



Annual Report 2013

PRECIOUS WOODS Annual Report 2013



PRECIOUS WOODS

◀ Cover:

Specialist clinic made of Brazilian hardwood at Apeldoorn, The Netherlands

Precious Woods 2013 – Despite operational improvements exceptional effects cause an unsatisfactory results

- In the fourth quarter, exceptional effects in PW Gabon and the sale of the inventory in PW Europe influence the disappointing negative result of 2013
- At the same time are great operational progress in PWG and PWA recorded that impact positively in the first quarter of 2014
- The new sales strategy and organization shows from the fourth quarter of 2013 good dynamics, which intensified in the first quarter of 2014
- Delisted from the SIX Swiss Exchange and the change to OTC platform of ZKB has been successfully implemented

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

Key figures and information for investors

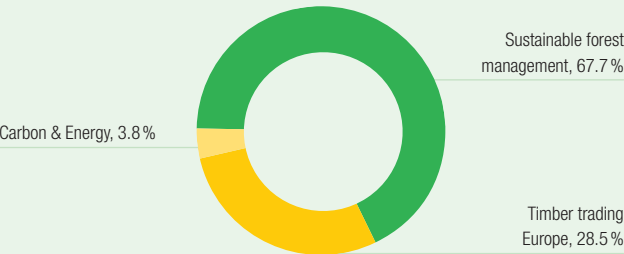
5-year summary of key financial data (in TUSD)

	2013	2012 ¹	2011	2010 ¹	2009
Total revenue	45 342	43 886	68 974	69 959	87 843
Amortization & Depreciation, Impairments	6 689	9 437	6 330	46 699	14 763
Amortisation & Depreciation	7 891	7 933	10 090	11 716	12 572
Impairments	−1 202	1 504	−3 760	34 983	2 191
EBITDA	−8 776	−3 857	−2 129	−9 861	−5 881
in % of the total revenue	−19.36 %	−8.79 %	−3.09 %	−14.10 %	−6.69 %
EBIT	−15 465	−13 295	−8 459	−56 560	−20 644
in % of the total revenue	−34.11 %	−30.29 %	−12.26 %	−80.85 %	−23.50 %
Net result	−20 595	−17 765	−56 156	−66 013	−28 389
in % of the total revenue	−45.42 %	−40.48 %	−81.42 %	−94.36 %	−32.32 %
Balance sheet total	103 816	116 765	145 394	224 404	291 324
Shareholders' equity	32 921	52 971	71 798	112 347	168 318
in % of the balance sheet total	31.71 %	45.36 %	49.38 %	50.06 %	57.78 %
Net indebtedness	46 389	34 782	34 437	58 045	51 361
Cash flow from operating activities	−2 680	−5 580	−9 101	−3 800	2 841
Investments/acquisitions	−2 050	−1 226	41 054	−343	3 448
Average full-time-equivalent employee	1 217	1 183	1 511	1 557	1 706

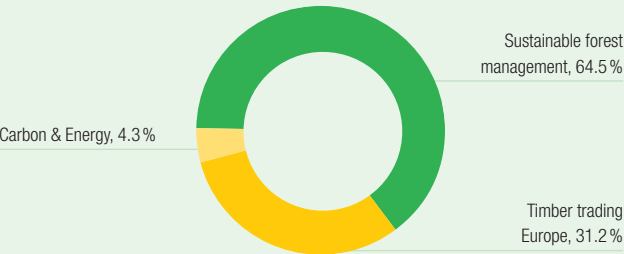
¹ The prior-year figures have been restated.

Total revenue by business segment

2013: TUSD 45 342

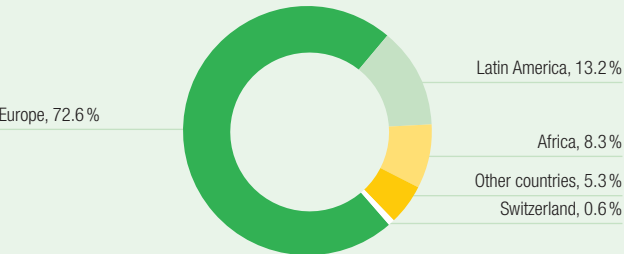


2012: TUSD 43 886

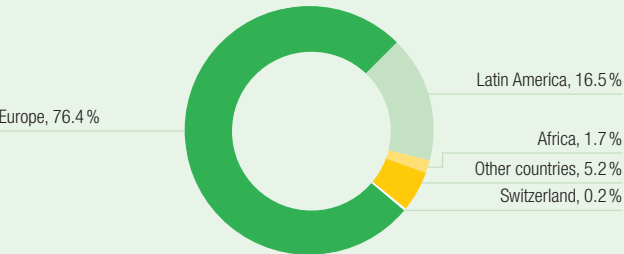


Total net sales by market region

2013: TUSD 43 605

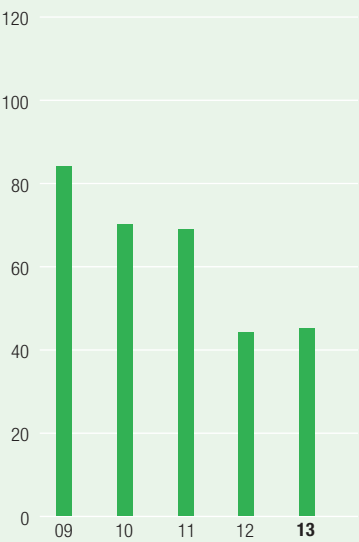


2012: TUSD 43 223



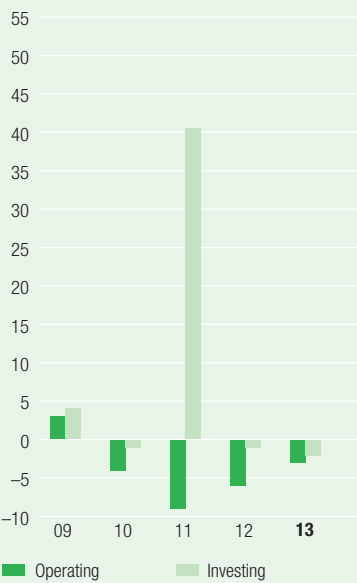
Total revenue

USD million



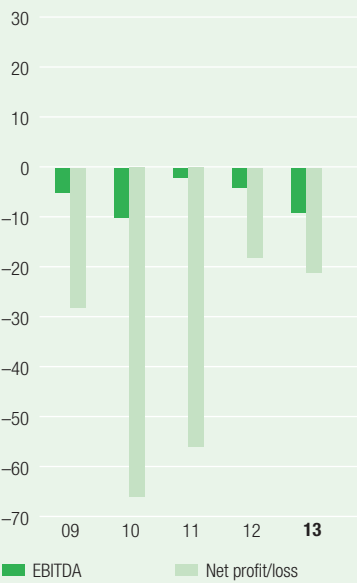
Cash flow from operating and investing activities

USD million



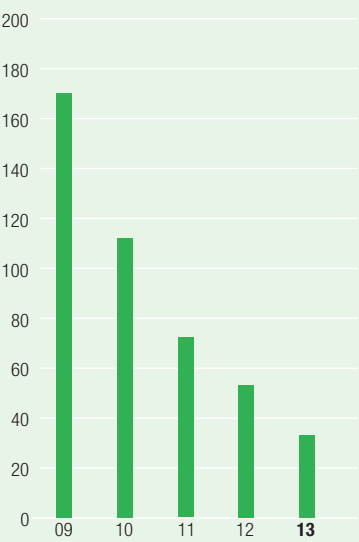
EBITDA and net profit/loss

USD million



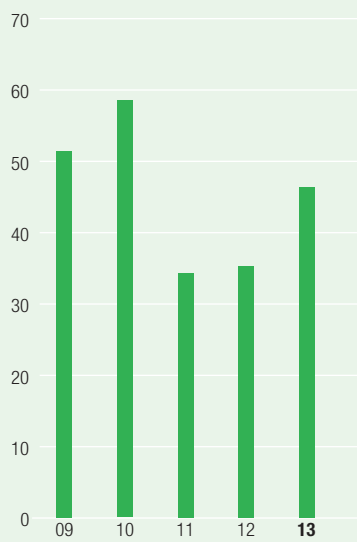
Shareholders' equity

USD million



Net indebtedness

USD million



Information for investors

	2013
Share price in CHF	2.3
Stock market capitalization in CHF million	9
Earnings per share in USD	−5.53

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To our shareholders

Dear Shareholders

In 2013, our company has made great operational progress – but show a significantly negative annual result. This is at first glance a major disappointment for the Board of Directors, the management and for all of our 1200 members of staff: we did not achieve our targets. And also the expectations communicated mid-year were not realised. Why? Of influence was the consequent decision to shut-down PW Europe and the sale of large parts of the inventory in Holland. This sale had been planned over a long period of time, but due to the continuing economic crisis in the Benelux countries and a fundamental reorientation of the sales strategy and organisation implemented only in November 2013. The associated depreciation of the inventory of around USD 4.8 million was painful, but can be compensated through the already visible success of the new sales strategy in 2014. In PW Gabon were added the effects of illegal strikes in the veneer plant TGI.

The year 2013 shows revenues of USD 45.3 million (+3.3 % on the previous year) and earnings before interest, taxes, depreciation, and amortization (EBITDA) amount to USD –8.8 million (previous year: USD –3.8 million). The EBIT amounts to USD –15.5 million (previous year: USD –13.3 million). However, this unexpectedly poor result is accompanied by some good news: Significant progress have made in PW Amazon but also in PW Gabon. Without the both one-off effects EBITDA would have been a balanced result for the Group (previous year: USD –3.8 million). The effects of the operational and market related improvements become visible with a time delay: the first quarter 2014 shows a significant increase in sales (+43 %) year-on-year as well as positive EBITDA results in PW Amazon and PW Gabon. Without any major unexpected external factors, not least because of the good order backlog for 2014, a positive EBITDA and EBIT can even be expected. The Board of Directors and management expect with adequate caution that the long and hard turnaround will now be replaced by a phase of positive growth and earnings.

PW Amazon's operational progress was considerable also in 2013: a positive EBITDA was achieved, even though extremely early and heavy rainfalls hampered the harvest and thus the supply for the sawmill from October onwards. Further progress has been made in securing land titles.

The veneer plant (TGI) in PW Gabon underwent a comprehensive modernisation. The according investments and maintenance breaks affected the result in 2013. Even though production and productivity increased in the fourth quarter 2013, the shipping delays impacted the result negatively. However, the investments and improvements show their significant positive benefits with delay in the first quarter 2014.

The liquidity in the difficult year 2013 could be ensured due to consequent cost management on all levels. Further cost efficiency will continue to improve in 2014 to further strengthen the liquidity



Ernst A. Brugger
Chairman of the Board of Directors

achieved through better results. Contributed to the working capital management has additionally the sale of GWW in March 2014, a company specialised in hydraulic engineering in Holland, in which PW Holding through PW Europe held shares of 50 %. This investment had lost its relevance in the new sales strategy. The biggest challenge in this coming year is the repatriation of convertible loans, which are due in December. Negotiations with some lenders as well as interested investors are underway.

2013 was also a year of change in organisation and personnel: Stéphane Glannaz is our Chief Commercial Officer (CCO) since October 2013: he is in charge of the Group-wide implementation of the new sales strategy and organisation. Markus Brüttsch is our new Chief Financial Officer (CFO) since the beginning of 2014. He monitors and develops the Group's reporting and is the contact person for the management as well as of the local finance managers in Brazil and Gabon.

Within the Board of Directors and management together with all members of staff we are greatly committed to achieving true sustainability: ecologically and socially we are amongst the leading companies globally. Economically, we have to achieve the breakthrough to positive figures in 2014. To this end we are dedicating all our energy. And we thank you for your support, loyalty and critical-constructive attitude.

Sincerely, yours

A handwritten signature in dark ink, appearing to read 'E. Brugger', written over a light blue horizontal line.

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 1200 people in Brazil, Gabon, The Netherlands and Switzerland in 2013.

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 21–23 as well as in the reports on the individual business segments.)

Products and markets

Precious Woods produces and sells logs and sawn timber (beams, poles, boards), planed products and veneer made from high quality tropical timber. Main target groups are the marine- and hydraulic engineering sector, garden-, building- and road construction as well as outdoor furniture manufacturers in markets across Europe, Brazil, Asia and the United States. Thanks to continuous public campaigning of prominent non-governmental-organisations, awareness of the ecological and social consequences of uncontrolled exploitation of tropical forest resources is increasing and leading to a positive change in framework conditions. This development offers Precious Woods, with its strategy aimed consequently at sustainability, an increasing market potential.

Global and economic challenges in a dynamic environment

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

A pioneer – more than FSC certification

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

Strategy: market orientation and continuous optimisation of the value chain

Due to the holistic approach, ranging from sustainable forest management through timber production to marketing and distribution, Precious Woods promotes certification of the whole chain of custody and complete traceability. The procurement of additional timber products for Precious Woods' own trading focuses on forestry companies that are also FSC-certified. Ongoing unknown new species of wood are tested and introduced in the market. In this case, Precious Woods examine 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.

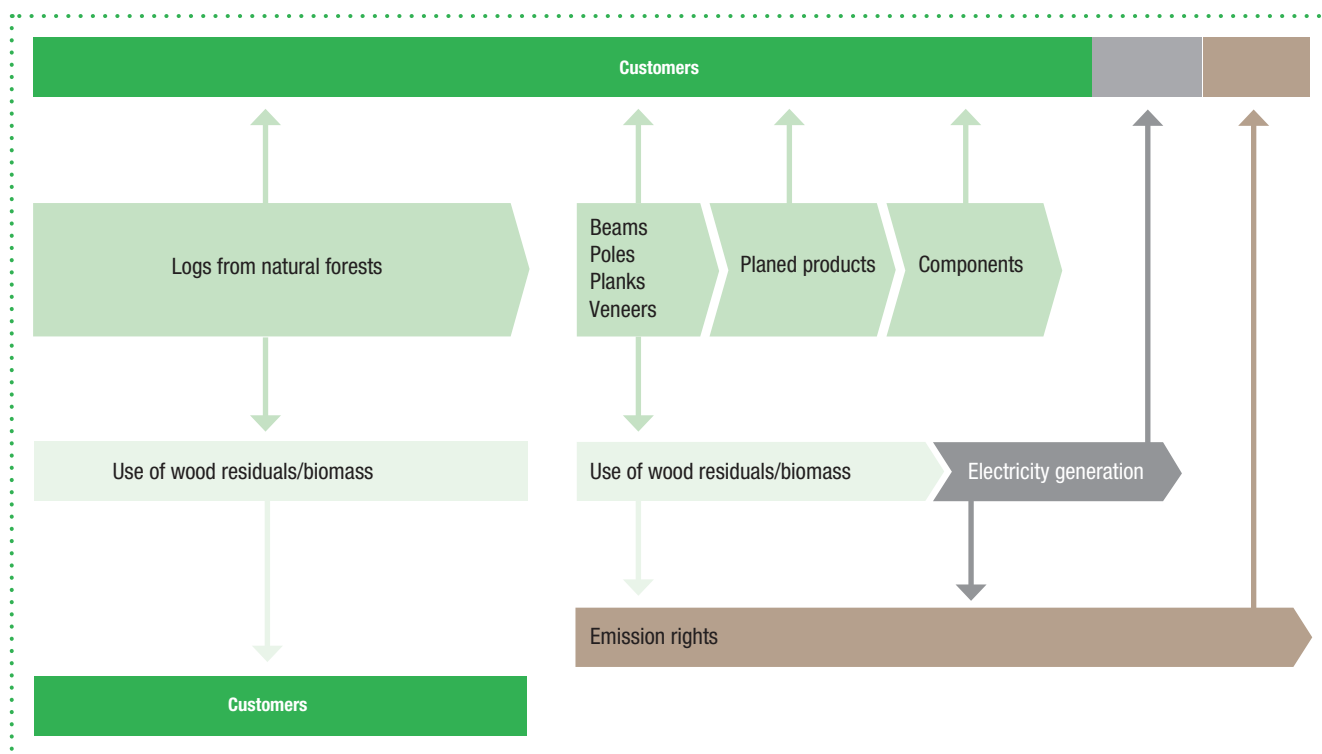
Midterm targets: sustainable growth

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 15 % of net annual sales and an equity ratio of about 50 %. In order to secure the operational activities and political risks, Precious Woods has to ensure sufficient liquidity so that also seasonal fluctuation can be absorbed. In addition, Precious Woods wants to secure the 100 % FSC-certification in all activities.

Management organisation with increased market orientation

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

Products and value chain



Milestones Precious Woods

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

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

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

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

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

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

2005 Precious Woods acquires BK Energia in Itacoatiara, Brazil, which is a wood chip based power plant operating since 2002. BK Energia is directly linked to the Precious Woods Amazon sawmill. Precious Woods takes over its largest customer and business partner, the Dutch A. van den Berg B.V.

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

2007 Precious Woods ventures into West Africa: Acquisition of the forestry company Compagnie Equatoriale des Bois (CEB) and the veneer company Tropical Gabon Industrie (TGI) in Gabon.

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

2009 The market environment demands rapid adaptation in terms of productivity, marketing and organisational structure. Precious Woods becomes the first company globally whose production line in the tropical forestry and timber industry is fully FSC-certified after the TGI veneer company receives FSC certification.

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

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

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

2013 On 15 March 2013, the capital increase was carried out successfully. The share capital was increased by CHF 309 451 to CHF 3 747 806 by 309 451 shares with a nominal value of CHF 1.00. The delisting from SIX Swiss Exchange effected on August 2013. On November 2013, it was decided to close the sales company (PW Europe) in the Netherlands.



2013 results of the Precious Woods Group

In the reporting year, the Precious Woods Group achieved an operating income of USD 45.3 million (previous year USD 43.9 million). This corresponds to a slight growth of 3.3% of which 1.7% was achieved due to exchange rate effects. Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to USD –8.8 million in 2013 (previous year USD –3.8 million). The net loss was USD –20.6 million comparing to –17.8 million in the previous year. The result was particularly influenced by the decision to shut-down the organisation in the Netherlands. The latter caused extraordinary write offs in the amount of USD 4.8 million. Added to this were the effects of illegal strikes in TGI (PW Gabon), which detracted from annual production of veneer factory.

Income statement

Operating income

The Precious Woods Group recorded a consolidated total operating income of USD 45.3 million in 2013 (to 2012: +3.3%). The original sales forecasts could significantly not be achieved. Planned production and shipments were hampered by a two months strike in Gabon, followed by investment delays in the upgrading of the sawmill and veneer plant. Consequently, in Gabon the turnover of USD 23.3 million (previous year USD 21.8 million) remained far below expectations. Sales in Brazil remained stable by USD 14.2 million thanks to domestic market supplies. The turnover from exports decreased significantly in November and December, which was due to the imminent changes to the B2B Business. The sawn timber deliveries newly take place directly to the end customer from October 2013, which requires a rearrangement of business relationships. PW Europe's turnover amounted to USD 12.9 million (previous year USD 13.7 million) and includes a one-off inventory sale of USD 2.8 million.

The sawn timber prices remained stable during 2013 and increased even slightly towards the end of the year. The investments in machinery and process improvements in Gabon and Brazil created the basis for an increased production volume and efficiency. This is unfortunately a bit delayed until 2014. In the first quarter of 2014, first successes from the B2B business from Brazil show in increased yield and better margins. Unfortunately, the fixed costs of the Dutch company to beat in 2013 still beech, but they will be reduced to a minimum in 2014. In any case, we are confident that we can achieve the set targets. In Gabon, the shipments were hampered by custom strikes in February and March 2014. The improvements made during the business year 2013 show their positive effects here as well. If there are no further disruptions for example logistic or weather during this business year we expect a significant increase in turnover.

Operating result (EBITDA)

At USD –8.8 million (2012: USD –3.8 million) the operating result worsened significantly. This is especially due to the inventory sale at PW Europe and the associated value adjustment. In Brazil, costs were further reduced thanks to the investments done and improving the operating result by USD 0.2 million. The operating result in Gabon could even be increased by USD 2.7 million, which is highly remarkable considering the hampered production capacity. PW Europe's result suffered from the necessary value adjustments. This worsened the operating profit to USD 6.0 million in the previous year.

Financial result

At USD –4.7 million the financial result compares to USD –4.3 million and is lightly lower on the previous year. The average level of debt was above the previous year, however, interest payments showed a reduction of USD 1.1 million.

Balance sheet

Year on year the Group's total assets decreased by 11 % to USD 104 million in 2013. The decrease is mainly due to the reduction in working capital, and that can mostly be attributed to the inventory. Depreciation was significantly above investments, which led to a reduction in tangible fixed assets. On the liabilities side a debt increase of USD 9.4 million has to be recorded.

Cash flow statement

The cash drain from operations amounted to USD –3.3 million (previous year USD –5.6 million). The decrease in working capital was USD 7.2 million (previous year USD 3.0 million). Net cash flow from financing activities amounted to USD 2.5 million (previous year 0.7 million).

Delisting

Precious Woods Holding Ltd was delisted from SIX Swiss Exchange in August 2013 and is now traded on the OTC platform of ZKB



Brazil – increased profitability

PW Amazon turnover was with USD 14.2 million in 2013 in the prior-year reference. The Biomass sales were 2.2% lower than to previous year. The investments in the saw lines has increased the productivity. At the same time maintenance of the drying ovens and planning were done. This allowed to dry all timber in PW Amazon cheaper in the second half year. Overall, this resulted in an EBIT-DA of USD –1.5 million (previous year USD –1.7 million). The operating result (EBIT) amounted to USD –1.1 million. This corresponds to an improvement against previous year of USD 3.1 million.

Profitability has increased

With constant turnover, operating result (EBIT) was USD –1.1 million, although still negative but much better than last year. Investments in production facilities and the associated efficiency and productivity as well as the focus on cost control have led to this positive effect of USD 3.1 million and led to a good environment for the financial year 2014.

The investments to the extent of USD 0.8 million were used for the expansion of the forest road network, the production processes in the saw mill as well as planning mill and also the optimization of the drying capacity.

The biomass supply contracts with the BK Engeria could be extended for another three years.

Unfortunately, the untimely and heavy rains affected the round timber harvest activities. This had an impact in round wood supplies for the saw mill of 25%. As a consequence the export sales didn't meet expectations and were particularly affected during the months of November and December by the reduced activities in the Netherlands. The biodiversity of the Brazilian woods means for the sales market a big challenge. The quantities of some species are so small that they cannot be produced. In addition, the sale of illegally harvested timber affected our sales in the local market significantly.

The productivity was through a contractual adjustment of annual working hours adversely affected (–15%). However, this was offset by other working models and optimization programs without increasing staff.

Continuous efforts on legacies and exceptional factors

Risk considerations following new claims for land titles required additional provisions on 24 000 hectares of around USD 1.4 million. That means that currently approximately 312 000 hectares of forests (own forest and smaller concessions) are available for harvest. Negotiations are underway to further increase the harvest area by

approximately 60 000 hectares. The sale of three very remote forest areas of about 45 000 hectares continues to be moved forward.

There are no new developments since last year regarding the pending threat of two major fines. One is a fine from the Brazilian environmental protection authority dating back to 2002 as well as a threatening property tax from 2007. We assume to solve both legal cases in collaboration with our lawyers in accordance with the recorded provisions.

Social and ecological sustainability

Precious Woods holds the FSC-certification for the period 2012 to 2017 in Brazil The Chain of Custody of forest and sawmill certificate was renewed successfully for another year. As in the past Precious Woods pays regular visits to the communities in order to assess and agree on mutual expectations.

Further activities referred to in the annual report of the sustainability team include:

- The capacity development program for improved recruitment processes ensures that vacancies are advertised on the notice boards in the communities of PW Amazon. Applicants are evaluated and selected by the sustainability team and PW Amazon's human resources department.
- Precious Woods purchases locally produced food, such as cassava, palm fruits, oranges, etc. from the communities at fair prices to provide for its staff and sells them on to the workforce.

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 506 637 hectares (end 2013) of its own land and concessions near Itacoatiara, 250 kilometres East of Manaus. In 2008, Precious Woods discontinued its operational activities in the state of Pará, where the company had managed around 46 000 hectares of forest (from a total of 76 000 hectares) since 2001. PW Amazon has been certified according to FSC-standards since 1997. FSC forests are managed sustainably on the basis of a forestry management plan under which only two or three trees per hectare are harvested during a 25-35 year cycle. Simultaneously, the moderate and sustainable use generates a source of income for the local population, which in turn contributes further to the protection of the forest. The harvested timber is processed into sawn timber, planed timber, construction piles and finished products at the company's own factory. The wood products are exported to Europe, to the United States and to Asia as well as sold on the local market.

- PW Amazon attends several solicitations of the community, like making soccer fields, soil planting in the community's' street and wood donation for houses of workers.
- Partnerships with local organizations, such as Avive (Associação Vida Verde da Amazônia) promote sustainable development. In cooperation with Avive, PW Amazon supported communities in their efforts to extract essential oils from tropical trees and other wild plants. The oils are used for medical purposes as well as for cosmetic products. This enables Avive to provide job opportunities for local communities and to secure sustainably the livelihoods of families, who also use the oils to produce soaps, candles and incense sticks. The products are sold in AVIVE shops in Silves, Manaus and São Paulo as well as online.
- PW Amazon, in cooperation with governmental and non-governmental organisations, supported a small-scale farming fair. All cooperatives brought their products to the town of Itacoatiara for sale. With this partnership PW Amazon also supported the establishment and maintenance of the communal garden, which produces food for sale and thus contributes to better income generation for the community. PW Amazon also delivers ash in boilers to these, to use in the gardens to reduce the acidity of the soil.
- PW Amazon offered in partnership with CETAM courses in and woodcarving. The production of works of art should be to improve the family income.
- In collaboration with DETRAN (Department of Transportation Amazonas) an educational lecture transit for residents was implemented, including children, adolescents, adults and drivers of vehicles. This action showed how to avoid accidents on the road.

Confident start into the new year

PW Amazon launched the new year 2014 confident. As it is unlikely that the local market will improve any time soon due to illegally operating competitors, the result in 2014 will mainly depend on success also in the export markets. The aim of PW Amazon will be increasing the productivity as wells as the increase in market prices due to better product mix.

Key figures Precious Woods Amazon

		2013	2012	Change
Economic				
Sales sawn and industrialized wood	in m ³	21 760	25 500	-14.7 %
Sales logs and piles	in m ³	11 200	9 200	21.7 %
Sales biomass	in m ³	106 800	109 200	-2.2 %
Timber harvest	in m ³	129 400	204 300	-36.7 %
Net sales	in USD million	14.2	14.2	–
Operating result (EBITDA)	in USD million	-0.9	-1.7	-47.1 %
Environmental				
Energy consumption	in GJ	61 000	55 700	9.5 %
CO ₂ emissions	in t	3 700	3 400	8.8 %
FSC share of timber sales	in %	100	100	–
Employment				
Employees (yearly average)		473	472	0.2 %
Women	in %	15.6	14.2	9.9 %
Accidents at work		46	131	-64.9 %
Days lost per accident		5.6	3.6	55.6 %



Precious Woods Gabon – Comprehensive industrial renewal

Based on a systematic analysis a large-scale maintenance program was carried out for both veneer plant and sawmill. These measures will lead to higher production capacity and productivity as well as increased quality, but they showed too little positive effects during the financial year 2013. The production at the veneer plant also suffered from a multi-week illegal strike in the beginning of the year, which impacted heavily our production. Overall, EBITDA amounted to USD 2.0 million (2012 USD –0.8 million) in 2013. Positive effects of the renewal activities in industrial sector will occur in 2014.

Business developments marked again by logistics crisis

One reason why the extensive maintenance work still didn't show effect in 2013 is located in the bottleneck of the capacity of the harbor of Libreville. Due to renovation work the shipping capacity was reduced and in particular deliveries were delayed during the months of November and December. Another reason was the reduced transport capacity of the national railway company. Setrag put less wagons for round wood and sawn timber transportation. The partial switch to truck transport reduced the logistics risk but delayed the transports and was more expensive.

Despite all these difficulties, the sales increased by 7.1 % up to USD 23.3 million (previous year USD 21.8 million). The earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to USD 2.0 million (previous year USD –0.8 million). Both characteristic values remained far behind expectations, but show the potential for the current year. At the beginning of the year, the price pressure on all ranges was very high. This normalized in the second half of the year.

In 2013, some smaller civil commotions took place. The strike of railway Setrag and oil distribution sector forced PW Gabon to search new opportunities. In spring, the illegal strike of TGI was solved according to law and to the guidelines of FSC; it caused a production interruption of about six weeks and a partial renewal of the workforce. The consequences of this crisis are positive, because the work discipline, productivity and dialogue have been improved.

Further progress in social and ecological sustainability

The successful FSC audit in July 2013 was a reflection of the great efforts made regarding sustainability of PW Gabon. In April 2013, the new Minister of Economic, Employment and Sustainable Development visited TGI for the World Day for Safety and Health.

Also, further developments were organized in different areas. e.g. our nurses or the loggers were trained in the topic "Reduced impact logging". The cooperation with IRET (Institute for Research in Tropical) was continued and worked on joint research projects. Another issue is the realization of a Socio-Economic Surveys with participative mapping and the participation of the population. Furthermore, Precious Woods – participated in various research and development projects – as in previous years. e.g. it was a study of the erosion problem in our CFAD (Concession Forestiere d' Amenagment Durable).

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. PW Gabon employs around 725 staff and harvests approximately 150 000 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 Bam-bidie, 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.

Outlook

In 2013, the requirements for a successful 2014 were created and first successes are visible. In the sawmills in Bambidie and veneer mill in Owendo great progress were achieved in terms of processes, increasing efficiency and productivity that are not yet reflected in the figures for 2013. Also, the product mix could be improved, which will have a positive impact on margins and the yield. A rigorous cost-cutting program will lead to a profitability improvement. Overall, we therefore look thanks to numerous positive measures initiated in the year 2014. Uncertainties exist with respect to selective political risks. Strikes of the Gabonese State authorities or employees might be possible and would show greater risks for the supports of the country.

Key figures Precious Woods Gabon

		2013	2012	Change
Economic				
Sales sawn and industrialized wood	in m ³	26 000	17 000	52.9%
Sales veneer	in m ³	17 500	19 700	-11.2%
Sales logs	in m ³	15 900	18 400	-13.6%
Timber harvest	in m ³	167 100	140 100	19.3%
Net sales	in USD million	23.3	21.8	6.9%
Operating result (EBITDA)	in USD million	2.0	-0.8	-350.0%
Environmental				
Energy consumption	in GJ	143 700	134 000	7.2%
CO ₂ emissions	in t	12 900	11 900	8.4%
FSC share of timber sales	in %	100	100	—
Employment				
Employees (yearly average)		724	644	12.4%
Women	in %	9.7	5.4	79.6%
Accidents at work		51	38	34.2%
Days lost per accident		21.3	14.0	52.1%



Precious Woods Europe – The shut-down of branch in the Netherlands

In 2013, PW Europe operated in an extremely difficult market environment. The construction sector was affected extraordinarily by the government economy measures and the economic downturn. This ultimately led to the decision to discontinue the operations of PW Europe from November 2013 and to sell the inventory. The operating result of PW Europe was negative due to the collapse in volumes and prices, but also because of the impairment loss through the sale of the inventory and restructuring costs with USD –7.6 million.

Benelux construction industry further in crisis

The market in the Benelux countries shows few positive changes improvements compared to 2012. The construction sector (construction and renovation) was strongly affected by negative influences. The water construction market developed at the beginning of the year satisfactorily, but again decreased in the second half year, because of less public tenders by the public sector. The garden timber business started much too late because of the wintry weather, which lasted until mid-year. In the construction sector (windows, doors, interior design) was also a weak demand. Overall, PW Europe achieved a turnover of USD 12.9 million, which is 5.8% lower than in the previous year. Sales quantity increased from 14 000 m³ in 2012 to 18 400 in 2013, this is also due to the inventory sale by the end of year. The gross margins were due to the negative market development under strong pressure. This, in combination with the impairment of the inventory (USD 4.8 million) and incurred restructuring costs (USD 0.7 million) ended in an operating result (EBITDA) in the amount of USD –7.0 million.

Due to the closure of the operational activities of PW Europe, the production volumes of the sawmill PW Amazon are sold new directly to the importer and industrial customers (B2B) and re-organized the logistics. Thus, the stock of Nieuwerbrug can be reduced to a minimum and working capital are protected.

In November 2013, the Board of Directors and the Group Management of Precious Woods Holding Ltd decided a change in it's sales strategy and therefore the shut-down of the branch in the Netherlands. The activities of the Precious Woods Europe BV, as a stockholding location for Brazilian hardwood, will not be continued, mainly due to difficult economic environment especially in the Benelux countries. The distribution activities were discontinued to a large extent by the end of the year, however, will continue at a lower level until mid of 2014. Most of the employment contracts of PW Europe were terminated by mutual consent by the end of the first quarter of 2014.

Growing market potential for FSC-certified timber

In 2013, the FSC audit was successfully completed. The European developments provide new sales potential of FSC-certified wood. The European Timber Regulation (EUTR – European regulation to restrict trade with illegally harvested timber products within the European Union) will enter into force on 3 March 2013. This will improve the market position of the Precious Woods Group in Europe significantly, as all of the company's products have not only been legally produced but also according to the principles of sustainability.

Precious Woods Europe in brief

PW Europe (based in The Netherlands) was established following the acquisition of A. van den Berg B.V. by the Precious Woods Group in 2005. At the end of 2013, the company employed 13 members of staff. PW Europe is one of Europe's leading trading companies specialized in FSC-certified tropical timber from South America. PW Europe can look back on nearly 100 years of experience in the sale and professional application of hardwoods, and has introduced numerous previously unknown Brazilian timber species to the European market. Customers range from timber traders, medium-sized and large timber-processing industries to home-improvement retailers, large construction companies as well as public authorities. The main market with a share of 80% is still The Netherlands, one of the largest markets for FSC-certified tropical hardwoods in Europe. The company also exports timber to Belgium, Great Britain, Germany, France, Switzerland and other European countries. The largest part of the product range consists of logs and sawn timber. The customers (importers, majors and industrial customers) offered sliced and dried products from PW Amazon and PW Gabon and thus achieved a high added value.

Key figures Precious Woods Europe

		2013	2012	Change
Economic				
Sales sawn and industrialized wood	in m ³	18 400	14 000	31.4 %
Net sales	in USD million	12.9	13.7	-5.8 %
Operating result (EBITDA)	in USD million	-6.2	-1.0	520.0 %
Environmental				
Energy consumption	in GJ	6 900	7 300	-5.5 %
CO ₂ emissions	in t	500	533	-6.2 %
FSC share of timber sales	in %	100	93	7.5 %
Employment				
Employees (yearly average)		13	17	-22.6 %
Women	in %	9.2	11.9	-22.7 %
Accidents at work		—	—	—
Days lost per accident		—	—	—



Carbon & Energy – Trade with emission rights CER

The Certification and subsequent sales of the CERs for 2010/2011/2012 have been successfully completed in 2013. In 2013, the net revenue amounted to USD 1.7 million. Furthermore, the expiring energy supply contract has been extended with Itacoatiara for further three years, which guarantees the biomass supply and future profits from CER trading.

CERs from Brazilian biomass

BK Energia's 9-megawatt power plant in Brazil provided the city of Itacoatiara and the sawmill of Precious Woods with electricity in the reporting year 2013. All electricity is generated from the sawmill's wood waste of PW Amazon, i.e. renewable biomass.

As in preceding years, the power plant Itacoatiara operated continuously for eleven months (one month maintenance) and generated a total of 41 600 metric tons of CO₂ equivalents in 2013, which amounts to a reduction of 9 % compared to the previous year.

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

Precious Woods Carbon & Energy

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

Carbon markets and emissions trading

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

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

Already in 2010, the European market share of the global carbon market, including secondary Clean Development Mechanism (CDM) transactions, rose to 97 %. From 2005 to 2010, Precious Woods benefited from prices of up to EUR 20 per metric ton of avoided CO₂-emissions of its CDM projects, e.g. the biomass power plant in Itacoatiara (Brazil). In 2010, an oversupply of CERs from CDM projects developed. Dubious projects, lax auditing, loopholes and criminal activities against the EU ETS cast a bad light on the carbon market. The UNFCCC tightened the rules and increased pressure on the certification bodies in response. Consequently, prices dropped in general and therefore also the achievable prices for Precious Woods, to EUR 8 per metric ton of avoided CO₂-emissions. The new calculation method for the project in Brazil cut the number of CERs in half, and conservative calculating by the certifier reduced the figure by a further 15 %. On top of this came delays in inspection and validation, which are becoming more and more complex.

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



Sustainability as a corporate principle

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

Illegal logging threatens certified timber trade

Illegal logging and trade have increased to threatening dimensions in the beginning of the 21st century, especially in tropical countries. A study by Chatham House has estimated the global damage from the illegal felling to the producing countries to USD 15–20 billion annually. The consequences are deforestation, loss of biodiversity, increase in carbon emissions, and often conflicts with indigenous peoples, violence and human rights abuses. It is up to the producing as well as importing countries to prevent illegal logging and trade, as it has been determined also in the G8 action plan 1998–2002. Since then, various measures by governments and the private sector have been initiated, their implementation has started to produce results but is rather slow.

EU FLEGT action plan

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

Opportunities for FSC-certified timber

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

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

The role of forestry in the climate debate

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

Sustainability as the corporate principle of Precious Woods

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

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

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

Social sustainability: Precious Woods leads the way

The ambition of Precious Woods to create social value was tested again in 2013. Due to the financial situation and the essential improvements in productivity it was necessary to cut jobs at PW Amazon (–13) and at PW Europe (–4). At PW Gabon, the newly

Environmental and social key performance indicators

Environmental indicators		2013	2012	2011
Forest management				
Reforestation	total area in ha	–	–	–
Forest protection	total area in ha	1 123 300	1 123 300	1 123 300
FSC share of timber sales	in %	100	99	99
Energy consumption and emissions				
Reduction of CO ₂ emissions	in t	41 600	45 900	44 400
CO ₂ emissions	in t CO ₂ -equivalents	17 100	15 836	17 865
Production of renewable energy	in GJ	–	40 000	152 900
Electricity consumption	in GJ	26 500	24 400	27 100
Fossil fuel consumption	in GJ	186 400	173 900	198 394
Social indicators				
Employees				
Number of employees (yearly average)		1 217	1 183	1 511
Brazil		473	472	544
Gabon		724	644	677
Central America		–	–	217
Europe		13	17	23
Carbon & Energy		–	40	39
Corporate		7	10	11
Women	in %	12	9	11
Rate of employee turnover	in %	3	4	5
Health and safety				
Accidents at work		97	175	244
Accidents per 1000 employees		81	148	162
Days lost per accident		12.0	5.0	6.5
Fatal accidents at work		1	–	–
Training				
Training hours		933	1 394	2 003
Training hours per employee		0.8	1.2	1.3

created production line allowed to increase jobs (+136). The redundancies were carried out in compliance with the Standards of FSC as well as the social and labor laws of each country. For the laid-off employees appropriate social plans had been implemented. Fair wages and social insurance arrangements have been secured for new and remaining staff positions. Social benefits for communities and families in Africa and Brazil have been maintained at an equivalent level (housing, electricity and drinking water supplies, schools, medical care, etc.). The social contributions provided by Precious Woods extend considerably beyond legal requirements.

Sustainability Advisory Committee (SAC)

The Sustainability Advisory Committee (SAC) advises Precious Woods on new developments in sustainability in tropical forestry and supports the company in relations with local and international stakeholder groups and associations. It gives recommendations for achieving Precious Woods economic, ecological and social sustainability objectives and related reporting requirements. SAC continued operating in 2013 under the Chair Claude Martin and has been mainly focussing on FSC-certification as well as the FLEGT, EUTR and REDD+ mechanisms.

SAC members:

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

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

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

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

Heiko Liedeker, MSc. Forest Ecology, University of Vermont

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

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

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

Carbon footprint

The CO₂ 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 22 037 metric tons of CO₂ equivalents, 9.9% 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	13 764	3 280	354	4 638	22 037
Share per category	62 %	15 %	2 %	21 %	100 %



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

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

BoD = Board of Directors
GM = Group Management
RAC = Risk & Audit Committee
RNC = Remuneration & Nomination Committee

1. Group structure and shareholders

Precious Woods consists of four operational business segments: sustainable forestry in Brazil, sustainable forestry in Gabon, timber trading in the Netherlands and Carbon & Energy. For more information about the individual segments, please refer to pages 10 to 19 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 29 of this report. For more detailed information about the holding company and the consolidated subsidiaries (name, headquarters, share capital and percentage ownership), please refer to note 1 of the consolidated Financial Statements of PW Holding. A list of shareholders with more than 3% of the voting rights can be found in note 31 of the Group Financial Statements. There are no cross-shareholdings or shareholders' agreements. Further information on shareholders is published on our website (Investor Relations – Corporate Governance – Shareholder Structure) and on the website of the OTC ZKB platform.

2. Capital structure

The ordinary share capital on 31 December 2013 stood at CHF 3 767 806 (3 767 806 registered shares at CHF 1 each). The increase of the ordinary capital by CHF 309 451 to CHF 3 747 806, decided by the General Meeting on 18 December 2012, was successfully carried out on 15 March 2013.

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

On 14 November 2013, a due convertible loan of CHF 2 million was repaid and was re-placed with a new convertible loan of CHF 2 million in order to secure liquidity. The term is two years and the coupon rate is 6%. The convertible loan was split into a liability and an equity component. For additional information about the capital structure, please refer to note 16 of the consolidated Group Financial Statements.

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

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

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

**Allocation of tasks within the Board of Directors
as per 31 December 2013**

	RAC	RNC	First elected in	Mandate ends
Ernst A. Brugger		(chair)	2004	2015
Katharina Lehmann			2008	2014
Dominik Mohr	(chair)		2012	2015

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 stag-

gered 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. The composition of the BoD was partly renewed at the Annual General Meeting on 22 May 2013: Werner Fleischmann was elected as member of the BoD. On 31.12.2013 Werner Fleischmann resigned as member of the BoD. The composition of the BoD is as follows on 31 December 2013: Ernst A. Brugger (Chair), Katharina Lehmann (Delegate) and Dominik Mohr.

Members of the Board of Directors

The Precious Woods BoD has three members. The following statement about the members of the BoD and their activities at Precious Woods and cross-involvements represents the situation on 31 December 2013.

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

- Chair of the Board of Directors of BHP – Brugger und Partner AG, Zürich
- Chair of the Board of Directors of BlueOrchard Finance S.A., Geneva



Board of Directors (from left): Katharina Lehmann, Ernst A. Brugger and Dominik Mohr

- 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
- Member of the Board of Directors of BG Bonnard & Gardel Holding SA, Lausanne
- Member of the Board of Directors of Erdgas Zurich, 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 2014. Other activities and interests:

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

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

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

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

Committees of the Board of Directors

Until September 2012, the BoD assigned committees composed of its own members and agreed their mandate according to terms of references. The BoD appointed the members of the committees and their chairs. Otherwise the committees were self-constituting. Since the downsizing of the BoD in September 2012, committee meetings have been integrated with the regular BoD meetings, and no separate committee meetings are taking place anymore.

Within the Board of Directors Dominik Mohr leads all topics previously assigned to the Risk & Audit Committee (RAC). The whole Board of Directors monitors now the concordance between budget, finances and organisation, examines the interim statements and the Annual Financial Report as well as the budget and oversees the relations with the external auditors. It is also the responsibility of the whole BoD to ensure the monitoring of the internal control system (IKS) and risk-management procedures as well as overseeing the processes for compliance with legal and regulatory requirements.

Ernst A. Brugger is leading the topics that were previously assigned to the Remuneration & Nomination Committee (RNC) within the Board of Directors. The whole Board of Directors ensures adequate terms and conditions of engagement for GM and the senior

executives of the subsidiaries; it evaluates new members of the BoD and GM, determines remuneration guidelines and oversees corporate governance. As of November 2013, Katharina Lehmann took the responsibility of a delegate of the Board of Directors, in particular for operational matters.

The BoD met a total of 19 times during 2013. 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.

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 Gerhard Willi, CFO (until 31 October 2013), Stefan Meinhardt, COO and Stéphane Glannaz, CCO (from 1 October 2013).

Gerhard Willi (BA International Business Administration and Chartered Financial Analyst (CFA)), born in 1976, Swiss citizen, has been CFO of the Precious Woods Group between 1 August 2011 until 31 October 2013. From 2001 to 2011 Gerhard Willi was project manager and from 2006 Partner at Zetra International AG, Zurich. He previously worked as consultant and analyst at Credit Suisse Private Banking, Merrill Lynch Investment Bank and others.

Stefan Meinhardt (Merchant in wholesale and foreign trade), born in 1964, German citizen, has been COO of the Precious Woods Group since 1 May 2012. From 2008 to 2012 he was the Chief Operating Officer and member of the Holding Management at Koninklijke Houthandel G. Wijma & Zonen BV, Kampen, The Netherlands. Before that he worked as Consultant at Timber Trade & Industry Consultancy, Hamburg, Germany.

Stéphane Glannaz (Master in marketing and intl. business), born in 1972, French citizen, has been CCO of Precious Woods Group since 1 October 2013. Stéphane Glannaz was the Vicepresident

of Olam Intl. Ltd. Singapore, Timber Division and Head of Marketing and Sales.

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).

Since 19.09.2012, Gerhard Willi and Stefan Meinhardt are jointly leading the management team. The previous roles and responsibilities of the CEO have been shared amongst these two persons. After the departure of Gerhard Willi (end of October 2013) the duties of the CEO ad interim been adopted by Katharina Lehmann (Delegate).

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. Committee members are compensated for their 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 as well as market criteria.

The regulations mentioned as well as a detailed list of compensation granted to the members of the BoD and GM can be found on the Website (Investor Relations – Corporate Governance – Remuneration Policy), in note 18b of the Group Financial Statements and in note 5 of the statutory Annual Financial Statement of PWH. All management personnel and employees are insured in accordance with the minimum legal requirements of the countries in which they are employed.

In 2013, 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 and GM can be found on the Website (Investor Relations – Corporate governance – Remuneration Policy) and in note 5 of the Group Financial Statements of PWH.

6. Shareholders’ rights of participation

Shareholders of Precious Woods enjoy all the rights to which they are entitled to without any statutory restrictions on voting rights. There are also no clauses differing from the legal provisions regar-

ding 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 22 May 2013, 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 new CFO Markus Brüttsch since 01.01.2014 has a change of control clause in the employment contract defining a half-year salary in addition to the notice period.

8. Auditor

The Annual General Meeting selects an external auditor that possesses the independence and professional qualifications as stipulated by law for the term of one fiscal year. Procedures and subject of the audit are in accordance with legal provisions. Since the 2010 reporting year Ernst & Young, Zurich, has assumed the role of Group auditor. The auditing fees paid to Ernst & Young for auditing the accounts of PWH, the Group and the companies worldwide amounted to USD 281 121 in 2013. Ernst & Young audited the relevant subsidiary companies. The Board of Directors (until September 2012 RAC) 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.

Shareholder information

Share capital

On 31 December 2013, the fully paid-in share capital of PW Holding amounted to CHF 3 767 806. It is divided into 3 767 806 registered shares with a nominal value of CHF 1 each. Additionally, the company has conditional capital of CHF 1 699 177 and approved capital of CHF 1 547 260 to cover option and conversion rights.

Equivalent to 100 shares

Precious Woods is owner or concession holder of 506 637 hectares of forest in Brazil, and holds a forest concession in Gabon of 674 000 hectares. With the purchase of 100 shares, a shareholder had indirectly access to around 135 500 square metres of forests (2012: 147 350 square metres) in the Amazon and 178 900 square metres of forests (2012: 196 000 square metres) in Gabon in 2013.

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

The share price stood at CHF 2.90 at the beginning of 2013 and reached a value of CHF 4.05 on 30 June 2013 (reporting date half-year report), which is an increase of 71 %. The highest value of CHF 6.70 was reached in January 2013. In the following months the share price leveled down to around CHF 4.00. On 12 August 2013, after the change to OTC ZKB platform, the course started at CHF 3.13. By the end of 2013, the share price underwent several fluctuations between CHF 3.00 and CHF 3.50. The closing price of the shares was at CHF 2.50 on 31 December 2013.

Information for investors

		2013	2012	2011	2010	2009
Share price per 31.12.12	in CHF	2.3	3	10	22	38
Stock market capitalization	in CHF million	9	10	34	76	131
Earnings per share	in USD	-5.53	-5.07	-16.33	-18.81	-8.17
Equity (book value) per share	in USD	8.74	15.49	20.88	32.67	48.95

Assets per share

Primary forest in Brazil

(ownership and concession)

Primary forest in Gabon (concession)

in m²

in m²

1 345

1 473

1 473

1 376

1 376

1 789

1 960

1 960

1 794

1 794



Precious Woods Group financial statements

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Consolidated statement of financial position

in TUSD	Notes	2013	2012 ¹	As at ¹ 1 January 2012
ASSETS				
Current assets				
Cash and cash equivalents		3 185	5 357	11 440
Trade and other receivables	3	9 017	11 143	11 435
Inventories	4	14 818	19 811	20 529
Current income tax receivables		–	22	–
Other current assets	5	1 872	1 757	1 958
Total current assets		28 892	38 090	45 362
Non-current assets				
Property, plant and equipment	6, 7	59 824	61 001	65 504
Intangible assets	8	11 326	12 644	13 789
Investments in associates	9	2 726	3 488	14 865
Non-current financial assets	10	587	572	557
Other non-current assets		147	55	7
Deferred income tax assets	32	314	38	611
Total non-current assets		74 924	77 798	95 333
Non-current assets held for sale	11	–	877	4 699
TOTAL		103 816	116 765	145 394
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables	12	13 620	15 386	13 649
Current income tax liabilities		228	515	610
Short-term convertible bonds and loans	13, 16	18 468	1 046	–
Current financial liabilities	13	12 660	4 052	2 938
Current provisions	14	758	53	1 289
Current derivative financial instruments	15	–	–	515
Total current liabilities		45 734	21 052	19 001
Non-current liabilities				
Long-term convertible bonds and loans	13, 16	7 535	22 317	27 238
Non-current financial liabilities	13	10 912	12 724	15 701
Deferred tax liabilities	32	300	67	1 818
Non-current provisions	14	6 414	7 634	6 676
Total non-current liabilities		25 161	42 742	51 433
Non-current liabilities held for sale	11	–	–	3 665
Equity				
Share capital		3 278	2 923	2 923
Additional paid-in capital		67 660	66 594	66 823
Foreign currency translation reserve		15 429	16 939	17 229
Retained earnings		–53 481	–33 736	–16 294
Equity attributable to owners of Precious Woods Holding Ltd		32 886	52 720	70 681
Non-controlling interests		35	251	614
Total shareholders' equity		32 921	52 971	71 295
TOTAL		103 816	116 765	145 394

¹ Restated due to changes in accounting policies, see note 19.

Consolidated statement of profit or loss

	Notes	2013	2012 ¹
in TUSD			
Net sales from trading activities	20	43 605	43 223
Revenue from emission reduction activities	21	1 737	663
Total revenue		45 342	43 886
Changes in inventories of finished goods and work in progress		952	-2 393
Raw materials and consumables used		-9 431	-4 179
Other production costs	22	-19 053	-16 988
Operational contribution		17 810	20 326
Direct and indirect labour costs	24	-22 541	-22 918
Other operating expenses	25	-4 992	-5 503
Other operating income	25	947	4 238
Earnings before interest, tax, depreciation and amortization (EBITDA)		-8 776	-3 857
Depreciation, amortization and impairment	23	-6 689	-9 437
Earnings before interest and tax (EBIT)		-15 465	-13 295
Financial income	26	2 706	2 924
Financial expenses	26	-6 780	-7 804
Share of (losses)/profits of associates	9	-590	555
Earnings before tax (EBT)		-20 129	-17 620
Income taxes (expenses)/income	32	-466	-145
Net (loss)/profit for the period		-20 595	-17 765
Allocation of net (loss)/profit:			
Equity owners of Precious Woods Holding Ltd		-20 377	-17 466
Non-controlling interests		-217	-299
Basic earnings per share	28	-5.53	-5.08
Diluted earnings per share	28	-5.53	-5.08

¹ Restated due to changes in accounting policies, see note 19.

Consolidated statement of comprehensive income

	2013	2012 ¹
in TUSD		
Net (loss)/profit for the period	-20 595	-17 765
Actuarial gains and losses	682	-8
Tax effect on actuarial gains and losses	-81	-
Foreign currency translation differences	24	-
Items that will not be reclassified to profit or loss, net of tax	625	-8
Unrealised gains and losses financial assets available for sale	7	-16
Foreign currency translation differences	-1 508	-225
Items that may be reclassified subsequently to profit or loss, net of tax	-1 501	-241
Total other comprehensive (loss)/income for the period	-877	-249
Total comprehensive (loss)/income for the period	-21 471	-18 014
Allocation of total comprehensive (loss)/income:		
Equity owners of Precious Woods Holding Ltd	-21 255	-17 733
Non-controlling interests	-216	-281

¹ Restated due to changes in accounting policies, see note 19.

Consolidated statement of changes in equity

in TUSD	Notes	Attributable to equity holders of Precious Woods Ltd					Non-controlling interests	Total equity
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance 31 December 2011		2 923	66 823	17 197	-15 759	71 184	614	71 798
Restatement					-503	-503		-503 ¹
Balance 1 January 2012		2 923	66 823	17 197	-16 262	70 681	614	71 295 ¹
Net (loss)/profit for the period		—	—	—	-17 466	-17 466	-299	-17 765 ¹
Other comprehensive (loss)/income for the period		—	—	-259	-8	-267	18	-249 ¹
Total comprehensive (loss)/income for the period		—	—	-259	-17 474	-17 733	-281	-18 014 ¹
Equity component convertible loans	16	—	-228	—	—	-228	—	-228
Costs of capital increase/transaction costs		—	—	—	—	—	—	—
Change in consolidation scope		—	—	—	—	—	-82	-82
Balance 31 December 2012		2 923	66 594	16 939	-33 736	52 720	251	52 971 ¹
Net (loss)/profit for the period		—	—	—	-20 377	-20 377	-217	-20 595
Other comprehensive (loss)/income for the period		—	—	-1 510	632	-878	1	-877
Total comprehensive (loss)/income for the period		—	—	-1 510	-19 746	-21 255	-216	-21 471
Proceeds from issue of shares		355	995	—	—	1 350	—	1 350
Equity component convertible loans	16	—	192	—	—	192	—	192
Costs of capital increase/transaction costs		—	-121	—	—	-121	—	-121
Balance 31 December 2013		3 278	67 660	15 430	-53 482	32 886	35	32 921

¹ Restated due to changes in accounting policies, see note 19.

Consolidated statement of cash flows

in TUSD	Notes	2013	2012 ¹
Net cash flow from operating activities			
Profit/(loss) for the period		-20 595	-17 765
Income taxes (income)/expenses	32	466	145
Interest income	26	-5	-41
Interest expenses	26	3 969	4 051
Dividend income	26	-156	-2
Profit/loss for the period before interest and tax		-16 321	-13 612
Depreciation and amortization	23	7 891	7 933
Impairment on property, plant and equipment	6	-	1 504
Impairment of intangible assets	8	32	-
Reversal of impairment of non-current assets	23	-1 234	-
Value adjustment on financial assets and investment property		-0	-17
(Profit)/loss on sale of non-current assets and liabilities	25	-186	-1 518
(Profit)/loss on sale of subsidiaries (BK Energia)		-	-2 791
Share of (losses)/profits of associates	9	590	-555
Fair value adjustments of financial liabilities		1 009	235
Disposal of financial liabilities as a result of forgiveness	26	-	-121
Changes in provisions		532	555
Allowances on inventories		203	851
Certified Emission Reductions recognized as government grant	21	-	-654
Other non-cash items		-507	-374
Operating cash flow before working capital changes		-7 991	-8 564
Decrease/(increase) in trade and other receivables		1 750	1 829
Decrease/(increase) in inventories	4	5 086	837
Decrease/(increase) in other current assets		523	-219
Increase/(decrease) in trade payables and other liabilities		-2 062	672
Income tax (paid)/received		14	-135
Net cash flow operating activities		-2 680	-5 580
Cash flow from investing activities			
Purchase of intangible assets	8	-8	-39
Proceeds from sale of property, plant and equipment		292	1 958
Purchase of property, plant and equipment	6	-2 622	-3 716
Proceeds from disposal of subsidiaries, net of cash disposed		216	-184
Proceeds from disposal of associates		-	671
Proceeds from disposal of financial assets		-	71
Purchase of financial assets		-89	-30
Dividends received		156	2
Interests received		5	41
Net cash flow investing activities		-2 050	-1 226
Cash flow from financing activities			
Proceeds from borrowings		5 663	5 717
Repayment of borrowings		-1 605	-3 826
Proceeds from convertible loans	16	3 444	1 069
Repayment of bonds		-1 031	-
Interests paid		-3 954	-2 226
Net cash flow financing activities		2 517	734
(Decrease)/increase in cash and cash equivalents		-2 213	-6 072
Translation effect on cash		41	-11
Cash and cash equivalents, at the beginning of the year		5 357	11 440
Total Cash and cash equivalents, at the end of the year		3 185	5 357

¹ Restated due to changes in accounting policies, see note 19.

Notes to the consolidated financial statements

1. Basis of presentation and accounting policies

Basis of presentation

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

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

- *Sustainable Forest Management Brazil*: operations active in the sustainable management of tropical forests and the processing of tropical hardwoods commenced in 1996 in Brazil
- *Sustainable Forest Management Gabon*: operations active in the sustainable management of tropical forests and the processing of tropical hardwoods commenced in 2007 in Gabon
- *Timber Trading Europe*: timber trading, which became a major additional distinct operational area following the acquisition of the A. van den Berg Group's business activities in 2005
- *Carbon & Energy*: with the acquisition of BK Energia (Precious Woods Energia) and the launch of several Greenhouse Gas (GHG) emission reduction projects, Precious Woods entered into the carbon emission reduction and energy generation business in 2005. In March 2012, 40 % of the shares of BK Energia were transferred to the former minority shareholder. Therefore, BK Energia is consolidated only until 31 March 2012. However, the segment does not cease to exist as the Certified Emission Reductions (CERs) are still traded in this segment.

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

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

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

Significant accounting judgments, estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions, which may have a significant risk of causing a material impact on the consolidated financial statements, relate primarily to provisions, land titles in Brazil, government grants/Certified Emission Reductions (CERs), valuation of convertible bonds and loans and non-current assets held for sale.

Provisions

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

Land titles Brazil

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

Government grants / Certified Emission Reductions

The participation in the power plant in Brazil generates CERs (Certified Emission Reductions). These CERs are sold by the Group. The CERs are recognized when it is virtually certain that the Group will comply with the conditions of the Kyoto Protocol. Management's judgment is used to estimate the probability (see Note 21).

Valuation of derivative financial instruments / convertible bonds and loans

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

Non-current assets held for sale

In prior years the Group had classified some items as held for sale. In 2013 the remaining assets were sold.

Going concern – Debt restructuring and refinancing

1. Background

The group has been in a turnaround phase for several years. During the reporting period, economic difficulties increased and were further significantly impacted by the following incidents:

- Slower than expected increase of sales volumes
- Unauthorized strike of the employees at Precious Woods Tropical Gabon Industrie in Gabon
- Decision to terminate the operations in the Netherlands and the related fire sale of stock at Precious Woods Europe
- Convertible loans in the amount of CHF 2 million were due to be repaid

As a consequence of the points mentioned before, the liquidity situation of the group is stressed. According to current plan data the company is able to fulfill its financial obligations until November 2014. The sales volumes of the current liquidity plan are based on a normal operating level.

In addition, convertible loans in the amount of CHF 17 million fall due in December 2014. As of the date of this report the funds for repayment are not available.

2. Debt restructuring / refinancing

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

Stressed cash situation

- Discussions to increase of current credit lines with banks in Gabon
- Planned factoring of trade accounts receivable in Gabon

Convertible loans

- Identified possible investors/buyers in Brazil. The focus is on the sale of land titles and on investments in the Brazilian operations.
- Negotiations with the existing bond holders for a possible extension or conversion of the loans
- Negotiations with possible new bond holders and investors

3. Uncertainties

Stressed cash situation

The group should have sufficient liquidity until November 2014 under the assumption of the current liquidity plan. However, should these assumptions not materialize as expected, then the group might not be in a position to fulfill its financial obligations.

Convertible loans

Should the required liquidity for the repayment of the loans not be obtained (either through new loan holders, an extension of the repayment terms of the current loans or through new investors), then Precious Woods Group will not be in a position to settle its financial liabilities in the short term.

4. Conclusion

The redemption of the convertible loans in December 2014 indicates the existence of a material uncertainty, which may cast significant doubt about Precious Wood's ability to continue as a going concern. In such a case, the financial statements would have to be prepared on a liquidation value basis.

The Board of Directors and Management expect that the proposed measures will be successful, and their effects will be to reduce the indepthness and to strengthen the liquidity of the Group and assure its financial stability in the long term. Therefore, the Board of Directors and Management believe the going concern assumption of the Precious Woods Group is given.

New and amended standards and interpretations

Certain International Financial Reporting Standards (IFRS) and IFRIC interpretations were revised or introduced by the International Accounting Standards Board (IASB), effective on or after 1 January 2013.

- *IFRS 7 Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities (*Amendment*) – These amendments require an entity to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
- *IFRS 10 Consolidated Financial Statement* – IFRS 10 replaces parts of *IAS 27 Consolidated and Separate Financial Statements* and *SIC-12 Consolidated – Special Purpose Entities*. It introduces a single consolidation model applicable to all investees. That model states that the investor consolidates an investee when it has control over the investee. The adoption of the new standard had no material impact on the financial statement of the Group.
- *IFRS 11 Joint arrangement* – The standard replaces *IAS 31 Interest in Joint Ventures* and deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. The standard had no material effect on the financial statement of the Group.
- *IFRS 12 Disclosure of Interests in Other Entities* – IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

- *IFRS 13 Fair Value Measurement* – This new standard establishes a single framework on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. The standard does not change the IFRS as to when an entity is required to use fair value. The adoption of IFRS 13 did not materially impact the Group's financial statement.
- *IAS 1 Presentation of items of Other Comprehensive Income – (Amendments)* – The amendments require entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. These amendments affected the presentation of certain items only.
- *IAS 19 Employee Benefits (revised 2011)* – IAS 19 (revised) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the corridor approach permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount, which is calculated by applying the discount rate to the net defined benefit or liability (see note 19).
- *IAS 28 Investments in Associates and Joint Ventures (revised 2011)* – The revised standard describes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The adoption of the revised standard had no material impact on the financial statement of the Group.

Improvements to IFRSs – Clarifications of existing IFRSs (issued in May 2012)

Future changes in IFRS

The Group is currently assessing the potential impact of the new standards that will be effective from 1 January 2014 and beyond, which include:

- IFRS 9 Financial Instruments: Classification and Measurement – The IASB decided to abandon the mandatory date of 1 January 2015; a new date should be decided upon when the entire IFRS 9 project is closer to completion.
- IAS 19 Employee Benefits (amendments): Defined Benefit plans: Employee Contributions – effective on or after 1 July 2014.
- IAS 36 Impairment of assets: Recoverable Amount for Disclosures for Non-Financial Assets – effective on or after 1 January 2014.

The significant accounting policies are as follows:

a. Basis of consolidation

The consolidated financial statements include the balances and transactions of Precious Woods Holding Ltd and its subsidiaries. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is lost. The following subsidiaries are included in the consolidated financial statements:

Subsidiary	Country	Ownership	
		2013	2012
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 Corporation ¹	USA	0 %	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	96 %	96 %
Precious Woods – Tropical Gabon Industrie S.A.	Gabon	100 %	100 %

¹ At 11 December 2013, the dormant company Precious Woods Corporation, USA, was liquidated.

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

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

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

b. Cash and cash equivalents

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

c. Trade receivables

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

d. Inventories

Inventories include raw materials, auxiliary materials and supplies, semi-finished goods, finished goods and trading goods. Inventories are valued at the lower of cost or net realizable value. Round wood and finished products are recorded at the average cost of production, less provision for losses, when applicable. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to make the sale.

The cost of semi-finished and finished goods contains direct production costs including materials and production costs, as well as production overhead costs.

e. Property, plant and equipment

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

● Land:	not depreciated
● Permanent forest roads:	25 years
● Buildings and improvements:	3 to 25 years
● Machinery and vehicles:	4 to 10 years
● Furniture and fixtures:	5 to 10 years

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

f. Intangible assets

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

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

g. Impairment of non-financial assets

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

h. Leases

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

i. Financial assets

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Available-for-sale investments

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

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

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

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

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

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

j. Derivative financial instruments and hedging activities

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

k. Borrowings

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

I. Convertible bonds and loans

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

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

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

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

m. Revenue recognition

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

n. Currency

As investments and transactions are conducted in United States dollars, the presentation currency of the Group is the United States dollar (USD). The subsidiaries' accounting records are maintained in the legal currency of the country in which they operate and which is their functional currency. The currency translation rates for the consolidated financial statements are as follows:

in USD		31 December 2013	Average 2013	31 December 2012	Average 2012
Swiss franc	1 CHF	1.1230	1.0790	1.0942	1.0667
Brazilian real	1 BRL	0.4232	0.4645	0.4880	0.5133
Euro	1 EUR	1.3766	1.3280	1.3215	1.2858
Central African CFA franc	1 XAF	0.0021	0.0020	0.0020	0.0019

o. Currency translation

The financial statements of the subsidiaries have been translated from their functional currencies to the presentation currency (USD). Therefore, all assets and liabilities are translated by using the rate of exchange prevailing at the reporting date. Shareholders' equity accounts are translated at historical exchange rates. The statement of profit or loss is translated at the average rate for the year. Translation differences are recognized as foreign currency translation in other comprehensive income.

p. Currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized through profit or loss.

q. Taxation

The charge for current income tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates for the countries where the Group has operations. Deferred income taxes are accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements, and the corresponding tax basis used in the computation of taxable profit. Deferred income tax liabilities are generally recognized for all taxable temporary differences, and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which affects neither the taxable profit nor the accounting profit.

r. Pension plans

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

In a defined benefit plan the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation is defined. Professionally qualified independent actuaries value the defined benefit obligations on a regular basis. The obligation and costs of pension benefits are determined using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Past service costs, which comprise plan amendments and curtailments, as well as gains or losses on the settlement of pension benefits are recognized immediately when they occur. Remeasurements, which comprise actuarial gains and losses on the pension obligation, the return on plan assets and changes in the effect of the asset ceiling excluding amounts included in net interest, are recognized directly in other comprehensive income and are not reclassified to profit or loss in a subsequent period. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is determined by reference to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation. A net pension asset is recorded only to the extent that it does not exceed the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

s. Segment reporting

Operating segments are reported in the manner consistent with the internal reporting to the chief operating decision maker, which is the Group Management of Precious Woods. Group Management is responsible for allocating resources and assessing the performance of the operating segments.

t. Government grants

Grants from the government, government agencies and similar bodies are recognized at fair value when there is reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

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 CO₂ equivalent. The Group regards the United Nations as a government agency and the CERs as an asset for sale in the normal course of business (inventory). The CERs are recognized when it is virtually certain that the Group will comply with the conditions of the Kyoto Protocol and the grants will be received.

u. Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. In the consolidated statement of profit or loss of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of profit or loss. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

2. Financial risk management

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

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

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

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

Market risk

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

Interest rate risk

The Group has no significant interest-bearing assets. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risks. Group borrowings are denominated in CHF, BRL 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 2012 as well as on 31 December 2013.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

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

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

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

in TUSD	31.12.13 Reasonable shift	31.12.13 "Impact" on profit or loss before tax	31.12.13 "Impact" on equity	31.12.12 Reasonable shift	31.12.12 "Impact" on profit or loss before tax	31.12.12 "Impact" on equity
EUR/CHF	+/-10 %	+/-354	+/-3 599	+/-10 %	+/-401	+/-4 245
USD/CHF	+/-10 %	+/-29	+/-1 112	+/-10 %	+/-160	+/-1 112
USD/BRL	+/-15 %	+/-17	+/-1 561	+/-15 %	+/-0	+/-1 796
CHF/BRL	+/-15 %	+/-0	+/-6 018	+/-15 %	+/-0	+/-6 005
CHF/XAF	+/-10 %	+/-0	+/-651	+/-10 %	+/-0	+/-613

Price risk

The Group is exposed to equity securities price risks because of unlisted investments held by the Group and classified as available for sale or at fair value through profit or loss. At the reporting date, the exposure to unlisted equity securities at fair value was USD 0.6 million (2012: USD 0.6 million). Please refer to Note 10.

Liquidity risk

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

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

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

Net settled derivative financial instruments	–	–	–
Derivative financial instruments	–	–	–

in TUSD	Less than 1 year	Between 1 and 2 years	Over 2 years
31 December 2012			
Trade and other payables	15 386	–	–
Financial liabilities	8 458	24 381	12 472
Non-derivative financial liabilities	23 844	24 381	12 472

Net settled derivative financial instruments	–	–	–
Derivative financial instruments	–	–	–

Credit risk

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

Where banks and financial institutions are concerned, generally independently rated parties with a minimum rating of "A" are accepted. The Group has one main relation with a bank, which has a rating of "AAA". Most of the sales are CAD (Cash Against Documents) and if this does not apply and the customers are independently rated, these ratings are used. The Group has set up a policy to minimize credit risk and monitor its clients. Customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Group therefore monitors its accounts receivable at individual customer level by payment due date rather than the number of days from invoice date. No concentrations of credit risk are currently present. An allowance on bad debt is determined on both an individual and a general basis. An individual allowance is determined when a customer disputes the amount due, or if legal steps have been taken to recover the overdue amount. A general allowance on bad debt is determined for all other amounts based on past experience. For detailed information see Note 3.

Capital management

When managing capital, the Precious Woods Group's objectives are to safeguard the Group's ability to continue as a going concern and to maintain an optimal structure to reduce the cost of capital. In order to reach these goals, the Precious Woods Group issues new shares or sells assets to reduce debts. The mid-term target of the Group is to have an equity ratio of >50 %. Capital is considered the equity attributable to holders of Precious Woods Holding. There were no changes in the Group's approach to capital management during the year.

Guarantees and pledges of assets

Precious Woods Tropical Gabon Industrie has pledged buildings in the amount of USD 10.5 million (2012: mortgaged land USD 5.0 million) and has pledged machinery and equipment in the amount of USD 3.6 million (2012: USD 1.6 million) to secure bank loans. Precious Woods Compagnie Equatoriale des Bois has pledged machinery and equipment in the amount of USD 6.2 million (2012: 0) and leased property and plants by USD 3.6 million (2012: 0).

3. Trade and other receivables

in TUSD	2013	2012
Trade receivables, third parties	4 608	6 755
Trade receivables, associates	109	155
Less allowance for bad debts	-1 470	-2 044
Total trade receivables net	3 247	4 866
Other short-term receivables	5 770	6 277
Total	9 017	11 143

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

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

in TUSD	2013	2012
Not overdue	1 727	35
Less than 30 days overdue	1 450	3 732
31 to 60 days overdue	25	825
61 to 180 days overdue	56	177
More than 180 days overdue	1 459	2 141
Total trade receivables gross	4 717	6 910
Allowance for bad debts	-1 470	-2 044
Total trade receivables net	3 247	4 866

Allowances for bad debts

in TUSD	2013	2012
At 1 January	2 044	2 097
Addition in allowance for bad debts	227	249
Release of allowance for bad debts	-575	-139
Translation differences	-226	-163
At 31 December	1 470	2 044

Trade receivables net include amounts denominated in the following currencies:

in TUSD	2013	2012
EUR	2 474	3 731
USD	243	68
BRL	393	668
XAF	137	370
Other currencies	—	29
Total trade receivables net	3 247	4 866

4. Inventories

in TUSD	2013	2012
Logs	3 239	4 170
Sawn wood	6 465	14 411
Veneers	1 047	568
Industrialized products	407	67
Certified Emission Reductions (CERs)	125	2 165
Export products in transit	2 564	927
Spare parts and other	1 531	1 482
Less obsolescence reserve	-560	-3 979
Total inventories	14 818	19 811

In 2013, the inventory of Precious Woods Europe is – due to restructuring – revaluated to net realizable value. This revaluation did decrease the value of the inventory by TUSD 4968.

Obsolescence reserve

in TUSD	2013	2012
At 1 January	3 979	3 967
Increase	203	851
Decrease	-3 617	-931
Translation differences	-5	92
At 31 December	560	3 979

5. Other current assets

in TUSD	2013	2012
Prepaid expenses, prospecting	1 284	1 358
Prepaid expenses, other	585	397
Marketable securities	3	2
Total other current assets	1 872	1 757

Prepaid expenses are expenses paid in the current accounting period but relating to a future accounting period. Prospecting costs are the costs incurred in the collection of data regarding the area to be harvested the next year.

6. Property, plant and equipment

in TUSD	Forest and land	Forest roads	Buildings and improvements	Machinery and vehicles	Leased machinery and vehicles	Furniture and fixtures	Construction in progress	Advanced payment for property, plant and equipment	Total
Cost									
At 1 January 2012	24 447	15 781	24 483	30 000	2 212	4 066	1 868	5 046	107 903
Additions	29	—	558	479	681	54	2 597	—	4 398
Disposals	—58	—	—1 082	—530	—	—152	—	—	—1 822
Change in consolidation scope ¹	—	—	—	—6	—	—3	—41	—	—50
Reclassifications	—1 669	—	1 003	2 323	—	9	—3 335	1 669	0
Translation differences	—460	—150	660	—109	152	64	—69	—531	—443
At 31 December 2012	22 289	15 631	25 622	32 157	3 045	4 038	1 020	6 184	109 986
Additions	3	—	44	1 253	2 794	181	1 141	—	5 416
Disposals	—	—	—49	—729	—	—315	—	—	—1 093
Reclassifications	—83	1 120	101	467	—	—	—1 688	83	—
Translation differences	—734	—471	558	—420	292	70	—27	—829	—1 561
At 31 December 2013	21 475	16 280	26 276	32 728	6 131	3 974	446	5 438	112 748
Accumulated depreciation									
At 1 January 2012	—	4 720	10 057	22 177	422	2 693	—	2 330	42 399
Charge for the year	—	671	2 063	2 729	885	364	—	—	6 712
Impairment charge	—	—	—	—	—	—	—	1 377	1 377
Reversal of impairment	—	—	—	—	—	—	—	—	—
Elimination on disposals	—	—	—634	—449	—	—142	—	—	—1 225
Change in consolidation scope ¹	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—	—
Translation differences	—	—78	292	—320	69	33	—	—274	—278
At 31 December 2012	—	5 313	11 778	24 137	1 376	2 948	—	3 433	48 985
Charge for the year	—	639	2 003	2 514	1 297	306	—	—	6 759
Impairment charge	—	—	—	—	—	—	—	—	—
Reversal of impairment	—	—268	—	—	—	—	—	—966	—1 234
Elimination on disposals	—	—	—36	—668	—	—311	—	—	—1 015
Reclassifications	—	—	—	—	—	—	—	—	—
Translation differences	—	—153	328	—555	134	44	—	—369	—571
At 31 December 2013	—	5 531	14 073	25 428	2 807	2 987	—	2 098	52 924
Carrying amount									
At 31 December 2012	22 289	10 318	13 844	8 020	1 669	1 090	1 020	2 751	61 001
At 31 December 2013	21 475	10 749	12 203	7 300	3 324	987	446	3 340	59 824

¹ Resulting from the divestment of 40 % of the shares of BK Energia Ltda.

Despite the continued efforts to clean the land titles from legal issues, Precious Woods had on the one hand to re-classify additional land of TUSD 83 in 2013 (2012: TUSD 1669) as advanced payments for property, plant and equipment as new information on potential claims became available, but on the other hand it was possible to reverse in 2013 impairments on land titles in the amount of TUSD 1234. In 2012 was — based on Management's estimate of the outcome — an allowance recorded for land titles with a certain risk of losing in the amount of TUSD 1377. Please refer to "Land titles Brazil", Note 1.

7. Forest, forest improvements

The forests of Precious Woods in Brazil are managed in a sustainable manner, which means that no more than the incremental growth will be harvested and the substance of the forest will be preserved. These forests and forest improvements are valued at the lower of cost or market. The fair value approach cannot be applied due to the lack of reliable information about biological growth rates for more than 300 species in the field and associated market prices for potential harvest quantities.

8. Intangible assets

in TUSD	Trademarks and licences	Other	Total
Cost			
At 1 January 2012	15 463	11 837	27 300
Additions	38	250	288
Translation differences	693	–25	668
At 31 December 2012	16 194	12 062	28 256
Additions	–	7	7
Translation differences	777	–156	621
At 31 December 2013	16 971	11 913	28 885
in TUSD	Trademarks and licences	Other	Total
Accumulated amortization and impairment			
At 1 January 2012	7 997	5 514	13 511
Charge for the year	895	575	1 470
Translation differences	345	286	631
At 31 December 2012	9 237	6 375	15 612
Charge for the year	934	198	1 132
Impairment	32	–	32
Translation differences	478	304	782
At 31 December 2013	10 681	6 877	17 558
Carrying amount			
At 31 December 2012	6 957	5 687	12 644
At 31 December 2013	6 290	5 036	11 326

Other intangible assets mainly include forest concessions and software.

9. Investment in associates

in TUSD	2013	2012
At 1 January	3 488	14 865
Share of profit of associates including impairment	–590	555
Additions	–	1 389
Dividends earned	–	–
Disposal	–	–13 380
Translation differences	–172	59
At 31 December	2 726	3 488

Precious Woods Central America AG

On 22 November 2012, the Group sold the remaining 25 % of the shares to the two co-shareholders for the amount of TUSD 13 380. This amount was offset against outstanding non-current financial liabilities and convertible bonds (also see Note 13 and 16).

BK Energia

On 31 March 2012, Precious Woods transferred 40 % of the shares of BK Energia to the former minority shareholder. The two parties agreed on a cash-neutral solution by offsetting outstanding debts. The investment was recognized at fair value on the date the Group lost control and has since been valued using the equity method. It amounts to TUSD 1362 as of 31 December 2013 (also see Note 11).

in TUSD (representing 100 %)	Assets	Liabilities	Revenues	Profit
Key figures 2012 (income statement 1.4. – 31.12.2012)	5 340	1 450	4 878	541
Key figures 2013	4 188	702	5 599	432

GWW Houtimport B.V.

In 2005, 50 % of the participation of GWW Houtimport was acquired within the business activities of A. van den Berg Group. The investment is valued using the equity method – since the Group has no control over GWW Houtimport – and amounts to TUSD 1364 as of 31 December 2013 (also see note 34).

in TUSD (representing 100 %)	Assets	Liabilities	Revenues	Profit
Key figures 2012	8 196	5 356	11 923	–182
Key figures 2013	7 220	4 492	11 081	–133

10. Non-current financial assets

in TUSD	2013	2012
Congo	560	545
NIBO	27	27
At 31 December	587	572

The non-current financial assets contain an investment of TUSD 560 (2012: TUSD 545) in Norsudtimber Company (Congo) in Vaduz and an investment of TUSD 27 (2012: TUSD 27) in Nederlandse Internationale Bosbouw Onderneming NV (NIBO). The non-controlling interest in Norsudtimber was purchased on 11 March 2007. Norsudtimber holds majority participations in four important forestry companies in the Democratic Republic of the Congo.

11. Non-current assets held for sale

In 2009, the Board of Directors of the Precious Woods Group decided to sell non-operating and non-current assets in Brazil. Therefore, in 2009 non-operating assets totaling TUSD 2882 were re-classified as non-current assets held for sale according to IFRS 5. In 2012 an impairment loss of TUSD 127 was recognized. The balance of these assets on 31 December 2012 was USD 877. During 2013 the remaining assets of the non-current assets held for sale were sold.

BK Energia

In 2012, 40 % of the shares of BK Energia were transferred to the former minority shareholder to offset the outstanding debts. This left Precious Woods as a minority shareholder with the remaining 40 % of the shares of BK Energia. Thus BK Energia was no longer consolidated since 2012 (see Note 1).

Effect of disposal on the financial position of the Group

in TUSD	2012
Intangible assets	-359
Property, plant and equipment	-1 164
Inventories	-79
Deferred tax assets	-237
Trade and other short-term receivables	-4 213
Cash and cash equivalents	-184
Trade and other short-term liabilities	4 459
Net assets and liabilities (100 %)	-1 777
Consideration for sale of 40 % ownership interest	2 850
Consideration offset with debt waiver	-1 392
Consideration offset with preferred dividend receivable	-1 458
Fair value of remaining investment in associates (40 %)	1 389
Consideration received in cash for 40 %	-
Cash and cash equivalents disposed of	-184
Net cash outflow	-184

The gain on loss of control of BK Energia, recognized in other income, amounted to TUSD 2049 and included the recycling of foreign currency translation gains of TUSD 580.

12. Trade and other payables

in TUSD	2013	2012
Trade payables, third parties	5 889	8 342
Trade payables, associates	—	18
Trade payables, related parties	81	33
Total trade payables	5 970	8 393
Other current liabilities, third parties	4 236	3 824
Other current liabilities, associates	125	271
Other current liabilities, related parties	—	—
Other accrued liabilities	3 289	2 898
Total other payables	7 650	6 993
At 31 December	13 620	15 386

13. Financial liabilities

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

Net book value of financial liabilities

in TUSD	2013	2012
Financial liabilities from borrowings	45 758	38 174
Financial liabilities finance-lease	3 816	1 965
Total financial liabilities	49 574	40 139
Total current financial liabilities	31 127	5 098
Non-current financial liabilities, third parties	16 740	32 655
Non-current financial liabilities, associates	1 707	2 387
Total financial liabilities	49 574	40 139

Interest expenditure from finance-lease liabilities amounted to TUSD 285 (2012: TUSD 224). Finance-lease liabilities are secured effectively as the rights to the leased asset revert to the lessor in the event of a breach of contract.

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

in TUSD	2013	2012
Currencies financial liabilities		
Borrowings denominated in:		
XAF	18 727	10 882
CHF	26 157	23 513
BRL	4 690	5 744
Total financial liabilities	49 574	40 139

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

	2013	2012
XAF	8.0-11.0 %	8.0-12.2 %
CHF	11.5-12.6 %	11.5-12.6 %

14. Provisions

in TUSD	Legal claims	Restructuring	Others	2013 Total	2012 Total
Short-term provisions	–	758	–	758	53
Long-term provisions	1 725	–	4 689	6 414	7 105
Total	1 725	758	4 689	7 172	7 158
At 1 January	2 054	–	5 104	7 158	7 462
Additions	726	732	503	1 961	2 043
Unused amounts reversed	–715	–	–772	–1 487	–1 869
Used during the year	–96	–	–1	–97	–209
Reclassifications	–	–	–	–	–32
Translation adjustments	–244	26	–145	–363	–237
At 31 December	1 725	758	4 689	7 172	7 158

Legal claims

The amounts represent a provision for certain legal claims brought against the Group by different stakeholders. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant losses beyond the amounts provided for as on 31 December 2013.

Restructuring

In 2013, a provision in the amount of TUSD 758 is added for the restructuring of Precious Woods Europe in the Netherlands. The amount contains provisions for salaries, social costs for employees and rental contracts. In 2012, no restructuring provisions were needed.

Others

The total amount of TUSD 4689 for long-term provisions includes employee benefits (TUSD 1327), provisions for social security (TUSD 945), provisions for tax fees (TUSD 2090) and other provisions (TUSD 327).

15. Financial instruments by category

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

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

in TUSD	Loans and receivables	Assets at fair value through profit and loss	Available- for-sale assets	Total
31 December 2012				
Assets				
Cash and cash equivalents	5 357	—	—	5 357
Trade and other receivables	8 139	—	—	8 139
Available-for-sale financial assets	—	—	572	572
Other financial assets at fair value through profit and loss	—	2	—	2
Total	13 496	2	572	14 070

in TUSD		Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	Total
31 December 2012				
Liabilities				
Trade and other payables		—	12 384	12 384
Convertible bonds/loans		—	23 363	23 363
Financial liabilities		—	16 776	16 776
Derivative financial instruments		—	—	—
Total		—	52 523	52 523

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

Assets measured at fair value

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

Liabilities measured at fair value

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

Assets measured at fair value

in TUSD	31 December 2012	Level 1	Level 2	Level 3
Available-for-sale financial assets	572	–	–	572
Other financial assets at fair value through profit and loss	2	–	–	2
Total	574	–	–	574

Liabilities measured at fair value

in TUSD	31 December 2012	Level 1	Level 2	Level 3
Financial liabilities	–	–	–	–
Derivative financial instruments	–	–	–	–
Total	–	–	–	–

Reconciliation of fair value measurement of level 3 financial assets

in TUSD	2013	2012
At 1 January	574	861
Sales	–	–
Purchases	–	–
Gains and losses recognized in the statement of profit or loss	15	–287
At 31 December	589	574

16. Convertible bonds and loans

On 15 December 2009, Precious Woods Holding placed a convertible bond at a par value of CHF 17 million. The bond is repayable in 5 years or can be converted into shares at the rate of 100 shares per CHF 5000. The convertible bond was split into a liability and an equity component.

On 1 October 2010, two convertible loans at a total par value of CHF 7 million were placed. They were repayable in 4 years or could be converted into shares at the rate of 100 shares per CHF 3500, if the conversion requirements are met. In November 2012, these loans have been netted with proceeds from the divestment of the remaining 25 % of Precious Woods Central America and repaid in full prior to their maturity. This early settlement resulted in a decrease of equity in the amount of TUSD 267.

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

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

The total carrying amount of the convertible bonds and loans (financial liabilities) amounts to TUSD 26 003 (2012: TUSD 23 363), thereof TUSD 18 468 are recognized as short-term convertible bonds and loans. The initial recognition was calculated using market interest rates for equivalent non-convertible bonds of 10.2-12.7 % (2012: 10.2-12.7 %).

17. Share capital

This supplementary information, whose purpose is to show development of the Group's share capital, is denominated in Swiss francs, the functional currency of Precious Woods Holding. In the financial statements it is translated into the Group's presentation currency (USD) using historical exchange rates.

Share capital overview

	Number of shares 2013	CHF 2013	Number of shares 2012	CHF 2012
Issued and fully paid-in capital beginning of year	3 438 355	3 438 355	3 438 355	3 438 355
Increase of issued and fully-paid capital	329 451	329 451	–	–
Issued and fully paid-in capital end of year	3 767 806	3 767 806	3 438 355	3 438 355
Authorized share capital – authorized during the year	–	–	1 547 260	1 547 260
Authorized share capital – eliminated during the year	–	–	–	–
Authorized share capital at the end of the year	1 547 260	1 547 260	1 547 260	1 547 260
Conditional share capital – authorized during year	–	–	128 689	128 689
Conditional share capital – eliminated during year	–20 000	–20 000	–	–
Conditional share capital at end of the year	1 699 177	1 699 177	1 719 177	1 719 177

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

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

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

18. Related party balances and transactions

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

a. Balances and transactions

The balances with related parties, as of 31 December 2013 and 2012, are detailed below:

in TUSD	2013	2012
Trade and other current receivables, related parties	–	11
Trade receivables and other current receivables, associates	109	155
Current loans from shareholders with significant influence	12 164	–
Current loans from other shareholders	5 474	–
Trade and other current liabilities, related parties	–	33
Trade and other current liabilities, associates	–	18
Non-current loans from shareholders with significant influence	–	11 435
Non-current loans from other shareholders	8 571	11 934
Interest expenses to shareholders with significant influence	702	1 533
Interest expenses to other shareholders	643	512

On 22 November 2012, the remaining 25% of shares of Precious Woods Holding in the subholding Precious Woods Central America AG were purchased by the two co-shareholders.

b. Compensation

During the ordinary course of business in 2013 and 2012, the Group granted compensation to related parties as follows:

in TUSD	2013	2012
Group Management		
Short-term employee benefits	1 084	1 046
Post-employment employee benefits	125	147
Long-term benefits	—	—
Termination benefits	—	—
Share-based payment	—	—
Total Group Management	1 209	1 193
Board of Directors		
Short-term employee benefits	455	392
Post-employment employee benefits	101	48
Long-term benefits	—	—
Termination benefits	—	—
Share-based payment	—	—
Total remuneration and fees Board of Directors	556	440
Operating management		
Short-term employee benefits	618	938
Post-employment employee benefits	27	52
Long-term benefits	—	—
Termination benefits	—	100
Share-based payment	—	—
Total operating management	645	1 090
Total compensation to key management personnel	2 410	2 723

19. Employee benefits

Employee benefits

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

The Group's contribution to defined contribution plans amounted to TUSD 50 in 2013 (2012: TUSD 82). The pension plan for employees in Switzerland is a defined benefit plan and covers the risks of age, death and disability. Financing occurs by means of employer and employee contributions, defined in the pension fund rules in terms of an age related sliding scale of percentages of salary, as well as returns from the investments made by the pension fund. The pension fund guarantees the vested benefit amount as confirmed annually to members, as regulated by Swiss law. Interest may be added to member balances at the discretion of the Board of Trustees. At retirement date, members have the right to take their retirement benefit as a lump sum or as an annuity.

No material plan amendment, curtailment or settlement has occurred during the year.

Changes in the present value of the defined benefit obligation

in TUSD	2013	2012 ¹
Defined benefit obligation at 1 January	3 691	4 133
Current service costs	335	273
Interest costs	44	93
Contribution by plan participants	66	117
Actuarial losses/(gains)	-711	-590
Benefits paid/transferred	-2 364	-152
Past service costs	—	—
Settlements	—	-285
Exchange differences	-10	103
31 December	1 051	3 691
Plans wholly or partly funded	1 051	3 691
Plans wholly unfunded	—	—

¹ Restated due to changes in accounting policies.

Movement in the fair value of the plan assets

in TUSD	2013	2012 ¹
Opening fair value of plan assets	2 895	3 456
Interest income	31	80
Return on plan assets excluding interest income	-29	-599
Contributions by the employers	119	196
Contributions by plan participants	66	117
Benefits paid/transferred	-2 364	-152
Settlements	—	-285
Exchange differences	-13	82
31 December	705	2 895

¹ Restated due to changes in accounting policies.

in TUSD	2013	2012 ¹
Present value of obligations	1 051	3 691
Fair value of plan assets	705	2 895
(Surplus)/deficit in the plan	346	796
Net actuarial gains/(losses) not yet recognized	—	—
Net liability	346	796

¹ Restated due to changes in accounting policies.

Changes in net liability

in TUSD	2013	2012 ¹
Opening net liability	796	695
Pension cost recognized in profit or loss	349	286
Pension cost recognized in other comprehensive income	-682	9
Employer contributions	-119	-196
Exchange differences	2	2
Recognized in profit or loss	346	796

¹ Restated due to changes in accounting policies.

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

in TUSD	2013	2012 ¹
Current service costs	335	273
Net interest costs	13	13
Past service costs	—	—
Recognized in profit or loss	348	286

¹ Restated due to changes in accounting policies.

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

in TUSD	2013	2012 ¹
Return of plan assets excluding interest income	-29	-599
Changes in demographic assumptions	—	—
Changes in financial assumptions	44	-284
Experience adjustments	667	874
Recognized in other comprehensive income	682	-9

¹ Restated due to changes in accounting policies.

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

	2013	2012
Expected employer contributions	110 000	180 000
Discount rates	2.00 %	1.75 %
Expected salary increases	1.00 %	1.00 %
Expected long-term increase of pensions	0.00 %	0.00 %

Sensitivity to changes in the principal assumptions

in TUSD	DBO	Effect
Actual assumption 31 December 2013	1 051	
Discount rate +0.5 %	960	-8.6 %
Discount rate -0.5 %	1 154	9.8 %
Salary increase rate +0.5 %	1 065	1.3 %
Salary increase rate -0.5 %	1 037	-1.3 %

Number of insured persons

in TUSD	2013	2012
Number of insured persons	10.0	14.0
Number of insured retired persons	—	—
Average weighted duration in years	14.0	13.5

Restatement of IAS 19 (revised 2011)

The effects from the restatement of the employee benefits are as follows:

Changes to the consolidated statement of financial position as at 1 January 2012 (in TUSD)

in TUSD	1 January 2012	Impact from changes in	1 January 2012
	as published	IAS 19R	restated
ASSETS			
TOTAL	145 394	–	145 394
LIABILITIES AND SHAREHOLDERS' EQUITY			
Total current liabilities	19 001	–	19 001
Non-current provisions	6 173	503	6 676
Total non-current liabilities	50 930	503	51 433
Non-current liabilities held for sale	3 665	–	3 665
Total shareholders' equity	71 798	–503	71 295
TOTAL	145 394	–	145 394

Changes to the consolidated statement of financial position as at 31 December 2012 (in TUSD)

in TUSD	31 December 2012	Impact from changes in	31 December 2012
	as published	IAS 19R	restated
ASSETS			
TOTAL	116 765	–	116 765
LIABILITIES AND SHAREHOLDERS' EQUITY			
Total current liabilities	21 052	–	21 052
Non-current provisions	7 105	529	7 634
Total non-current liabilities	42 213	529	42 742
Total shareholders' equity	53 500	–529	52 971
TOTAL	116 765	–	116 765

Changes to consolidated statement of profit or loss (in TUSD)

	31 December 2012	Impact from changes in	31 December 2012
in TUSD	as published	IAS 19R	restated
Operational contribution	20 326	–	20 326
Direct and indirect labour costs	–22 901	–17	–22 918
Earnings before interest, tax, depreciation and amortization (EBITDA)	–3 840	–17	–3 857
Earnings before interest and tax (EBIT)	–13 277	–17	–13 295
Net (loss)/profit for the period	–17 747	–17	–17 765
Basic earnings per share	–5.07		–5.08
Diluted earnings per share	–5.07		–5.08

20. Net sales from trading activities

in TUSD	2013	2012
Sales of wood	50 277	48 689
Sales of energy	–	1 722
Sales deductions	–6 672	–7 188
Net sales	43 605	43 223

21. Revenue from emission reduction activities

in TUSD	2013	2012
Revenue from Certified Emission Reductions (CERs) over book value	1 737	–
CERs recognized as government grants	–	663
Revenue from emission reduction activities	1 737	663

The Precious Woods Group obtains the CERs from its BK Energia renewable-power-generation project located in the Amazon region of Brazil, complying with all the necessary conditions established in the Kyoto Protocol and by the UNFCCC (United Nations Framework Convention on Climate Change). Carbon emissions are avoided by substituting diesel fuel with wood waste from the sawmill and from forest operations for electricity generation. The CERs recognized as government grants represent the grant from the UNFCCC for the CERs produced in prior periods valued at fair value in prior periods. Based on the fact that BK Energia was deconsolidated during 2012 the CERs produced during 2013 are recognized as inventory and valued at the lower of cost or net realizable value. The Group sold the CERs generated from 2009 to 2012 (Total of 149 701 CERs) after the final verification was received in 2013. The verification of the 41 591 CERs produced in 2013 is expected in 2014.

22. Other production costs

in TUSD	2013	2012
Logistics, transportation costs and freight	2 006	2 417
Fuel, oil and lubricants	4 403	3 959
Energy – third parties	678	660
Forest taxes & expenses	1 379	1 255
Maintenance and spare parts	6 074	4 728
Insurances (production)	308	340
Rent and lease (production)	1 445	1 735
Capitalized own production	–	–281
Miscellaneous production costs	2 760	2 175
Total	19 053	16 988

23. Depreciation, amortization and impairment

in TUSD	2013	2012
Depreciation and amortization	7 891	7 933
Impairment of property, plant and equipment	–	1 504
Impairment of intangible assets	32	–
Reversal of impairment of property, plant and equipment	–1 234	–
Total	6 689	9 437

In 2013 no further impairment of property, plant and equipment was necessary (2012: TUSD 1504). Details to the reversal of impairment (TUSD 1234) are given in Note 6.

24. Direct and indirect labour costs

in TUSD	2013	2012
Wages and salaries	15 406	16 212
Social security costs	3 163	3 292
Pension costs – defined contribution plans	50	82
Pension costs – defined benefit plans	349	219
Other employment benefits	3 573	3 096
Total	22 541	22 901

in TUSD	2013	2012
Forest and processing costs	17 291	17 281
Administration and other labour costs	5 250	5 620
Total	22 541	22 901

25. Other operating income and expenses

in TUSD	2013	2012
Other income		
Gain on disposal of fixed assets	215	1 363
Other income	732	2 875
Total other operating income	947	4 238
Other expenses		
Audit fees	281	385
Legal and tax	369	541
Other consulting fees	1 093	219
Travel	788	725
Marketing	48	116
Loss on disposal of fixed assets	1	2
Other administrative expenses	2 412	3 515
Total other operating expenses	4 992	5 503

In 2013 the other operating expenses contains other consulting fees of TUSD 1093, whilst in the other administrative expenses communication and investor relation expenses, non-income tax expenses and the change in allowance for bad debts are included. The net gain on sale of fixed and intangible assets amount to TUSD 191 and the loss on the liquidation of Precious Woods Corporation (USA) is included in other administrative expenses (TUSD 5).

In 2012 the other operating income contained TUSD 2049 from the disposal of BK Energia (see Note 11). The other administrative expenses include communication and investor relation expenses, non-income tax expenses and the change in allowance for bad debts.

26. Financial income and expenses

in TUSD	2013	2012
Financial income		
Interest income and dividends	162	42
Foreign-exchange gains	2 477	1 766
Other financial income	67	1 116
Total financial income	2 706	2 924
Financial expenses		
Interest expenses	3 969	4 051
Foreign-exchange losses	2 206	2 628
Other financial expenses	605	1 125
Total financial expenses	6 780	7 804

The other financial income in 2012 included the gain on sale of the investment in Precious Woods Central America of TUSD 485 (see Note 9). Furthermore it contained also reversals of accrued financial liabilities of TUSD 453 and disposal of financial liabilities as a result of forgiveness of TUSD 121.

27. Leasing

Operating leasing

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

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

in TUSD	2013	2012
Within one year	561	472
Within two to five years	384	586
After more than five years	—	—
Total lease payments	945	1 058

Finance leasing

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

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

in TUSD	2013	2012
Within one year	1 809	901
Within two to five years	2 595	1 305
After more than five years	—	—
Total lease payments	4 404	2 206
Minus interest expense component	—588	—241
Total lease payments	3 816	1 965

28. Earnings per share

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

In USD	2013	2012
Net loss/income attributable to Group equity holders	-20 377 287	-17 448 299
Weighted average number of shares	3 685 893	3 438 355
Basic loss/earnings per share	-5.53	-5.07
Weighted average number of shares for diluted earnings per share	3 685 893	3 438 355
Diluted earnings per share	-5.53	-5.07

Basic earnings per share (EPS) are calculated by dividing the net income attributable to shareholders of Precious Woods Holding by the weighted average number of shares outstanding during the year. For diluted EPS, the weighted average number of shares outstanding is adjusted to assume conversion of all potentially dilutive shares arising from options on Precious Woods shares.

29. Contingencies

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities other than those for which a provision has been made will arise from contingent liabilities (see Note 14).

Assessment by Brazilian authorities

In 2002, a Brazilian subsidiary was assessed by IBAMA, the Brazilian Institute of Environment and Renewable Natural Resources, in relation to certain log-transporting procedures, which had been in place and approved informally by government agencies for many years. In July 2010, an important administrative case was won against IBAMA. The fines imposed on the Group, which are not yet settled, amount to approximately USD 8 million. The Group's Management and its attorneys believe that the remaining fines are arbitrary in nature, unjustified, and will also be eventually cancelled, and therefore consider that no material loss will occur as a result of the final decision on this process; consequently, no accrual was recorded in the Group's consolidated financial statements as of 31 December 2013 (31 December 2012: 0). In 2011, the subsidiary was notified by the Federal Justice to offer assets to pledge or to prepay the penalty. The subsidiary offered 61 907 hectares to pledge. The counterparty has not accepted the pledge and instead blocked an amount of TUSD 230 in cash on Group accounts.

30. Financial information by segment

The Group's reportable segments are Sustainable Forest Management Brazil, Sustainable Forest Management Gabon, Timber Trading Europe and Carbon & Energy. Precious Woods' forests in Brazil and Gabon are managed in a sustainable manner, which means that not more timber is harvested than can simultaneously grow back, and that the value of the forest is preserved. The subsidiary in the Netherlands sells certified tropical timber to European customers. An integral part of Precious Woods' approach to sustainable forestry is the use of waste wood to produce electricity and the registration and sale of carbon emission rights.

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

Operating segments – 31 December 2013

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

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 2012

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other ¹	Total 31.12.2012
Revenue						
Third parties	6 531	21 791	13 672	1 892		43 886
Intersegment	7 628	–	–	–	–7 628	–
Total revenue	14 159	21 791	13 672	1 892	–7 628	43 886
Loss/profit on sale of fixed assets and affiliates	208	20	1	3 409	–	3 638
EBITDA	–1 681	–751	–981	3 521	–3 948	–3 840
Depreciation and amortization	–1 022	–6 593	–204	–	–114	–7 933
Impairment charges	–1 504	–	–	–	–	–1 504
Loss/profit from operating activities (EBIT)	–4 207	–7 344	–1 185	3 521	–4 062	–13 277
Financial income and expenses	–1 150	–1 502	–500	–14	–1 714	–4 880
Share of profit of associates						555
Net (loss)/profit before tax						–17 620
Income taxes	–1 366	1 182	–259	237	61	–145
Segment assets	57 713	74 185	14 928	–	–30 061	116 765
Investments in associates	1 606	–	1 882	–	–	3 488
Capital expenditures	1 145	3 138	64	50	–	4 397
Segment liabilities	78 143	67 126	10 737	417	–92 629	63 794

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

Geographic information

in TUSD

in TUSD	2013		2012	
Revenue from external customers				
Switzerland	269	0.6 %	102	0.2 %
European Union	31 655	72.6 %	33 011	76.4 %
Latin America	5 750	13.2 %	7 142	16.5 %
Africa	3 622	8.3 %	728	1.7 %
Other countries	2 309	5.3 %	2 240	5.2 %
Total	43 605	100.0 %	43 223	100.0 %
Location of non-current assets				
Switzerland	157	0.2 %	243	0.3 %
European Union	871	1.2 %	2 068	2.7 %
Latin America	24 104	32.9 %	26 786	34.7 %
Africa	48 123	65.7 %	48 091	62.3 %
Total	73 256	100.0 %	77 188	100.0 %

Reconciliation of reportable segment profit or loss

	2013	2012
Total EBITDA for reportable segments, continuing operations	-4 852	108
EBITDA Other	-3 924	-3 948
EBITDA of continuing operations	-8 776	-3 840
Depreciation, amortization and impairment	-6 689	-9 437
EBIT	-15 465	-13 277
Financial income and expenses	-4 074	-4 880
Share of profit of associates	-590	555
Earnings before tax from continuing operations	-20 129	-17 620

31. Major shareholders

On 31 December 2013, the major shareholders holding 3 % (rounded) or more of Precious Woods Holding registered shares were as follows:

	Number of shares 2013		Additional number of shares in case of conversion of convertible bonds/loans 2013		Number of shares 2012		Additional number of shares in case of conversion of convertible bonds/loans 2012	
Fleischmann Immobilien AG	367 252	9.75 %	–	–	103 500	3.00 %	–	–
Baloise Holding	333 053	8.84 %	–	–	305 300	8.88 %	–	–
Round Enterprises Ltd.	201 203	5.34 %	126 316	3.35 %	201 203	5.85 %	126 316	3.67 %
Franke Artemis Holding AG	189 571	5.03 %	73 684	1.95 %	189 571	5.52 %	73 684	2.14 %
Novartis Pooling Fund I	140 000	3.72 %	–	–	140 000	4.07 %	–	–
Aires International Investment Inc	–	–	762 762	20.24 %	–	–	555 555	16.15 %

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

32. Income taxes

Major components of tax expenses/(income)

in TUSD	2013	2012
Current tax expenses/(income)	–235	6
Deferred tax expenses/(income) relating to temporary differences	701	139
Total	466	145

Reconciliation of tax expenses/(income)

in TUSD	2013	2012
Loss before taxes from continuing operations	–20 129	–17 605
Loss before taxes from discontinued operations	–	–
Accounting loss before taxes	–20 129	–17 605
Expected tax expenses/(income)	–5 856	–6 021
Current tax adjustments related to prior years	–235	–
Not recognized current tax losses	5 843	7 562
Income not subject to tax (BK Energia)	–	–1 396
Tax loss carry-forwards/deductible tax credits	819	0
Various	–105	–
Total income taxes from continuing and discontinued operations	466	145

The weighted average applicable tax rate, considering all profit and loss making entities, was 30 % (2012: 32 %).

Deferred income tax

in TUSD	2013	2012
Total deferred income tax assets	7 899	31 513
Total deferred income tax liabilities	–7 885	–31 542
Net deferred income tax assets/(liabilities)	14	–29

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

Deferred income tax assets

in TUSD	2013	2012
Tax loss carry-forwards	7 451	31 052
Provisions	294	347
Inventories	21	21
Other	133	93
Total deferred income tax assets	7 899	31 513

Deferred income tax liabilities

in TUSD	2013	2012
Inventories	-78	-
Property, plant and equipment	-5 625	-6 491
Intangible assets	-1 662	-2 172
Financial assets	-	-18 585
Other	-520	-4 294
Total deferred income tax liabilities	-7 885	-31 542

Net deferred income tax assets/(liabilities)

	14	-29
Reported in the balance sheet as follows:		
Deferred income tax assets	314	38
Deferred income tax liabilities	-300	-67
Net deferred income tax assets/(liabilities)	14	-29

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

in TUSD	2013	2012
At 1 January	-29	-1 207
Disposal of subsidiaries	-	-237
Income statement charge	701	139
Tax charged to other comprehensive income	-718	-288
Translation difference	60	1 564
At 31 December	14	-29

The Group did not recognize deferred income tax assets of TUSD 45 727 (2012: TUSD 44 974) in respect of unused tax losses amounting to TUSD 257 176 (2012: TUSD 243 975). These tax loss carry-forwards expire as shown in the table below:

in TUSD	2013	2012
0–2 years	5 378	8 161
3–5 years	149 657	3 406
5–7 years	37 199	139 258
over 7 years	64 942	93 150
Total tax loss carry-forwards	257 176	243 975

TUSD 31 724 of these loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 25 % (2012: TUSD 20 664 with an applicable tax rate of 25 %), TUSD 21 874 belong to the Brazilian operations with an applicable tax rate of 34 % (2012: TUSD 44 108 with an applicable tax rate of 34 %), TUSD 32 941 belong to the Gabonese operations with an applicable tax rate of 30 % (2012: TUSD 14 377 with an applicable tax rate of 35 %) and TUSD 170 636 belong to the Swiss operation with an applicable tax rate of 12 % (2012: TUSD 164 826 with an applicable tax rate of 12 %).

33. Divestments and acquisitions

In 2012, the remaining 25 % shares of Precious Woods Central America AG were sold. Furthermore in 2012, 40 % of the BK Energia operations were sold in a cash-neutral solution. There were no acquisitions in 2012 and 2013. The dormant subsidiary Precious Woods Corporation, located in Delaware, USA, was liquidated on 11 December 2013.

34. Subsequent events

In November 2013 the Board of Directors decided to close down the activity in the Netherlands. Although provisions for this event have been taken in the financial year 2013 already some special effects might influence the result in the year 2014.

In February 2014 the sales out from Gabon were affected by a strike of the customs. This affected the sales figures in February and March but will be compensated over the following two months without any losses.

35. Approval of financial statements and dividends

The financial statements were approved by the Board of Directors on 25 April 2014 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 2013 (2012: no dividend paid).

Report of the statutory auditor on the consolidated financial statements

To the General Meeting of Precious Woods Holding AG, Zug

As statutory auditor, we have audited the consolidated financial statements of Precious Woods Holding AG, which comprise the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements (pages 32 to 72), for the year ended 31 December 2013.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Emphasis of matter

We draw attention to Note 1 «Going Concern – Debt restructuring / refinancing» to the financial statements describing the measures taken by the Board of Directors in order to ensure the going concern assumption. This fact together with other matters disclosed in Note 1 indicates the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not qualified in respect to this matter.

Report on other legal requirements

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

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

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

Ernst & Young Ltd



Rico Fehr

Licensed audit expert (Auditor in charge)



Olaf Reich

Licensed audit expert

Zurich, 25 April 2014



Precious Woods Holding Ltd financial statements

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Balance sheets as of 31 December 2013 and 2012 (in TCHF)

ASSETS	Notes	2013	2012
Current assets			
Cash and cash equivalents		1 355	3 191
Trade receivables third		1 570	2 556
Trade receivables Group		3 030	2 751
Short-term receivables third		175	82
Short-term receivables Group		15 725	10 961
Inventories		111	–
Prepaid expenses		175	98
Total current assets		22 142	19 639
Non-current assets			
Fixed assets, net		83	152
Loans to third parties		–	–
Loans to affiliates		19 111	26 223
Investments	2	63 383	65 793
Long-term financial assets		60	34
Intangible assets		–	36
Total non-current assets		82 637	92 238
TOTAL		104 779	111 877
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables third		264	176
Trade payables Group		2 380	2 943
Trade payables affiliates		72	30
Other payables		10	60
Short-term bank loan		–	–
Accrued expenses		718	883
Short term financial liabilities		17 137	1 137
Total current liabilities		20 581	5 229
Non-current liabilities			
Long-term liabilities		7 005	22 082
Bank loan		–	–
Provisions		–	–
Total non-current liabilities		7 005	22 082
Shareholders' equity			
Share capital	1	3 768	3 438
General reserve		29 534	29 535
Reserve from contribution in kind		78 961	78 151
Accumulated losses		–35 069	–26 557
Total shareholders' equity		77 193	84 567
TOTAL		104 779	111 877

See notes to Precious Woods Holding Ltd financial statements on pages 78 to 82.

Statements of income and accumulated deficit 2013 and 2012 (in TCHF)

INCOME	Notes	2013	2012
Sales			
Net trading-sales timber products		25 772	21 861
Net trading-sales CO ₂ certificates		1 720	–
General costs of production		–23 076	–18 834
Total income, net		4 416	3 027
OPERATIONAL EXPENSES			
Personnel expenses	5	–2 514	–2 960
Administrative expenses		–1 670	–1 516
Audit fees		–126	–205
Total operating expenses		–4 309	–4 681
Interest expenses and bank charges		–2 520	–3 374
Total non-operating expenses		–2 520	–3 374
OTHER INCOME/(EXPENSES)			
Foreign exchange differences		1 145	1 498
Other expenses		–297	–64
Amortizations		–8 547	–19 400
Other income		1 473	1 939
Total other income/expenses, net		–6 226	–16 027
Profit before taxes		–8 640	–21 056
Taxes		50	10
Net profit		–8 590	–21 046

See notes to Precious Woods Holding Ltd financial statements on pages 78 to 82.

Notes to the financial statements of Precious Woods Holding Ltd

1. General

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

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

The company was founded on 17 December 1990 as Precious Wood Ltd, duly registered in Tortola, British Virgin Islands. On 23 March 1992 the company was renamed Precious Woods Ltd.

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

The share capital as of 31 December 2013 is composed of 3 767 806 (2012: 3 438 355) fully paid-in registered shares, each with a nominal value of CHF 1. The share capital was increased by issuing 309 451 registered shares with a nominal value of 1 from the extra ordinary General Meeting on the 18th December 2012 created ordinary capital increased by CHF 309 451 to CHF 3 747 806. The capital increase was successfully done on 15 March 2013. On 14 November 2013 from the conditional capital (according to Article 3a of the Articles of Association) was carried out a capital increase of CHF 20 000 (20,000 shares nominal value CHF 1.00). There was exercised a right to convert a convertible bond. Additional information about the capital can be found in Note 3 and 4.

2. Investments in subsidiaries

The company holds the following direct investments:

Company	Currency	31 December 2013		Currency	31 December 2012	
		Nominal share capital	Participation		Nominal share capital	Participation
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

3. Authorized capital

On 18 December 2012, the extra ordinary General Meeting authorized the Board of Directors to increase the authorized capital of CHF 800 000 to CHF 1 547 260 (1 547 260 shares nominal CHF 1.00). The Board of Directors is thus authorized to increase the share capital at any time before 18 December 2014 by a maximum amount of CHF 1 547 260 by way of issuance of no more than 1 547 260 registered shares that are to be fully paid in with a nominal value of CHF 1 each. During 2013 no new shares were issued by the company under the authorized share capital.

The authorized share capital expires on 18 December 2014.

4. Conditional share capital

As of 31 December 2013, the company had the following conditional share capital:

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

5. Board and Executive compensation

Compensation

The compensation of the Board of Directors was as follows:

For the year 2013	Compensation Fix in cash	Compensation Fix in shares	Compensation For part. in committees	Other ¹ compensation	Total compen- sation	Loans and credits	Numbers of shares
all amounts in TCHF							
Ernst A. Brugger	248	—	—	—	248	—	28 333
Katharina Lehmann ³	60	—	—	4	64	—	9 468
Dominik Mohr	53	—	—	19	72	—	—
Werner Fleischmann ²	27	—	—	2	29	—	367 252
Total	388	—	—	25	413	—	405 053
For the year 2012	Compensation Fix in cash	Compensation Fix in shares	Compensation For part. in committees	Other compensation	Total compen- sation	Loans and credits	Numbers of shares
all amounts in TCHF							
Ernst A. Brugger	235	—	—	—	235	—	21 848
Markus Breitenmoser ⁴	14	—	8	1	23	—	—
Marga Gyger ⁴	14	—	5	—	19	—	—
Thomas Hagen ⁵	8	—	4	1	13	—	11 000
Katharina Lehmann	20	—	5	2	27	—	8 680
Dominik Mohr	12	—	10	8	30	—	—
Rudolf Wehrli ⁵	15	—	7	2	24	—	2 500
Total	318	—	39	14	371	—	44 028

¹ These amounts comprise social contributions for all other members of the Board.

² This Board member resigned as of December 2013.

³ Including Compensation of CEO a.i. until October 2013

⁴ These Board members resigned as of September 2012.

⁵ This Board member resigned as of May 2012.

The compensation of the Group Management was as follows:

For the year 2013	Salary Fix in cash	Salary ¹ Variable in cash and shares	Other ² compensation	Total compen- sation	Loans and credits
all amounts in TCHF					
Gerhard Willi, CFO (until October 2013)	397	—	40	437	—
Group Management Total	1 004	—	116	1 120	—
For the year 2012	Salary Fix in cash	Salary ¹ Variable in cash and shares	Other ² compensation	Total compen- sation	Loans and credits
all amounts in TCHF					
Joachim Kaufmann, CEO ³	388	—	69	457	—
Group Management Total	981	—	138	1 119	—

¹ During 2013 and 2012 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.

³ Resigned as CEO on 19 September 2012 but remains to be employed until March 2013.

The following numbers of participation were held by members of the Group Management:

For the year 2013	Shares	Options
Gerhard Willi, CFO (until October 2013)	–	–

For the year 2012	Shares	Options
Joachim Kaufmann, CEO	5 000	–
Gerhard Willi, CFO	19 962	–

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

6. Major shareholders

	Number of shares 2013		Additional number of shares in case of conversion of convertible bonds/ loans 2013		Number of shares 2012		Additional number of shares in case of conversion of convertible bonds/ loans 2012	
Fleischmann Immobilien AG	367 252	9.75 %	–	–	103 500	3.00 %	–	–
Baloise Holding	333 053	8.84 %	–	–	305 300	8.88 %	–	–
Round Enterprises Ltd.	201 203	5.34 %	126 316	3.35 %	201 203	5.85 %	126 316	3.67 %
Franke Artemis Holding AG	189 571	5.03 %	73 684	1.95 %	189 571	5.52 %	73 684	2.14 %
Novartis Pooling Fund I	140 000	3.72 %	–	–	140 000	4.07 %	–	–
Aires International Investment Inc	–	–	762 762	20.24 %	–	–	555 555	16.15 %

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

7. Enterprise-wide risk management

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

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

8. Going Concern – Debt restructuring / refinancing

8.1. Background

The group has been in a turnaround phase for several years. During the reporting period, economic difficulties increased and were further significantly impacted by the following incidents:

- Slower than expected increase of sales volumes
- Unauthorized strike of the employees at PW TGI in Gabon
- Decision to terminate the operations in the Netherlands and the related fire sale of stock at PW Europe
- Convertible loans in the amount of CHF 2 million were due to be repaid

As a consequence of the points mentioned before, the liquidity situation of the group is stressed. According to current plan data the company is able to fulfill its financial obligations until November 2014. The sales volumes of the current liquidity plan are based on a normal operating level.

In addition, convertible loans in the amount of CHF 17 million fall due in December 2014. As of the date of this report the funds for repayment are not available.

8.2. Debt restructuring / refinancing

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

Stressed cash situation

- Discussions to increase of current credit lines with banks in Gabon
- Planned factoring of trade accounts receivable in Gabon

Convertible loans

- Identified possible investors / buyers in Brazil. The focus is on the sale of land titles and on investments in the Brazilian operations.
- Negotiations with the existing bond holders for a possible extension or conversion of the loans
- Negotiations with possible new bond holders and investors

8.3. Uncertainties

Stressed cash situation

The group should have sufficient liquidity until November 2014 under the assumption of the current liquidity plan. However, should these assumptions not materialize as expected, then the group might not be in a position to fulfill its financial obligations.

Convertible loans

Should the required liquidity for the repayment of the loans not be obtained (either through new loan holders, an extension of the repayment terms of the current loans or through new investors), then Precious Woods Group will not be in a position to settle its financial liabilities in the short term.

8.4. Conclusion

The redemption of the convertible loans in December 2014 indicates the existence of a material uncertainty, which may cast significant doubt about Precious Wood's ability to continue as a going concern. In such a case, the financial statements would have to be prepared on a liquidation value basis.

The Board of Directors and Management expect that the proposed measures will be successful, and their effects will be to reduce the indebtedness and to strengthen the liquidity of the Group and assure its financial stability in the long term. Therefore, the Board of Directors and Management believe the going concern assumption of the Precious Woods Group is given.

9. Pledged assets/other securities

As of 31 December 2013, Precious Woods Holding Ltd has no pledged assets or other securities.

10. Fire insurance value

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

Report of the statutory auditor on the financial statements

To the General Meeting of Precious Woods Holding AG, Zug

As statutory auditor, we have audited the financial statements of Precious Woods Holding AG, which comprise the balance sheet, income statement and notes (pages 76 to 82), for the year ended 31 December 2013.

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 2013 comply with Swiss law and the company's articles of incorporation.

Emphasis of matter

We draw attention to Note 8 «Going Concern – Debt restructuring / refinancing» to the financial statements describing the measures taken by the Board of Directors in order to ensure the going concern assumption. This fact together with other matters disclosed in Note 8 indicates the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not qualified in respect to this matter.

Other matter

Should the going concern assumption no longer be appropriate, the financial statements would have to be prepared based on liquidation values. In this case, a concern of over-indebtedness as per article 725 paragraph 2 CO would exist and the relevant provisions would have to be complied with.

Report on other legal requirements

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

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

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

Ernst & Young Ltd



Rico Fehr
Licensed audit expert (Auditor in charge)



Olaf Reich
Licensed audit expert

Zurich, 25 April 2014

Contact addresses

Precious Woods in Europe

Precious Woods Holding Ltd

Company headquarters:
Untermüli 6
CH-6300 Zug
Switzerland
Phone +41 41 726 13 13
Fax +41 41 726 13 19
www.preciouswoods.com
office@preciouswoods.com

Precious Woods Europe B.V.

Weypoort 75
P.O. Box 129
NL-2410 AC Nieuwerbrug a/d Rijn
The Netherlands
Phone +31 34 868 41 00
Fax +31 34 868 81 42
info@preciouswoods.nl

Precious Woods in Brazil

MIL Madeiras Preciosas Ltda.

(Precious Woods Amazon)
Rodovia AM363, KM 1.5, Zona Rural
Caixa Postal 86
Zip Code – 69100-000
Itacoatiara – Amazonas
Brazil
Phone +55 92 3521 3331
Fax +55 92 3521 3329
pwa@preciouswoods.com.br

BK Energia Itacoatiara Ltda.

(Precious Woods Energy)
Rodovia AM363, Km 1, Zona Rural
Caixa Postal 101
Zip Code – 69100-000
Itacoatiara – Amazonas
Brazil
Phone +55 92 3521 3331
Fax +55 92 3521 3329

Precious Woods in Central Africa

Precious Woods Gabon CEB

(Precious Woods Gabon)
P.O. Box 2262 – Libreville
Rue Kringier Rendjombé
Quartier Batterie IV
GA-Libreville
Gabon
Phone +241 01 73 45 79
Fax +241 01 73 87 80
ceb@preciouswoods.com

Precious Woods Gabon TGI

(Precious Woods Gabon)
P.O. Box 993 – Libreville
Quartier Akournam II
GA-Owendo
Gabon
Phone +241 01 70 06 86
Fax +241 01 70 56 51
tgi@preciouswoods.com

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Precious Woods Holding Ltd

Editorship

Jacqueline Martinoli

Precious Woods Holding Ltd

Design

Management Digital Data AG

Photography

Myclimate, Sávio Abi-Zaid

Metamorpho, Michael Bosshard

Precious Woods Holding Ltd

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

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



Precious Woods Holding Ltd
Untermüli 6
6300 Zug
Switzerland



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