).

Income statement

Total income

In 2016 the Precious Woods Group achieved net sales of EUR 41.3 million, 3.3 % higher than the previous year sales of EUR 40.0 million. The negative impact of the exchange rate development was only –0.5 %. The increase in sold volume was 15.6 %. Lower sales prices, a change of the product mix as well as a strike of the customs officials had a negative impact on sales (–13.6 %).

The sale of emission certificates generated sales of EUR 0.7 million (no sales in the previous year). The second term for generating these certificates ended in October 2016 and was successfully renewed for a final period of 5 years.

Because of lower prices, export sales from Brazil fell by 6.7 %, but local sales from biomass rose by 54.2 %. Overall, sales grew by 3.3 %. In Gabon, sales rose by 7.4 % despite negative price development. Trading sales in logs and sawn timber from Europe fell by 32.8 % in the reporting year compared with the previous year.

Operational development: Costs and market

Production volumes in Brazil rose by 20 %. However, a strike of the customs officials in November and December 2016 made it impossible to deliver in a timely manner. Yield also fell from 21 % to 18 %, corresponding to a loss of about 15 %. This was mainly due to the mix of the 45 different species of wood we harvest each year.

6.7 % more logs were processed in the sawmills in Gabon. However, the average yield was 32 %, 5 percentage points lower than in the previous year. Apart from several technical factors, the diversity of species of wood and the products contributed to this result. We processed higher-quality logs that did not permit better yield, but achieved a higher sales price per m^3.

In our veneer plant (TGI) in Gabon, all necessary maintenance work was concluded, production processes were optimized, and the yield increased to 52 %. This meant 10 % more sales with rising sales prices.

We invested in seasoning capacity in Brazil additionally at the end of 2016 and will do the same in Gabon in 2017. Further investments in the value chain are planned at both locations.

The prices for sawn timber continued to come under pressure. But the demand for FSC-certified wood is steadily increasing. We were thus able to compensate the negative price effect with increased volumes. At the beginning of 2017, commodity prices recovered, so that this development will have an effect on the result over the course of the year. Europe continues to be our main sales market with a share of 64 %, followed by Asia with 14 %, Africa with 13 %, and other countries with 9 %. Our product range occupies an attractive market niche, and we are convinced that we will be able to continue expanding our position and improving our margins.

Operational contribution

Production costs were 4.7 % higher than in the previous year. The operational contribution in the reporting year rose by only EUR 0.6 million or 2.5 %. The focus in 2017, apart from increasing production and volumes, will also be on improving yield in the sawmills at both locations. This will have a positive impact on the result, because doing so will incur no significant additional costs.

Operating result (EBITDA)

EBITDA of EUR 6.9 million was generated in 2016 (previous year: EUR 6.1 million). This corresponds to a margin of 16.7 % (previous year: 15.2 %). A significant reason for this increase was the operational contribution.

As a consequence of the short term inventory build-up in Brazil, caused by the strike of customs officials at the end of the year, the EBITDA margin fell from 13.0 % to 11.7 %. In Gabon, it stayed unchanged at 26.7 %, which is an excellent result. Earnings before income and taxes (EBIT) experienced a similar development. EBIT in Brazil fell from 8.9% in the previous year to 8.5% in the reporting year. In Gabon, the EBIT margin improved from 8.8% to 9.5%. Depreciation was 1.6% higher than in the previous year.

Financial result
At EUR –4.4 million, the financial result was 7.9% lower than in the previous year. Apart from costs relating to two capital increases, additional costs in Brazil resulting from the conversion of a loan from EUR to BRL had a negative effect on the result. Average net debt was about EUR 30 million, within the range of the previous year. Capital tied up in the finished goods warehouse ended up about EUR 2 million higher than in the previous year.

Net result
The net result was a loss of EUR 2.8 million (previous year EUR –4.3 million).

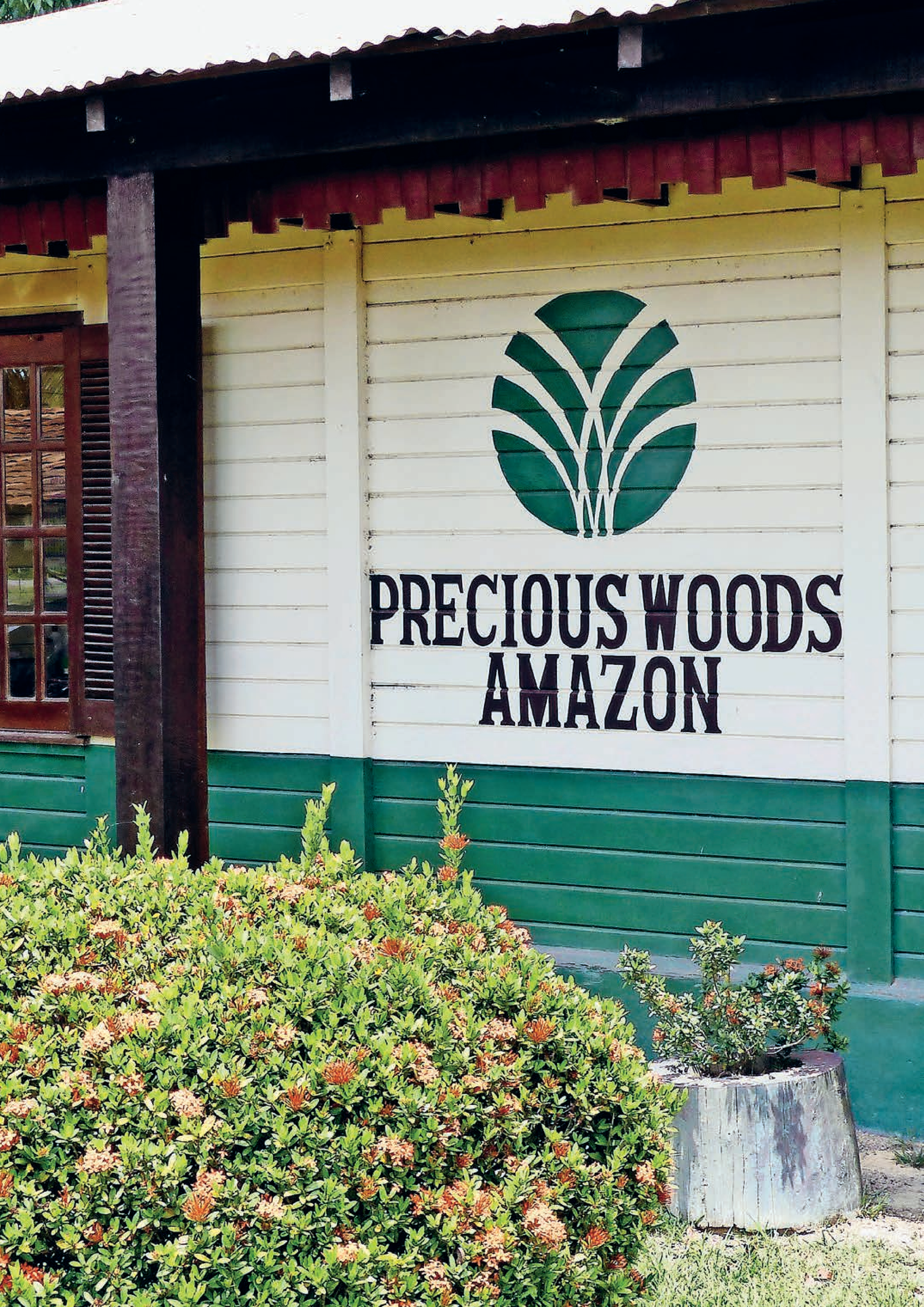
Outlook
Harvest and production volumes will increase in 2017 without a massive burden on production costs. We expect a sales increase of >10%, improved EBITDA and EBIT margins, and a positive net result. Investments in tangible fixed assets (replacement and expansion investments) will be in the magnitude of about EUR 3.5 million.

With our improvements so far, we have laid the cornerstone to continue investing in real net output ratio of our products and also in our projects and non-timber products from the forest.

Balance sheet
Total assets were EUR 69.3 million, EUR 4.0 million higher than in the previous year.

Shareholders' capital increased by about EUR 7.6 million due to capital increases, ending up at EUR 19.4 million (previous year: EUR 11.8 million). The equity ratio as of 31 December 2016 was 28.1% (previous year: 18.1%).

The cash flow from operating activities was EUR 2.2 million, EUR 1.8 million lower than in the previous year. The change in working capital in the amount of EUR –3.4 million led to this decline. Investments in tangible fixed assets were EUR 2.3 million. The net cash flow from financing activities amounted to EUR –2.1 million.


PRECIOUS WOODS
AMAZON

Brazil – increase in production

At EUR 10.6 million, the net sales of PW Amazon were 3.3% higher than the previous year net sales of EUR 10.2 million. The increase in sales is solely due to the sales of waste timber to BK Energia. While in the previous year, a lengthy maintenance interruption of the energy plant resulted in lower sales, uninterrupted deliveries were possible in the reporting year. Export sales fell by 6.7%, in part due to the price reductions on the market but also the reduced sales in November and December 2016 resulting from the customs officials through a two month strike. Earnings before interest, taxes, depreciation, and amortization (EBITDA) was EUR 1.2 million (previous year: EUR 1.3 million). Operating profit (EBIT) was EUR 0.9 million as in the previous year.

Increase in production – lower rate of increase in sales

The harvest volume was 124 400 m^3, about 5.2 % lower than in the previous year. About 135 000 m^3 of logs were processed in the sawmill over the course of the year, representing an increase of 20 % over the previous year. Yield was 18 %, or 3 percentage points lower than in the previous year. This decline is a result of the diversity and inferior quality of the species of wood that were harvested. As a consequence, sawn timber production was 4 % higher than in the previous year.

Local sales were considerably higher than in the previous year, because uninterrupted delivery to the energy plant was possible in the reporting year, while deliveries had been limited in the previous year due to an extended maintenance interruption. Exports of sawn timber increased in terms of volume, but market prices had a negative impact on sales.

In the months of November and December 2016, practically no export sales were possible, given that the customs authorities were on strike and no containers could be shipped. The missed sales amounted to about EUR 2.1 million. Because we continued to produce during this time, our inventory expanded accordingly. Almost the entire backlog was exported and invoiced in the first quarter of 2017.

Investments in 2016 were made primarily in expansion of the forest road network and ongoing improvement of processes in the sawmill. Toward the end of the year, we purchased additional seasoning chambers that will be used productively starting in May 2017 with the goal of increasing our internal added value.

Sales of biomass were about 54 % higher than in the previous year (see above). We were unable to renew a supply contract with another local buyer of the forest waste timber for the 2016 harvest period, but it will take effect again in 2017.

The legal provisions and the imperative of sustainable use of tropical forests require our company in Brazil to harvest many different species of wood. This constitutes a great challenge and also entails greater complexity for our operational activity. Because some species of wood have very low volumes, not all woods can be processed and sold. Our ongoing task is therefore to establish and promote unused or underused species on the export market and to examine their areas of application. On the local market, market prices are very low, and transport costs to the populous areas in the south of the country are high. For that reason – and because we compete on the home market with illegally harvested and thus cheaper sawn timber – our competitiveness on the local sales market is limited. We are thus confident that we are regularly able to gain customers in Europe for the use of new species of wood that are not very well known on the market and to convince them of the specific qualities of those species.

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 2016) 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 Parà, 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.

Continuous efforts on legacies and exceptional factors

Currently, about 370 000 hectares of forests (own forest and smaller concessions) are available for harvest. We have made further efforts to legalize the land titles that have not yet been secured and to evaluate new concessions.

There were no new developments in 2016 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 Amazon again passed the 2016 FSC certification audit with an excellent result, credibly documenting that we set standards in regard to the sustainable use of our forest areas. We are currently working on several scientific projects to examine our activity over the medium and long term and to obtain information to secure and to optimize our forestry operations. We are also in close and intensive contact with the communities, allowing us to undertake useful joint projects. The focus is on forestry training, security, but also support for local small businesses.

We are able to report on the following activities in the reporting year:

- Together with the military police of Itacoatiara, investigations of poaching and illegal woodcutting were conducted in the region. Monthly patrols to secure our forest areas were also intensified.
- In cooperation with EMBRAPA (Brazilian Agricultural Research Corporation), we started and continued a project on the measuring of tree growth after harvesting and the productivity capacity of the tree population.
- A research project is currently underway for monitoring the carbon dynamic in managed forests in the Amazon. The goal of this project is to define the methodology for measuring carbon sequestration in managed forests in the Amazon in order to create the preconditions for offsets of emission rights.

Key figures Precious Woods Amazon

		2016	2015	Change
Economic				
Sales sawn and industrialized wood	in m^3	24 200	21 200	14.2 %
whereof export	in m^3	20 500	16 700	22.8 %
Sales logs and piles	in m^3	–	2 300	–100.0 %
Sales biomass	in m^3	107 500	77 300	39.1 %
Timber harvest	in m^3	124 400	131 200	–5.2 %
Net sales	in EUR million	10.6	10.2	3.9 %
Operating result	in EUR million	1.2	1.3	–7.7 %
Environmental				
Energy consumption	in GJ	44 500	42 400	5.0 %
Direct CO_2 emissions	in t	2 300	2 300	–
FSC share of timber production sold	in %	100	100	–
Social indicators				
Employees (yearly average)		480	468	2.6 %
Women	in %	11.1	10.7	3.7 %
Accidents at work		107	76	40.8 %
Days lost per accident		4.8	3.7	29.7 %

- We operate a job programme for inhabitants of the surrounding villages and try to reconcile our needs as an employer with the possibilities of the agricultural workers.
- We promote the agricultural production from the communities, such as cassava flour, fruit pulp, tucumã, cassava, rambutã, and vegetables. The food for the population is thus richer and we ourselves are an important purchaser of the products.
- We actively support the extraction of non-timber forest products (oils, resins, seeds, and other natural essences) that traditionally are processed by the communities.
- We offer courses for vocational development and improvement of skills for the manufacture of handicrafts. This programme is done in partnership with CETAM (Center for Technological Education of Amazonas) and SENAI (National Industrial Learning Service). The goal of these courses is to provide the local population with the opportunity to improve their income with the manufacture and sale of handmade products.

Outlook for 2017

The prices for sawn timber have recovered somewhat since the beginning of the year. Together with the planned increase in production volume and a higher yield as well as investment in seasoning capacity, we expect sales growth of about 15%. In 2017, we will invest in various machines for forestry including road construction. Additionally, projects to deepen and improve our real net output ratio are also envisaged. With these measures, we expect higher productivity and thus a better result. We are continuing our efforts to promote local timber sales in Brazil, and we see potential in individual projects and special wooden buildings. For this reason, we continue to invest in our network of relationships in the local architectural and construction industry. It is still difficult to increase local sales, however, because the logistical prerequisites have not yet been established, and the sales markets for sustainably produced projects continue to be small. The export market thus will remain a crucial success factor.


STIHL

Precious Woods Gabon – confirmation of positive development

The net sales of PW Gabon were EUR 28.6 million and thus 7.4% higher than the EUR 26.6 million in the previous year. Earnings before interest, taxes, depreciation, and amortization (EBITDA) were EUR 7.6 million. This also represents an increase of 7.4% over the EUR 7.1 million in the previous year. The excellent EBITDA margin of 26.7% was thus also confirmed. Operating profit (EBIT) again improved by EUR 0.4 million to EUR 2.7 million, corresponding to a margin of 9.5%.

Increase in productivity

The log harvest volume in 2016 was 196 800 m^3, corresponding to a decrease in volume of 3.4 % compared with the previous year. 124 200 m^3 of logs were processed in the sawmills (6.7 % more than in the previous year), but yield worsened by 4.6 percentage points. This resulted in sawn timber production of 39 400 m^3 and a decline in sold volume of 1.4 % compared with the previous year. The difference to the increase in sales of 7.4 % is due to the product and price mix. High-quality logs were processed in the sawmill for hardwoods, but this resulted in lower yield. Market prices – especially for okoumé products – continued to fall. A recovery began only toward the end of 2016, and the new orders can accordingly be acquired with higher sales prices.

We have made great progress in our veneer plant (TGI). All planned maintenance work was completed fully and on time. 57 800 m^3 in logs were processed, corresponding to an increase of 29.0 % over the previous year. Veneer production increased by 40.0 % because we were able to improve yield from 47.3 % to 51.3 %. The increase in sales was 32 % in terms of volume and 33.0 % in terms of value.

Development of our management team also made great progress. Experienced and committed employees have been found for the sawmills, operations maintenance, and several key positions. They are having a positive impact on further developments.

The financial situation, especially liquidity, continued to be tight. But we were able to make gradual, necessary investments in machines and equipment. The focus of our investments was on the sawmills. We also invested in forestry machinery, vehicles, construction of houses in the village of Bambidie, and the infrastructure of the sawmill. In total, the investments amounted to EUR 2.3 million.

There were no major logistical bottlenecks or obstacles in 2016. Rail capacity was even improved.

Stability and greater flexibility

With our EBITDA margin of 26.7 % in 2016 (previous year: 26.7 %), we were able to confirm the operational improvements of the past few years. The old input tax credit from the state was reimbursed completely, although current credits have accumulated again, so that EUR 2 million are still owed. The negotiations with the new government to settle or offset these credits are underway, and initial successes have been made. Net debt in Gabon has been reduced by about EUR 1.5 million. Working capital increased by about EUR 1 million to 23.6 % of net sales (previous year: 22.2 %). With the existing credit lines from local banks and financial partners as well as the expected cash flow, the planned investments in productivity and productivity gains in 2017 have been secured.

2016 was an election year in Gabon, and there were occasional disruptions, which did not have any significant impact on our economic activities, however. The oil and oil supplier industry are recovering only slowly, and mining activities are also remaining at a low level. This means that forestry management of the extensive areas of tropical woods continues to be an important branch of the economy in Gabon, to which the government of the state of Gabon is paying attention accordingly.

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 790 staff and harvests approximately 180 000 – 210 000 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.

Forest worker of Precious Woods Gabon, Gabon

Report on further progress in social and ecological sustainability

At both locations – Bambidie and Owendo – FSC inspection audits were conducted and again very successfully concluded in 2016. The high level from the previous year was confirmed.

We are also working on the following projects:

- A new project called “Maison de la Culture” was launched, with the goal of offering the village community a platform for holding cultural events. A playground for children and teenagers, which was opened with a ceremony in March 2017, is also integrated into this project.
- Numerous training sessions were offered for our logger teams, and we improved our knowledge and skills in regard to reduced impact logging.
- Further training sessions were also offered for the medical nurses working in Bambidie in collaboration with AGIR (Association Générale des Intervenants Retraités).
- Cooperation with the Research Institute in Tropical Ecology (IRET) for research on and further development of non-timber products was continued.
- We also continued the Dynafor project in collaboration with Natur+. The goal of this project is to study the dynamic and enrichment of the forest and to gain findings for the future.
- The joint project with the WCS (Wildlife Conservation Society) was further refined, with the goal of developing a monitoring protocol for surveying and evaluating biodiversity in our concessions.

Outlook for 2017

The planned and necessary maintenance and renovation work in the sawmills will be completed in the first half of 2017. Okoumé yield has already been improved by 2 percentage points, and further gradual improvement is expected. We are engaged in a multiyear project for the entire sawn timber production in Bambidie, with the aim of exhausting the potential from improvement of the production facilities and logistics. Some preliminary work was undertaken in 2016. In 2017, further investments in the sawmills are planned to create the prerequisites for increasing our production volume and productivity. Seasoning capacity is also being increased, thus improving added value and attractiveness for our customers. The sawn timber prices for our products have risen significantly since the previous year, buttressing our assumptions of positive sales growth. The financial situation is likely to ease further, given that our activities should result in a significantly higher EBITDA margin. The biomass power plant project in Bambidie was again delayed during the reporting year, because we still do not have the required approvals from the authorities. Utilizing the waste timber generated in Bambidie continues to be an important strategic project, because it allows us to process the overwhelming share of the waste wood generated in the Bambidie sawmills and thus produce electricity and heat, while massively reducing our output of CO_2. At the same time, we would save significantly diesel and operating costs for power generation for our operations as well as for the village of Bambidie. Additionally, we will undertake investment projects in 2017 to increase added value in our sawmills. Our declared goal is to increase processing depth and in that way to generate more sales and simultaneously increase the share of local specialists and managers.

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 for Precious Woods. A new forestry law has been presented to Parliament, which we are able and willing to further shape in coordination with professional and industry colleagues, scientists, and NGOs. The law is scheduled for a vote in the parliament in 2017.

Key figures Precious Woods Gabon

		2016	2015	Change
Economic				
Sales sawn and industrialized wood	in m^3	34 700	34 700	–
Sales logs	in m^3	32 100	36 000	–10.8 %
Sales rotary veneer	in m^3	27 900	21 000	32.9 %
Sales sliced veneer	in m^2	543 600	332 500	63.5 %
Timber harvest	in m^3	196 800	203 700	–3.4 %
Net sales	in EUR million	28.6	26.6	7.5 %
Operating result	in EUR million	7.6	7.1	7.0 %
Environmental				
Energy consumption	in GJ	153 100	128 100	19.5 %
CO_2 emissions	in t	13 800	11 600	19.0 %
FSC share of timber production sold	in %	100	100	–
Social indicators				
Employees (yearly average)		800	790	1.3 %
Women	in %	9.6	9.2	4.3 %
Accidents at work		91	94	–3.2 %
Days lost per accident		11.8	12.5	–5.6 %

Precious Woods Trading – logs and sawn timber from Europe

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

Net sales from the trading business in the 2016 reporting year amounted to EUR 2.1 million, 32.8 % lower than in the previous year (2015: EUR 3.1 million).

Earnings before interest, taxes, depreciation, and amortization (EBITDA) were USD 0.1 million. The EBITDA margin was 5.4 % (previous year: 5.9 %).

For Precious Woods, trading activities in Europe are strategically important, because this activity secures expertise in the sales and procurement market. The challenge will be to contribute insights purposefully in our operations in Africa and Brazil and to utilize them for the benefit of our customers.

Precious Woods Trading 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. After the shutdown decision at the end of 2013, PW Europe employed only 3 employees at the end of 2014. The activities were taken over by PW Holding in Zug and clients were then supplied directly from the production plants in Brazil and Gabon. The Benelux countries continue to be an important market for the Precious Woods Group and for our sawn timber production using tropical woods. Clients continue to be supported by the experienced sales team; only the inventory of sawn timber is now administered on a centralized basis in Brazil. In 2014, trading of certified European logs was also taken up, complementing our extensive offerings.

Key figures Trading

		2016	2015	Change
Economic				
Sales logs and sawn wood	in m^3	11 900	17 100	–30.4 %
Net sales	in EUR million	2.1	3.1	–32.3 %
Operating result	in EUR million	0.1	0.2	–50.0 %
Environmental				
CO_2 emissions	in t	–	–	
PEFC share of timber sold	in %	100	100	–

Forest photographing from France

Carbon & energy – trading in CER emission certificates

The certification and subsequent sale of Certified Emission Reductions (CER) for the year 2015 was completed successfully only in the 1st quarter of 2016. Accordingly, there were no net sales in 2015. In the 2016 reporting period, income was EUR 0.7 million from the 2014 certification.

The contracts expiring in 2016 with BK Energia, the city of Itacoatiara, and MyClimate were successfully renewed. This means biomass deliveries and future contributions to profit from CER sales are ensured.

CERs from Brazilian biomass

BK Energia's 9-megawatt power plant in Brazil provides the city of Itacoatiara and the production site of Precious Woods Amazon with electricity and steam for seasoning. All of the power plant's electricity is generated from the waste timber of the PW Amazon sawmill, i.e., renewable biomass.

During maintenance work, the Itacoatiara power plant was not available as usual. It produced a total of 53 540 metric tons of CO_2 equivalents in 2016, which amounts to an increase of 25.9 % over the previous year.

The biomass power plant will continue to play an important role for Precious Woods: firstly from an operational perspective (inexpensive electricity and heat supply), secondly due to the opportunity to sell waste timber products, and thirdly because complete utilization of the harvested wood makes a contribution to avoiding CO_2 emissions.

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[1] foundation on behalf of Precious Woods.

Emission trading together with MyClimate

This small-scale project is the first worldwide that generates emission reduction certificates on the basis of sustainably harvested biomass from a forestry certified by the Forest Stewardship Council (FSC). The woodchip power plant with 9 MW of electric output is located in the sawmill of the Precious Woods company in Itacoatiara, a small town in the Brazilian Amazon.

The project saves 10–15 million litres of diesel fuel per year.

The project replaces several diesel generators and helps supply the approximately 80 000 inhabitants of the city with climate-friendlier power. Thanks to the power plant, the local population benefits from lower energy prices and more stable energy supply (fewer outages and transport losses). The plant produces up to 45 000 MWh of electricity each year, for which otherwise about 10–15 million litres of diesel would be consumed. The waste heat generated during this process is used for the wood seasoning plants.

"Sustainable forestry is more than taking care about trees. It is also important for the whole ecosystem rainforest as it guarantees the protection of the great biodiversity."

João Cruz Rodrigues, Director Precious Woods Amazonas

For the production of the electricity, about 100 000 tons of wood are required each year. This amount is delivered in the form of wood waste and sawdust from the sawmill. All this wood waste comes from sustainable forestry in accordance with FSC guidelines. Prior to start-up of the plant, this wood waste was rotting in large piles on the property. Through the sustainable use of the waste, a reduction of the greenhouse gas methane was therefore also possible. The total reduction amounts to about 48 000 tons of CO_2 equivalents each year.

[1] myclimate is a Switzerland-based organisation setup in 2002 to provide environmentally responsible solutions to individuals and companies. www.myclimate.org

BK Energia, Brazil

Sustainability as the focus of entrepreneurial philosophy

Certification according to the standard of the Forest Stewardship Council (FSC) has been part of the entrepreneurial philosophy of Precious Woods for many years. This standard defines all essential criteria for sustainability in forestry. Certification covers forestry processes as well as operational timber production and trading. Precious Woods thus guarantees 100% FSC-certified products from its PW Amazon and PW Gabon operations. Below, we will discuss some of the aspects of both operations that even go beyond the FSC standard. Thanks to its consistent engagement on behalf of sustainability, Precious Woods is one of the leading companies in terms of quality in the field of sustainable tropical forestry and timber.

Selective wood utilization is not equivalent to sustainable forestry

Selective logging is not at all equivalent to sustainable forestry. FSC-certified tropical forestry as practiced by Precious Woods is based on careful planning and selection of the trees to be logged, without endangering the stock of tree species. Average logging at Precious Woods is 1 to 3 trees per hectare during a cycle of 25 or 35 years. The legal foundations would permit a far higher quota, which would also result in lower costs. But this is not an option for Precious Woods, because we would then be unable to fulfil our ecological or social responsibility. There are also major differences between the various certification systems, the FSC standard being the most credible and thus also the most demanding. But the regular development (and tightening) of this standard also entails major challenges for us on an ongoing basis.

Precious Woods Amazon closely connected to local population

In 2016, Precious Woods Amazon successfully completed its 19th year of FSC-certification – one of the longest and thus most sustainable track records in Brazil's forestry sector. More far-reaching investments have been made not least of all in the fields of workplace safety, accident prevention, and training. Precious Woods Amazon has entered into partnerships with educational institutions in order to promote schooling as well as professional training for the employees, their families, and the local inhabitants of Itacoatiara.

Precious Woods attaches great importance to a good relationship with the local population: In 2016, Precious Woods Amazon began a socioeconomic survey of the local communities in order to gain a better picture of the environmental, ethnic, and religious aspects and thus promote participation by the local population.

Over the course of 2016, Precious Woods promoted cultural events, celebrations, and sporting events, and it supported the construction of community centres. Films and videos are also used as part of an environmental education project. Pieces of waste timber and other sawmill waste are provided to artisans and used in workshop courses for the local communities.

Precious Woods in Gabon – responsible use and wildlife protection

Precious Woods Gabon goes far beyond the sustainability standard required by FSC-certification, such as in the monitoring and inspection of concession areas, the analysis of timber production and usage areas, as well as the disposal of fuels, lubricants, accumulators, and chemical substances. Over the past few years, an average of only 1.4 trees per hectare have been logged in the protected zones of the concession, corresponding to 14.2 m^3/ha. Thanks to this responsible use, the share of the forest impacted by logging has been kept at a very low level. Cutting, access roads, and loading areas take up less than 2% of the used area on average, which causes four times less damage than has been determined on average in Gabon by the Food and Agriculture Organization (FAO).

Sustainability as the entrepreneurial principle

With its sustainable management of tropical forests, Precious Woods has taken on a challenge of global importance. This was once again made clear during the 2015 Climate Change Conference in Paris. Sustainable management of tropical forests make a significant contribution to the achievement of climate targets. Sustainability means creating economic, ecological, and social added value – for investors, employees, partners, and stakeholder groups. Depending on the tropical forest region, only one to three trees per hectare are harvested during a single harvest cycle (usually every 25–35 years). Especially valuable forest habitats remain untouched and are protected by Precious Woods. Forests are attributed economic value, so that there is hardly a risk of them being cleared for agricultural purposes. The achievements of Precious Woods in all areas of sustainability thus contribute to the long-term protection of forest ecosystems of the country in question. Especially in countries with weak institutions and inadequate precautions to protect forests and thus also carbon storage, the company is able to make a valuable contribution. However, political stability, institutional reliability, and efficiency are necessary. In any event, finding the right balance between the different aspects of sustainability in tropical forestry remains a constant challenge for Precious Woods.

Opening for a children's playground, Gabon

Precious Woods pays special attention to wildlife protection: The company is involved in training and awareness-raising of employees and the local population by the wildlife protection service. In cooperation with the Wildlife Conservation Society (WCS), Precious Woods Gabon also works on surveying big game and other aspects of biodiversity, as well as combating illegal activities, especially poaching. Anti-poaching patrols have led to the arrest of two ivory dealers and the confiscation of several tusks. Since then, poaching has been largely under control. In this context, it is important to prevent access via forestry roads and back paths into zones that have already been used.

Environmental and social key performance indicators

Environmental indicators		2016	2015	2014
Forest management				
Forest protection	total area in ha	1 160 800	1 160 700	1 160 700
FSC share of timber production sold	in %	100	100	100
PEFC share of traded timber sold	in %	100	100	100
Energy consumption and emissions				
Reduction of CO_2 emissions	in t	53 540	42 544	46 671
CO_2 emissions	in t CO_2-equivalents	16 100	14 000	16 000
Electricity consumption	in GJ	29 500	24 500	28 500
Fossil fuel consumption	in GJ	169 900	147 300	171 000
Social indicators				
Employees (yearly average)				
Number of employees (yearly average)		1 291	1 269	1 268
Brazil		480	468	466
Gabon		800	790	786
Europe		1	1	8
Corporate		10	10	8
Women	in %	11	10	11
Rate of employee turnover	in %	2	3	3
Health and safety				
Accidents at work		198	170	203
Accidents per 1000 employees		153	134	161
Days lost per accident		8.7	9.4	9.0
Fatal accidents at work		–	–	1
Training				
Training hours		848	1 055	610
Training hours per employee		0.7	0.8	0.5

Illegal logging threatens certified timber trade and sustainable development

Illegal logging and trade grew to threatening dimensions at the beginning of the century, especially in tropical countries. A study by Chatham House estimated the global damage from illegal logging to producing countries at USD 15–20 billion annually. The consequences are deforestation, loss of biodiversity, increase in carbon emissions, but also often conflicts with indigenous peoples, violence, and human rights abuses. It is up to the producing as well as importing countries to prevent illegal logging and trade, as defined in the G8 Action Programme on Forests for 1998 to 2002. Since then, various measures by governments and the private sector have been initiated. These measures have started to produce results, but governments have been slow in implementing them.

Opportunities for FSC-certified timber

With its standard, FSC certification goes far beyond the minimal requirements of legality, establishing more far-reaching requirements in regard to ecological and social sustainability in forestry as well as an uninterrupted chain of custody. The tightening legal situation in importing countries will probably benefit trade with FSC-certified timber in the medium term. The total forest area under FSC certification was 194 million hectares at the end of 2016, which is greater than the area of Germany, France, Spain, and Italy combined. But only about 11 % of that area covers tropical and subtropical forests, which means they are still highly underrepresented in terms of FSC certification. Precious Woods manages about 6 % of the total FSC-certified natural tropical and subtropical forest area.

Carbon footprint

The CO_2 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 20 056 metric tons of CO_2 equivalents, 7.6 % less 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_2	**12 635**	**3 484**	**418**	**3 519**	**20 056**
Share per category	63 %	17 %	2 %	18 %	100 %

The role of forestry in the climate debate

Over the past decades, large forest areas have been deforested or degraded, especially in the tropics. The causes lie in non-sustainable forestry, especially illegal logging, conversion to commercial agricultural land, slash-and-burn subsistence farming, and the exploitation of mineral resources. Deforestation has been a cause for great concern in recent years. This is mainly due to its negative impact on global warming and regional rainfall patterns. Today, deforestation in the tropics contributes about 10–12 % to greenhouse gas emissions caused by humans. But after the adoption of the Paris climate agreement in December 2015, the REDD+ concept (Reducing Emissions from Deforestation and Forest Degradation) has become a key component of the compensation scheme for preserving forests in developing countries. Many countries, international organizations, NGOs, and companies are currently engaged in creating the methodologies and capacities for such a compensation scheme. Sustainable forestry will play an important role in this regard and will probably be taken into account for REDD+ activities and thus be eligible for compensation.

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 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.

Simone Stammbach, MSc. Education for Sustainability, London South Bank University

- Senior Manager WWF Global Forest & Trade Network. Since 1998 WWF Switzerland in Zurich, responsible for Forest projects and communication

Heiko Liedeker, MSc. Forest Ecology, University of Vermont

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

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

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

Gorilla family in Gabon

Corporate Governance 2016

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

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

BoD = Board of Directors
GM = Group Management

1. Group structure and shareholders

Precious Woods consists of four operational business segments: sustainable forestry in Brazil, sustainable forestry in Gabon, Trading and Carbon & Energy. For more information about the individual segments, please refer to pages 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 33 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 Financial Statements of PW Holding. A list of shareholders with more than 3 % of the voting rights can be found in note 30 of the consolidated 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 2016 stood at CHF 6 902 745 (6 902 745 registered shares at CHF 1 each).

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 with a nominal value of CHF 1 each). 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 each) was carried out from the conditional capital. The right to convert a convertible bond was exercised. The conditional capital on 31 December 2013 amounted to CHF 1 699 177 (1 699 177 shares with nominal value of CHF 1 each). On 30 December 2015, the right to convert convertible bonds was exercised. The capital increase amounted to CHF 1 216 214 (1 216 214 shares with a nominal value of CHF 1 each). As of 31 December 2015 the conditional share capital amounted to CHF 482 963 (482 963 shares with a nominal value of CHF 1 each). On 18 February 2016, the right to convert a convertible bond was again exercised. The capital increase amounted to CHF 40 540 (40 540 shares with a nominal value of CHF 1 each). In August 2016, a capital increase was effected by issuing employee shares. The capital increase amounted to CHF 93 850 (93 850 shares nominal value per CHF 1.00) As of 31 December 2016, the conditional share capital amounts to CHF 348 573 (348 573 shares with a nominal value of CHF 1 each).

The authorized share capital, which was renewed at the Annual General Meeting in 2014, expired on 20 May 2016. On 23 May 2016, the Annual General Meeting approved an authorized share capital of CHF 2 980 778 (2 980 778 shares nominal value CHF 1.00). The Board of Directors is thus authorized to increase the share capital at any time until 25 May 2017 by a maximum amount of CHF 2 980 778 by way of issuance of no more than 2 980 778 registered shares that are to be fully paid in with a nominal value of CHF 1 each. On 28 June 2016, the share capital was increased under the authorized capital in the amount of CHF 806 798 in shares (806 798 shares with a nominal value of CHF 1 each). On 31 December 2016, the amount of the remaining authorized capital is thus CHF 2 173 980 in shares (2 173 980 shares with a nominal value of CHF 1 each). More information about the capital structure can be found in note 16 of the consolidated Group Financial Statements.

On December 2016, a loan in the amount of EUR 1 million was obtained. Further information about Convertible bonds and loans can be found in note 15 of the consolidated Group Financial Statements.

On December 2015, the short-term loans in the amount of CHF 5.6 million were replaced by another short-term loan which will be renewable on a yearly basis.

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.

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 70th birthday, the respective member of the BoD will step down from its post at the company's next Annual General Meeting. At the Annual General Meeting on 23 May 2016 the re-elections of Katharina Lehmann, Ernst A. Brugger, Jürgen Blaser and Robert Hunink lined up and they were elected for another year on a proposal from BoD. The composition of the BoD is as follows on 31 December 2016: Ernst A. Brugger (Chair), Katharina Lehmann (Vicepresident), Jürgen Blaser (Member) and Robert Hunink (Member).

Members of the Board of Directors

The Precious Woods BoD has four members. The following statement about the members of the BoD and their activities at Precious Woods and cross-involvements represents the situation on 31 December 2016.

(from left) Katharina Lehmann (BoD), Markus Brütsch (CEO/CFO), Ernst A. Brugger (BoD), Stéphane Glannaz (CCO), Jürgen Blaser (BoD), Robert Hunink (BoD)

Prof. Ernst A. Brugger (Prof. Dr. phil. II), Swiss citizen, born in 1947, BoD chair since 18 May 2009, BoD member since 2004, and mandate ends 2017. Other activities and interests:

- Chair of the Board of Directors of BHP – Brugger und Partner AG, Zürich
- Chair of the Board of Directors of Lausanne Hospitality Consulting, Lausanne
- Chair of the Board of Sanu Future Learning AG
- Chair of the Board of Directors of the SV Group, Zürich
- Vicepresident of the Board of Directors of BlueOrchard Finance S.A., Geneva
- 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 2017. 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

Jürgen Blaser, Swiss citizen, born in 1955, BoD member since 2015, mandate ends in 2017. Other activities and interests:

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

Robert Hunink, Dutch citicen, born in 1953, BoD member since 2015, mandate ends in 2017. Other activities and interests:

- President of ATIBT (Association Technique Internationale des Bois Tropicaux)
- Advisor for Olam International, Singapore (until the end of 2016)

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

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

The BoD met a total of 12 times during 2016. 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/CFO 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 members Markus Brütsch, CEO/CFOand Stéphane Glannaz, CCO.

Markus Brütsch, 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 and Swiss citizen (dual nationality), has been CCO of Precious Woods Group since 1 October 2013. Stéphane Glannaz was the Vicepresident of Olam Intl. Ltd. Singapure, Timber Division and Head of Marketing and Sales.

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 consolidated Group Financial Statements and in note 8 of the Financial Statement of PW Holding. All management personnel and employees are insured in accordance with the minimum legal requirements of the countries in which they are employed.

In 2016, 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 7 of the Financial Statements of PW Holding.

6. Shareholders' rights of participation

Shareholders of Precious Woods enjoy all the rights to which they are entitled to without any statutory restrictions on voting rights. There are also no clauses differing from the legal provisions regarding statutory quota. All shareholders entered in the share register four weeks before the Annual General Meeting are eligible to participate in the Annual General Meeting. No changes affecting voting rights are made to the share register after the mailing of invitations to the Annual General Meeting. Requests to add items to the agenda of the Annual General Meeting can be made up to 30 days before the ordinary Annual General Meeting. At the ordinary Annual General Meeting held on 23 May 2016, 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 Brütsch 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 EUR 202 288 in 2016. Ernst & Young also received an additional EUR 44 421 in non-audit services in 2016. 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), 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)

Shareholder information

Share capital

On 31 December 2016, the fully paid-in share capital of PW Holding amounted to CHF 6 902 745. It is divided into 6 902 745 registered shares with a nominal value of CHF 1 each. Additionally, the company has conditional capital of CHF 348 573 and authorized capital of CHF 2 173 980 to cover option and conversion rights. Further information on the share capital can be found in note to the 2016 financial statements of Precious Woods Holding.

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 73 405 square metres of forests (2015: 101 665 square metres) in the Amazon and 94 759 square metres of forests (2015: 131 240 square metres) in Gabon in 2016.

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 2016, the share price was trading at CHF 3.75 on the OTC ZKB platform; on 30 June 2016, the price was higher at CHF 5.50. On August 2016, the price reached a peak of CHF 6.40. The closing price of the shares was at CHF 6.00 on 31 December 2016.

Information for investors

		2016	2015	2014	2013	2012
Share price per 31.12.	in CHF	6.00	3.85	2.46	2.30	2.90
Stock market capitalization	in CHF million	41	19	9	9	10
Basic earnings per share	in EUR	–0.43	–1.13	–2.25	–4.55	–4.18
Equity (book value) per share	in EUR	2.82	2.37	4.43	7.19	12.67
Assets per share						
Primary forest in Brazil (ownership and concession)	in m^2	734	1 017	1 345	1 345	1 474
Primary forest in Gabon (concession)	in m^2	948	1 312	1 736	1 789	1 960

Forest photographing from Brazil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Precious Woods Group financial statements

Example of tree numbering in Brazil

Consolidated statement of financial position

in thousand EUR	Notes	2016	2015 [1]	As at [1] 1 January 2015
ASSETS				
Current assets				
Cash and cash equivalents		1 370	3 510	2 278
Trade and other receivables	3	9 785	7 907	9 003
Inventories	4	12 281	10 113	9 701
Other current assets	5	1 653	930	1 356
Total current assets		**25 089**	**22 460**	**22 338**
Non-current assets				
Property, plant and equipment	6, 7	36 316	35 210	39 857
Intangible assets	8	5 575	5 978	7 481
Investments in associates	9	1 143	587	1 010
Non-current financial assets	10	491	485	437
Other non-current assets		675	570	703
Deferred income tax assets	31	–	6	75
Total non-current assets		**44 200**	**42 836**	**49 563**
Non-current assets held for sale		–	6	5
TOTAL		**69 289**	**65 302**	**71 906**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables	11	12 348	14 443	12 847
Current income tax liabilities		314	262	159
Short-term convertible loans	12, 15	457	–	6 011
Current financial liabilities	12	11 544	14 251	15 766
Current provisions	13	1	26	169
Total current liabilities		**24 664**	**28 982**	**34 952**
Non-current liabilities				
Long-term convertible loans	12, 15	–	429	–
Non-current financial liabilities	12	19 895	19 526	15 550
Deferred tax liabilities	31	–	–	75
Non-current provisions	13	5 290	4 537	4 648
Total non-current liabilities		**25 185**	**24 492**	**20 273**
Equity				
Share capital	16	5 595	3 835	2 696
Additional paid-in capital	16	64 641	58 818	55 663
Foreign currency translation reserve	16	9 263	6 627	11 089
Retained earnings	16	–60 173	–57 574	–52 885
Equity attributable to owners of Precious Woods Holding Ltd		**19 326**	**11 706**	**16 563**
Non-controlling interests		**114**	**122**	**118**
Total shareholders' equity		**19 440**	**11 828**	**16 681**
TOTAL		**69 289**	**65 302**	**71 906**

[1] Restated due to change of presentation currency, see note 1.

Consolidated statement of profit or loss

in thousand EUR	Notes	2016	2015 [1]
Net sales from trading activities	19	40 612	39 994
Revenue from emission reduction activities	20	707	–
Total revenue		**41 319**	**39 994**
Changes in inventories of finished goods and work in progress		900	905
Raw materials and consumables used		–2 372	–2 484
Other production costs	21	–14 108	–13 308
Operational contribution		**25 739**	**25 107**
Direct and indirect labour costs	23	–17 357	–15 622
Other operating expenses	24	–1 960	–3 479
Other operating income	24	132	176
Share of (losses)/profits of associates	9	335	–122
Earnings before interest, tax, depreciation and amortization (EBITDA)		**6 889**	**6 060**
Depreciation, amortization and impairment	22	–5 277	–5 195
Earnings before interest and tax (EBIT)		**1 612**	**865**
Financial income	25	259	107
Financial expenses	25	–4 622	–4 847
Earnings before tax (EBT)		**–2 751**	**–3 875**
Income taxes (expenses)/income	31	–1	–390
Net (loss)/profit for the period		**–2 752**	**–4 265**
Allocation of net (loss)/profit:			
Equity owners of Precious Woods Holding Ltd		–2 747	–4 270
Non-controlling interests		–5	5
Basic earnings per share	27	**–0.43**	**–1.13**
Diluted earnings per share	27	**–0.43**	**–1.13**

[1] Restated due to change of presentation currency, see note 1.

Consolidated statement of comprehensive income

in thousand EUR	2016	2015 [1]
Net (loss)/profit for the period	**–2 752**	**–4 265**
Actuarial gains and losses	159	–364
Tax effect on actuarial gains and losses	–14	30
Items that will not be reclassified to profit or loss, net of tax	**145**	**–334**
Unrealised gains and losses financial assets available for sale	1	0
Foreign currency translation differences	2 635	–4 485
Items that may be reclassified subsequently to profit or loss, net of tax	**2 636**	**–4 485**
Total other comprehensive (loss)/income for the period	**2 781**	**–4 819**
Total comprehensive (loss)/income for the period	**29**	**–9 084**
Allocation of total comprehensive (loss)/income:		
Equity owners of Precious Woods Holding Ltd	37	–9 089
Non-controlling interests	–8	5

[1] Restated due to change of presentation currency, see note 1.

Consolidated statement of changes in equity

		Attributable to equity holders of Precious Woods Ltd						
in thousand EUR	**Notes**	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	**Total**	Non-controlling interests	**Total equity**
Balance 1 January 2015		**2 696**	**55 663**	**11 089**	**–52 885**	**16 563**	**118**	**16 681** [1]
Net (loss)/profit for the period		–	–	–	–4 270	**–4 270**	5	**–4 265**
Other comprehensive (loss)/income for the period		–	–	–4 462	–357	**–4 819**	–0	**–4 819**
Total comprehensive (loss)/income for the period		**–**	**–**	**–4 462**	**–4 627**	**–9 089**	**5**	**–9 084**
Sale of treasury shares		–	1	–	–	**1**	–	**1**
Proceeds from issue of shares		1 140	3 075	–	–	**4 214**	–	**4 214**
Equity component convertible loans	15	–	79	–	–	**79**	–	**79**
Change in consolidation scope		–	–	–	–62	**–62**	–	**–62**
Balance 31 December 2015		**3 835**	**58 818**	**6 627**	**–57 574**	**11 706**	**122**	**11 828**
Net (loss)/profit for the period		–	–	–	–2 747	**–2 747**	–5	**–2 752**
Other comprehensive (loss)/income for the period		–	–	2 636	148	**2 784**	–3	**2 781**
Total comprehensive (loss)/income for the period		**–**	**–**	**2 636**	**–2 599**	**37**	**–8**	**29**
Proceeds from issue of shares		1 760	5 961	–	–	**7 721**	–	**7 721**
Costs of capital increase/transaction costs		–	–138	–	–	**–138**	–	**–138**
Balance 31 December 2016		**5 595**	**64 641**	**9 263**	**–60 173**	**19 326**	**114**	**19 440**

[1] Restated due to change of presentation currency, see note 1.

Consolidated statement of cash flows

in thousand EUR	Notes	2016	2015 [1]
Net cash flow from operating activities			
Profit/(loss) for the period		–2 752	–4 265
Income taxes (income)/expenses	31	1	390
Interest income	25	–1	–3
Interest expenses	25	2 642	2 932
Dividend income	25	–28	–34
Profit/loss for the period before interest and tax		**–138**	**–980**
Depreciation and amortization	22	5 356	5 212
Reversal of impairment of non-current assets	22	–79	–18
(Profit)/loss on sale of non-current assets and liabilities	24	–9	–65
Share of (losses)/profits of associates	9	–370	13
Disposal of financial liabilities as a result of forgiveness		–	–38
Changes in provisions		397	–83
Allowances on inventories		484	144
Other non-cash items		–52	1 619
Operating cash flow before working capital changes		**5 589**	**5 804**
Decrease/(increase) in trade and other receivables		–1 680	980
Decrease/(increase) in inventories	4	–1 972	–1 313
Decrease/(increase) in other current assets		–535	225
Increase/(decrease) in trade payables and other liabilities		840	–1 717
Income tax (paid)/received		–13	–6
Net cash flow operating activities		**2 229**	**3 973**
Cash flow from investing activities			
Purchase of intangible assets	8	–56	–
Proceeds from sale of property, plant and equipment		69	84
Purchase of property, plant and equipment	6	–2 366	–2 010
Proceeds from disposal of financial assets		11	2
Purchase of financial assets		–7	–0
Dividends received		28	34
Interests received		1	3
Net cash flow investing activities		**–2 320**	**–1 887**
Cash flow from financing activities			
Proceeds from increase of authorized share capital		4 128	3 388
Proceeds from borrowings		1 538	6 619
Repayment of borrowings		–6 083	–9 695
Proceeds from convertible loans	15	–	1 745
Repayment of bonds		–	–620
Interests paid		–1 641	–2 410
Net cash flow financing activities		**–2 058**	**–973**
(Decrease)/increase in cash and cash equivalents		**–2 149**	**1 113**
Translation effect on cash		**9**	**119**
Cash and cash equivalents, at the beginning of the year		**3 510**	**2 278**
Total Cash and cash equivalents, at the end of the year		**1 370**	**3 510**

[1] Restated due to change of presentation currency, see note 1.

Notes to the consolidated financial statements

1. Basis of presentation and accounting policies

Basis of presentation

Precious Woods Group (hereinafter referred to as "Precious Woods" or "the Group") is one of the leading companies in sustainable management of tropical forests globally. The parent company, Precious Woods Holding Ltd., has its registered office in Zug. The Group's subsidiaries are organized and operate under the laws of Brazil, Gabon, British Virgin Islands, 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 in Brazil
- *Sustainable Forest Management Gabon:* operations active in the sustainable management of tropical forests and the processing of tropical hardwoods in Gabon
- *Trading:* trading of timber from external sources in Switzerland
- *Carbon & Energy:* trading of Certified Emission Reductions (CERs)

The consolidated financial statements for the Precious Woods Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

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.

Presentation currency

The Group's revenues, profits and cash flows are primarily generated in Euros, and are expected to remain principally denominated in Euros in the future. Precious Woods changed per 31 December 2016 the currency in which it presents its consolidated financial statements from US dollars to Euros, in order to better reflect the nature of the majority cash-flow of the Group.

It should be noted that the functional currencies of the Group's subsidiaries – functional currencies referring to the currencies of the primary economic environments in which the subsidiaries operate – remain unchanged and that foreign exchange exposures will therefore be unaffected by the change, albeit that the effects of such exposures will be presented in Euros.

A change in presentation currency represents a change in accounting policy in terms of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requiring the restatement of comparative information. In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the following methodology was followed in restating historical financial information from US dollars to Euros. The financial information included in the Group's consolidated financial statements for the year ended 31 December 2015 previously reported in US dollars has been restated into Euros using the procedures outlined below:

- Assets and liabilities of non-Euro entities were translated at the closing exchange rate at the end of the relevant reporting period;
- Income and expenditure from non-Euro entities were translated at the average exchange rate prevailing for the relevant period;
- Share capital, additional paid-in capital, other reserves and the foreign currency translation reserve as at 31 December 2014 was translated at the closing exchange rate at the end of the relevant balance sheet date (31 December 2014); and
- The effects of translating the Group's financial results and financial position into Euros were recognized in the foreign currency translation reserve.
- All exchange rates were extracted from the Group's underlying financial records.

The exchange rates used for the change in presentation currency from US dollar to Euro are as follows (for actual currency translation rates please see Note 32):

in EUR			2015		2014
		Year-end rate	Average rate	Year-end rate	Average rate
Swiss franc	1 CHF	0.9236	0.9367	0.8313	0.8313
Euro	1 EUR	1.0000	1.0000	1.0000	1.0000
Brazilian real	1 BRL	0.2313	0.2744	0.3062	0.3062
US Dollar	1 USD	0.9169	0.9008	0.8227	0.8227
CFA-Franc BEAC	1 XAF	0.0016	0.0015	0.0016	0.0016

Significant accounting judgments, estimates and assumptions
The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The resulting accounting estimates will, by definition, rarely equal the related actual results.

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

- Provisions (see Note 13),
- Land titles in Brazil (see Note 6) and
- Valuation of convertible loans (see Notes 14 and 15)

Debt restructuring / refinancing
With the aim to reduce total financial debt Precious Woods Holding performed end of 2015 and mid 2016 two capital increases from authorized and conditional share capital in the total amount of CHF 12.4 million whereof CHF 4.5 million were loans converted into equity.

New or revised IFRS standards, amendments and interpretations
Certain IFRS and interpretations were revised or introduced,

effective on or after 1 January 2016:
- *IAS 16 Property, plant and equipment / IAS 38 Intangible assets (amendment): Depreciation and amortization* – This amendment has clarified that revenue is generally inappropriate for measuring the consumption of the economic benefits in an asset. This amendment had no impact on the consolidated financial statements.
- *IAS 27 Separate financial statements (amendments): Equity method* – These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments had no impact on the consolidated financial statements.
- *IAS 1 Presentation of financial statements (amendments): Disclosure initiative* – These amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. These amendments had no impact on the consolidated financial statements.

The Annual Improvements to IFRSs 2012–2014 cycle contains the following relevant amendments:

- *IAS 19 Employee benefits* – The amendment clarifies that for the determination of the discount rate for post-employment benefit obligation the currency of the liabilities and not the country were they arise in is relevant. The amendment had no impact on the consolidated financial statements.
- *IFRS 7 Financial instruments: Disclosures* – The amendment require the disclosure on servicing contracts and possible continuing involvement in transferred assets. The amendment had no impact on the consolidated financial statements.

effective for annual periods beginning on or after 1 January 2017:
- IAS 7 Cash Flow Statement (amendments): Disclosure Initiative – effective on or after 1 January 2017
- IAS 12 Income Taxes (amendments): Recognition of deferred tax assets for unrealized losses – effective on or after 1 January 2017
- IFRS 2 Share based payments (amendments): Clarification on how to account for certain types of share-based payment transactions – effective on or after 1 January 2018
- IFRS 9 Financial Instruments: Classification and Measurement – effective on or after 1 January 2018
- IFRS 15 Revenue from Contracts with Customers – effective on or after 1 January 2018
- IFRS 16 Leases – effective on or after 1 January 2019

Some of the upcoming new standards like IFRS 9, IFRS 15 and IFRS 16 may have a significant impact on the consolidated financial statements and are currently under evaluation.

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 2016	Ownership 2015
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 %
Geveltim 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 %	99 %
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 are valued at the lower of cost or net realizable value. Logs and finished products are recorded at the average cost of production, less provision for losses, when applicable. Net realizable value is the estimated selling price in the 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 instruments

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

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

j. Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is concluded and are subsequently measured at fair value. 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 14 and 15).

k. Convertible loans

Convertible 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 convertible loans 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 loans.

l. 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.

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 s on certified emission reductions.

n. Currency
The subsidiaries' accounting records are maintained in the legal currency of the country in which they operate and which is their functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized through profit or loss. The currency translations rates are shown in Note 32.

The financial statements of the subsidiaries have been translated from their functional currencies to the presentation currency (EUR). 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.

o. 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.

p. 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.

q. Employee share purchase plan

Precious Woods launched for 2016 an Employee Share Purchase Plan for the employees of the Swiss entity and some executives from Group companies. This plan entitled employees to buy a certain number of shares with a discount of 25 % to the market value, subject to a three-year lock-up period. The necessary quantity of new shares from this plan was issued through that portion of the conditional share capital which is intended to cover options of employees and board members (see also Note 16).

r. 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.

s. 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_2 equivalent.

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.

Precious Woods 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, Precious Woods 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

Precious Woods has no significant interest-bearing assets. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose Precious Woods 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 2015 as well as on 31 December 2016.

Foreign exchange risk

Precious Woods operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The XAF is in a fix relation to the EUR. Most of the sales out from Gabon are denominated in EUR and all cost in XAF. 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 thousand EUR	**31.12.16** Reasonable shift	**31.12.16** "Impact" on profit or loss before tax	**31.12.16** "Impact" on equity	**31.12.15** Reasonable shift	**31.12.15** "Impact" on profit or loss before tax	**31.12.15** "Impact" on equity
EUR/CHF	+/–15 %	+/–550	+/–3 224	+/–15 %	+/–773	+/–3 212
USD/CHF	+/–10 %	+/–28	+/–1 057	+/–15 %	+/–30	+/–1 529
USD/BRL	+/–10 %	+/–12	+/–1 069	+/–15 %	+/–20	+/–1 288
CHF/BRL	+/–15 %	+/–0	+/–6 678	+/–15 %	+/–0	+/–6 000
XAF/CHF	+/–15 %	+/–0	+/–822	+/–15 %	+/–0	+/–766

All the loans in Precious Woods Holding are denominated in CHF or EUR. 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 or EUR and hedged before.

Price risk

Precious Woods is exposed to equity securities price risks because of unlisted investments held by the Group and classified as available for sale through OCI or at fair value through profit or loss. For details about the exposure please see Note 10.

Liquidity risk

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

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

in thousand EUR	Less than 1 year	Between 1 and 2 years	Over 2 years	**Total**
31 December 2016				
Trade and other payables	12 348	–	–	12 348
Financial liabilities	12 001	2 094	17 801	31 896
Non-derivative financial liabilities	**24 349**	**2 094**	**17 801**	**44 244**

in thousand EUR	Less than 1 year	Between 1 and 2 years	Over 2 years	**Total**
31 December 2015				
Trade and other payables	14 443	–	–	14 443
Financial liabilities	14 251	2 828	17 128	34 207
Non-derivative financial liabilities	**28 694**	**2 828**	**17 128**	**48 650**

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. Precious Woods has one main relation with a bank, which has a rating of "A". 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, Precious Woods' objectives are to safeguard the Group's ability to continue as a going concern and to maintain an optimal structure to reduce the cost of capital. In order to reach these goals, Precious Woods 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 EUR 7.6 million (2015: EUR 7.8 million), has pledged machinery and equipment in the amount of EUR 2.6 million (2015: EUR 2.7 million) and leased property and plants by EUR 0.1 million (2015: EUR 0.1 million) to secure bank loans. Precious Woods Compagnie Equatoriale des Bois has pledged machinery and equipment in the amount of EUR 4.5 million (2015: EUR 4.6 million), leased property and plants by EUR 1.6 million (2015: EUR 1.6 million) and inventories in the amount of EUR 1.2 million (2015: EUR 1.3 million). Precious Woods Holding Ltd has no pledged assets, but used land in Brazil in the amount of EUR 21.5 million in connection with loans (2015: EUR 21.2 million).

3. Trade and other receivables

in thousand EUR	2016	2015
Trade receivables, third parties	5 964	5 550
Trade receivables, associates	–	3
Less allowance for bad debts	–1 039	–843
Total trade receivables net	**4 925**	**4 710**
Other short-term receivables	4 860	3 197
Total	**9 785**	**7 907**

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 thousand EUR	2016	2015
Not overdue	5 381	4 828
Less than 30 days overdue	479	629
31 to 60 days overdue	37	73
61 to 180 days overdue	18	14
More than 180 days overdue	49	9
Total trade receivables gross	**5 964**	**5 553**
Allowance for bad debts	–1 039	–843
Total trade receivables net	**4 925**	**4 710**

Allowances for bad debts

in thousand EUR	2016	2015
At 1 January	843	1 122
Addition in allowance for bad debts	14	143
Release of allowance for bad debts	–31	–154
Translation differences	213	–268
At 31 December	**1 039**	**843**

Trade receivables net include amounts denominated in the following currencies:

in thousand EUR	2016	2015
EUR	4 365	3 827
USD	387	238
BRL	61	67
XAF	112	578
Total trade receivables net	**4 925**	**4 710**

4. Inventories

in thousand EUR	2016	2015
Logs	3 361	3 867
Sawn wood	4 801	2 882
Veneers	362	166
Industrialized products	464	261
Certified Emission Reductions (CERs)	145	245
Export products in transit	1 723	1 667
Spare parts and other	2 039	1 247
Less obsolescence reserve	–614	–222
Total inventories	**12 281**	**10 113**

Obsolescence reserve

in thousand EUR	2016	2015
At 1 January	222	259
Increase	484	144
Decrease	–119	–154
Translation differences	27	–27
At 31 December	**614**	**222**

5. Other current assets

in thousand EUR	2016	2015
Prepaid expenses, prospecting	1 001	617
Prepaid expenses, other	652	313
Total other current assets	**1 653**	**930**

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 thousand EUR	Forest and land	Forest roads	Buildings and im-provements	Machinery and vehicles	Leased machinery and vehicles	Furniture and fixtures	Construction in progress	Advanced payment for property, plant and equipment	**Total**
Cost									
At 1 January 2015	**15 697**	**12 234**	**19 497**	**23 348**	**4 563**	**2 978**	**730**	**4 040**	**83 087**
Additions	–	194	476	606	1 144	83	651	–	3 153
Disposals	–	–	–	–382	–	–684	–	–	–1 066
Reclassifications	–	–	576	2 457	–1 920	–358	–1 115	–	–361
Reclassification of assets held for sale	–	–	–	–64	–	–	–	–	–64
Translation differences	–1 544	–1 250	–638	–1 724	–26	–13	–10	–988	–6 193
At 31 December 2015	**14 152**	**11 178**	**19 910**	**24 241**	**3 761**	**2 007**	**255**	**3 052**	**78 556**
Additions	–	–	535	885	1 092	157	787	–	3 458
Disposals	–	–	–	–134	–	–9	–	–	–143
Reclassifications	450	68	194	1 768	–1 535	–	–494	–450	–
Translation differences	1 051	838	52	950	–87	29	3	744	3 580
At 31 December 2016	**15 653**	**12 084**	**20 691**	**27 710**	**3 231**	**2 184**	**551**	**3 346**	**85 451**
Accumulated depreciation									
At 1 January 2015	**–**	**4 547**	**11 806**	**19 520**	**3 444**	**2 386**	**–**	**1 527**	**43 230**
Charge for the year	–	613	1 198	1 936	476	132	–	–	4 355
Reversal of impairment	–	–18	–	–	–	–	–	–	–18
Elimination on disposals	–	–	–	–364	–	–684	–	–	–1 048
Reclassifications	–	–	–	1 891	–1 891	–360	–	–	–360
Reclassification of assets held for sale	–	–	–	–63	–	–	–	–	–63
Translation differences	–	–431	–350	–1 557	–35	–4	–	–373	–2 750
At 31 December 2015	**–**	**4 711**	**12 654**	**21 363**	**1 994**	**1 470**	**–**	**1 154**	**43 346**
Charge for the year	–	632	1 043	1 655	1 036	120	–	–	4 486
Reversal of impairment	–	–17	–	–	–	–	–	–62	–79
Elimination on disposals	–	–	–	–75	–	–8	–	–	–83
Reclassifications	–	–	–	1 535	–1 535	–	–	–	–
Translation differences	–	297	4	880	–44	34	–	294	1 465
At 31 December 2016	**–**	**5 623**	**13 701**	**25 358**	**1 451**	**1 616**	**–**	**1 386**	**49 135**
Carrying amount									
At 31 December 2015	**14 152**	**6 467**	**7 257**	**2 878**	**1 767**	**536**	**255**	**1 898**	**35 210**
At 31 December 2016	**15 653**	**6 462**	**6 990**	**2 352**	**1 780**	**568**	**551**	**1 960**	**36 316**

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

Based on the continued efforts to clean the land titles from legal issues, Precious Woods was able to reclassify in 2016 advanced payments for property, plant and equipment to land in the amount of EUR 0.4 million (2015: EUR 0). Furthermore, these actions resulted in a reversal of prior impairments of EUR 62 337.

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 thousand EUR	Trademarks and licences	Other	**Total**
Cost			
At 1 January 2015	**12 559**	**8 784**	**21 343**
Additions	–	–	–
Reclassifications	–	361	361
Translation differences	–25	–654	–679
At 31 December 2015	**12 534**	**8 491**	**21 025**
Additions	–	56	56
Disposals	–	–461	–461
Reclassifications	–	–	–
Translation differences	–233	380	147
At 31 December 2016	**12 301**	**8 466**	**20 767**
Accumulated amortization and impairment			
At 1 January 2015	**8 607**	**5 255**	**13 862**
Charge for the year	714	144	858
Impairment	–	–	–
Reclassifications	–	360	360
Translation differences	–1	–31	–32
At 31 December 2015	**9 320**	**5 728**	**15 048**
Charge for the year	718	152	870
Disposals	–	–462	–462
Impairment	–	–	–
Reclassifications	–	–	–
Translation differences	–162	–103	–265
At 31 December 2016	**9 876**	**5 315**	**15 191**
Carrying amount			
At 31 December 2015	**3 214**	**2 764**	**5 978**
At 31 December 2016	**2 424**	**3 151**	**5 575**

Other intangible assets mainly include forest concessions and software.

9. Investment in associates

in thousand EUR	2016	2015
At 1 January	587	1 010
Share of profit of associates including impairment	370	–13
Dividends earned	–35	–110
Translation differences	221	–300
At 31 December	**1 143**	**587**

BK Energia

The investment of 40 % is valued using the equity method as Precious Woods has no control over BK Energia. The value amounts to EUR 1.1 million as of 31 December 2016 (2015: EUR 0.6 million).

in thousand EUR (representing 100 %)	Assets	Liabilities	Revenues	Profit
Key figures 2015	1 995	264	2 877	–32
Key figures 2016	3 571	449	4 153	924

10. Non-current financial assets

in thousand EUR	2016	2015
NST	465	460
NIBO	26	25
At 31 December	**491**	**485**

The non-current financial assets contain an investment of EUR 0.5 million (2015: EUR 0.5 million) in Norsudtimber Company (NST) in Vaduz and an investment of EUR 25 968 (2015: EUR 25 038) 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 directly held in EUR, whilst the NIBO investment is placed in USD and has a value of USD 27 306 (2015: USD 27 306).

11. Trade and other payables

in thousand EUR	2016	2015
Trade payables, third parties	5 587	4 973
Trade payables, related parties	71	1
Total trade payables	**5 658**	**4 974**
Other current liabilities, third parties	3 086	6 035
Other current liabilities, associates	145	263
Other accrued liabilities	3 459	3 171
Total other payables	**6 690**	**9 469**
At 31 December	**12 348**	**14 443**

12. Financial liabilities

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

Net book value of financial liabilities

in thousand EUR	2016	2015
Financial liabilities from borrowings	29 992	32 372
Financial liabilities finance-lease	1 904	1 833
Total financial liabilities	**31 896**	**34 205**
Total current financial liabilities	12 001	14 251
Non-current financial liabilities, third parties	19 287	19 440
Non-current financial liabilities, associates	608	514
Total financial liabilities	**31 896**	**34 205**

Interest expenditure from finance-lease liabilities amounted to EUR 0.2 million (2015: EUR 0.3 million). 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 EUR at the exchange rate of the reporting date.

in thousand EUR	2016	2015
Currencies financial liabilities/borrowings denominated in:		
EUR	1 000	1 683
XAF	6 412	8 469
CHF	22 412	22 168
BRL	2 072	1 885
Total financial liabilities	**31 896**	**34 205**

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

	2016	2015
EUR	4.5 %	6.5 %
XAF	8.5–11 %	8.0–11.0 %
CHF	6.0–10.7 %	6.0–10.7 %
BRL	4.5 %	-

13. Provisions

in thousand EUR	Legal claims	Others	2016 Total	2015 Total
Short-term provisions	–	1	1	26
Long-term provisions	1 294	3 996	5 290	4 537
Total	**1 294**	**3 997**	**5 291**	**4 563**
At 1 January	1 085	3 478	4 563	4 817
Additions	296	309	605	1 194
Unused amounts reversed	–286	–24	–310	–149
Used during the year	–56	–8	–64	–737
Translation adjustments	255	243	498	–562
At 31 December	**1 294**	**3 997**	**5 291**	**4 563**

Legal claims

The amount of EUR 1.3 million 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 2016.

Others

The total amount of EUR 4.0 million for other long-term provisions includes provisions for contributions to employee contribution plans (EUR 0.9 million), for contributions to employee benefit plans (EUR 1.2 million), for social security (EUR 25 822), for tax fees (EUR 1.3 million) and other provisions (EUR 0.5 million).

14. Financial instruments by category

in thousand EUR	Loans and receivables	Assets at fair value through profit and loss	Available-for-sale assets	**Total**
31 December 2016				
Assets				
Cash and cash equivalents	1 370	–	–	1 370
Trade and other receivables	9 785	–	–	9 785
Available-for-sale financial assets	–	–	491	491
Total	**11 155**	**–**	**491**	**11 646**

in thousand EUR	Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	**Total**
31 December 2016			
Liabilities			
Trade and other payables	–	12 348	12 348
Financial liabilities	–	31 896	31 896
Total	**–**	**44 244**	**44 244**

in thousand EUR	Loans and receivables	Assets at fair value through profit and loss	Available-for-sale assets	**Total**
31 December 2015				
Assets				
Cash and cash equivalents	3 510	–	–	3 510
Trade and other receivables	7 907	–	–	7 907
Available-for-sale financial assets	–	–	485	485
Total	**11 417**	**–**	**485**	**11 902**

in thousand EUR	Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	**Total**
31 December 2015			
Liabilities			
Trade and other payables	–	14 443	14 443
Financial liabilities	–	33 777	33 777
Total	**–**	**48 220**	**48 220**

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 thousand EUR	**31 December 2016**	Level 1	Level 2	Level 3
Available-for-sale financial assets	491	–	–	491
Other financial assets at fair value through profit and loss	–	–	–	–
Total	**491**	**–**	**–**	**491**

Assets measured at fair value

in thousand EUR	**31 December 2015**	Level 1	Level 2	Level 3
Available-for-sale financial assets	485	–	–	485
Other financial assets at fair value through profit and loss	–	–	–	–
Total	**485**	**–**	**–**	**485**

Reconciliation of fair value measurement of level 3 financial assets

in thousand EUR	**2016**	**2015**
At 1 January	485	489
Translation differences	6	–4
At 31 December	**491**	**485**

15. Convertible loans

In May 2015, the convertible loans of CHF 5.5 million were replaced by a convertible loan in the amount of CHF 0.5 million, repayable in 2 years' time and by a long-term loan in the amount of CHF 5 million, repayable in 4 years' time.

The total carrying amount of the convertible loan (financial liabilities) amounts to EUR 0.5 million (2015: EUR 0.4 million), recognized as short-term convertible loan. The initial recognition was calculated using market interest rate for equivalent non-convertible loans of 10.8 % (2015: 10.8 %).

16. 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 (EUR) using historical exchange rates.

Share capital overview

	Number of shares at a nominal value of CHF 1 2016	Number of shares at a nominal value of CHF 1 2015
Issued and fully paid-in capital beginning of year	**4 984 020**	**3 767 806**
Increase of issued and fully-paid capital	1 918 725	1 216 214
Issued and fully paid-in capital end of year	**6 902 745**	**4 984 020**
Authorized share capital – used during the year	–977 537	–
Authorized share capital – expired during the year	–569 723	–
Authorized share capital at the end of the year	**–**	**1 547 260**
New authorized share capital – authorized during the year	2 980 778	–
New authorized share capital – used during the year	–806 798	–
New authorized share capital at the end of the year	**2 173 980**	**–**
Conditional share capital – authorized during year	–	–
Conditional share capital – used during year	–134 390	–1 216 214
Conditional share capital at end of the year	**348 573**	**482 963**

The shares rank equally with regard to voting rights and dividends, and the Articles of Association include no restrictions on transfer of the Group's shares. Precious Woods' registered shares are not subject to any restriction on voting, distribution, transfer or other rights that exceed regulations which are unalienable under Swiss law. The authorized share capital and the conditional share capital are intended to be utilized for acquisitions, the purchase of forests or for reforestations, investments, convertible loans, expansions of shareholder base or any other important reason. The shareholders' subscription rights can be excluded in these cases, as well as for firm underwriting agreements. Additionally, CHF 46 638 of the conditional share capital are intended to cover options of employees and board members.

Ordinary share capital

In 2016 the ordinary share capital increased by 1 918 725 shares to CHF 6 902 745.

Authorized share capital

On 22 January 2016, a capital increase of CHF 977 537 reduced the existing authorized share capital to CHF 569 723. This residual amount expired in May 2016. On 20 May 2016, a new authorized capital in the amount of CHF 2 980 778 was adopted by the general meeting. On 28 June 2016, a capital increase of CHF 806 798 reduced the authorized capital to CHF 2 173 980.

Conditional share capital

On 18 February 2016, as a result of the exercise of conversion rights from convertible loans for CHF 40 540 the conditional share capital decreased to CHF 442 423. The price was CHF 3.70 per share.

On 19 September 2016, 93 850 new shares for the Employees Share Purchase Plan were issued through that portion of the conditional share capital which is intended to cover options of employees and board members and reduced it to CHF 46 638. The price was CHF 4.00 per share.

17. Related party balances and transactions

An overview of the subsidiaries of Precious Woods is presented on page 42. 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 30.

a. Balances and transactions

The balances with related parties, as of 31 December 2016 and 2015, are detailed below:

in thousand EUR	**2016**	**2015**
Trade receivables and other current receivables, associates	–	3
Current loans from shareholders with significant influence	5 970	5 911
Current loans from other shareholders	457	–
Trade and other current liabilities, related parties	72	1
Trade and other current liabilities, associates	145	263
Non-current loans from shareholders with significant influence	16 858	15 701
Non-current loans from other shareholders	–	429
Sales of wood, related parties	–	20
Purchase CER, related parties	269	–
Interest expenses to shareholders with significant influcence	1 455	157
Interest expenses to other shareholders	23	16

b. Compensation

During the ordinary course of business in 2016 and 2015, the Group granted compensation to related parties as follows:

in thousand EUR	**2016**	**2015**
Group Management		
Short-term employee benefits	688	656
Post-employment employee benefits	104	102
Total Group Management	**792**	**758**
Board of Directors		
Short-term employee benefits	274	260
Post-employment employee benefits	8	10
Total remuneration and fees Board of Directors	**282**	**270**
Operating management		
Short-term employee benefits	593	560
Post-employment employee benefits	56	34
Total operating management	**649**	**594**
Total compensation to key management personnel	**1 723**	**1 622**

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

18. Employee benefits

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

The Group's contribution to defined contribution plans amounted to EUR 136 920 in 2016 (2015: EUR 21 845).

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 thousand EUR	2016	2015
Defined benefit obligation at 1 January	2 649	1 512
Current service costs	291	257
Interest costs	24	20
Contribution by plan participants	75	79
Actuarial losses/(gains)	–156	334
Benefits paid/transferred	–5	464
Exchange differences	30	–17
31 December	**2 908**	**2 649**

Plans wholly or partly funded	2 908	2 649
Plans wholly unfunded	–	–

Movement in the fair value of the plan assets

in thousand EUR	2016	2015
Opening fair value of plan assets	1 478	848
Interest income	14	13
Return on plan assets excluding interest income	2	–58
Contributions by the employers	133	141
Contributions by plan participants	75	79
Benefits paid/transferred	–5	464
Exchange differences	18	–9
31 December	**1 715**	**1 478**

in thousand EUR	2016	2015
Present value of obligations	2 908	2 649
Fair value of plan assets	1 715	1 478
(Surplus)/deficit in the plan	1 193	1 171
Net actuarial gains/(losses) not yet recognized	–	–
Net liability	**1 193**	**1 171**

Changes in net liability

in thousand EUR	2016	2015
Opening net liability	1 171	664
Pension cost recognized in profit or loss	301	263
Pension cost recognized in other comprehensive income	–158	391
Employer contributions	–133	–141
Exchange differences	12	–6
Recognized in profit or loss	**1 193**	**1 171**

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

in thousand EUR	2016	2015
Current service costs	291	257
Net interest costs	10	7
Recognized in profit or loss	**301**	**263**

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

in thousand EUR	2016	2015
Return of plan assets excluding interest income	2	–58
Changes in demographic assumptions	–	–
Changes in financial assumptions	4	–106
Experience adjustments	152	–227
Recognized in other comprehensive income	**158**	**–391**

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

	2016	2015
Expected employer contributions in CHF	146 000	150 000
Discount rates	0.70 %	0.90 %
Expected salary increases	1.00 %	1.00 %
Expected long-term increase of pensions	0.00 %	0.00 %

Sensitivity to changes in the principal assumptions

in thousand EUR	DBO	Effect
Actual assumption 31 December 2016	2 909	
Discount rate +0.5 %	2 632	–9.50 %
Discount rate –0.5 %	3 229	11.00 %
Salary increase rate +0.5 %	2 947	1.30 %
Salary increase rate –0.5 %	2 871	–1.30 %

Number of insured persons

in thousand EUR	2016	2015
Number of insured persons	13.0	14.0
Number of insured retired persons	–	–
Average weighted duration in years	20.0	20.0

19. Net sales from trading activities

in thousand EUR	2016	2015
Sales of wood	50 081	48 316
Sales deductions	–9 469	–8 322
Net sales	**40 612**	**39 994**

20. Revenue from carbon emission reduction activities

in thousand EUR	2016	2015
Revenue from Certified Emission Reductions (CERs) over book value	708	–
Revenue from emission reduction activities	**708**	**–**

The power plant BK Energia an associate of Precious Woods generates CERs (Certified Emission Reductions). BK Energia, a renewable-power-generation plant, is located in the Amazon region of Brazil. It complies with all the necessary conditions established in the Kyoto Protocol and by the UNFCCC (United Nations Framework Convention on Climate Change). Carbon emissions are avoided by substituting diesel fuel with wood waste from the sawmill and from forest operations for generation of electricity. These CERs are purchased by Precious Woods Holding.

The produced CERs are recognized as inventory and valued at the lower of cost or net realizable value as long as the certification is not yet achieved, and sold afterwards.

The verification for the 46 671 CERs produced in 2014 and for the 44 050 CERs produced in 2015 was issued by UNFCCC in 2016 and they were sold by Precious Woods; whilst the verification for the 53 540 CERs produced in 2016 is planned for autumn 2017.

21. Other production costs

in thousand EUR	2016	2015
Logistics, transportation costs and freight	2 193	2 077
Fuel, oil and lubricants	3 784	3 460
Energy – third parties	454	435
Forest taxes & expenses	1 372	1 198
Maintenance and spare parts	4 691	4 419
Insurances (production)	229	259
Rent and lease (production)	271	529
Capitalized own production	–444	–359
Miscellaneous production costs	1 558	1 290
Total	**14 108**	**13 308**

22. Depreciation, amortization and impairment

in thousand EUR	2016	2015
Depreciation and amortization	5 356	5 213
Reversal of impairment of property, plant and equipment	–79	–18
Total	**5 277**	**5 195**

Details about the reversal of impairment of EUR 79 111 (2015: EUR 7 682) are given in Note 6.

23. Direct and indirect labour costs

in thousand EUR	**2016**	**2015**
Wages and salaries	12 212	11 436
Social security costs	2 164	1 910
Pension costs – defined contribution plans	137	22
Pension costs – defined benefit plans	301	263
Other employment benefits	2 543	1 991
Total	**17 357**	**15 622**

in thousand EUR	**2016**	**2015**
Forest and processing costs	12 879	11 295
Administration and other labour costs	4 478	4 327
Total	**17 357**	**15 622**

24. Other operating income and expenses

in thousand EUR	**2016**	**2015**
Other income		
Gain on disposal of fixed assets	75	65
Other income	57	111
Total other operating income	**132**	**176**
Other expenses		
Audit fees	202	210
Legal and tax	297	191
Other consulting fees	187	307
Travel	546	720
IT expenses	223	230
Insurances (non-production)	145	190
Loss on disposal of fixed assets	65	–
Other administrative expenses	295	1 631
Total other operating expenses	**1 960**	**3 479**

In other administrative expenses communication and investor relation expenses, marketing, non-income tax expenses and the change in allowance for bad debts are included.

25. Financial income and expenses

in thousand EUR	2016	2015
Financial income		
Interest income and dividends	29	38
Foreign-exchange gains	204	32
Other financial income	26	37
Total financial income	**259**	**107**
Financial expenses		
Interest expenses	2 643	2 933
Foreign-exchange losses	281	1 749
Other financial expenses	1 698	165
Total financial expenses	**4 622**	**4 847**

26. 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 thousand EUR	2016	2015
Within one year	58	61
Within two to five years	51	93
Total lease payments	**109**	**154**

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 thousand EUR	2016	2015
Within one year	1 029	1 020
Within two to five years	1 142	997
Total lease payments	2 171	2 017
Minus interest expense component	–267	–184
Total lease payments	**1 904**	**1 833**

27. Earnings per share

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

In EUR	2016	2015
Net loss/income attributable to Group equity holders	–2 747 481	–4 269 920
Weighted average number of shares	6 376 494	3 771 184
Basic loss/earnings per share	**–0.43**	**–1.13**
Weighted average number of shares for diluted earnings per share	6 376 494	3 770 921
Diluted earnings per share	**–0.43**	**–1.13**

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.

28. Contingencies

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

Assessment by Brazilian authorities

In 2002, a Brazilian subsidiary was assessed by IBAMA, the Brazilian Institute of Environment and Renewable Natural Resources, in relation to certain log-transporting procedures, which had been in place and approved informally by government agencies for many years. In July 2010, an important administrative case was won against IBAMA. The fines imposed on the Group, which are not yet settled, amount to approximately EUR 7.6 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 2016 (31 December 2015: 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 EUR 0.1 million in cash on Group accounts.

29. Financial information by segment

The Group's reportable segments are Sustainable Forest Management Brazil, Sustainable Forest Management Gabon, Trading 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 reductions (CERs).

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 2016

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other [1]	**Total 31.12.2016**
Revenue						
Third parties	8 958	28 587	2 093	707	–	40 346
Intersegment	641	31	–	–	–672	–
Associated and related parties	974	–	–	–	–	974
Total revenue	**10 573**	**28 618**	**2 093**	**707**	**–672**	**41 319**
Loss/profit on sale of fixed assets and affiliates	7	8	–6	–	0	9
Share of profit of associates	335	–	–	–	–	335
EBITDA	**1 233**	**7 647**	**112**	**184**	**–2 287**	**6 889**
Depreciation and amortization	–409	–4 937	–	–	–9	–5 356
Impairment charges/reversals	79	–	–	–	–	79
Loss/profit from operating activities (EBIT)	**903**	**2 710**	**112**	**184**	**–2 296**	**1 612**
Financial income and expenses	–1 504	–1 974	–8	–	–877	–4 363
Net (loss)/profit before tax					–	**–2 751**
Income taxes	–	–	–2	–	1	–1
Segment assets	**25 660**	**41 516**	**2 121**	**551**	**–559**	**69 289**
Investments in associates	1 143	–	–	–	–	1 143
Capital expenditures	437	3 011	–	–	10	3 458
Segment liabilities	**53 121**	**31 462**	**834**	**145**	**–35 713**	**49 849**

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

Operating segments – 31 December 2015

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other [1]	**Total 31.12.2015**
Revenue						
Third parties	9 601	26 626	3 115	–	–	39 343
Intersegment	3	–	–	–	–3	–
Associated and related parties	631	20	–	–	–	651
Total revenue	**10 236**	**26 646**	**3 115**	**–**	**–3**	**39 994**
Loss/profit on sale of fixed assets and affiliates	21	–	44	–	–	65
Share of profit of associates	–122	–	–	–	–	–122
EBITDA	**1 329**	**7 119**	**183**	**–0**	**–2 571**	**6 060**
Depreciation and amortization	–432	–4 770	–2	–	–9	–5 335
Impairment charges	18	–	–	–	–	18
Loss/profit from operating activities (EBIT)	**915**	**2 349**	**181**	**–0**	**–2 580**	**865**
Financial income and expenses	–1 053	–1 931	4 970	–	–6 726	–4 740
Net (loss)/profit before tax					–	**–3 875**
Income taxes	–384	–	–	–	–6	–390
Segment assets	**18 993**	**42 763**	**1 964**	**270**	**1 312**	**65 302**
Investments in associates	587	–	–	–	–	587
Capital expenditures	226	2 928	–	–	–	3 154
Segment liabilities	**47 584**	**31 701**	**208**	**263**	**–26 282**	**53 474**

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

Geographic information

in thousand EUR	2016		2015	
Net sales from trading activities				
Switzerland	35	0.1 %	11	0.0 %
European Union	25 960	63.9 %	24 405	61.0 %
Latin America	2 125	5.2 %	1 633	4.1 %
Africa	5 365	13.2 %	5 805	14.5 %
Asia	5 769	14.2 %	6 742	16.9 %
Other countries	1 358	3.3 %	1 398	3.5 %
Total	**40 612**	**100.0 %**	**39 994**	**100.0 %**
Location of non-current assets				
Switzerland	553	1.3 %	524	0.1 %
European Union	3	0.0 %	3	0.0 %
Latin America	17 236	39.0 %	13 225	31.2 %
Africa	26 408	59.7 %	29 084	68.7 %
Total	**44 200**	**100.0 %**	**42 836**	**100.0 %**

Reconciliation of reportable segment profit or loss

in thousand EUR	**2016**	**2015**
Total EBITDA for reportable segments	8 841	8 753
EBITDA Other	–2 287	–2 571
Share of profit of associates	335	–122
EBITDA of continuing operations	**6 889**	**6 060**
Depreciation, amortization and impairment	–5 277	–5 195
EBIT	**1 612**	**865**
Financial income and expenses	–4 363	–4 740
Earnings before tax from continuing operations	**–2 751**	**–3 875**

30. Major shareholders

On 31 December 2016, the major shareholders holding 3 % (rounded) or more of Precious Woods Holding registered shares were as follows:

		Number of [1] shares 2016		Number of [1] shares 2015
Fleischmann Werner	943 165	13.7 %	702 401	9.5 %
Aires International Investment Inc.	800 000	11.6 %	603 520	8.1 %
Campdem Development SA	686 861	10.0 %	–	0.0 %
Aage V. Jensen Charity Foundation	455 704	6.6 %	54 387	1.1 %
Basler Insurances	333 053	4.8 %	333 053	4.5 %
von Braun	324 324	4.7 %	324 324	4.4 %
BoD / Management Precious Woods	322 296	4.7 %	246 245	3.3 %
Vasalli Christian	230 000	3.3 %	143 000	2.9 %

[1] Calculation is based on the current number of shares. Please also refer to note 16 for information on convertible loans.

31. Income taxes

Major components of tax expenses/(income)

in thousand EUR	2016	2015
Current tax expenses/(income)	1	170
Deferred tax expenses/(income) relating to temporary differences	–	220
Total	**1**	**390**

Reconciliation of tax expenses/(income)

in thousand EUR	2016	2015
Accounting loss before taxes	**–2 751**	**–3 875**
Expected tax expenses/(income) based on a weighted average	–767	272
Effect of revaluation of DTA	6	145
Unrecognized tax losses and temporary differences	762	–
Various	–	–27
Total income taxes	**1**	**390**

The weighted average applicable tax rate, considering all profit and loss making entities, was 28 % (2015: 7 %).

Deferred income tax

in thousand EUR	2016	2015
Total deferred income tax assets	3 576	3 817
Total deferred income tax liabilities	–3 576	–3 811
Net deferred income tax assets/(liabilities)	**–**	**6**

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

Deferred income tax assets

in thousand EUR	2016	2015
Tax loss carry-forwards	2 491	2 914
Provisions	–	251
Financial liabilities	677	538
Other	408	114
Total deferred income tax assets	**3 576**	**3 817**

Deferred income tax liabilities

in thousand EUR	2016	2015
Property, plant and equipment	–3 007	–3 012
Intangible assets	–567	–799
Financial liabilities	–2	–
Total deferred income tax liabilities	**–3 576**	**–3 811**
Net deferred income tax assets/(liabilities)	**–**	**6**
Reported in the balance sheet as follows:		
Deferred income tax assets	–	6
Deferred income tax liabilities	–	–
Net deferred income tax assets/(liabilities)	**–**	**6**

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

in thousand EUR	2016	2015
At 1 January	6	–
Income statement charge	–	–220
Tax charged to other comprehensive income	–161	480
Translation difference	155	–254
At 31 December	**–**	**6**

The Group did not recognize deferred income tax assets on deductible temporary differences of EUR 12.5 million (2015: EUR 21.4 million) and on unused tax losses of EUR 211.5 million (2015: EUR 208.6 million).

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

in thousand EUR	2016	2015
0–2 years	110 400	105 001
3–4 years	30 490	32 989
5–7 years	37 884	39 068
over 7 years	32 703	43 516
Total tax loss carry-forwards	**211 477**	**220 574**

EUR 18.1 million of these loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 25 % (2015: EUR 17.1 million with an applicable tax rate of 25 %), EUR 17.0 million belong to the Brazilian operations with an applicable tax rate of 34 % (2015: EUR 29.9 million with an applicable tax rate of 34 %), EUR 15.6 million belong to the Gabonese operations with an applicable tax rate of 30 % (2015: EUR 16.5 million with an applicable tax rate of 30 %) and EUR 160.7 million belong to the Swiss operation with an applicable tax rate of 8.8 % (2015: EUR 166.4 million with an applicable tax rate of 8.8 %).

32. Currency translation rates

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

in EUR					2016				2015
		Year-end rate	in % of previous year	Average rate	in % of previous year	Year-end rate	in % of previous year	Average rate	in % of previous year
Swiss franc	1 CHF	0.9328	101.0%	0.9172	97.9%	0.9236	111.1%	0.9367	112.7%
Euro	1 EUR	1.0000	100.0%	1.0000	100.0%	1.0000	100.0%	1.0000	100.0%
Brazilian real	1 BRL	0.2918	126.2%	0.2603	94.9%	0.2313	75.5%	0.2744	89.6%
US Dollar	1 USD	0.9509	103.7%	0.9035	100.3%	0.9169	111.5%	0.9008	109.5%
CFA-Franc BEAC	1 XAF	0.0015	97.6%	0.0015	100.3%	0.0016	99.7%	0.0015	98.0%

33. Subsequent events

There were no significant events after the reporting period.

34. Approval of financial statements and dividends

The financial statements were approved by the Board of Directors on 21 April 2017 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 2016 (2015: no dividend paid).

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To the General Meeting of
Precious Woods Holding AG, Zug

Zurich, 21 April 2017

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

Opinion

We have audited the consolidated financial statements of Precious Woods Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 36 to 68) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

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

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

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

Other information in the annual report

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

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

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

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

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

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

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

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

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

Ernst & Young Ltd

Rico Fehr Licensed audit expert (Auditor in charge)	Philipp Baumann Licensed audit expert

Precious Woods Holding Ltd financial statements

Forest photographing from Brazil

Balance sheets as of 31 December 2016 and 2015 (in thousand CHF)

ASSETS	Notes	2016	2015
Current assets			
Cash and cash equivalents		1 009	3 295
Trade receivables			
against third parties		5 452	4 237
against Group		–	–
Other short-term receivables			
against third parties		42	33
against Group		5 603	3 944
Inventories		423	515
Prepaid expenses		118	63
Total of current assets		**12 647**	**12 087**
Non-current assets			
Financial Assets to Group	8	29 241	19 917
Investments	4	53 386	53 386
Property, plant and equipment		14	11
Intangible assets		24	1
Long-term financial assets		30	30
Total non-current assets		**82 695**	**73 345**
TOTAL Assets		**95 342**	**85 432**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2016	2015
Current liabilities			
Trade payables			
against third parties		255	585
against Group		4 442	4 601
against shareholders and govering bodies		77	1
Short-term interest bearing liabilities against shareholders	5	6 900	6 400
Other short-term liabilities		835	4 040
Accrued expenses and short term provisions		1 719	1 942
Total short-term liabilities		**14 228**	**17 569**
Non-current liabilities			
Long-term interest bearing liabilities aganist shareholders	6	18 072	17 500
Long-term provisions		39	–
Total long-term liabilities		**18 111**	**17 500**
Shareholders' equity			
Share capital	1, 2, 3	6 903	4 984
Legal capital reserves			
Capital contribution reserves		88 593	82 244
Legal capital reserves			
General legal retained earnings	12	4 534	29 534
Voluntary retained earings			
Accumulated losses	12	–41 400	–39 537
Net income / (loss) for the year		4 372	–26 863
Total shareholders' equity		**63 002**	**50 362**
TOTAL Liabilities & Equity		**95 342**	**85 432**

See notes to Precious Woods Holding Ltd financial statements on pages 76 to 80.

Statements of income and accumulated deficit 2016 and 2015 (in thousand CHF)

	Notes	2016	2015
Sales			
Net trading-sales timber products		44 001	40 771
Net trading-sales CO_2 certificates		649	122
General costs of production		–41 245	–37 698
Total operating income		**3 405**	**3 195**
Personnel expenses	7	–2 485	–2 389
Administrative expenses		–1 042	–1 332
Audit fees		–169	–132
Operating result before interest, tax, depreciation and amortization (EBITDA)		**–291**	**–658**
Depreciation, amortization and impairment	8	5 452	–11 852
Operating result before interest & tax (EBIT)		**5 161**	**–12 510**
Financial income		1 231	1 341
Financial expenses		–1 723	–12 000
Foreign exchange differences		–290	–3 693
Operating result before tax		**4 379**	**–26 862**
Non-operational income		–	2
Non-operational expenses		–	–2
Earings before tax (EBT)		**4 379**	**–26 862**
Taxes		–7	–
Profit / (loss) of the year		**4 372**	**–26 862**

See notes to Precious Woods Holding Ltd financial statements on pages 76 to 80.

Notes to the financial statements of Precious Woods Holding Ltd

Essential accounting and valuation principles

a. Principles

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

b. Inventories

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

c. Financial assets and investments

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

d. Interest-bearing financial liabilities

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

e. Leasing

Leasing and rental contracts are recognized based on legal ownership. Therefore, any leasing or rental expenses are recognized as expenses in the period they are incurred; however, the leased or rented objects themselves are not recognized in the balance sheet.

f. Revenue from sale of goods and services

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

1. General

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

The Precious Woods Group is active in the field of sustainable forest management in South America and Africa following the guidelines for sustainable forest management laid out by the Forest Stewardship Council (FSC), and is also active in the trading of timber products as well as the sale of CO_2 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 2016 was composed of 6 902 745 (2015: 4 984 020) fully paid-in registered shares, each with a nominal value of CHF 1.

2. Authorized share capital

The authorized share capital, which was renewed at the Annual General Meeting in 2014, expired on 20 May 2016. On 23 May 2016, the Annual General Meeting approved an authorized share capital of CHF 2 980 778 (2 980 778 shares nominal value CHF 1.00). The Board of Directors is thus authorized to increase the share capital at any time until 25 May 2017 by a maximum amount of CHF 2 980 778 by way of issuance of no more than 2 980 778 registered shares that are to be fully paid in with a nominal value of CHF 1 each. On 28 June 2016, the share capital was increased under the authorized capital in the amount of CHF 806 798 in shares (806 798 shares with a nominal value of CHF 1 each). On 31 December 2016, the amount of the remaining authorized capital is thus CHF 2 173 980 in shares (2 173 980 shares with a nominal value of CHF 1 each).

The remaining authorized share capital expires on 25 May 2017.

3. Conditional share capital

As of 31 December 2016, the company had the following conditional share capital:

a. On 18 December 2012 the extraordinary General Meeting authorized the company to increase its conditional share capital according to Article 3a of the Articles of Association from CHF 1 450 000 to 1 578 689 (1 578 689 shares with a nominal value of CHF 1 each). 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 with a nominal value of CHF 1 each). The exercise price was CHF 3.00 per share. As of 31 December 2013 the conditional share capital amounted to CHF 1 558 689 (1 558 689 shares with a nominal value of CHF 1 each). In the year 2014 no changes took place. On 30 December 2015, the right to convert convertible bonds was exercised to purchase shares. The capital increase amounted to CHF 1 216 214 (1 216 214 shares with a nominal value of CHF 1). The exercise price amounted to CHF 3.70 per share. As of 31 December 2015 the conditional share capital thus amounted to CHF 342 475 (342 375 shares with a nominal value of CHF 1 each). On 18 February 2016, the right to convert a convertible bond was again exercised to purchase shares. The capital increase amounted to CHF 40 540 (40 540 shares with a nominal value of CHF 1 each). The remaining conditional capital thus amounts to CHF 301 935 (301 935 shares with a nominal value of CHF 1 each).

b. Additionally, according to Article 3b of the Articles of Association the share capital of the company may be increased by the maximum amount of CHF 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 employees of the company or of affiliated companies. In the years 2014 and 2015 no changes took place. In August 2016, a capital increase was effected by issuing employee shares. The capital increase amounted to CHF 93 850 (93 850 shares nominal value per CHF 1.00) at the exercise price of CHF 4.00 per share. At December 31, 2016, the conditional share capital thus amounts to CHF 46 638 (46 638 shares with a nominal value per CHF 1.00).

4. Investments in subsidiaries

The company holds the following direct investments:

Company	Currency	Nominal share capital	Voting rights and Participation	Currency	Nominal share capital	Voting rights and Participation
			31 December 2016			31 December 2015
Precious Woods Management Ltd. British Virgin Islands (sub-holding)	USD	20 000	100.00 %	USD	20 000	100.00 %
Madeiras Preciosas de Amazonia Manejo Ltda. 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 %
MIL Madeiras Preciosas Ltda. 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 %
Precious Woods do Pará S.A. Brazil (sub-holding company, land and forest operations)	BRL	1 003	100.00 %	BRL	1 003	100.00 %
Precious Woods Manejo Florestal Ltda. Brazil (land and forest operations)	BRL	24 429 917	100.00 %	BRL	24 429 917	100.00 %
Precious Woods Europe B.V. Netherlands (sub-holding, timber trade)	EUR	18 000	100.00 %	EUR	18 000	100.00 %
Unio S.A. Luxembourg (sub-holding for Gabonese entities)	EUR	1 000 000	100.00 %	EUR	1 000 000	100.00 %
Lastour & Co. S.A. 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

5. Other short-term interest-bearing liabilities

As of 31 December 2016, the short-term liabilities consist of two loans from shareholders in the amount of CHF 6.4 million. The interest rate of the two loans has been agreed on 6 % and a term until December 2016. The convertible loan of CHF 0.5 million from shareholders has now been classified as short-term liabilitiy. The interest rate of the convertible loan has been agreed on 5 % and a term until May 2017.

6. Long-term interest-bearing liabilities

As of 31 December 2016, the long-term liabilities consist of two loans in the amount of CHF 17 million and EUR 1 million from shareholders. The conditions of the loans have been agreed as an interest rate of 6 % and 4.5 % and a term until December 2019 and December 2021.

7. Board and Executive compensation

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

For the year 2016

all amounts in thousand CHF	Fix in cash	Fix in shares	Other compensation	**Total**	**Ownership of shares**
Ernst A. Brugger	140	–	–	**140**	96 615
Katharina Lehmann	60	–	–	**60**	77 522
Jürgen Blaser	30		5	**35**	3 500
Robert Hunink	30		9	**39**	12 500
Total	**260**	**–**	**14**	**274**	**190 137**

For the year 2015

all amounts in thousand CHF	Fix in cash	Fix in shares	Other compensation	**Total**	**Ownership of shares**
Ernst A. Brugger	140	–	–	**140**	74 615
Katharina Lehmann	60	–	4	**64**	63 522
Dominik Mohr [1]	12	–	4	**16**	–
Jürgen Blaser [2]	18	–	1	**19**	–
Robert Hunink [3]	18	–	1	**19**	–
Total	**248**	**–**	**10**	**258**	**138 137**

[1] This Board member resigned as of May 2015

[2] This Board member is elected in May 2015

[3] This Board member is elected in May 2015

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

For the year 2016

all amounts in thousand CHF	Salary Fix in cash	Salary Variable in cash [1]	Employer social contributions [2]	**Total**	**Ownership of shares**
Markus Brütsch, CEO / CFO	375	50	72	**497**	133 308
Group Management Total	**700**	**50**	**114**	**864**	**140 808**

For the year 2015

all amounts in thousand CHF	Salary Fix in cash	Salary Variable in cash [1]	Employer social contributions [2]	**Total**	**Ownership of shares**
Markus Brütsch, CEO / CFO	375	–	68	**443**	108 108
Group Management Total	**700**	**–**	**109**	**809**	**108 108**

[1] During 2016 and 2015 no share-based compensation was made to the Group Management.

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

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

8. Depreciation, amortization, and impairment

As of 31 December 2016, in addition to the regular depreciation on property, plant, and equipment, there is a reversed impairment of CHF 5.4 million of financial assets against group companies.

9. Major shareholders

For the overview of major shareholders as of 31 December 2016 we refer to the note no 30 to the consolidated group financial statements.

10. Debt restructuring / refinancing

With the aim to reduce total financial debt Precious Woods Holding performed at the end of 2015 and mid 2016 two capital increases from authorized and conditional share capital in the total amount of CHF 12.4 million whereof CHF 4.5 million were loans converted into equity.

11. Pledged assets / other securities

As of 31 December 2016, Precious Woods Holding Ltd had no pledged assets, but had pledged land securities in Brazil in the amount of CHF 23 million in connection with loans.

12. Other note / Coverage of the share capital

As of 31 December 2015, the annual balance sheet showed that half of the share capital and the general statutory reserves were no longer sufficiently covered. The 25th General Annual Meeting 2016 had decided to cover the general statutory reserves with the amount of CHF 25 million.

13. Other note / Full time employment

For the full time employment of Holding employees for the years 2016 and 2015, we refer to the social key figures in the sustainability report on page 24.

14. Other note / Residual amount of leasing obligations

The following maturity structure shows leasing liabilities which have a residual term of more than twelve months or which cannot be canceled within the next twelve months. These amounts include payments related to rental / leasing contracts up to the end of their contract period or notice period.

in thousand CHF	2016	2015
> 1 year	81 723	76 824
1 – 5 years	83 105	166 780
Total	**164 828**	**243 604**

15. Other note / Significant events after the reporting date

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

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To the General Meeting of
Precious Woods Holding AG, Zug

Zurich, 21 April 2017

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 74 to 80), for the year ended 31 December 2016.

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 2016 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)

Philipp Baumann
Licensed audit expert

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

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PRECIOUS WOODS