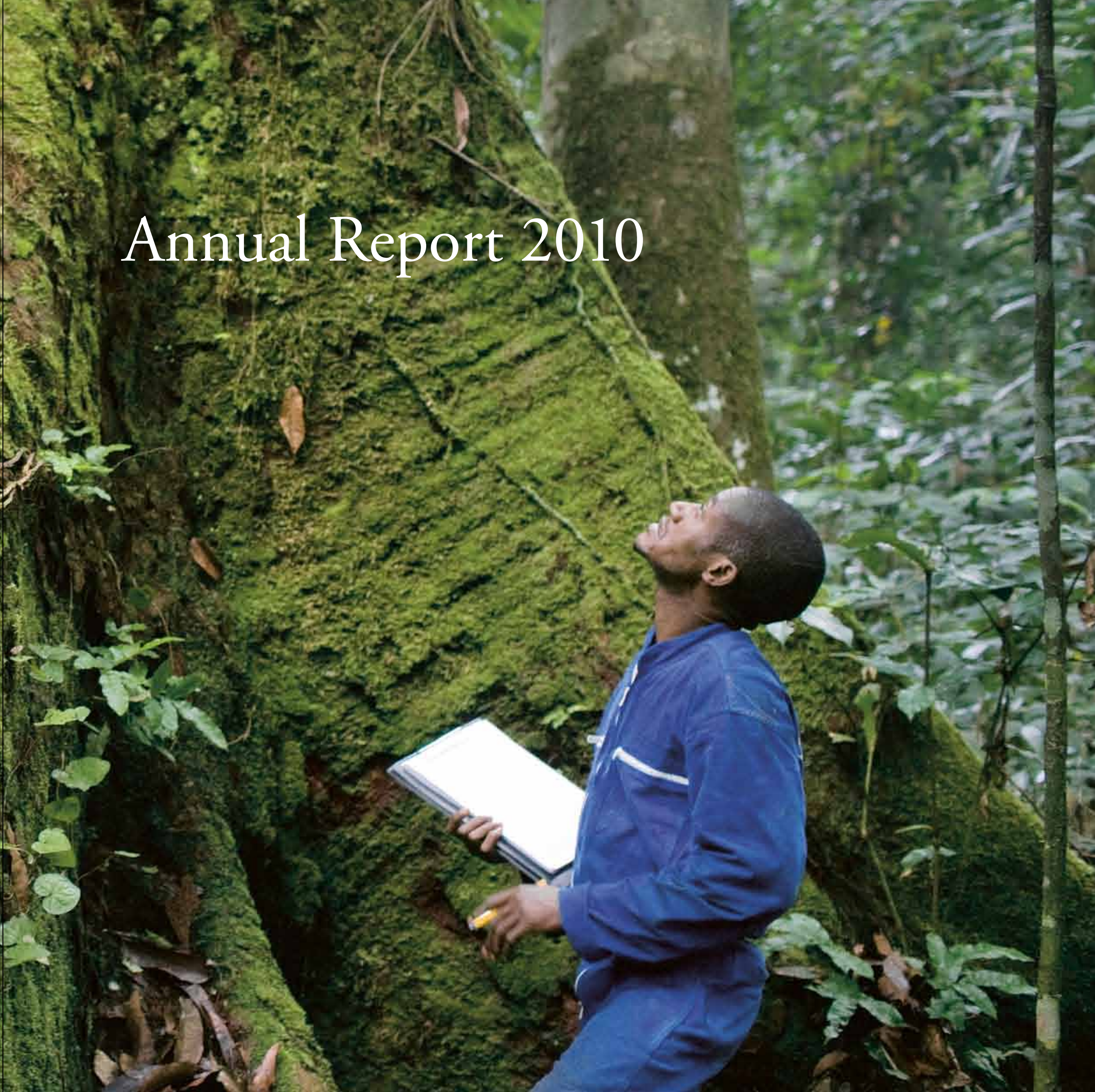
Annual Report 2010



PRECIOUS WOODS ANNUAL REPORT 2010

PRECIOUS WOODS

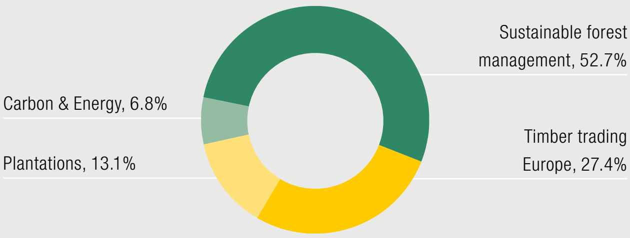
Key Figures and Information for Investors

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

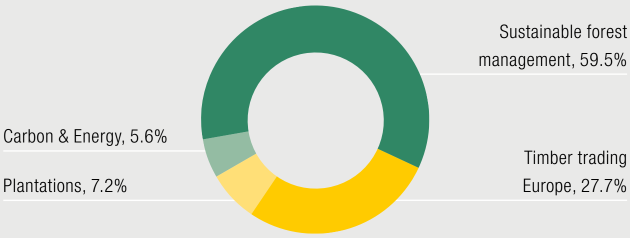
	2010	2009	2008	2007	2006
Total operating income	**80 501**	**87 843**	**116 758**	**99 752**	**59 932**
Depreciation, amortisation and impairment	49 750	14 763	20 094	12 742	9 488
Amortisation & Depreciation	12 350	12 572	13 261	11 210	5 119
Impairments	37 400	2 191	6 833	1 532	4 369
EBITDA	–5 659	–5 881	10 077	20 521	13 382
in % of the total operating income	–7.03	–6.69	8.63	20.57	22.33
EBIT (Result from the operating activities)	**–55 409**	**–20 644**	**–10 017**	**7 779**	**3 894**
in % of the total operating inocme	–68.83	–23.50	–8.58	7.80	6.50
Net result	**–65 606**	**–28 389**	**–14 434**	**10 852**	**5 183**
in % of the total operating income	–81.50	–32.32	–12.36	10.88	8.65
Balance sheet total	224 404	291 324	279 458	312 250	185 269
Shareholders equity	**96 840**	**168 318**	**184 340**	**213 252**	**156 802**
in % of the balance sheet total	43.15	57.78	65.96	68.30	84.63
Net indebtedness	**58 045**	**51 361**	**48 451**	**41 474**	**–16 634**
Cashflow from operating activities	**–3 800**	**2 841**	**11 464**	**4 355**	**8 917**
Investments/Acquisitions	343	3 448	17 195	53 732	7 970
Average full time equivalent employee	1 557	1 706	2 261	2 387	1 608

Total operating income by business segment

2010: TUSD 80 501

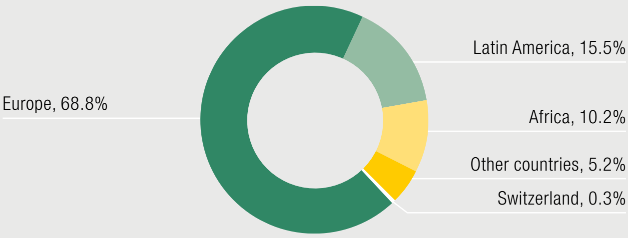


2009: TUSD 87 843

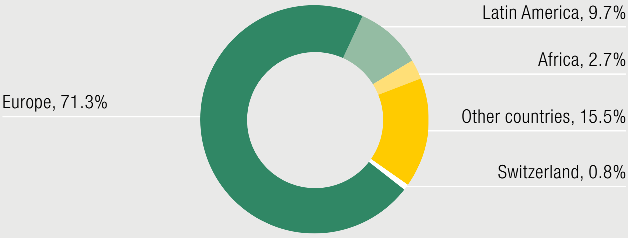


Total net sales by market region

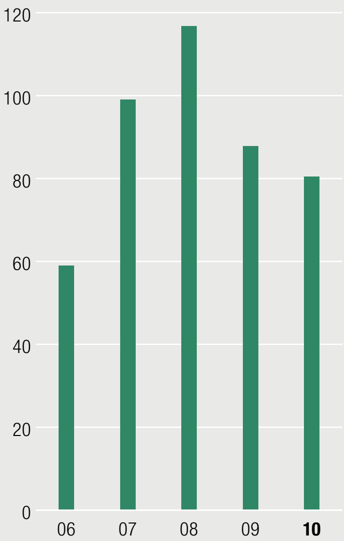
2010: TUSD 72 064



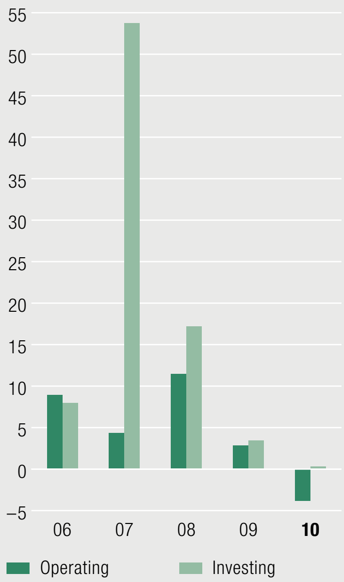
2009: TUSD 81 359



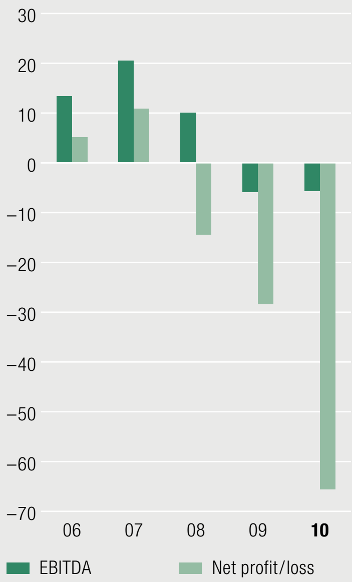
Total operating income
USD million



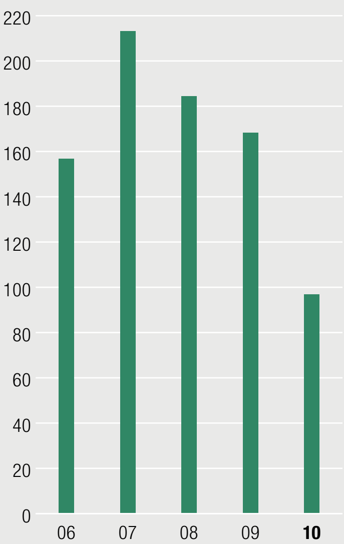
Cashflow from operating and investing activities
USD million



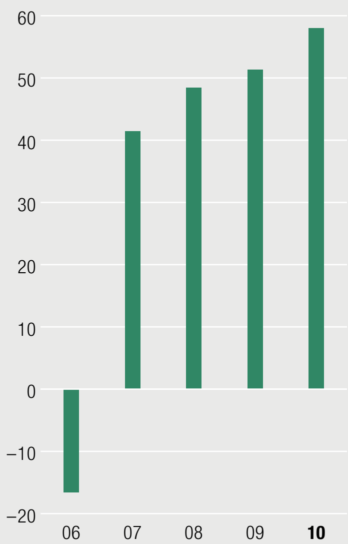
EBITDA and net profit/loss
USD million



Shareholders equity
USD million



Net indebtedness
USD million



Performance of the Precious Woods registered share 1.1.2010–31.12.2010
CHF

Information for Investors	2010
Share price in CHF	22
Stock market capitalisation in CHF million	76
Earnings per share in USD	–18.67

Contents

By creating jobs both directly and indirectly, Precious Woods makes a substantial contribution to economic and social development in remote tropical forest areas. Precious Woods actively promotes lasting improvement in the living conditions of its employees, their families and of village communities.

To our shareholders

For Precious Woods, 2010 was an extremely difficult and painful year. The radical resolution of issues from the past, exceptional factors and value adjustments all took effect, culminating in a highly negative operating result and the transformation of our balance sheet structure. This has been the only way for us to create a new basis for our business and shape a sustainable future.

However, 2010 was also the year of an ongoing turnaround. From a purely operational perspective – i.e. without currency effects and exceptional factors – EBITDA in 2010 had already reached the breakeven point, demonstrating the success of the measures having been implemented since 2009.

Nevertheless, the most important results are a great disappointment for us all: EBIT amounts to USD –55.4 million; issues from the past, exceptional factors and the associated value adjustments result in a net loss of USD –65.6 million. Together, the resolution of old problems and the somewhat delayed turnaround led to an extremely negative quantitative result.

This immediately raises a vital question: is the Precious Woods business model economically viable, or is FSC-based forestry and timber management in the tropics only feasible as a philanthropic undertaking? Management and the Board of Directors have carried out an extensive in-depth analysis of this question with the help of external experts. In this analysis we have reached the unanimous conclusion that an entrepreneurial approach to creating economic, social and ecological value is not only desirable but also achievable. However, only under the following conditions:

- The resolution of issues from the past which were previously unidentified or insufficiently recognized
- The impact of exceptional factors, which arose primarily externally in the year under review, must be minimized as far as possible in the future
- A strong commitment to completing the turnaround by the end of 2011, with the aim of achieving a positive EBIT starting 2012
- An equally strong commitment to realizing the five-year plan as of 2011
- The ongoing development of the quality of management in both the business units and the holding company

Particularly significant are the main pillars of the five-year plan, which should result in the planned target of achieving EBITDA of 15% of net sales in 2015, thus also making our company more sustainable from an economic perspective. The main success factors include increasing productivity in all areas, strong market and customer orientation with increased sales activities and the related services, as well as competent and committed staff at all

Ernst A. Brugger, Chairman of the Board of Directors

Joachim Kaufmann, CEO

levels. Our company underwent an extensive transformation in all three aspects in the year under review – but we will also need 2011 in order to reach our targets. Completing this radical transformation and ridding ourselves of the burdens of the past will enable us to shape up the company for a successful future. We would like to thank all employees for their solid commitment in these times of rapid and far-reaching change.

2011 is the UN International Year of Forests. Our company is considered by the relevant organizations to be the benchmark for sustainable forestry and timber management in the tropics. By being FSC-certified in our own production line, we give proof to adhere to the highest standard for responsible forest management. As a company that will also achieve economic success, we will reinforce our position in the market and improve our productivity while living our mission. This mission stipulates that only entrepreneurial success based on the principles of sustainability will be able to preserve the tropical forests – and by definition also contribute to biodiversity, the water balance and a healthy climate – in the long term. In view of the significant increase in pressure on natural resources, this mission is becoming increasingly important.

We would like to thank you, our shareholders, on behalf of the entire staff for your support during this radical transformation of our company. We want to become more sustainable than ever.

Ernst A. Brugger
Chairman of the Board of Directors

Joachim Kaufmann
CEO

Overview of the year

For Precious Woods, 2010 was an extremely difficult year. The turnaround initiated in 2009 was delayed due to various internal and external factors. The annual result for 2010 suffered significantly due to a large number of exceptional factors and the systematic resolution of issues from the past, which did not come to light until revealed by new findings based on extensive in-depth analysis requested by the Board of Directors and the Group Management. The resolution of issues from the past and exceptional factors is resulting overall in a total consolidated loss of USD 65.6 million and with negative EBIT of USD 55.4 million. The new five-year plan, however, illustrates a realistic path to success, with the overall aim of achieving EBITDA of around 15% of net sales at the end of the planning period and thereby also making Precious Woods sustainable from an economic perspective. The central challenges for 2011 are to complete all necessary measures for a successful turnaround, reduce capital intensity and increase capital productivity, as well as to maintain liquidity.

Building a sound foundation by solving issues from the past

Based on an internal and external analysis performed on behalf of the Board of Directors and the Group Management, very detailed, and partially new findings were made available. These new findings and a deeper insight have also been obtained thanks to new management personnel with a fresh outlook and a stronger focus on efficiency and transparency, a systematic approach to highly complex issues from the past, and new, realistic business plans for the individual business units. According to these new business plans, past acquisitions have been too costly due to (at the time) overestimated earnings potential. Overall on a net loss level, exceptional factors and issues from the past account for a total value of USD 60.9 million.

EBIT suffers due to internal and external factors

The ban on the export of logs from Gabon, which was enforced earlier than expected by the market players, had a negative impact of around USD 5 million. Reduced harvest volumes in Brazil at the beginning of the rainy season due to an extended non-harvest period and a delayed harvest permit, as well as inventory adjustments, had a negative effect of USD 2.5 million. Income from the trade in emission certificates was reduced by almost 50% due to a change in the international valuation method, and EUR exchange rate developments had a particularly negative effect. Additional internal factors such as restructuring costs in all business areas that require legally regulated severance packages, cost-intensive management changes and external consulting services had a negative impact on the operating result.

Successful bridge financing

Due to the delay in the conclusion of the measures initiated, the Board of Directors arranged to increase the liquidity of the Group by means of two loans of CHF 2 million and CHF 5 million from existing shareholders. Both loans have a four-year term and carry the same conditions: they bear interest of 6.25% and can be converted into Precious Woods shares at a strike price of CHF 35. The Board of Directors would like to thank both shareholders for this commitment.

Brazil: lower harvest volumes than expected as well as significant issues from the past and exceptional factors

Problems with harvest permits in 2009 continued into 2010. Extended non-harvesting periods due to an earlier start to the rainy season and delayed harvest permits resulted in considerably lower harvest volumes than expected in the first semester. Timber had to be purchased from third parties in order to ensure capacity utilization at the sawmill and the power plant. Exceptional factors and issues from the past had a significant impact on the annual result in Brazil. The cumulative loss stemming from the operations of Precious Woods Amazon in 2010 amounted to USD 29.8 million, including one-off exceptional factors and issues from the past of USD 22.6 million.

Gabon: export ban on logs hits hard

The export ban on logs came fully into force on 1 January 2010, resulting in a significant drop in profits and initiating investment in the local value chain for 2011. After 25 years of management of Precious Woods Gabon's concession areas the second felling rotation began, resulting in a reduction in first-class Okoumé in terms of both volume and proportion, and requiring the reorientation of the product range and customer portfolio. In addition, the production of sliced veneer at the new TGI plant in Libreville began in September 2010 with modest volumes. In 2010, the companies in Gabon generated a negative operating result of USD 7.3 million which included one-off exceptional factors and issues from the past of USD 12.6 million.

Central America: focusing on log exports

The harvesting of teak forests increased following the recovery of teak prices, with the harvested areas being reforested with improved, cloned seeds. Sales revenue was up thanks to new customers in Asia and a slight improvement in prices. Profitable sales were achieved, thanks in particular to the recovery of international markets for log exports. The termination of industrial processing and thus the sale of processed products led to a reduction in the workforce. The Board of Directors decided on 22 December 2010 to disinvest the Central American assets. Therefore an impairment test has been conducted on the assets forming the cash-generating unit (biological assets and land). This impairment test confirmed the overall value of USD 74.9 million (including the annual growth of the biological assets in 2010). The operating profit of Precious Woods Central America amounted to USD 1.2 million.

Europe: markets slow to recover

The closure of the subsidiary Precious Woods Manufacturing announced in the last quarter of 2009 was completed in 2010. Inventories were in line with 2009 volumes. The age of wood stock was reduced significantly through the sale of older stock. Reorganization and restructuring are starting to take effect. Precious Woods Europe's timber sales amounted to 21 300 cubic metres, which corresponds to net sales of USD 23.4 million and results in negative EBIT of USD 11.2 million, including one-offs of USD 9.6 million.

Carbon & Energy

Income from the sale of CO_2 certificates fell by almost 50% due to an international change in valuation method. Although electricity sales in Brazil increased by 30%, the sale of the corresponding certificates was delayed until 2011 due to late verification. A reforestation project in Costa Rica was completed, while another project in Nicaragua is awaiting validation by the World Bank as cooperation partner. The Carbon & Energy business unit posted sales of USD 5.4 million and achieved a negative EBIT of USD 1.5 million in 2010.

Social and ecological sustainability

Since the foundation of Precious Woods, sustainability has formed the core not only of its corporate philosophy but also of its business model. On 30 May 2010, Precious Woods received the award of the Swiss Environmental Foundation. The current economic situation at Precious Woods is severely testing the company's goal of creating social and economic value. While the necessary reduction in the workforce could not be implemented via attrition in all Precious Woods companies, it was carried out on fair terms and within the relevant legal framework. This restructuring process was the only way in which Precious Woods could preserve fairly paid jobs with social insurance benefits for the remaining employees.

The forest ecosystem is one of the world's most important ecosystems. With reforestation projects and moderate use of the tropical forests, Precious Woods makes a fundamental contribution to ensuring their long-term protection, the preservation of biodiversity and a stable climate and efficient water balance.

About Precious Woods

Precious Woods is a pioneer and leader in the sustainable management and use of tropical moist forests and tree plantations in the subtropics. Its entrepreneurial focus is the manufacturing and sale of FSC-certified tropical timber products. In addition Precious Woods uses biomass to generate electricity and contributes towards the reduction of CO_2 emission. Here the focus is on generating benefits for the customer, who is ultimately the driving force behind the economic success of Precious Woods. Economic success is a prerequisite for social and environmental sustainability, and thus also for the targeted long-term preservation of tropical forests. Headquartered in Switzerland, the Group has international operations that employ a total of around 1550 people in Brazil, Costa Rica, Nicaragua, Gabon, the Netherlands and Switzerland.

Vision
Precious Woods creates economic, environmental and social value for investors, employees, partners and other stakeholders. With its sustainable entrepreneurial success, Precious Woods contributes to preserving tropical forests with their biodiversity and their stabilizing effect on the climate and water systems.

Mission
Precious Woods is a world-leading provider of FSC-certified tropical wood products and services, electricity from biomass and emission rights based on sustainable forest management.

Focus on economic, social and environmental value
We create economic value via our constantly optimized, profitable use of the resources of tropical forests. Through our wide range of timber and non-timber products, we create additional economic benefits that go beyond those of the traditional forestry and timber industry and generate proceeds that will ensure the long-term development of the Group.

Social value is generated by Precious Woods' activities in remote tropical forest areas. By creating jobs both directly and indirectly, we make a substantial contribution to economic and social development in these regions. We actively promote lasting improvements in the living conditions of our employees, their families and of village communities. Our relationships with these local groups and our social achievements have been judged positively within the periodic independent FSC audits.

Environmental value means managing Precious Woods' forest areas and tree plantations systematically in accordance with the methods of sustainable forestry and timber management, in order to preserve these natural, renewable resources with their biodiversity for future generations. With our moderate use of the tropical forests, we make a fundamental contribution to ensuring their valuation and long-term protection, the preservation of biodiversity and a stable climate and efficient water balance.

(The overall social and ecological commitment of Precious Woods is described in the Sustainability chapter on pages 37–39.)

Medium-term targets
Precious Woods wants to ensure satisfaction for its customers, investors and employees. Following the highly acquisition-driven growth of recent years, the company is now aiming to achieve organic growth. Targets include an EBITDA margin of 12–15% of net annual sales over the medium term and a large equity ratio of at least 60%. With a view to securing its operational activities, Precious Woods aims to ensure sufficient liquidity in order to offset seasonal fluctuation. On top of this, Precious Woods aims to be 100% FSC-certified.

Strategy: a customer focus and constantly optimized value chain
Precious Woods places customer benefit – ultimately the basis of entrepreneurial success – at the centre of all its activities. Long-term economic success, which at Precious Woods is based on the principles of sustainability, in turn guarantees the preservation of tropical forests and thus their contribution to biodiversity and a stable climate.

Precious Woods' value chain reaches from the sustainable management of tropical natural forests and forest plantations to timber processing and marketing of the resultant timber and non-timber products for local and international markets. For timber production from our own forest resources, we aim to meet all FSC-certification criteria with the corresponding chain of custody to the end consumer. The procurement of third-party timber products for our own trading focuses on forestry companies that, as suppliers, are either already FSC-certified or have committed themselves to successfully completing the certification process within a defined time frame. Precious Woods supports these suppliers and advises and accompanies them as they work towards FSC certification.

For Precious Woods, the sustainability of its full range of activities is defined and measured according to the principles of the Forest Stewardship Council (FSC), which was founded in 1993 by environmental organizations (WWF International and Greenpeace), the timber industry, trade unions and representatives of various indigenous population groups. Precious Woods' adherence to defined ecological and social criteria is ensured through periodic inspections conducted by independent auditors. Customers of FSC-certified timber products can be confident that these products have been produced in accordance with internationally recognized standards for ecologically and socially sustainable forest management.

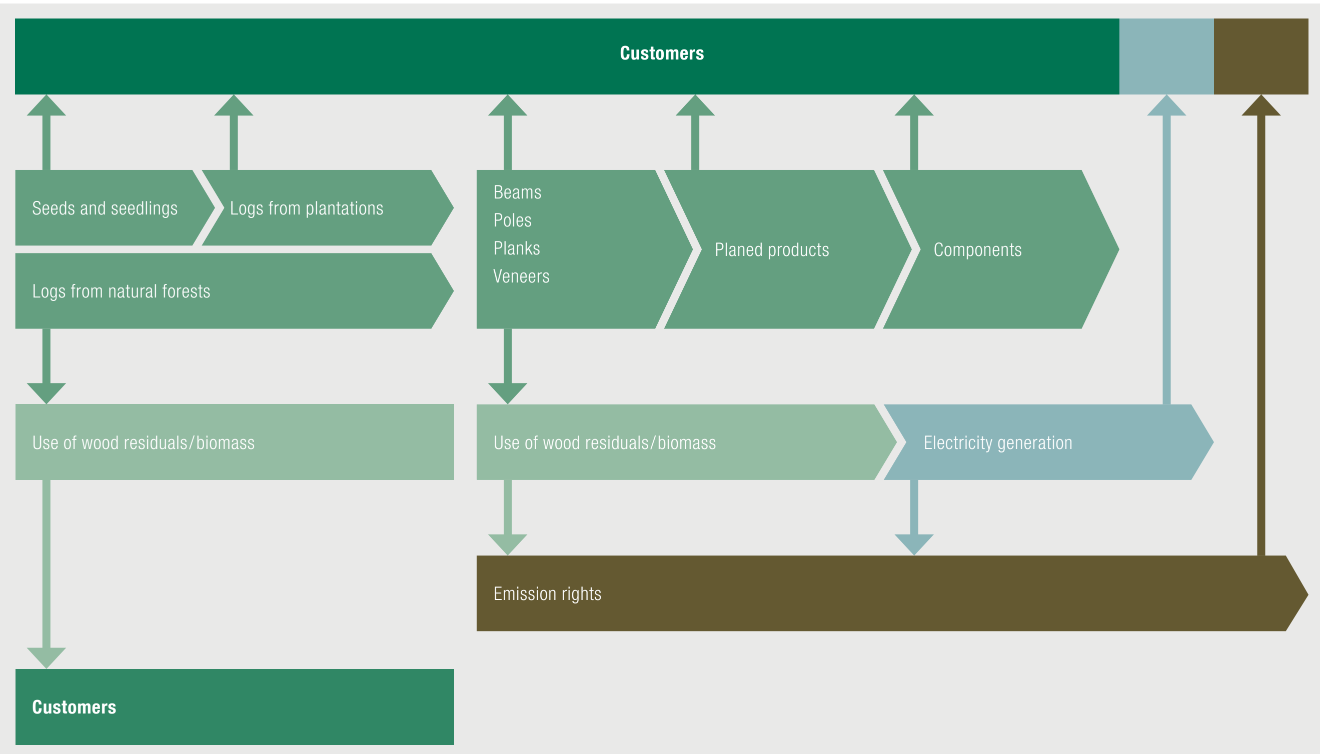
Precious Woods is convinced that, in the long term, countries with tropical forest resources will grant new concessions only to those forest-management companies that are able to fully meet the sustainability criteria. Furthermore, numerous forestry companies active in the tropics have recognized that sustainability certification will be indispensable in the medium term, especially if they want to continue having unlimited access to demanding markets. Precious Woods is convinced that certification will lead to a sustained improvement in the company's market position.

At the same time, consumers in export markets, and increasingly in local markets as well, are putting greater pressure on producers and suppliers of tropical timber to manage their forests in an environmentally responsible manner in order to ensure the long-term preservation of these natural resources. Political and governmental pressure to do so is clearly perceptible. FSC certification is a key element of Precious Woods' corporate strategy, thereby guaranteeing all of its companies a "license to operate" both today and tomorrow.

Global and economic challenges

Precious Woods' future growth will be global in nature, just as our corporate activities have been up to present. The increasing scarcity of natural resources and the economic necessity of using forest resources as efficiently and sustainably as possible within the framework of sustainability criteria call for end-to-end control of the value chain and direct cultivation of sales markets. Precious Woods will therefore continue to operate both in tropical countries with forest areas as well as markets in industrial and developing countries. When selecting suitable locations for forestry operations, Precious Woods not only focuses on the availability, accessibility and quality of forest resources, but also places special emphasis

Products and value chain



on the institutional framework of the respective countries. It includes above all a thorough assessment of the structure and dynamics of the forestry policies and the corresponding legislation, as well as their practical implementation. Previous experience has shown that a country's institutional risk does not necessarily correspond with the specific risks associated with forestry operations. Besides political criteria, economic criteria such as the scale of activities, the structures already in place and the specific interests of local industry also play an important role here. This may explain to a large extent the differences in the acceptance levels and spread of FSC certification. Successful operations in a country with tropical forest resources, therefore, require not only a good knowledge of the criteria but also an understanding of legal-institutional factors and close contact with relevant institutions and interest groups.

Products and markets

Precious Woods produces and sells logs, sawn timber, planed timber, beams, posts, boards and veneers made from high-quality tropical wood. Our holistic approach – ranging from sustainable forest management and reforestation to the supply of advisory services to individual customers – means that we can ensure transparent timber traceability and high product quality. Awareness of the ecological and social consequences of unregulated exploitation of tropical forest resources still varies considerably from market to market. Thanks to the ongoing work of prominent non-governmental organizations, this awareness is gradually increasing and leading to a positive change in the framework conditions. For Precious Woods, with its clear strategy of systematic sustainability, this development offers steadily increasing market potential.

Internationally, Precious Woods is represented above all in markets where FSC-certified timber has reached a high penetration level, such as the Netherlands. French customers and markets in southern Europe, where FSC certification still lags behind, gained importance through the acquisition of companies in Gabon in 2007. In markets with a well-established FSC segment, sales volumes may be bigger but the opportunity to differentiate ourselves from our competitors is generally smaller. This represents a challenge for our marketing strategy and the definition of our product range. The importance of local markets in the countries of timber origin for the sale of FSC-certified timber products is growing steadily due to increasing awareness of the necessity of sustainable forestry.

Precious Woods has a pioneering role when it comes to using forest resources for non-timber products. The generation of renewable energy from wood residuals resulting from the primary and secondary processing of logs will be systematically expanded. Precious Woods is also working with prominent third-party companies to find ways of utilizing wood residuals for new and optimized value-added products.

Trading in emission certificates perfectly complements the traditional timber business. This is a major factor contributing to the economic sustainability of Precious Woods. With its extensive experience in CO_2 projects, Precious Woods is in an excellent position to seize this competitive edge and utilize it to enhance the Group's future growth.

Management organization

The corporate structure of Precious Woods is based upon operationally responsible national companies and a lean Group Management that focuses on the implementation of strategic objectives, communication and marketing as well as financial management and control. Organizational changes made in 2009 and 2010 strengthen the integrated development of joint procurement and sales activities.

History

1990
Precious Woods is founded by Swiss investors with technical assistance from forestry experts from Costa Rica. The company commences operations in Costa Rica with reforestation of abandoned pastureland.

1994
Precious Woods moves into the sustainable management of existing tropical forests and sets up the first sustainable forestry operation in the Amazon. Three years later, Precious Woods Amazon becomes the first company in the region to be certified with the Forest Stewardship Council (FSC) label.

2001
Precious Woods creates another forestry company in the Brazilian state of Pará (Precious Woods Pará) as a joint venture with Dutch timber trading company A. van den Berg B.V.

2002
In 2002, Precious Woods Holding Ltd. gets listed on the SIX Swiss Exchange and becomes a public company.

2003
Precious Woods steadily expands its existing activities, extending its reforestation operations in Central America to Nicaragua.

2005
In Brazil, Precious Woods acquires a wood chip power plant affiliated to its Precious Woods Amazon sawmill in Itacoatiara (Precious Woods Energia). Precious Woods takes over its largest customer and partner, the Dutch firm A. van den Berg B.V. The takeover of A. van den Berg and the founding of Precious Woods Europe lead to a significant turnover growth.

2006
Precious Woods sells its first CO_2 emission rights, thereby expanding its activities in the sector of non-timber products derived from tropical forests.

2007
Precious Woods takes a strategically important step in expanding to Africa, acquiring a forestry company and veneer factory in Gabon. A minority stake in a forestry group in the Democratic Republic of Congo lays the foundations for future growth in Africa.

2008
The subsidiary Precious Woods Gabon receives FSC certification in October 2008 for its forestry activities and chain of custody certification for its industrial operations (sawmill and moulding plant). In Brazil, the unstable legal and institutional conditions in Pará force Precious Woods to abandon this forestry operation.

2009
Precious Woods Holding Ltd. responds to the negative market environment, adapting its organizational and management structure, implementing measures aimed at increasing productivity and redefining its position in its most important markets. With the TGI veneer factory having received FSC certification, Precious Woods becomes the world's first company whose production line in the tropical forestry and timber industry is comprehensively certified.

2010
The restructuring measures initiated the previous year broaden into a radical transformation of the Precious Woods Group. Together with the turnaround, the resolution of newly evaluated existing problems and exceptional factors presents a major challenge. Cost-cutting measures and process-optimization programmes start to take effect, however, and sales efforts begin to bear fruit in the second half of the year. In May 2010, Precious Woods receives the award of the Swiss Environmental Foundation.

Global presence of Precious Woods

Precious Woods Central America has become a supraregional reference regarding the trading of seeds and clones and is a key provider of teak seeds and clones.

Group results

The Precious Woods Group achieved a total operating income of USD 80.5 million during the year under review. This was 8.3% less than the previous year (USD 87.8 million), 6.8% at constant exchange rates. The reported decline in sales is mainly a result of the ban on log exports from Gabon since January 2010 (USD –11 million). The adjusted operating loss excluding one-offs amounted to USD –0.8 million (previous year: USD –8.5 million). Special non-recurring factors in the amount of USD 54.6 million affected EBIT and led to an operating loss of USD 55.4 million. This unsatisfactory operating result is mainly attributable to the sales slump in Gabon as well as newly detected issues from the past, higher restructuring expenses and impairment charges. After taking taxes, interest and special financial factors into account, the net loss (after taxes) amounted to USD 65.6 million including one-offs and to USD 4.7 million excluding one-offs.

Income statement

Operating income

The Precious Woods Group posted total consolidated income of USD 80.5 million during 2010 (previous year: USD 87.8 million). The drop in sales can be attributed mainly to the ban on the export of logs from Gabon since 1 January 2010, diminished harvest volumes in Brazil at the beginning of the rainy season (extended non-harvesting periods because of extreme rainfalls and short delay in issuance of harvest permits by the government) as well as reduced earnings from CO_2 certificates because of changed regulations. Changes in key currencies (EUR, BRL) had a net negative impact on sales figures (USD –1.4 million). Sales on Brazil's local market, however, developed well. The internationally defined new method for calculating CERs (Certified Emission Reductions) resulted in a drop in the number of CERs for methane components by almost one half. Besides the export of logs, which was no longer permitted, sales of sawn wood and veneers from Gabon performed on the prior-year level, which is below the performance of the overall market. Improved margins but declining sales volumes in the Netherlands led to unsatisfactory operating income at Precious Woods Europe (14.7% decline in net operating income compared to 2009). Sales from Central America were stimulated by economic recovery, higher harvest volumes as well as less price pressure for teak. The USD 7.7 million increase in biological assets, reported in earnings, lies within the scope of the long-term trend.

The timber market shows signs of recovery for the near future, however, margins will be depressed. With the revised sales concept which was introduced last year, the company expects to be able to maintain the current price level at least. Parallel to this, measures were introduced to boost both efficiency and productivity as well as to cut costs; these measures were intensified during the second half of the year.

Net operating result (EBIT)

The consolidated operating loss of USD 55.4 million was extremely disappointing. This loss is attributable to lower sales volumes as a result of the log ban in Gabon, diminished harvest volumes for Precious Woods Amazon in the first semester, the virtual halving of earnings from CO_2 certificates and, above all, major special factors with a negative value of USD 54.6 million. Specifically, these non-recurring items concern previously underestimated risks and issues from the past, impairments to tangible and intangible assets, reorganization and restructuring provisions as well as provisions connected with the shutdown in Pará (Brazil).

While Precious Woods Amazon's sales on the local market with improved prices were good, exports were below expectations due to extended non-harvesting periods and, as a consequence, a delay in issuance of harvest permits. Forestry operations in less attractive forest areas as a result of delayed harvest permits, which were only issued during the second half of the year, had a negative impact on earnings. The resulting sales, which were below expectations, and the associated lower contribution margin as well as an excessively high cost base compared to the sales in the amount of USD 14.1 million led to a negative operating result of USD 29.8 million. Furthermore, non-recurring costs in the amount of USD 22.6 million incurred by provisions/costs in regard to issues from the past, write-offs of inventory and receivables, impairment charges and the shutdown of operations in the state of Pará, which was netted off by proceeds from the sale of assets, had a negative impact on the current result. All in all, non-recurring expenses in Brazil totalled USD 22.6 million at year's end, thus resulting in an adjusted negative operating result of USD 7.2 million.

The Carbon & Energy business unit recorded slightly higher overall sales revenues in 2010 compared to the previous year (+9.9%) because of higher production of the power plant. The sales of CERs were affected by the new method for their calculation and therefore dropped by around 50%. The negative operating loss of USD 1.5 million was affected by one-offs in regard to the resolution of issues from the past (minority shareholder) and impairments. Without one-offs the adjusted operating profit was USD 0.8 million.

The earnings of Precious Woods Europe were impacted by a drop of USD 4 million in sales. Additionally, one-offs at the end of the year came to USD 9.6 million. Non-recurring expenditures arose as a result of the deconsolidation of Precious Woods Manufacturing, further restructuring of the trading company and the resulting impairments to goodwill and intangible assets. Excluding non-recurring charges at the end of the year, this resulted in a negative operating result of USD 1.6 million. This negative EBIT prior to one-offs (USD 1.6 million) is mainly attributable to insufficient sales volumes.

Analysis of the EBIT per segment

in USD million	**Operating result 2010**	**One-offs**	**Result incl. one-offs 2010**
EBIT Brazil	**–7.2**	**–22.6**	**–29.8**
EBIT 2010 of the companies in state Pará		–0.1	
Provision for issues from the past		–4.9	
Write-off on inventories and receivables		–2.8	
Impairments (tangible assets, land and roads)		–14.8	
EBIT Carbon & Energy	**0.8**	**–2.3**	**–1.5**
Issues from the past		–1.4	
Impairments (tangible and intangible assets)		–0.9	
EBIT Europe	**–1.6**	**–9.6**	**–11.2**
Restructuring trading company		–0.2	
Deconsolidation of Precious Woods Manufacturing B.V.		–2.1	
Other items		–0.2	
Impairments (goodwill, intangible assets)		–7.1	
EBIT Central America	**3.5**	**–2.3**	**1.2**
Impairments property held for sale		–2.3	
EBIT Gabon	**5.3**	**–12.6**	**–7.3**
Issues from the past		–1	
Restructuring costs		–0.9	
Impairment (goodwill, tangible assets)		–10.7	
EBIT other activities (Holding plus Group adjustment)	**–1.6**	**–5.2**	**–6.8**
Restructuring		–1.9	
Adjustment of inventories		–0.8	
Issues from the past		–2.5	
EBIT total	**–0.8**	**–54.6**	**–55.4**
Financial expenses, net	–7.8	–2	–9.8
Share of profit in associates	0.2	–	0.2
Income taxes	3.7	–4.3	–0.6
Net loss	**–4.7**	**–60.9**	**–65.6**

Operating income performed adequately in Central America and achieved the expected results. The Board of Directors decided on 22 December 2010 to disinvest the Central American assets. Therefore an impairment test has been conducted on the assets forming the cash-generating unit (biological assets and land; see Note 7 of the Group Financial Statements).

Business activities at Precious Woods Gabon, which include forest management and sawn wood processing, were severely affected at Compagnie Equatoriale des Bois (CEB). As a result sales declined by 23.8% compared to the previous year. The main reason was the log-export ban: CEB lost its most profitable business. In a year-on-year comparison, however, 2010 sales prices remained stable for the production of export-quality logs and for sawn wood, planed wood and veneers. The Tropical Gabon Industrie (TGI) veneer mill in Libreville generated positive results throughout the entire year. The resolution of issues from the past, higher restructuring costs and impairments thus led to non-recurring costs and an operating loss of USD 7.3 million. All in all, special factors amounted to USD 12.6 million at the end of the year; viewed with respect to the year as a whole, they essentially generated an adjusted operating profit of USD 5.3 million.

At USD 6.8 million, expenditures for corporate activities plus Group adjustments with an impact on EBIT remained higher compared to the previous year. After adjustments for special factors totalling USD 5.2 million, EBIT even improved from USD –3.6 million to USD –1.6 million. This can be attributed to both adjustments in the organizational structure and stricter cost control.

Financial result and taxes

A non-recurring expenditure of USD 6.3 million is posted under EBIT. This item includes deferred and income taxes from various transactions in connection with the acquisition of Precious Woods Energia and impairment of tax loss carry-forwards totalling USD 4.3 million. Moreover, impairments in net financial expenses in the amount of USD 3.9 million were mainly recorded on the Congo investment. This impact was partly compensated for by the release of some accruals in the net financial expenses.

The net costs of financing for the Precious Woods Group – after adjustments for special factors – rose by USD 2.5 million due to an increase of net interest expenses. The lower net foreign currency losses could be compensated by reduced other finance costs. Ultimately these led to a net loss after tax of USD 65.6 million.

Balance sheet

Year on year, the Group's total assets declined by 23% to USD 224 million in 2010. Around one quarter of this change is attributable to current assets and non-current assets held for sale, and over three quarters to fixed assets. Following currency adjustments, the decrease in total assets was slightly higher (24.7%).

Impairments amounting to USD 37.4 million in assets were USD 35.2 million higher than in the previous year. Net debt rose slightly to USD 58 million in 2010, compared to 51.4 million the year before. The negative result caused the equity ratio to fall from 58% to 43%.

Cash-flow statement

Compared to the previous year, the cash flow from operations (prior to changes in current assets) was impacted by a considerably more negative result and finished the year at USD –15.3 million (previous year: USD –10.2 million). Net cash flow from operations, including changes in net working capital, amounted to USD –3.8 million (compared to USD 2.8 million in 2009). Among other things, the reduction is mainly attributable to the inventory reduction programme in the Netherlands, which brought a cash inflow of USD 14.6 million last year.

Capital expenditures during the year were in the same range as the previous year and totalled 42% of depreciation and amortization (previous year: 46%). The majority of these expenditures were made in the Group company in Gabon, primarily for forest roads, forest facilities and equipment. No shareholdings were bought or sold during 2010.

The cash flow from financing activities amounted to USD –5.5 million, compared to USD +15.7 million in the previous year. Approved at the last Annual General Meeting, the issue of a convertible loan generated a net cash inflow of USD 6.7 million. These funds were used to repay bank debts, net, totalling USD 7.8 million and to fund the operational activities.

Directional felling minimizes the negative impact on the forest during harvest: every felling team has a computer printout to help determine the direction in which a tree should fall. This should be where the least damage is done to the neighbouring trees and where the trunk can be hauled away with minimum damage to the undergrowth.

Brazil – annual results suffer significantly due to issues from the past and exceptional factors

Institutional problems with harvest permits in 2009 partially continued into 2010. Extended non-harvesting periods due to an earlier start of the rainy season and delayed harvest permits resulted in considerably lower harvest volumes than expected in the first semester. This meant that Precious Woods Amazon was obliged to purchase timber from third parties in 2010 in order to fully utilize the sawmill and the power plant, which is operated using sawmill waste. In addition, the operating result suffered due to the resolution of various issues from the past and exceptional factors, including the adjustment of inventories. The necessary personnel changes also represented a further difficulty, with the management team having to be restructured twice with a resulting negative impact on the operating result. The cumulative loss from the operations of Precious Woods Amazon amounted to USD 7.2 million prior to recognition of exceptional factors, resulting in a disappointing negative EBIT of USD 29.8 million.

The background to business developments

The problem with harvest permits was only partially solved in 2010. The Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) prohibited harvesting due to the extended rainy season, leading to a much shorter harvest period that, in turn, led to higher costs. Although Precious Woods Amazon was granted a post-harvest permit in Caribé, the timber harvested was of lower quality. The permit for the first 4000 hectares of the richly forested Fazenda Monte Verde was not received until 4 August 2010 – three months later than planned. Moreover, poor weather conditions during the harvest period as well as geographically challenging terrain made work more difficult.

An inventory review revealed a deviation in the inventory of timber and other goods, equivalent to a value of USD –2.5 million. The corrective actions to avoid such problems in the future have been put in place. Additional costs also resulted from maintenance work in the sawmill and in forestry areas.

Although the withdrawal from Pará was completed in 2009, it continued to have an effect on the 2010 operating result. The partial sale of properties in Pará was, however, successfully completed in 2010. A total of USD 1.4 million in expenses were incurred as a result of the closure and resolution of issues from the past, including a book profit of USD 1.5 million from the sale of non-operational investments.

Losses were also recorded as a result of disproportionately high fixed and maintenance costs for machinery in relation to turnover. Urgent restructuring measures continued to generate costs in 2010 and will not have a positive impact until 2011.

The previous head of the Brazil business unit stepped down by mutual agreement in June 2010 and was replaced temporarily by the local CFO. A CEO has been in place ad interim since October 2010. These personnel changes also generated additional costs.

Precious Woods Amazon

In Brazil, Precious Woods today operates in the state of Amazonas. Precious Woods Amazon has been running a sustainable forestry operation on 473 000 hectares of its own land near Itacoatiara, 250 kilometres east of Manaus, since 1996. The operational activities of Precious Woods in the state of Pará, where since 2001 the company had managed 46 000 hectares of forests (from a total of 76 000 possession rights), were terminated at the end of 2008. The withdrawal from Pará, initiated in 2008, was concluded in 2009.

Since 1997, Precious Woods Amazon has been certified according to the criteria of the Forest Stewardship Council (FSC). The FSC certification of Precious Woods Pará expired at the end of 2008 as a result of the cessation of the company's forestry activities. All other forests are managed sustainably on the basis of a forestry management plan under which only two or three trees are harvested per hectare during a 25-year cycle. This means that the forest is protected simultaneously by the moderate and sustainable use and the income created for the local population. The harvested timber is processed by our own factories into sawn timber, planed timber, construction piles and finished products. These timber products are sold mainly to Europe, the USA and into the national market.

Summary and outlook

Process optimizations included the opening of an order processing centre, the overall restructuring of national and local sales processes and the reorganization of warehouse and shipping management. These rationalization and restructuring measures will have to be implemented more extensively in 2011 through a modernization of information technology. Management changes have been realized, with a view to avoiding inefficiencies and redundancy of functions. These measures are intended to result in a more efficient cost structure in the future.

A further goal is to generate additional income from the sale of wood waste from road building in the forest, thereby opening up an additional value chain for Brazil in the future. The local authorities have already granted the necessary additional approval, and Precious Woods is currently involved in promising negotiations for a long-term collaboration.

With a view to the two major events of the Football World Cup in 2014 and the Olympics in Rio de Janeiro in 2016, local markets will increasingly become the object of sales efforts, providing Precious Woods Amazon with an opportunity well worth exploiting.

At the national level, there were no significant regulatory or political changes, despite the presidential elections held in the last quarter of 2010. President Dilma Rousseff took over as successor to Lula da Silva, keeping the Workers' Party in government. Rousseff is expected to maintain social programmes while implementing stricter efficiency controls.

Key figures Precious Woods Amazon	**2010**	**2009**	**%**
Economic			
Sales sawn and industrialized wood (in m^3)	28 700	22 400	28
Sales logs and piles (in m^3)	1 600	15 200	–89
Sales biomass (in m^3)	93 400	70 300	33
Timber harvest (in m^3)	122 900	113 400	8
Net sales (in USD million)	14.1	9.4	50
Operating result (in USD million)	–29.8	–10.1	–195
Environmental			
Energy consumption (in GJ)	66 700	49 800	34
CO_2 emissions (in t)	3 700	2 900	28
FSC share of timber sales (in %)	99	100	–
Employment			
Employees (yearly average)	679	689	–1
Women (in %)	11.5	10.2	–
Accidents at work	24	33	–27
Days lost per accident	10.6	11.9	–11

Social and ecological sustainability

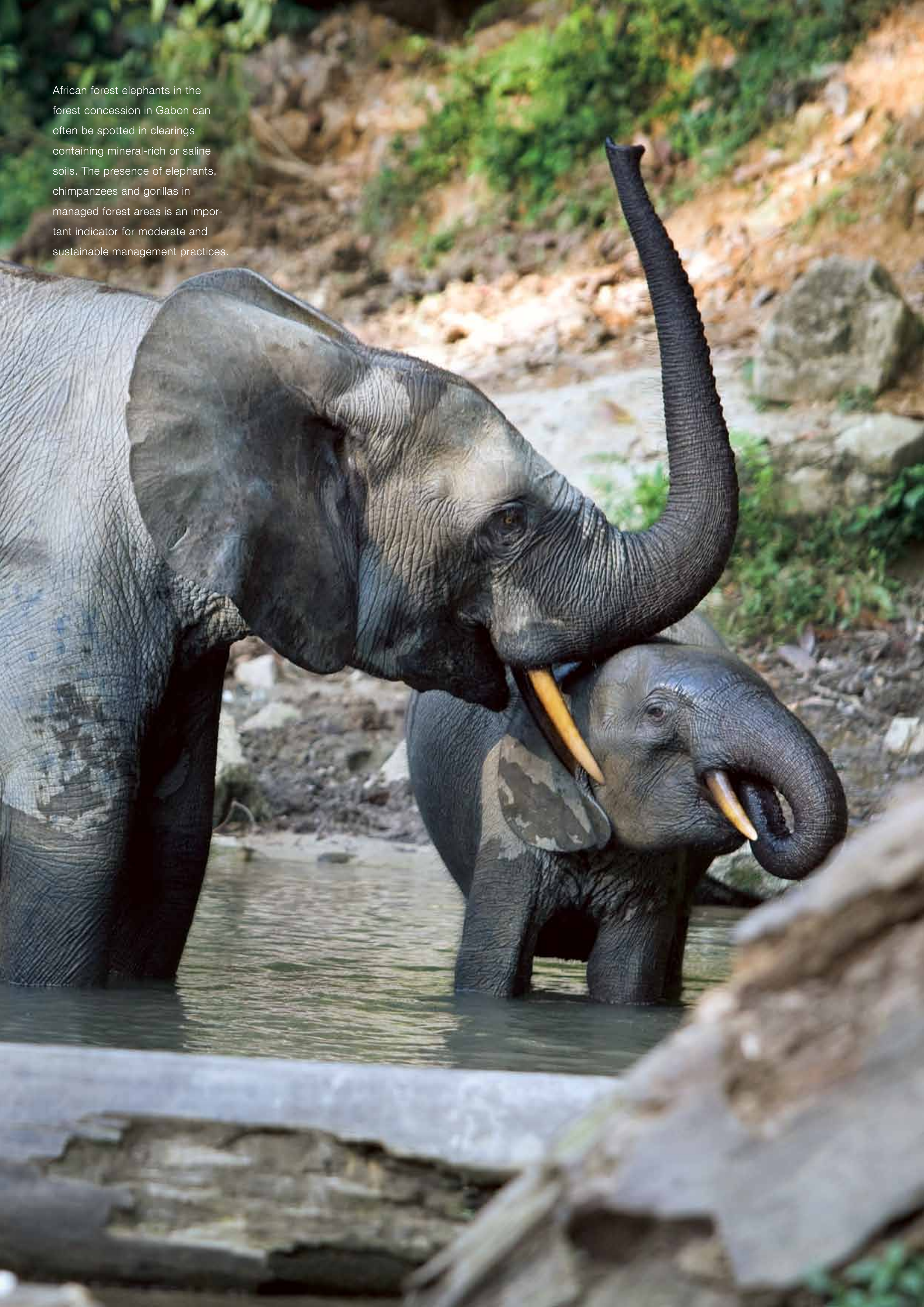
Precious Woods Amazon passed the annual FSC-audit, with some corrective actions for the forest management. An action plan is implemented and will be reviewed in an additional audit in spring 2011. In the mill the FSC-audit went well, despite externally sourced, non-FSC-certified wood having been processed for the first time in 2010. The goal for 2011 is to maintain the FSC level, despite the difficult economic circumstances.

Precious Woods Amazon has made encouraging progress in its collaboration with local village communities:

- Precious Woods Amazon has set up a Community Help Desk as a permanent formal communication channel with village communities – a highly successful and well-received project. In addition, local social organizations in the eastern Amazon region have been provided with further training.
- The harvesting of non-wood products was licensed in the forest management plan. At the Precious Woods Amazon Fazenda Dois Mil, the Green Life Association of Amazonia (Associação Vida Verde da Amazônia, AVIVE) extracts essential oils from tropical trees and other wild plants for medicinal and aromatic purposes, as well as for basic substances for the cosmetics industry. This enables AVIVE to provide work for local village communities and secure the livelihoods of families, who also use the oils to produce soaps, candles and incense sticks. The products are sold in a local shop and online, as well as being exported by WWF Brazil.
- Local food produced by the village communities (cassava, palm fruit, oranges, rambutans, passion fruit and beans) was purchased at fair-trade conditions and sold on to the workforce. A win-win situation for both sides.
- Implementation of the agreement signed with the village communities in 2008 to regulate land rights has begun, and initial socio-economic mapping will take place in 2011.
- A noticeboard has been set up to officially advertise job vacancies at Precious Woods Amazon for the local communities, with a qualification programme by the HR department supporting this FSC-relevant topic.

In the ecological domain Precious Woods Amazon has taken concrete steps: a waste reduction programme has been launched throughout the plant with the aim of saving EUR 10 000 per year. Measures will include replacing disposable cups with reusable ones, for example. In the Caribé forest camp, fat residue from the kitchens is used to produce soap for domestic and textile cleaning purposes. Research is being carried out in partnership with the INPA (Amazon National Research Institute) as to how forest productivity and harvesting efficiency can be improved, thereby enhancing the practice of "reduced impact logging".

(The overall social and ecological commitment of Precious Woods is described in the Sustainability chapter on pages 37–39.)



African forest elephants in the forest concession in Gabon can often be spotted in clearings containing mineral-rich or saline soils. The presence of elephants, chimpanzees and gorillas in managed forest areas is an important indicator for moderate and sustainable management practices.

Gabon – losses as a consequence of changing framework

Three main events shaped the financial year of Compagnie Equatoriale des Bois (CEB) and Tropical Gabon Industrie (TGI), the two companies operating under the name of Precious Woods Gabon. Firstly the export ban on logs came into force in full on 1 January 2010, resulting in a significant drop in sales and necessitating to plan investment in the local value chain. Secondly, the second felling rotation began after 25 years of management of Precious Woods Gabon's concession areas, leading in particular to a reduction in first-class Okoumé in terms of both volume and proportion, and calling for a reorganization of the product range and customer portfolio. Thirdly, the production of sliced veneer began at the new TGI plant in Libreville in September 2010 with volumes that – although modest in the initial learning phase – should increase significantly this year. These events resulted in disappointing net sales of USD 35.8 million, which corresponds to a decline of 24%. EBIT amounts to USD –7.3 million, down USD 7.1 million on the previous year. Despite the difficult circumstances, ecological and social sustainability projects were maintained in full.

The background to business developments

Precious Woods supports the goal of the Gabonese government to increase local value creation. However, the decision to implement the ban on log export as of 1 January 2010, two years earlier than originally planned, was a major challenge for Precious Woods Gabon as well as for all participants in the foresting industry. The termination of log exports caused the loss of a high-margin business, and the resulting drop in sales volumes meant that substantial returns to scale could not be exploited at any stage of the value chain. Due to the lack of processing capacity for hardwood in particular, budget targets could not be met. Repeated machine failures, at the TGI veneer plant in particular, had an additional negative impact on production output. The relocation of the moulding plant from Libreville to Bambidie resulted in a temporary loss of production and sales. Cost control and optimization were neglected in all business areas, a situation that will be resolved fully with the development of the appropriate tools and a database launched in December 2010. Harvest volumes had to be limited overall in 2010, as the processing and marketing capacity necessary to exploit the full potential of logs was not yet available, and the creation of excessive log stocks had to be avoided.

Summary and outlook

The year 2010 was shaped by the political programme of the new Gabonese president, who is aiming to implement fundamental reforms. With regard to the forestry and timber sector, 2010 must be seen as a year of transition, away from primarily exporting logs towards local processing of timber resources. The abolition of export quotas for logs anticipated for the end of 2010 did not materialize.

Meticulous process controls and intensified machine maintenance under the leadership of the new TGI management, which has been in place since October 2010, have produced highly positive results, with a significant increase in productivity already having been achieved. Further process improvements will be implemented in 2011, including specific adjustments to the main processing line in the Okoumé sawmill, the expansion of its drying capacities to around 1600 cubic metres per month, the restructuring of the production line at the moulding plant and the integration of the hardwood sawmill in the overall management activities of Precious Woods Gabon.

Precious Woods Gabon

Precious Woods Gabon consists of the two companies CEB and TGI, and manages an existing tropical forest in eastern Gabon across a concession area of 616 700 hectares. Some 200 000 cubic metres of logs are harvested each year. The company follows a forest management plan which ensures that no more timber is harvested per hectare than will grow back within a harvest cycle of 25 years. Precious Woods Gabon operates a sawmill and a small moulding plant in Bambidie, the main base camp of CEB's forestry operation. TGI's rotary veneer factory for Okoumé veneers is located in Owendo, a suburb of Libreville, near the port. The main sales markets for these products are Europe, North Africa and Asia. In October 2008, Precious Woods Gabon achieved FSC certification for its forestry activities, and TGI followed in January 2010 with certification for its chain of custody.

The project involving an additional sawmill for lumber of various species ("bois divers"), initiated as a result of the introduction of the export ban, was approved by the Board of Directors, and commissioning of this additional sawmill is planned for the second half of 2011. While this move will not yet enable the entire existing potential to be exploited, it will have a significantly positive effect on the operating result. The adjustments to production and layout at the Okoumé sawmill and in the moulding plant will have an effect on output and productivity from the second semester onwards.

The market for timber products and the related pricing of lesser known hardwood species will have to be developed over the course of the year. The development of the local log market is somewhat uncertain. While demand for high-quality Okoumé is increasing, Precious Woods Gabon's harvest potential will fall in the second rotation, substituted partially by new forest management concessions. The situation on the hardwood market is highly competitive, and prices may come under pressure.

The sales and prices of all timber products of Precious Woods Gabon should be maintained as per budget, and a significant improvement in margins is being targeted by means of ongoing productivity improvements and a drastic reduction in machine failures.

Social sustainability

Precious Woods Gabon runs a wide range of socially sustainable activities. Before beginning with the logging in a new forest zone, Precious Woods Gabon obtains the agreement of the village communities affected. Any areas of cultural or religious importance to residents are excluded from logging. By signing a Free, Prior and Informed Consent (FPIC) document, village residents declare their agreement with the management of the forest and the related financial compensation. Four such agreements were concluded in 2010. Pilot projects were also launched to convince village communities to make more sustainable use of the compensation they receive from Precious Woods Gabon. The aim is to promote subsistence agriculture in order to offset the increasingly limited hunting opportunities. While previously the focus was on the construction of houses and schools, cacao is now being grown as a cash crop, and fruit and vegetables are grown for personal use. An agreement with the ministry of agriculture ensures the provision of technical advice and a purchase commitment for the cacao produced.

Key figures Precious Woods Gabon	**2010**	**2009**	**%**
Economic			
Sales sawn and industrialized wood (in m^3)	18 600	10 600	75
Sales veneer (in m^3)	22 400	24 000	–7
Sales logs (in m^3)	29 800	72 900	–59
Timber harvest (in m^3)	161 800	185 200	–13
Net sales (in USD million)	35.8	47	–24
Operating result (in USD million)	–7.3	–0.2	–3 550
Environmental			
Energy consumption (in GJ)	154 100	174 400	–12
CO_2 emissions (in t)	13 600	15 400	–12
FSC share of timber sales (in %)	74	50	–
Employment			
Employees (yearly average)	638	641	–
Women (in %)	7.2	6.7	–
Accidents at work	45	55	–18
Days lost per accident	38.9	16.2	140

Around 700 school children are taught in Precious Woods Gabon's three forest camp schools, and the four communal clinics offer free medical consultations. Sports facilities (a football field and a basketball court) were built in Bambidie in 2010. The football field was named after Jean-Marie Pasquier, the long-standing head of forestry operations, who retired in 2010. Precious Woods would like to thank him sincerely for his dedication over 40 years.

Ecological sustainability

Bureau Veritas confirmed FSC certification of the forestry and processing plants (FM and CoC) in a surveillance audit carried out in October 2010. The FSC-CoC certification of the TGI sliced veneer plant is targeted for 2011.

Large mammals such as gorillas, chimpanzees and elephants are just a few of the endangered species of animals in the Congo Basin, and the presence of these animals in managed forest areas is an important indicator for moderate and sustainable management practices. For more than four years Precious Woods Gabon, in collaboration with Max Hurdebourcq of the Wildlife Conservation Society (WCS) and Cornell University New York, has been monitoring the existence of gorillas and elephants in the concession area. It has already been shown that the sustainable forest management practised by Precious Woods Gabon does not affect the habitat and presence of gorillas. In addition to research work, efforts are also being made to increase awareness among the local population of the importance of protecting the gorillas and their significance for maintaining biodiversity. In the elephant project, Precious Woods Gabon is investigating the presence and migration of elephants in the concession area by means of field observation and acoustic recordings. Initial findings have revealed that the concession area appears to be frequented particularly often by elephants.

In addition, plant species and the development of reforestation zones are being investigated by parties including the NGO Nature+ and the Belgium-based University of Gembloux. In 2010, Precious Woods Gabon organized an environment day for children in the three forest camps.

(The overall social and ecological commitment of Precious Woods is described in the Sustainability chapter on pages 37–39.)

Precious Woods follows the principle of creating an "interwoven mosaic", by intermingling new plantations with existing forests and single trees. Precious Woods Central America's first commercial thinnings are performed when trees are between 9 and 12 years old. Final harvesting is scheduled for 20 years after planting, and harvested land is then immediately replanted.

Central America – more efficient cost structures and refocus on log exports

The harvesting of teak forests increased following the recovery of teak prices, with primarily marginal areas being harvested and reforested with improved, cloned seeds. Sales revenue was up thanks to new customers in Asia and a slight improvement in prices. The entire operations of Precious Woods Central America were restructured in 2010, including a reduction in the workforce and the appointment of a new CEO. The Board of Directors decided on 22 December 2010 to disinvest the Central American assets. Therefore an impairment test has been conducted on the assets forming the cash-generating unit (biological assets and land). The operating result of Precious Woods Central America amounted to USD 1.2 million.

Economic sustainability

The entire operations were restructured in 2010, with industrial processing in particular being discontinued, which also led to a reduction in the workforce. In addition, infrastructure was optimized and the costs of plantation maintenance were reduced, resulting in greater cost-effectiveness. Together with the discontinuation of industrial processing, the sale of processed products was also wound up. At the same time, however, Precious Woods Central America began selling pochote wood in local and regional markets. Trading in seeds and clones continues to perform well, with Precious Woods having become a supraregional reference. The sale of clones in particular generated strong margins.

The valuation method for biological assets had to be changed in the 2010 financial year due to the decision taken by the Board of Directors on 22 December 2010 to disinvest the Central American assets. The automatically required impairment test conducted on the assets forming the cash-generating unit (biological assets and land combined) confirmed the overall value of USD 74.9 million (including the annual growth of the biological assets in 2010).

International markets for log export are on the mend, and Precious Woods Central America has achieved profitable sales in China and Vietnam, with advance payment of 75% of the total amount from the main customers having been secured for all deliveries. In addition, new customers were acquired for existing stocks of pochote, who also carry out harvesting themselves. Furthermore, new local customers also active in the export business and new customers involved in the sale of clones and seeds were acquired. In general, following the collapse of tourism and consequently of the construction industry, the market is currently highly competitive, with some competitors also having had to close their processing operations and sell at very low prices.

Ecological and social sustainability

Precious Woods operations in Costa Rica and Nicaragua successfully passed their FSC-audits in 2010, with little corrective action having been identified. As the plantations are now increasingly entering the harvest phase, the focus of practical FSC work is shifting to the environmentally sound felling of trees and the workforce's safety on the job. All timber was sold as FSC-certified. The teak seedlings from the tree nursery unfortunately cannot be sold as FSC-certified, as no FSC standard for tree seedlings exists yet.

Precious Woods Central America

Precious Woods has been planting hardwoods on former pasture land in northern Costa Rica since 1990. The first commercial thinnings are performed when trees are between 9 and 12 years old. Final harvesting, the period in which Precious Woods Central America generates most of its earnings, is scheduled for 20 years after planting. Harvested land is then immediately replanted. In 2003, Precious Woods also began reforestation activities in southern Nicaragua. In total, Precious Woods' plantations in Central America include 5951 hectares of teak, 653 hectares of pochote and 52 hectares with around 20 different native species. Of these, 4119 hectares are in Costa Rica and 2537 hectares are in Nicaragua. Our plantations also contain more than 4000 hectares of natural forest. The main product sold is teak logs, which are exported primarily to Asia. The prices for exported logs are higher than corresponding prices for processed lumber in the regional market. Pochote from plantations entered the market for the first time in 2010. Precious Woods Central America is also a key provider of teak seeds and clones. The social and ecological sustainability of our operations has been documented and monitored by external inspectors within the context of FSC certification since 2000 in Costa Rica and since 2007 in Nicaragua.

The carbon project launched in 2006 with the BioCarbon Fund of the World Bank is also due for the first harvest. Reforestation of pasture and grassland on three fincas in Nicaragua absorbs CO_2 from the atmosphere and stores it in the wood. As the timber is harvested every 20 years, the resulted temporary CERs (Certified Emission Reductions) are bought by the World Bank at acceptable prices with a view to promoting such reforestation projects. The registration and verification of the first carbon credits are planned for 2011. The first cash flow from the project can be realized if the monitoring report is filed with the World Bank. Political difficulties were experienced with the project in 2010. A local NGO that promotes biodiversity and monkey conservation in south-western Nicaragua disputed Precious Woods Central America's activities before the World Bank. The accusations were discussed and resolved as part of an on-site meeting with the NGO and the World Bank, which took the accusations as an opportunity to carry out an audit of its social and environmental safeguards, in which Precious Woods Central America was successful.

The restructuring led to a lay-off of almost 50% of the employees. In this process the legal requirements and social principles of Precious Woods were fully respected.

(The overall social and ecological commitment of Precious Woods is described in the Sustainability chapter on pages 37–39.)

Key figures Precious Woods Central America	2010	2009	%
Economic			
Sales sawn wood (in m^3)	1 500	800	88
Sales logs (in m^3)	14 000	7 700	82
Timber harvest (in m^3)	18 900	8 500	122
Net sales (in USD million)	2.8	1.4	100
Operating result (in USD million)	1.2	1.4	–14
Environmental			
Energy consumption (in GJ)	5 900	5 300	11
CO_2 emissions (in t)	382	345	11
FSC share of timber sales (in %)	100	100	–
Employment			
Employees (yearly average)	155	280	–45
Women (in %)	3.9	9.3	–
Accidents at work	101	27	274
Days lost per accident	20	23	–13

Precious Woods Europe is one of Europe's leading trading companies specialized in FSC-certified tropical wood. The FSC label is only awarded to those who contribute to the preservation of forests. The market potential of FSC-certified timber products is continuously increasing.

Europe – markets slow to recover

The cost-cutting programme implemented by Precious Woods Europe started to take effect in 2010. Ongoing restructuring and optimization measures are focusing on the up-and-coming markets of the Netherlands, the UK and Germany. While construction activity in the Netherlands did not improve during the year under review, new orders from the UK are promising, and additional important business relationships have been established. The closure of the Precious Woods Europe subsidiary Precious Woods Manufacturing announced in the last quarter of 2009 was completed in 2010. Precious Woods Europe posted negative EBIT of USD 11.2 million.

The background to business developments
Sales figures declined in the previous year, with the total quantity of wood sold amounting to 21 300 cubic metres, down 4.5%. Higher sales prices and a significantly increased margin in comparison with 2009 had a positive impact for 2010, with the shift in strategy to high-margin sales having proved worthwhile.

Just like the timber industry as a whole, Precious Woods Europe also struggled with difficult market conditions and low supply quantities in the 2010 financial year, and some requests could not be fulfilled due to insufficient supply volumes. While in some cases timber had to be bought from third-party suppliers in order to cover shortfalls, even these suppliers were faced with supply shortfalls, and were therefore not always able to deliver on time.

Comprehensive analyses carried out in 2009 concluded that it would no longer be possible to sustain the operations of Precious Woods Manufacturing, and in December 2009 Precious Woods Europe decided to close the subsidiary. Tangible assets and a bank account belonging to Precious Woods Manufacturing were blocked by temporary injunction in February 2010, a move that forced the responsible parties to file for bankruptcy in March 2010. The closure of Precious Woods Manufacturing was completed in March 2010. The situation as such is that all creditors of Precious Woods Manufacturing can be paid in full, and the employees who were made redundant received support based on a social package agreed in advance.

Restructuring and optimization measures
Inventories were in line with 2009 volumes, and the age of wood stock was reduced significantly via the sale of older stock. A reduction in inventories during the course of this year is intended to further optimize inventory management, and a stronger focus on just-in-time delivery is being considered. In 2010, the supply chain was optimized and adjusted in line with the newly restructured, reorganized and streamlined Precious Woods Europe.

With the aim of meeting customer and market requirements, Precious Woods Europe sold not only rough sawn timber but also processed and treated wood. In addition, the Houtselector, an online timber selection tool for the construction sector, has been very well received by Dutch customers, especially architects, who now have a straightforward and efficient tool for finding the adequate FSC timber species for their projects. Precious Woods Europe has succeeded in generating a high level of media attention thanks to this database, which will be expanded further over the course of the years. Attendance at various trade fairs with the new product line Precious Woods Solutions (processed and treated wood products) enabled contact to be established with large numbers of potential customers.

Precious Woods Europe
Precious Woods Europe (based in the Netherlands) joined the Precious Woods Group with the acquisition of A. van den Berg B.V. in 2005. It has 32 employees and is one of Europe's leading trading companies specialized in FSC-certified tropical wood. Precious Woods Europe has nearly 100 years' experience in the sale and functional use of hardwood and has introduced numerous previously unknown Brazilian timber species to the European market. Its customers range from timber distributors to medium-sized and large industrial timber-processing companies to home-improvement retailers, construction companies and government authorities. Its main sales territory is the Netherlands, one of Europe's largest markets for FSC-certified tropical hardwoods. It also exports timber to Belgium, the United Kingdom, Germany, Switzerland, Italy, France and other European countries. The main part of the products consists of rough sawn timber, but more added value is created by kiln drying, planing and treating of the precious hardwoods.

Focus on FSC

Precious Woods Europe has long-standing experience in the sale and use of hardwood, and is one of Europe's leading retail companies for FSC-certified tropical wood. The company will continue to systematically implement its focus on FSC-certified tropical wood as a sales strategy, with the Netherlands, the UK, Germany and Belgium being the most promising markets. While construction projects by public-sector institutions play an important role in these main markets, momentum from private-sector construction for FSC-certified wood increases only slightly.

Regulatory developments and outlook

In 2010, the European Parliament passed a new law, which is due to come into force in 2013, banning illegally logged timber from the European market. It is probable that this new law results in increased demand of sustainably produced timber.

A slight increase in sales volume is anticipated for 2011, based on the current order book and a conservative assessment of existing customers. If the higher sales volumes also generate improved margins and prices, this will lead to a slightly positive result for the 2011 financial year.

Key figures Precious Woods Europe	2010	2009	%
Economic			
Sales sawn and industrialized wood (in m^3)	21 300	22 300	–4.5
Net sales (in USD million)	23.4	27.4	–14.6
Operating result (in USD million)	–11.2	–7	–60
Environmental			
Energy consumption (in GJ)	6 700	8 900	–24.7
CO_2 emissions (in t)	439	685	–35.9
FSC share of timber sales (in %)	81	67	–
Employment			
Employees (yearly average)	32	44	–27.3
Women (in %)	28.1	16.9	–
Accidents at work	–	1	–
Days lost per accident	–	74	–

The 9-megawatt power plant at Precious Woods Amazon generates renewable energy and thus helps to reduce carbon dioxide emissions. It supplies power to 80 000 people in Itacoatiara. Precious Woods' pioneering Carbon & Energy business unit comprises power plants using wood waste and engages in carbon credit projects, thus optimizing its value chain.

Carbon & Energy

In 2010 the Carbon & Energy business unit posted revenues of USD 5.4 million and a negative operating result of USD 1.5 million. Even though sales of electricity in Brazil increased by a third, the sale of the correspondent carbon credits was deferred into 2011 due to an additional request from the respective auditor. A reforestation carbon project in Costa Rica was terminated while another project in Nicaragua, in cooperation with the World Bank, is still pending for validation, with neither having generated any revenues in 2010.

The 9-megawatt power plant at Precious Woods Amazon (Brazil) provided the city of Itacoatiara and the sawmill of Precious Woods Amazon with a total of 45 600 MWh (+24%) of electricity during 2010. All electricity is generated from renewable biomass, the wood waste of the sawmill. Production and sales increased due to constant uptime and sufficient wood supply. Income from electricity sales and CERs (Certified Emission Reductions) amounted to USD 5.4 million (+10%).

Although there was no sale of carbon credits, the constant operation of the Itacoatiara plant generated 45 000 metric tons of CO_2 equivalents in a very conservative approach imposed by the certifier. This is equivalent to the amount of marketable CERs in Europe. The project is currently undergoing revalidation according to the CDM (Clean Development Mechanism) rules. The calculations are adjusted to the actual methodologies in force. Due to this fact and the current political and market situation (see box on page 34), the quantity of approved CERs had to be reduced to a third. This trend was already announced in last year's annual report.

Plans to build a power plant in Bambidie (Gabon) started to be revised in 2010. Precious Woods seized the opportunity by participating in a project financed by the French Global Environment Facility (FFEM) and managed by the International Technical Tropical Timber Association (ATIBT). The goal is to install five power plants utilizing the wood waste of sawmills in Central Africa and thus reduce carbon emissions. Precious Woods will be receiving a reviewed feasibility study, an energy audit and carbon consultancy during 2011.

No revenues were generated from the CCX reforestation carbon credit project in Costa Rica as more carbon was removed by harvesting than sequestered by the tree growth. Continuation could be possible under a new carbon regime (e.g. CarbonFix, as CCX is closed), but was not pursued due to capacity constraints.

The CDM reforestation carbon credit project in Nicaragua was pursued further in close cooperation with the buyer, the BioCarbon Fund of the World Bank. Due to some issues raised by the certifier during the validation process, a further delay was inevitable. Serious allegations by a local NGO caused an additional World Bank audit. Precious Woods was able to prove that the project complies with the environmental and social safeguards of the World Bank. An on-site meeting with the NGO also succeeded in overcoming their allegations and concluded in mutual acknowledgement. Revenues can be generated in 2011 if the first monitoring report is filed with the World Bank.

Carbon & Energy business unit

The business unit comprises power plants utilizing the wood waste and carbon credit projects. In 2010 one power plant in Brazil was in operation, while another plant in Gabon was under development. Both have corresponding carbon credit projects replacing diesel by biomass. Additionally, a carbon credit project is under validation for reforesting former grassland in Nicaragua. For this project we have a close cooperation with the BioCarbon Fund of the World Bank. All carbon projects are set up under the Clean Development Mechanism of the Kyoto Protocol, and can be used in the compliance market of the European Union. The operations and forests of Precious Woods can also be used for carbon projects of the voluntary market. Research was conducted during 2010, in particular for the emerging REDD (Reduced Emissions from Deforestation and Degradation) schemes. Due to sluggish markets as well as capacity constraints, no projects were developed further.

Kicking off new pilot projects under the REDD (Reduced Emissions from Deforestation and Degradation) scheme is a main goal for Precious Woods. Areas in Brazil and Gabon would be eligible. In 2010, intensive research and discussions with experts highlighted the constraints of financing and methodology. Public and private funding (World Bank, UN-REDD or GEF, IFC, ITTO, SECO, Congo Basin Fund, Norway Fund, Warren Buffet, Clinton Foundation, etc.) is focused on capacity building, carbon mapping and REDD-readiness at the country level.

The carbon markets are still at an early stage for forestry projects. In Europe, the world's largest compliance market, forestry projects are still restricted to afforestation. The voluntary market saw the first approved methods in late 2010 and a few pilot projects for complete protection of forest areas. Many NGOs have been developing REDD conservation projects, which are more attractive to the voluntary market than "sustainable forestry" managed by a private company. Precious Woods discontinued any development due to capacity constraints.

Carbon markets

2010 was a crucial year as to how mankind will continue to fight global warming. The climate conference in Cancún in December was perceived as successful compared to its predecessor in Copenhagen. However, no continuation of the Kyoto Protocol was agreed.

Nevertheless the EU set reduction goals for 2020 and gave a strong signal that the EU ETS (Emissions Trading System) will be continued after 2012. The ETS constitutes 75% of the world carbon market and thus is the key driver for carbon projects (2009: USD 143 billion, 6.3 billion metric tons CO_2-eq traded). Demand thrived in 2006–2008 (prices over EUR 20 per metric ton CO_2) and consequently spurred on the development of CDM projects (such as Precious Woods' Itacoatiara power plant). Thus the supply of CERs (equal to avoided metric tons of CO_2 emissions) is plenty. The price fell to EUR 11 in 2010.

Additionally, some dubious CDM projects, lax auditing and loopholes cast a bad light on the carbon market. In the chemical industry some plants seem to be built only to "avoid CO_2". Some 7% of the CDM projects generated 50% of the global total of CERs. In order to restore the reputation of the concept the managing authority of the UN (UNFCCC, United Nations Framework Convention on Climate Change) tightened the rules and put strong pressure on the certifiers. Precious Woods is directly affected by this new policy. The new methodology for the Brazilian project reduces the credits by half, and the certifiers' conservative approach by another 15%. Both CDM projects faced delays in verification and validation and need highly educated personnel to maintain them. However, once approved, the projects still deliver margins of between 15% (Nicaragua) and 50% (Brazil).

Key figures Precious Woods Carbon & Energy	**2010**	**2009**	**%**
Economic			
Energy production (in MWh)	45 600	36 700	24
Carbon credits sold (in t CO_2-eq)	–	163 500	–100
Carbon credits generated (in t CO_2-eq)	45 600	114 000	–60
Net sales (in USD million)	5.4	4.9	10
Operating result (in USD million)	–1.5	0.5	–400
Environmental			
Internal energy consumption (in GJ)	26 900	25 800	4.3
CO_2 emissions (in t)	63	102	–38
Employment			
Employees (yearly average)	39	38	3
Women (in %)	–	–	–
Accidents at work	–	4	–100
Days lost per accident	–	6.8	–100

Creating economic, ecological and social value is the core of corporate philosophy at Precious Woods. Using the forest in a sustainable way attributes it with economic value, preventing it from being converted into agricultural land and thereby creating ecological value. By facilitating jobs with fair working conditions in developing countries, Precious Woods creates social value.

Sustainability

Even in times of crisis, Precious Woods is committed to offering its customers tropical timber with the added value of sustainability and responsibility. We will continue to certify forests and timber processing plants in line with the highest ecological and social forestry standard FSC. The latest FAO statistics (2011) confirm that saving tropical forest remains a vital task: 13 million hectares of tropical forest – an area three times the size of Switzerland – continue to be lost every year. This deforestation accounts for 17% of global greenhouse gas emissions and represents a dramatic loss of biodiversity. The central challenge is to create not only ecological but also economic value with sustainable tropical timber. On the supply side, the competition continues to drive down prices by deforestation and illegal and/or unsustainable logging, with legislative measures in the USA, Asia and many European countries not yet having taken hold. Several of our more serious competitors are now FSC-certified. While consumer interest in FSC wood is increasing constantly, it has still to develop into more than a niche market.

FSC certification

For Precious Woods, however, FSC is more than just a niche: in 2010, 80% of wood sold by Precious Woods Europe, 100% sold by Precious Woods Central America and three quarters sold by Precious Woods Gabon was FSC-certified. There are also customers who, while not paying the premium for FSC-certified wood, still choose Precious Woods as their supplier because they want to be sure of the product's "ethical origins". On the supply side Precious Woods remains the leading forest and timber management company in the tropics, whose forestry and industrial operations are FSC-certified – a consistent commitment to sustainability.

In 2010, Precious Woods was able to maintain the high level of the FSC standard both in its forest management and in its timber processing plants, as confirmed in annual audits carried out by independent external inspectors from Bureau Veritas (Gabon), Smartwood (Brazil, Costa Rica), SGS (Switzerland, Nicaragua) and Control Union (Netherlands). With the partial exception of Brazil, little corrective action was identified, with the system in Gabon even being praised as exemplary.

2010: UN International Year of Biodiversity

At the Holding level, Precious Woods was involved in the international Biodiversity in Good Company Initiative by the German Ministry for the Environment, which presented Precious Woods and its peers at the International Conference of the Parties to the Convention on Biological Diversity in October 2010 in Nagoya, Japan. Negotiation progress was achieved at the conference in recognizing and putting a monetary value on the ecosystem services of water, air, soil and biodiversity. Over the medium term this will result in the generation of a market from which Precious Woods can benefit. Costa Rica is already forging ahead, with Precious Woods Central America receiving annual funds from the state, based on the recognition that the ecological mosaic plantation concept increases biodiversity and protects watersheds.

Precious Woods Gabon's forest concession is home to populations of endangered mammals such as forest elephants, western lowland gorillas and chimpanzees. Protecting them is important for biodiversity, which is threatened by poaching and the illegal trade in bushmeat across many parts of Africa. Precious Woods Gabon facilitates valuable research work in the concession, including elephant projects by the Wildlife Conservation Society (WCS) together with Cornell University New York, and a gorilla project by the researcher Max Hurdebourcq.

Sustainability as corporate philosophy at Precious Woods

Sustainability – creating economic, ecological and social value – has been the core of corporate philosophy at Precious Woods ever since its creation. The goal is to create long-term value to the benefit of both current and future generations. With the management of tropical forest, Precious Woods has taken on the challenge of tackling one of the world's great sustainability problems. According to the latest FAO statistics (2011), 13 million hectares of tropical forest – an area three times the size of Switzerland – continue to be lost every year. This deforestation is responsible for 17% of global greenhouse gas emissions, not to mention the dramatic loss of biodiversity. Sustainable forest management protects tropical forest via moderate use, with approximately one to five trees being harvested per hectare (equivalent to two football fields), and valuable habitats and forest zones being left untouched. The forest is attributed an economic value, which prevents it from being converted into agricultural land, thereby creating ecological value. Precious Woods creates social value by facilitating jobs with fair working conditions in developing countries and by making contributions to local village communities in forest areas. Efforts are also made to offset state failures in education and health. These efforts make it correspondingly more difficult to create economic value. Finding the right balance between the various sustainability values is an ongoing challenge for Precious Woods.

2011: UN International Year of Forests

In addition to ensuring sustainable timber harvesting, Precious Woods consistently devotes a portion of its forests to nature conservation. Specifically excluded from timber harvesting are the high conservation value forests (HCVFs), which are characterized by their high level of biodiversity, endangered plant species, preferred habitats for rare animals and/or special ecosystem services (such as water balance or medicinal plants). The needs of local forest communities with their traditional and cultural identity are also taken into account. Precious Woods Gabon facilitates several research programmes with institutions such as the State Herbarium, Wageningen University in the Netherlands, Ivindo National Park and the WCS. The objective is to gain a better understanding of the extremely diverse flora and fauna of the forest concession. The WCS is also working to determine the CO_2 storage capacity of the forest in Milolé, with the primary aim of identifying the extent to which timber harvesting affects the carbon balance of a tropical forest.

Environmental and social key performance indicators

Environmental indicators	2010	2009	2008
Forest management			
Reforestation (total area in ha)	6 488	6 656	7 085
Forest protection (total area in ha)	1 089 700	1 094 000	1 170 100
FSC share of timber sales	86%	61%	30%
Energy consumption and emissions			
Reduction of CO_2 emissions (in t)	45 600	114 000	144 000
CO_2 emissions (in t CO_2-equivalents)	18 205	19 471	20 700
Production of renewable energy (in GJ)	176 900	132 300	175 000
Electricity consumption (in GJ)	33 000	31 000	31 200
Fossil fuel consumption (in GJ)	201 830	209 300	234 500
Social indicators			
Employees			
Number of employees (yearly average)	1 557	1 706	2 261
Brazil	679	689	802
Gabon	638	641	765
Central America	155	280	573
Europe	32	44	56
Carbon & Energy	39	38	42
Corporate	14	14	23
Women	9.5%	9.0%	7.6%
Rate of employee turnover	8.2%	3.1%	2.2%
Health and safety			
Accidents at work	170	120	280
Accidents per 1000 employees	109	71	124
Days lost per accident	22.4	16.9	11.5
Fatal accidents at work	–	1	–
Training			
Training hours	1 156	11 499	8 380
Training hours per employee	0.7	6.7	3.7

Together with the NGO Nature+ and the University of Gembloux, both of which are based in Belgium, Precious Woods Gabon is researching the regeneration of the forest. Precious Woods will make use of the Year of Forests to highlight our contribution to preserving tropical forests and to reinforce our reputation.

Swiss environmental award for outstanding contribution to sustainability

On 30 May 2010, Precious Woods received the annual award of the Swiss Environmental Foundation, which honoured the successful pioneering work of a private company "in an extremely difficult discipline", the sustainable management of tropical forests. "At Precious Woods 'sustainability' is more than just an empty notion – it is implemented by the company on a daily basis," said Jürgen Blaser of Intercooperation in his congratulatory speech. "This is no mean feat for the company, particularly when it comes to making a profit. However, Precious Woods can rely on the support of investors who consciously prioritize the optimization of sustainability over the maximization of profits. Precious Woods is backed up by individuals who – in these times of climate change, species extinction and the social inequality of globalization – consciously take a different approach to investment. In fact, this award is devoted not only to the management of Precious Woods, but to all these investors."

Social sustainability

The clear goal of Precious Woods to create social value was severely tested in 2010, with jobs having to be cut due to the negative financial situation. In none of the Precious Woods subsidiaries could this be achieved through attrition, making lay-offs necessary. In Precious Woods Central America, job cuts affected almost half of the workforce, respecting legal requirements and social principles of the Precious Woods Group.

Fair wages and social insurance arrangements were secured for the remaining staff, although bonuses and training opportunities had to be reduced. Social benefits for village communities and families in Africa and Brazil were maintained at socially acceptable and legally required levels (apartments, electricity and drinking water supplies, schools, medical care, etc.). Due to cost-cutting measures and capacity bottlenecks, the outsourcing of social benefits to a non-profit organization was not pursued further.

Development of legislation against illegally logged timber

In 2010, the EU issued a directive prohibiting the import of illegally logged timber from April 2013 onwards. Increasing numbers of countries that export tropical timber are concluding voluntary bilateral FLEGT (forest law enforcement, governance and trade in timber products) agreements with the EU, the aim again being to prevent illegal logging. In the USA, a ban on the import of illegally logged timber was added to the Lacey Act in 2009. The first case is currently before the court, with the world-renowned guitar maker Gibson accused of having purchased, via the Hamburg-based timber merchant Nagel, rosewood stolen from nature reserves in Madagascar. As the necessary local permits could be presented however, this business, having been temporarily suspended, now continues. In Switzerland it has been compulsory since October 2010 to indicate country of origin on all wood products. The intensifying legal situation will promote sales of FSC-certified (and thus legal) timber and as such is a positive trend for Precious Woods. There is, however, a risk that customers will be content with legal timber and will no longer demand FSC certification.

Carbon footprint

The CO_2 emissions generated by Precious Woods are recorded in three categories on the basis of World Resources Institute (WRI) classification: (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 25 710 metric tons of CO_2 equivalents, 13% more than in the previous year.

Precious Woods footprint	**Category 1**	**Category 2**	**Category 3**		**Total**
	Direct emissions from fuel consumption	Indirect emissions from electricity consumption	Flights	Transportation	
In tons of CO_2	**14 900**	**3 300**	**810**	**6 700**	**25 710**
Share per category	58%	13%	3%	26%	100%

The best way to protect tropical forests and their rich biodiversity, outside national parks and other reserves, is to use them sustainably.

Corporate governance

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

The following Corporate Governance Report follows 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
RAC	=	Risk & Audit Committee
GM	=	Group Management
RNC	=	Remuneration & Nomination Committee
SOC	=	Strategy & Organization Committee (dissolved in 2010 in order to avoid redundancy of functions)

1. Group structure and shareholders

Precious Woods is active in five operational business segments: sustainable forest management in Brazil, sustainable forest management in Gabon, timber trading in Europe, forest plantations as well as Carbon & Energy. For more information about the individual segments, please refer to page 90 of this report.

Precious Woods Holding Ltd. is the parent company and the only listed company within the Group; it is listed on the SIX Swiss Exchange. Precious Woods Holding Ltd. has its headquarters in Zug and a branch office in Zurich. At the end of 2010, the company's market capitalization was CHF 76 827 234.25. More information about the Precious Woods stock can be found on page 47 of this report. For additional details about the Holding company and the Group's consolidated subsidiaries (name, headquarters and percentage ownership), please refer to Note 1 of the Group Financial Statements of Precious Woods Holding Ltd.

A list of shareholders with over 3% of the voting rights can be found in Note 36 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 SIX Swiss Exchange (PRWN).

2. Capital structure

The ordinary share capital on 31 December 2010 stood at CHF 171 917 750 (3 438 355 registered shares at CHF 50 each). More details about the company's capital structure can be found in Note 22 of the Group Financial Statements. On 15 December 2009, Precious Woods Holding Ltd. placed CHF 17 million in convertible notes with a five-year term and a coupon rate of 6.25%. In addition, on 1 October 2010, Precious Woods Holding Ltd. placed CHF 7 million in convertible notes with a four-year term and a coupon rate of 6.25% with a view to improving the Group's liquidity. Additional information about the convertible notes can be found in Note 21 of the Group Financial Statements.

3. Board of Directors

The BoD is responsible for strategy, organization as well as the supervision and control of operational management. It defines the Group's business policies and principles and is regularly updated on the company's performance. The BoD is authorized to make decisions on all matters that have not been reserved for the Annual General Meeting or conferred on another governing body of the company by law, by the Articles of Association or by other regulations.

The members of the Precious Woods BoD contribute their rich experience and expertise from a wide range of different areas and have both the skills and the time required to ensure that they can critically discuss ideas with GM, and form independent opinions. Members of the BoD are elected in staggered successions at the Annual General Meeting for a maximum term of three years. The Annual General Meeting also appoints the Chairman of the BoD.

Allocation of tasks within the Board of Directors as per 31 December 2010

	RAC	RNC	First elected in	Mandate ends
Ernst A. Brugger		*	2004	2012
Daniel Girsberger		* (chair)	1995	2011
Thomas Hagen	*		2004	2012
Katharina Lehmann			2008	2011
Rolf Jeker			2005	2011
Inge Jost	*	*	2004	2012
Claude Martin			2006	2013
Rudolf Wehrli	* (chair)		2007	2013

The BoD is self-constituting and elects the members of the Board Committees from among its own members. Following the 70th birthday of a member of the BoD, said member shall step down from its post at the company's next Annual General Meeting.

On the occasion of the Annual General Meeting held on 12 May 2009, Ernst A. Brugger was elected as Chairman of the BoD. Two members of the BoD, Claude Martin and Rudolf Wehrli, were re-elected at the Annual General Meeting of 20 May 2010 for a three-year term.

Committees of the Board of Directors

The BoD assigns committees composed of its own members and has a policy that defines their key responsibilities. The BoD appoints the members of the committees and their chairmen. Otherwise the committees are self-constituting, and can issue regulations defining their operating procedures in greater detail. The committees are responsible for preparing and, if necessary, submitting proposals for certain business or staff-related matters to the BoD. Furthermore, they regularly report on their activities to the BoD. Overall responsibility for the duties assigned to the committees remains with the BoD.

The Risk & Audit Committee (RAC) (Rudolf Wehrli, Inge Jost, Thomas Hagen) monitors the concordance between the budget, finances and organizational activities. It examines the interim statements, Annual Financial Statements and the budget. In addition, it oversees relations with the external auditors. The RAC is responsible for monitoring the internal control system (ICS) and risk-management procedures as well as monitoring processes that ensure compliance with legal and regulatory requirements. Further information detailing the assigned tasks and operating procedures of the RAC (or any of the other committees) including details of its supervisory and control instruments with regard to the external auditors can be found on our website (Investor Relations – Corporate Governance – Board of Directors).

The Remuneration & Nomination Committee (RNC) (Daniel Girsberger, Ernst A. Brugger, Inge Jost) ensures correct terms and conditions of engagement for GM and the senior executives of the subsidiaries. It evaluates new members of the BoD and GM, proposes elections and compensation rules to the BoD and is responsible for overseeing corporate governance.

Board of Directors (from left to right): Thomas Hagen, Rudolf Wehrli, Rolf Jeker, Claude Martin, Katharina Lehmann, Inge Jost, Daniel Girsberger, Ernst A. Brugger

Members of the Board of Directors

The Precious Woods BoD has eight members. The following information about the members of the BoD as well as their roles and activities at Precious Woods and cross-involvements represents the situation on 31 December 2010.

Prof. Ernst A. Brugger (Prof. Dr. phil. II), Swiss citizen, born in 1947, Chairman of the BoD since 18 May 2009, member of the RNC, member of the BoD since 2004, mandate ends in 2012.
Other activities and interests:

- Chairman of the Board of Directors of BHP – Brugger und Partner AG, Zurich
- Chairman of the Board of Directors of Sustainable Performance Group SPG, Zurich
- Chairman of the Board of Directors of BlueOrchard Finance S.A., Geneva
- Chairman of the Board of Directors of SV Group, Zurich
- Member of the Board of Directors of Mercuri Urval AG, Zollikon
- Member of the Board of Directors of Trüb AG, Aarau
- Member of the Board of Directors of BG Bonnard & Gardel Holding SA, Lausanne
- Member of the Board of Directors of Paul Reinhart AG, Winterthur
- Member of the Board of Directors of Marcuard Family Office AG, Zurich

Prof. Daniel Girsberger (Prof. Dr. iur.), Swiss citizen, born in 1960, Vice-Chairman of the BoD, Chairman of the RNC, member of the BoD since 1995, mandate ends in 2011.
Other activities and interests:

- Full professor at the Faculty of Law of the University of Lucerne
- Chairman of the Board of Directors of the Centre for Conflict Resolution, Lucerne
- Vice-Chairman of the Swiss Association for International Law, Zurich
- Partner in the law firm Wenger & Vieli AG, Zurich

Thomas Hagen (business degree), Swiss citizen, born in 1957, member of the RAC, member of the BoD since 2004, mandate ends in 2012.
Other activities and interests:

- Member of the senior management of the Baloise Group, Basel
- Member of the Investment Commission of the Pension Fund of the canton of Basel-Stadt, Basel

Katharina Lehmann (economist, graduate of the University of St. Gallen, HSG), Swiss citizen, born in 1972, member of the BoD since 2008, mandate ends in 2011.
Other activities and interests:

- Owner, Chairwoman of the Board of Directors and Chief Executive of Holzwerk Lehmann AG and Blumer-Lehmann AG, Gossau
- Chairwoman of the Board of Directors of Erlenhof AG and Erlenhof Energie AG, Gossau
- Member of the Board of Directors of Wey Modulbau AG, Wohlen
- Member of the Board of Directors of Holawag AG, Küssnacht
- Member of the Board of Trustees of the pension fund foundation of Holzwerk Lehmann AG, Gossau
- Member of the Board of Directors of Handels- und Industrievereinigung Gossau

Dr. Rolf Jeker (economist, graduate of the University of St. Gallen, HSG), Swiss citizen, born in 1946, member of the BoD since 2005, mandate ends in 2011.
Other activities and interests:

- President of the Supervisory Board of Osec Business Network Switzerland, Zurich
- Chairman of the foundation board of the myclimate foundation, Zurich
- Member of the Board of Trustees of the Swiss Climate Cent Foundation, Zurich
- Member of the Board of Trustees of Swisscontact, Zurich
- Member of the Board of Directors of Case New Holland (Fiat), Amsterdam
- Member of the Advisory Board of the Emerging Markets Forum, Washington
- Member of the Commission for Foreign Economic Affairs of economiesuisse, Zurich
- Vice-President of the AO Foundation, Davos

Inge Jost (lawyer with a postgraduate degree in Business Management from the University of St. Gallen, HSG), Swiss citizen, born in 1960, member of the RAC and RNC, member of the BoD since 2004, mandate ends in 2012.
Other activities and interests:

- Head of Internal Audit, Compliance, Legal Affairs with Vetropack Holding AG, Bülach

Dr. Claude Martin, Swiss citizen, born in 1945, member of the BoD since 2006, mandate ends in 2013.
Other activities and interests:

- Former Director General of WWF International, now serving in an advisory capacity
- Chancellor of the International University in Geneva
- Chairman of NATUR, the Swiss sustainability platform, Basel
- Vice-Chairman of International Institute for Sustainable Development IISD
- Member of the Board of MAVA Foundation

Dr. Rudolf Wehrli (PhD and ThD), Swiss citizen, born in 1949, Chairman of the RAC, member of the BoD since 2007, mandate ends in 2013.
Other activities and interests:

- Former CEO of Gurit-Heberlein AG, Wattwil
- Vice-Chairman of the Board of Directors of Clariant AG, Muttenz
- Member of the Board of Directors of Berner Kantonalbank AG, Bern
- Member of the Board of Directors of Kambly Holding AG, Trubschachen
- Member of the Supervisory Board of Rheinische Kunststoffwerke (RKW) SE, Frankenthal
- Member of the Board of economiesuisse, Zurich
- Member of the Board of Trustees of Avenir Suisse, Bern

Additional information about the individual members of the BoD can be found in the individual CVs on our website (Investor Relations – Corporate Governance – Board of Directors).

The Strategy & Organization Committee (SOC) (Ernst A. Brugger, Katharina Lehmann, Rolf Jeker, Claude Martin) was dissolved in the second quarter of 2010 in order to avoid duplication of the strategic role of the Board. Up until its dissolution, the SOC concerned itself with the strategic development of the Precious Woods Group and analysed potential expansion and cooperative projects. It was also responsible for monitoring the Group's compliance with the principles of sustainability and corporate ethics. These issues are now discussed directly by the BoD as a whole.

The full Board of Directors (BoD) discusses and makes strategic decisions at the request of GM and its committees. With the exception of matters that the BoD alone has authority to decide upon, day-to-day operational management is delegated to the CEO and GM. Ernst A. Brugger held the post of interim CEO of operational GM from 1 November 2009 to 31 May 2010. Joachim Kaufmann took on the role of CEO of the Precious Woods Group on 1 June 2010.

The BoD met a total of 13 times during 2010 (each meeting lasted from three to eight hours). The BoD also held one multi-day closed conference. During this session the risk analysis was conducted amongst others. The individual committees met between three and seven times in 2010.

The BoD keeps itself informed of business matters on the basis of Group-wide, periodic, operational and financial reports. All relevant documents are made available to the members of the BoD on a regular basis. During the year under review, various external advisors were called in by the BoD to perform a comprehensive analysis of the company. The advisors did not perform any managerial functions for Precious Woods, however.

Further details about the decision-making process, areas of responsibility and control mechanisms at Precious Woods can be found in our by-laws, which are published on our website (Investor Relations – Corporate Governance – Articles of Association and by-laws).

4. Group Management

GM handles the day-to-day operational management under the leadership of the CEO. The organization, functions and competences of GM and its members are recorded in executive management policy. Information about the operating procedures and duties of the members of GM can also be found on our website (Investor Relations – Corporate Governance – Articles of Association and by-laws).

In 2010, GM consisted of Ernst A. Brugger, interim CEO (from 1 November 2009 to 31 May 2010), Joachim Kaufmann, CEO (since 1 June 2010) and Cornelia Gehrig, CFO (since 1 February 2009).

Joachim Kaufmann, born in 1954, German citizen. Joachim Kaufmann (Ing. HTL) has been CEO of the Precious Woods Group since 1 June 2010. Previously CEO of the Feintool Group in Lyss, Head of the Stamping and Forming division at Adval Tech after having been Head of the Components and Systems business unit in Niederwangen, as well as in various positions at Sulzer, Winterthur. During his time at Sulzer he spent seven years in Brazil.

Cornelia Gehrig, born in 1966, Swiss citizen. Cornelia Gehrig (lic. rer. pol., chartered accountant) has been CFO of the Precious Woods Group since 1 February 2009. She was previously CFO of the Ionbond Group, Olten, Finance Director of Cablecom GmbH in Zurich and Head of Group Treasury and Controlling of the Mikron Technology Group. Since 2003 she has held a seat on the Board of Directors and Board of Trustees of several Visana companies and foundations.

Group Management: Joachim Kaufmann (CEO) and Cornelia Gehrig (CFO)

Additional information about the members of GM can be found in their CVs on our website (Investor Relations – Corporate Governance – Executive Management).

5. Compensation, shareholdings, loans

Employment contracts, the Employee Stock Purchase Plan, the Management Incentive Plan as well as internal regulations regarding the remuneration of the BoD provide the framework for the compensation and stock option plans of the BoD, GM and the senior managers of the subsidiaries. Compensation is paid to the members of the BoD on a semi-annual basis. In the case of services provided by members of the BoD as requested by the company that clearly lie outside the usual scope of Board activities, compensation is specified by the Board. Committee members are compensated for their activities on the basis of the actual expenditure of time. Decisions regarding compensation and shareholdings for the BoD and GM are made annually on the basis of the recommendations and proposals submitted by the RNC.

The regulations mentioned as well as a detailed list of compensation granted to the members of the BoD and GM can be found on our website (Investor Relations – Corporate Governance – Remuneration Policy), in Note 24b of the Group Financial Statements and in Note 5 of the statutory Annual Financial Statements of Precious Woods Holding Ltd. All management personnel and employees are insured in accordance with the minimum legal requirements of the countries in which they are employed.

As of the end of 2010, no material severance packages, loans or other benefits had been granted to members of the governing bodies.

No cash compensation, shares, options, loans or other payments are made to former members of the governing bodies. A list of shares and options held by members of the BoD, GM and senior management can be found on our website (Investor Relations – Corporate Governance – Remuneration Policy) and in Note 5 of the Annual Financial Statements of Precious Woods Holding Ltd.

6. Shareholders' rights of participation

Shareholders of Precious Woods enjoy all the rights to which they are entitled without any statutory restrictions on voting rights. There are also no clauses differing from the legal provisions regarding statutory quorums. 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 may be made up to 30 days before the meeting, subject to compliance with legal requirements. At the ordinary Annual General Meeting held on 20 May 2010, all statutory items on the agenda were approved. The minutes of the Annual General Meetings are published on our 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 "opting-out" or "opting-up" clauses or clauses on changes of control.

8. Auditor

The Annual General Meeting selects an external auditor that possesses the independence and professional qualifications as stipulated by law. The subject and procedure of the audit shall be based on legal provisions. The term of office is one fiscal year. The Group's accounts were audited by PricewaterhouseCoopers, Zurich, from 2004 to 2009, and in 2010 Ernst & Young, Zurich, took on the role of Group auditor. In 2010, the auditing fees paid to the Group auditor amounted to USD 322 086. The Group auditor received an additional USD 49 771 consulting fees from the company. All subsidiary companies were audited by Ernst & Young. The efficiency and effectiveness of the external audit is monitored by the RAC. Two meetings between the RAC and the auditors took place in the year under review. Detailed information can be found in the RAC Charter, which is published on our website (Investor Relations – Corporate Governance – Board of Directors).

9. Information policy

Precious Woods pursues an active and open information policy. Each year, the shareholders are informed about current developments through the Annual Report and at least one Shareholders' Letter. The August Shareholders' Letter contains the results of the first half of the year in accordance with IAS 34.

Furthermore, Precious Woods maintains an informative website (www.preciouswoods.com) that is updated on a regular basis. In compliance with the regulations of SIX Swiss Exchange governing ad hoc publicity, Precious Woods also publishes details of any events that may affect the stock price.

Further information can be obtained from Investor Relations (+41 44 245 81 20 or media@preciouswoods.com).

Shareholder information

Share capital
On 31 December 2010, the fully paid share capital of Precious Woods Holding Ltd. amounted to CHF 171 917 750. It is divided into 3 438 355 registered shares with a nominal value of CHF 50 each. Additionally, the company has conditional capital of CHF 81 262 600 to cover options and conversion rights.

Equivalent to 100 shares
In Brazil, Precious Woods owns 473 000 hectares of forests, and in Gabon it holds a forest concession of 616 700 hectares. In Central America the company owns 6448 hectares of reforestations and 5028 hectares of existing forest. Thus, by purchasing 100 shares, in 2010 a shareholder could become an indirect owner of roughly 137 600 square metres of forest in the Amazon region, 179 000 square metres of forest in Gabon (forest concession), as well as 2000 square metres of tree plantations and 1500 square metres of existing forest in Central America.

Stock market listing
Shares of Precious Woods Holding Ltd. have been listed on the SIX Swiss Exchange since 18 March 2002.

Stock type: registered share
Nominal value: CHF 50.00
Security number: 1 328 336
ISIN number: CH0013283368
Ticker symbol: PRWN
Reuters: PRWZn.S

Share register information
(Entries, transfers, changes of address, etc.)
Nimbus AG
Ziegelbrückstrasse 82
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Phone +41 55 617 37 37
Fax +41 55 617 37 38
preciouswoods@nimbus.ch

Company headquarters
Precious Woods Holding Ltd.
Baarerstrasse 79
CH-6300 Zug
Phone +41 41 710 99 50
Fax +41 41 710 99 51
www.preciouswoods.com

Information for investors	2010	2009	2008	2007	2006
Share price in CHF per 31.12.	22	38	36	122	87
Stock market capitalization in CHF million	76	131	124	410	262
Earnings per share in USD	–18.67	–8.17	–4.25	3.35	1.77
Equity (book value) per share in USD	28.16	48.95	53.62	64.71	52.63
Assets per share					
Primary forest in Brazil in m^2	1 376	1 376	1 597	1 632	1 826
Primary forest in Gabon in m^2	1 794	1 794	1 794	1 782	–
Reforestations in Central America in m^2	19	19	21	20	21
Average age of reforestations (years)	10.1	8.4	8	7.5	7

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Stock price developments

2010 was a highly volatile year for Precious Woods stock, both in absolute terms as well as in comparison with comparative indices of the SIX Swiss Exchange such as the SMI and SPI. The most extreme stock prices recorded were CHF 14.80 in December and CHF 39.50 in January. The average for the year was CHF 30.66. Daily trading volumes were subject to large fluctuations, which is normal for small-cap stocks. The average daily trading volume in 2010 was 2472 shares, which was higher than the five-year average of 2083 shares.

The share price performance for the year under review was –41.18% (prior year: +4.97%). During the year under review, the price trend was impacted by two rather large movements and corresponding decoupling from the stock exchange indices. Up until the announcement of the annual result for 2009 the price remained at a slightly lower level than the beginning of the year. Following the announcement of the annual results, the share price fell towards the middle of the year, and then recovered slightly before the interim results were released. The overall downward trend went on to gain considerable momentum, with the annual low of CHF 14.80 coming in December 2010. The price then recovered and ended the year at CHF 22.35.

Precious Woods stock remained below the price range of its main listed competitors (Groupe Rougier and DLH) in 2010.

As approved by the Annual General Meeting in May 2010, a convertible loan issued in the amount of CHF 7 million was successfully placed at the end of September.

Indices

Precious Woods has been included in the nx-25 index since 2004. The nx-25 consists of 25 companies selected in accordance with ethical-ecological and social criteria from a variety of countries and sectors and that are expected to be profitable over the long term. At least 75% of these companies generate annual sales of more than USD 100 million each. Up to 25% of the nx-25 securities are from highly innovative small and medium-sized enterprises that drive the development of ecologically innovative products forward. The list is published in the *Öko-Invest* business magazine.

Performance of the Precious Woods registered share 1.1.2010–31.12.2010

Source: SIX Swiss Exchange

Tropical forests in Central America are under severe pressure due to overuse. Precious Woods Central America plants hardwoods on former pasture land in Costa Rica and Nicaragua. The reforestation leads to the re-establishment of forest ecosystems.

Precious Woods Group financial statements

Consolidated balance sheet as of 31 December 2010 and 2009 (in TUSD)

ASSETS	Notes	2010	2009
Current assets			
Cash and cash equivalents		10 326	18 825
Trade and other receivables	3	12 384	13 655
Inventories	4	27 262	28 748
Other current assets	5	1 911	1 633
Total current assets		**51 883**	**62 861**
Non-current assets			
Property, plant and equipment	6, 8	83 444	107 955
Biological assets	7	63 654	59 048
Intangible assets	9	12 437	33 528
Investment property	10	–	6 393
Investments in associates	11	1 925	2 046
Non-current financial assets	12	3 526	7 958
Other non-current assets	14	341	1 905
Recoverable taxes	13	6	1 222
Deferred income tax assets	37	1 174	5 526
Total non-current assets		**166 507**	**225 581**
Non-current assets held for sale	15	6 014	2 882
TOTAL		**224 404**	**291 324**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2010	2009
Current liabilities			
Trade and other payables	16	23 348	18 770
Current income tax liabilities		2 006	634
Current financial liabilities	17	35 889	13 835
Current provisions	18	3 799	3 963
Current derivative financial instruments	20	490	–
Total current liabilities		**65 532**	**37 202**
Non-current liabilities			
Long-term convertible bonds and loans	17, 21	29 255	13 988
Non-current financial liabilities	17	3 227	42 363
Deferred tax liabilities	37	21 420	26 899
Non-current provisions	18	8 130	2 554
Total non-current liabilities		**62 032**	**85 804**
Equity			
Share capital		127 002	127 002
Additional paid-in capital		65 823	65 750
Foreign currency translation reserve[1)]		2 219	8 177
Retained earnings[1)]		–98 876	–34 673
Equity attributable to owners of Precious Woods Holding Ltd.		**96 169**	**166 256**
Non-controlling interests		**671**	**2 062**
Total shareholders' equity		**96 840**	**168 318**
TOTAL		**224 404**	**291 324**

[1)] The prior-year figures have been restated. Please refer to page 58.

Consolidated statement of comprehensive income 2010 and 2009 (in TUSD)

	Notes	2010	2009[1)]
Net sales from trading activities	26	72 064	81 359
Revenue from emission reduction activities	27	744	1 644
Increase in fair value of biological assets	7	7 693	4 840
Total operating income		**80 501**	**87 843**
Cost of sales	29	**–64 849**	**–74 293**
Operational contribution		**15 652**	**13 550**
Administration and other labour costs	29	–11 108	–12 036
Other expenses	30	–20 036	–11 176
Other income	30	9 833	3 781
Earnings before interest, tax, depreciation and amortization (EBITDA)		**–5 659**	**–5 881**
Depreciation, amortization and impairment	28	–49 750	–14 763
Earnings before interest and tax (EBIT)		**–55 409**	**–20 644**
Financial income	31	9 342	2 773
Financial expenses	31	–19 124	–11 525
Share of profit of associates	11	162	104
Earnings before tax (EBT)		**–65 029**	**–29 292**
Income taxes (expenses)/income	37	–577	903
Net (loss)/profit		**–65 606**	**–28 389**
Foreign currency translation differences		–5 946	10 742
Total other comprehensive income		**–5 946**	**10 742**
Total comprehensive (loss)/profit for the period		**–71 552**	**–17 647**
Allocation of net (loss)/profit:			
Equity owners of Precious Woods Holding Ltd.		–64 203	–28 093
Non-controlling interests		–1 403	–296
Allocation of comprehensive (loss)/profit:			
Equity owners of Precious Woods Holding Ltd.		–70 161	–18 011
Non-controlling interests		–1 391	364
Basic earnings per share	**33**	**–18.67**	**–8.17**
Diluted earnings per share	**33**	**–18.67**	**–8.17**

1) The prior-year figures have been represented. Please refer to page 58.

Consolidated statement of changes in equity for the years ended 31 December 2010 and 2009 (in TUSD)

	Notes	Attributable to equity holders of Precious Woods Ltd. Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance 31 December 2008		**126 971**	**64 156**	**1 205**	**–9 690**	**182 642**	**1 698**	**184 340**[1)]
Correction of an error		–	–	–3 147	3 147	–	–	**–**
Restated balance 31 December 2008		**126 971**	**64 156**	**–1 942**	**–6 543**	**182 642**	**1 698**	**184 340**
Comprehensive (loss)/income for the period		**–**	**–**	**10 082**	**–28 093**	**–18 011**	**364**	**–17 647**
Capital increase		31	–	–	–	**31**	–	**31**
Equity component convertible bonds	21	–	1 621	–	–	**1 621**	–	**1 621**
Costs of capital increase/transaction costs		–	–27	–	–	**–27**	–	**–27**
Reclassifications		–	–	37	–37	**–**	–	**–**
Balance 31 December 2009		**127 002**	**65 750**	**8 177**	**–34 673**	**166 256**	**2 062**	**168 318**[1)]
Comprehensive (loss)/income for the period		**–**	**–**	**–5 958**	**–64 203**	**–70 161**	**–1 391**	**–71 552**
Equity component convertible bonds	21	–	73	–	–	**73**	–	**73**
Balance 31 December 2010		**127 002**	**65 823**	**2 219**	**–98 876**	**96 169**	**671**	**96 840**

1) The figures have been restated. Please refer to page 58.

Consolidated statement of cash flows 2010 and 2009 (in TUSD)

Net cash flow from operating activities	**Notes**	**2010**	**2009[1)]**
Profit for the period		–65 606	–28 389
Income taxes (income)/expenses	37	577	–903
Interest income	31	–505	–779
Interest expenses	31	5 081	3 542
Profit/loss for the period before interest and tax		**–60 453**	**–26 529**
Depreciation and amortization		12 350	12 573
Impairment on property, plant and equipment	6	17 651	243
Impairment on intangible assets	9	17 856	1 948
Impairment financial assets	12	6 723	1 663
Value adjustment on financial assets and investment property		–	483
(Profit)/loss on sale of property, plant and equipment	30	–2 695	–1 516
Share of profit of associates	11	–162	–104
Fair value adjustments of financial liabilities		–828	–
Changes in provisions		4 862	3 591
Impairment on inventories		923	901
Certified Emission Reductions recognized as government grant	27	–383	1 393
Net change in fair value of biological assets	7	–7 693	–4 840
Other non-cash items		–3 494	–
Operating cash flow before working capital changes		**–15 343**	**–10 194**
Decrease/(increase) in trade and other receivables		2 054	4 688
Decrease/(increase) in inventories		–54	11 576
Decrease/(increase) in other current assets		750	109
Change in biological assets	7	3 087	678
Increase/(decrease) in trade payables and other liabilities		6 142	–3 791
Income tax paid/received		–436	–226
Net cash provided by operating activities		**–3 800**	**2 841**
Cash flow from investing activities			
Purchase of intangible assets	9	–17	–571
Proceeds from sale of property, plant and equipment		3 834	2 308
Purchase of property, plant and equipment		–5 212	–5 829
Proceeds from disposal of subsidiaries		–43	–
Proceeds from disposal of financial assets		435	199
Purchase of financial assets		22	–
Dividends received		133	139
Interest received		505	306
Net cash used in investing activities		**–343**	**–3 448**
Cash flow from financing activities			
Proceeds from capital increase		–	31
Proceeds from borrowings		4 462	9 115
Repayment of borrowings		–12 357	–5 883
Proceeds from convertible bonds and loans	21	6 730	16 115
Interest paid		–4 290	–3 705
Net cash provided by financing activity		**–5 455**	**15 673**
(Decrease)/increase in cash and cash equivalents		**–9 599**	**15 064**
Translation effect on cash		**1 100**	**852**
Cash and cash equivalents, at the beginning of the year		**18 825**	**2 909**
Cash and cash equivalents, at the end of the year		**10 326**	**18 825**

[1)] The prior-year figures have been represented. Please refer to page 58.

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 operated under the laws of the Republic of Costa Rica, Nicaragua, Brazil, Gabon, the United States of America, the British Virgin Islands, the Netherlands, Luxembourg and Switzerland.

The activities of the Group are primarily organized and presented in five 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 became a major additional distinct operational area following the acquisition of the A. van den Berg Group's business activities in 2005

- *Forest Plantations:* operations conducting reforestation projects commenced in 1990 in Central America

- *Carbon & Energy:* with the acquisition of BK Energia (Precious Woods Energia) and the launch of several Green House Gas (GHG) emission reduction projects, Precious Woods entered into the carbon emission reduction and energy generation business in 2005

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

Significant accounting policies

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 biological assets (2009), 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 judgements, 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 biological assets in Central America, goodwill, land titles Brazil, government grants/Certified Emission Reductions (CERs) and valuation of derivative financial instruments/convertible bonds and loans.

Biological assets in Central America

At the end of 2010, the Board of Directors of the Precious Woods Group decided to seek a buyer for its Central American plantations in Nicaragua and Costa Rica. The assets impacted by this decision have not been reclassified as non-current assets held for sale as the respective requirements for classification as non-current assets held for sale have not yet been met. The decision to dispose of the assets is an indicator for impairment, requiring the Group to carry out an impairment test. Consequently, Precious Woods calculated the recoverable amount based on fair value less costs to sell on the smallest group of assets generating separate cash-inflows (CGU). This CGU consists of the land together with the corresponding biological assets as they are physically connected and, therefore, cannot be sold separately.

Fair value less cost to sell of the CGU amounts to TUSD 89 257. The carrying amount of both land and biological assets amounts to TUSD 74 894. The fair value of the land and the biological assets has been determined based on an appraisal from an external valuation expert for the land and on a model for the biological assets taking into account the expected net cash flows of the biological assets. More details are given in Note 7.

Impairment of goodwill

As a minimum the Group determines on an annual basis whether goodwill is impaired. This requires an estimate of the recoverable amount, which is the higher of the fair value less cost to sell and the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to estimate expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in Note 9.

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 prepayments. For prepayments for land title with a certain risk to lose 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 operation of the Group's power plant in Brazil generates CERs (Certified Emission Reductions). The CERs are recognized when there is reasonable assurance that the Group will comply with the conditions of the Kyoto Protocol. Management's judgement is used to estimate the probability (see Note 27).

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's judgement is required in establishing fair values. The judgements 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 20 and 21).

Non-current assets held for sale

In the prior year the Group has classified some items as held for sale. Some of these assets were sold in the year under review. Due to the fact that the selling efforts are ongoing and the Group is committed to its plan, it has decided to continue to classify the remaining items as non-current assets held for sale.

Going concern – debt and operating restructuring

1. Background

Internal and external factors slowed down the turnaround of the company. In addition to the delay, the net loss was significantly impacted by one-off items and unknown issues from the past (see chapter on group results). In winter 2010 it became obvious that the Group could not increase its share capital as planned due to the slowdown in turnaround as well as the extraordinarily high number of one-off items. The objective of this capital increase would have been the raising of sufficient liquidity in order to settle the part of the debts under the standstill agreement concluded with Deutsche Bank and Zürcher Kantonalbank expiring at the end of March 2011 as well as to finance the turnaround and the necessary operational investments. Furthermore, it was clear that certain financial covenants set forth in the existing credit facilities would not be met. In December 2010 a waiver was arranged to suspend the financial covenants. Discussions were initiated with banks and other investors to find a solution.

2. Debt restructuring

At the end of March 2011, negotiations to extend the standstill agreement were completed. The following major debt restructuring measures were agreed upon:

- To ensure additional liquidity in the amount of at least USD 5 million by no later than 30 June 2011
- The divestment of Central American assets (land and plantations) by no later than 30 September 2011
- The repayment of the debts to Deutsche Bank and Zürcher Kantonalbank by no later than 30 September 2011
- That if by 30 June 2011 no additional liquidity in the amount of USD 5 million is contributed to Precious Woods Holding Ltd., the termination date of the standstill agreement is end of June 2011, otherwise end of September 2011

A major part of the debts will be repaid by the proceeds of the sale of the Central American assets.

3. Balance sheet restructuring

The planned debt restructuring measures are expected to have the following effects:

- The raising of additional liquidity by at least USD 5 million will ensure the appropriate liquidity level and bridge a possible liquidity shortage.

- The net debt will – dependent on the success of the divestments of Central American assets – be significantly reduced.

In addition, the equity of the statutory balance sheet of Precious Woods Holding Ltd. will be restructured.

- At the shareholders' meeting, the proposed reduction of the nominal value of the shares from CHF 50 to CHF 1 will compensate for the loss of capital as per article 725 paragraph 1 of the Swiss Code of Obligations. As a result of this financial restructuring measure, the capital loss will be removed.

4. Operational restructuring

With the support of external advisors, a detailed plan of various measures for the whole Group was prepared (e.g. to build up additional business with biomass in Brazil, to develop sawmill capacity in Gabon, to develop local businesses, to improve sales prices, to further improve processes and to reduce personnel). The turnaround is expected to be finished by the end of 2011. The new five-year plan foresees a realistic and income-oriented development of the Group.

The operational turnaround will have the following effects:

- Profit- and volume-oriented sales increases

- Increase in productivity

- Midterm key figures: EBITDA margin of 12–15%; equity ratio of > 60%

5. Uncertainties

The two banks have extended the standstill agreement until the end of September 2011 at the latest. The success of the restructuring plan depends on the following points, which contain significant uncertainties:

- Investors granting additional liquidity in the form of convertible loans of at least USD 5 million. Results of negotiations with potential investors are set forth in signed term sheets. The company is in the process of finalizing the loan contracts. Cash-inflows are planned to be obtained by 17 May 2011

- The assets of Precious Woods Central America being sold successfully. Precious Woods engaged a professional service firm in order to drive the sales process of the assets in Central America. Negotiations are in their early stages

- All covenants of the standstill agreement being met

- The objectives of the five-year plan being reached

The agreement of the additional convertible loans is based on term sheets. Term sheets are significantly less binding than signed contracts. Should the additional liquidity not be obtained, then the Precious Woods Group will not be in a position to settle its financial obligations in the short term. According to the standstill agreement, proceeds of the sale of the assets in Central America are to be used to settle the bank debts. Should the assets not be sold in a timely manner, then Precious Woods will not be in a position to settle its bank debts falling due on 30 September 2011.

If the additional liquidity (additional convertible bonds and sales proceeds of assets in Central America) cannot be obtained and the restructuring plan cannot be successfully implemented, this may cause the Precious Woods Group to cease to continue as a going concern and to prepare the financial statements on a liquidation value basis.

The Board of Directors and Management expect that the proposed measures will be implemented, and their effects will be to restore the liquidity of the Group and assure its financial stability in the long term. Therefore, the Board of Directors and Management believe the going-concern assumption of the Precious Woods Group should be given.

New accounting standards and IFRIC 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 2010.

- *IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions* – The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- *IFRS 3 Business Combinations* – The revised standard introduces significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The adoption of this revised standard did not have any impact on the financial position or performance of the Group as there were no transactions.

- *IAS 27 Consolidated and Separate Financial Statements* – This amended standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by subsidiaries as well as the loss of control of a subsidiary. The changes will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

- *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items* – The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position nor the performance of the Group.

- *IFRIC 17 Distribution of Non-cash Assets to Owners* – This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor the performance of the Group.

- Improvements to IFRSs (issued April 2009) – In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Future changes in IFRS

The Group is currently assessing the potential impact of the new standards that will be effective from 1 January 2011 and beyond, which include:

- IAS 12 (Amendment) – Income Taxes: Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)

- IAS 24 (Amendment) – Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)

- IAS 32 (Amendment) – Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)

- IFRS 1 – First-Time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 July 2011)

- IFRS 9 Financial Instruments – Classification and Measurement (effective for annual periods beginning on or after 1 January 2013)

- IFRIC 14 (Amendment) – Prepayments of a minimum funding requirement (effective for annual periods beginning on or after 1 January 2011)

- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)

Improvements to IFRSs (issued in May 2010): The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Change in presentation

In 2009 the cost of sales included a depreciation of USD 10.5 million. As the structure of the statement of comprehensive income was adjusted, all depreciation, amortization and impairment are now included in one position (see Note 28). Therefore the cost of sales of 2009 decreased from USD 84.8 million to USD 74.3 million while depreciation, amortization and impairment increased from USD 4.3 million to USD 14.8 million. The operational contribution increased from TUSD 3048 to TUSD 13 550.

In addition the structure of the consolidated statement of cash flows was represented. This resulted in 2009 in a decrease in operating cash flows before working capital changes from USD –11.8 million to USD –10.2 million. Net cash provided by operating activities of 2009 increased from USD 2.3 million to USD 2.8 million, while net cash used in investing activities increased from USD –2.9 million to USD –3.4 million. These adjustments are changes within the statement of cash flows. The increase in cash and cash equivalents remains unchanged.

Restatement

In the process of preparing the 2010 consolidated financial statements, the Group ascertained that some deferred taxes on foreign currency translation reserve in the amount of TUSD 3147 had been recognized in profit and loss rather than in other comprehensive income in periods prior to 2009. As a result, foreign currency translation reserve and retained earnings have been erroneously presented in the consolidated statement of changes in equity and the balance sheet. The identification of this error led to the following retrospective correction and reclassification within equity:

The foreign currency translation reserve as of 31 December 2008 decreased by TUSD 3147, from TUSD 1205 to TUSD –1942, while retained earnings decreased by the same amount, from TUSD –9690 to TUSD –6543. This correction also impacted the amount of foreign currency translation reserve and retained earnings as of 31 December 2009. The correction did not have an impact on the statement of comprehensive income, the earnings per share and the cash-flow statements for both 2009 and 2010.

IFRS requires presentation of a third consolidated balance sheet as at 1 January 2009 when a retrospective restatement has been made. The correction outlined above only impacts two components within shareholders' equity. No additional line items in the consolidated balance sheet have been impacted. Therefore, the Group does not believe that presenting a balance sheet as at 1 January 2009 would provide additional useful information that is material to the readers of the consolidated financial statements, and has decided not to present a third balance sheet.

In 2009 the investment in Nordsüdtimber (see Notes 12 and 19) has been categorized as a financial instrument through profit or loss. However, the requirements for the categorization as at fair value through profit and loss were not met. Therefore in 2010 the investment in Nordsüdtimber has been categorized as available for sale. The reclassification as available for sale has not been made retrospectively for the following reasons:

- The recategorization does not have an impact on the presentation of comprehensive income for the current year, the comparative period as well as the periods before the comparative period.

- In 2008 the investment was impaired in the amount of USD 2.927 million. This significant impairment would also have been recognized in the comprehensive income statement and not in the statement of other comprehensive income had the investment been categorized as available for sale.

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 2010	2009
Maderas Preciosas Costa Rica S.A.	Costa Rica	100%	100%
Macori Las Playas S.A.	Costa Rica	100%	100%
Multiservicios Forestales de Guanacaste S.A.	Costa Rica	100%	100%
Maderas Preciosas Nicaragua S.A.	Nicaragua	100%	100%
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.[1]	Brazil	100%	100%
Monte Verde Madeiras Ltda.	Brazil	100%	100%
BK Energia Ltda. (Precious Woods Energia)	Brazil	80%	80%
ABN do Brasil Madeiras Ltda.[1]	Brazil	n/a	merged
Precious Woods Corporation (dormant company)	USA	100%	100%
Precious Woods Europe B.V.	The Netherlands	100%	100%
Precious Woods Manufacturing B.V.[2]	The Netherlands	100%	100%
Geveltim B.V.	The Netherlands	100%	100%
Ecotimber Ltd. (dormant company)	United Kingdom	100%	100%
Exobois S.A.	Luxembourg	100%	100%
Lastour & Co. S.A.	Luxembourg	100%	100%
African Wood Trading Company S.A.	Luxembourg	100%	100%
Unio S.A.	Luxembourg	100%	100%
Compagnie Equatoriale des Bois S.A.	Gabon	95.91%	95.91%
Tropical Gabon Industry S.A.	Gabon	100%	100%

1) In November 2009 the Group merged two group companies (ABN do Brasil Madeiras Ltda. and Precious Woods Belém Ltda.) and renamed the merged company Precious Woods Manejo Florestal Ltda.

2) In February 2010 Precious Woods Manufacturing B.V. filed for bankruptcy. As the Group no longer has the control over this entity it is no longer consolidated.

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 interests 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 on the balance sheet.

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. Logs and finished products are recorded at the average cost of production, less provision for losses, when applicable. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to make the sale.

The cost of semi-finished and finished goods contains direct production costs including materials and production costs, as well as 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: 25 years
- Machinery and vehicles: 4 to 19 years
- Furniture and fixtures: 5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The effects of such changes are recognized immediately in the comprehensive income statement. In 2010 the useful life of permanent forest roads was reduced from 50 to 25 years. This resulted in an increase in the depreciation in 2010 of TUSD 148 and will increase the future deprecation on permanent forest roads by TUSD 148 annually. The Group does not apply the fair value model of IAS 41 in Brazil, as fair values cannot be reliably measured in sustainable management of existing tropical forests; the forests in Brazil are valued at cost. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the comprehensive income statement.

f. Investment property

Investment property is measured initially at cost. After initial recognition, the Group measures all its investment property at its fair value, representing market value determined annually by external assessors. A gain or loss arising from a change in the fair value of investment property is recognized in profit or loss for the period in which it arises.

g. Biological assets in Central America

At the end of 2010, the Board of Directors of the Precious Woods Group decided to seek a buyer for its Central American plantations in Nicaragua and Costa Rica. The assets impacted by this decision have not been reclassified as non-current assets held for sale as the respective requirements for classification as non-current assets held for sale have not yet been met. The decision to dispose of the assets is an indicator for impairment, requiring the Group to carry out an impairment test. Consequently, Precious Woods calculated the recoverable amount based on fair value less costs to sell on the smallest group of assets generating separate cash-inflows (CGU). This CGU consists of the land together with the corresponding biological assets as they are physically connected and, therefore, cannot be sold separately.

Biological assets are stated at fair value less estimated cost to sell. The fair value is determined using the present value of expected net cash-flow from the asset. Land for the forest project is measured at cost.

h. Intangible assets

Goodwill acquired in a business combination is recognized as an asset at the date of the acquisition. The amount represents the excess of the consideration paid over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized. Instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units, or groups of cash-generating units, that are expected to benefit from the business combination in which the goodwill arose.

Acquired trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licences 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 24 years).

i. Impairment of 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 to sell. Value in use is determined based on expected future cash flows. The impairment is recorded in the comprehensive income statement. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

j. 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 balance sheet 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 comprehensive income statement on a straight-line basis over the lease term.

k. Financial assets

Financial assets are designated to the following four categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments 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 balance sheet date.

Financial assets at fair value through profit or loss

This designation is split in two sub-categories: financial assets held for trading and those which Management allocated 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 realized within 12 months from the balance sheet 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 though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of comprehensive income.

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 balance sheet date. Otherwise they are included in non-current assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the Group has the positive intention and ability to hold to maturity. In 2010 and 2009, the Group did not hold any financial investment in this category.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets which are either designated as available-for-sale investments or which 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 balance sheet date.

All purchases and sales of financial assets are recorded on the trading date. Trading 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 comprehensive income statement. 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, as well as held-to-maturity investments, 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 comprehensive income statement. 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 are 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 balance sheet 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 comprehensive income statement 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 this can be objectively allocated to an event that occurred after the impairment was recorded, the reversal amount is recognized in the comprehensive income statement for that period, at a maximum of the previously recognized impairment loss.

l. 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 comprehensive income.

m. 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 balance sheet date.

n. Convertible bonds and loans

Convertible bonds 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.

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. This value is included in shareholders' equity, net of tax, and is not remeasured subsequently.

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

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

o. Revenue recognition

Net sales are determined by deducting value added taxes, discounts, returns and allowances 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 w. on government grants. The increase in the fair value of biological assets is revenue in accordance with IAS 41 (see chapter g.).

p. Currency

As investment 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 2010	Average 2010	31 December 2009	Average 2009
Swiss franc	1 CHF	1.0632	0.9615	0.9634	0.9207
Brazilian real	1 BRL	0.6002	0.5708	0.5743	0.5016
Euro	1 EUR	1.3253	1.3279	1.4333	1.3900
Central African CFA franc	1 XAF	0.0021	0.0021	0.0021	0.0021

The functional currency of the parent company is the Swiss franc (CHF). However, the consolidated financial statements of the Group are presented in USD due to the international orientation of the Group.

q. 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 balance sheet date. Shareholders' equity accounts are translated at historical exchange rates. The comprehensive income statement is translated at the average rate for the year. Translation differences are recognized as foreign currency translation in other comprehensive income.

r. 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 in the comprehensive income statement.

s. 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.

t. Employee share purchase and stock option plans

The Group has an Employee Share Purchase Plan (ESPP), which is available to all employees. Under the ESPP, each employee may purchase up to 720 shares per year at a discount of 20% to the weighted average market price on the SIX Swiss Exchange (but in any case the nominal value), subject to a two-year lock-up period. For shares granted to employees, the fair value of the shares is measured at the market price, adjusted to take into account the terms and conditions upon which the shares were granted.

A Management Incentive Plan (MIP) for members of Group Management and senior employees was discontinued effective 31 December 2004. All remaining outstanding 17 446 stock options awarded to members of the Group Management and other senior staff pursuant to the former MIP expired by the end of 2009.

u. Pension plans

The Group has both defined benefit and defined contribution plans.

In Switzerland and the Netherlands there are pension plans which cover the risks of age, death and disability. Financing occurs by means of equal employee and employer contributions, as well as returns from the investments made by the pension fund.

A defined benefit plan defines an 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. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are immediately recognized in income, unless the changes to the pension plan are conditional on the employees' remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. Payments to defined contribution pension plans are charged as an expense to the comprehensive income statement as they fall due (see Note 25).

v. 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.

w. 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 CO_2 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 there is reasonable assurance that the Group will comply with the conditions of the Kyoto Protocol and the grants will be received.

The CER inventory is initially measured at fair value and subsequently measured at the lower of costs or net realizable value. The government grant (i.e. the difference between the fair value and the cost allocated) is recognized as revenue at initial recognition.

x. Non-current assets held for sale and discontinued operations

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 comprehensive income 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 comprehensive income. 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, fluctuation in commodity prices, 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 according to IAS 39.

Risk management is carried out by the Group finance department under positions approved by the Board of Directors and Group Management. The Board 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 EUR, CHF, BRL and XAF.

Management's policy is to maintain its borrowings in fixed rate instruments. There is one material variable rate borrowing denominated in EUR. If the level of market interest rates on 31 December 2010 had been 50 base points higher (lower), the impact for the variable rate borrowings in finance expense would have been TUSD 109 higher (lower).

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 balance sheet positions of the main currencies on 31 December.

in TUSD	31.12.2010 Reasonable shift	31.12.2010 "Impact" on profit or loss before tax	31.12.2010 "Impact" on equity	31.12.2009 Reasonable shift	31.12.2009 "Impact" on profit or loss before tax	31.12.2009 "Impact" on equity
EUR/CHF	+/–5%	+/–980	+/–289	+/–5%	+/–689	+/–1 585
USD/CHF	+/–10%	+/–54	+/–1 836	+/–10%	+/–119	+/–6 025
USD/BRL	+/–15%	+/–99	+/–1 906	+/–15%	+/–856	+/–10 017
CHF/BRL	+/–15%	+/–0	+/–5 514	+/–15%	+/–0	+/–0
CHF/XAF	+/–15%	+/–0	+/–4 302	+/–15%	+/–0	+/–0

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 3.5 million (2009: USD 8.0 million). Please refer to Note 12. The Group is not exposed to commodity price risk.

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. Cash deficits are funded by the holding 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 Group has employed certain credit facilities (see Note 17) for the financing of operations and asset purchases in the normal course of business. Certain covenants apply to the credit facilities in place and utilized as of 31 December 2009 and 31 December 2010.

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
At 31 December 2010			
Trade and other payables	23 348	–	–
Financial liabilities	46 535	11 173	25 458
Non-derivative financial liabilities	**69 883**	**11 173**	**25 458**
Net settled derivative financial instruments	490	–	–
Derivative financial instruments	**490**	**–**	**–**

in TUSD	Less than 1 year	Between 1 and 2 years	Over 2 years
At 31 December 2009			
Trade and other payables	18 252	–	518
Financial liabilities	14 258	30 141	26 211
Non-derivative financial liabilities	**32 510**	**30 141**	**26 729**
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 two main relations with banks, which have a rating of AAA and A+ respectively. 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. All 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 basis 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. Management does not expect any substantial losses from receivable assets. For detailed information see Note 3, “Trade and other receivables”.

Capital management

When managing capital, the Precious Woods Group’s objectives are to safeguard the Group’s ability to continue as a going concern, to provide returns for shareholders and to maintain an optimal structure to reduce the cost of capital. In order to reach these goals, the Precious Woods Group may return capital to shareholders, issue new shares or sell assets to reduce debts. The midterm target of the Group is to have an equity ratio of > 60%. Capital is considered the equity attributable to holders of Precious Woods Holding Ltd. There were no changes in the Group’s approach to capital management during the year.

Guarantees and pledges of assets

As of 31 December 2009 and 2010, Precious Woods Holding Ltd. has pledged its investment in the Costa Rican subsidiaries as a security for credit facilities described in Note 17. In addition, inventory in the amount of USD 12.7 million (2009: USD 15.4 million), trade accounts receivable in the amount of USD 1.8 million (2009: USD 1.9 million) and fixed assets of USD 17.7 million (2009: USD 29.3 million) have been pledged as security for these credit facilities.

3. Trade and other receivables

in TUSD	2010	2009
Trade receivables, third parties:		
Trading sales	8 330	8 939
Energy sales	662	2 494
Trade receivables, associates	162	128
Less allowance on bad debts	–2 061	–1 410
Total trade receivables net	**7 093**	10 151
Other short-term receivables	5 291	3 504
Total	**12 384**	**13 655**

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	2010	2009
Not overdue	4 345	6 827
Less than 30 days overdue	662	631
31 to 60 days overdue	3 253	366
61 to 180 days overdue	–	263
More than 180 days overdue	894	3 474
Total trade receivables gross	**9 154**	**11 561**
Allowance on bad debts	–2 061	–1 410
Total trade receivables net	**7 093**	**10 151**

An allowance for bad debt is determined on 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 debts is determined for all other amounts based on past experience.

Allowances for bad debts

in TUSD	2010	2009
At 1 January	**1 410**	**606**
Addition in allowance for bad debts	621	668
Unused allowance for bad debts	–58	–53
Translation differences	88	189
At 31 December	**2 061**	**1 410**

Trade receivables net include amounts denominated in the following currencies:

in TUSD	2010	2009
EUR	2 698	6 365
USD	37	265
BRL	3 550	3 382
Other currencies	808	139
Total trade receivables net	**7 093**	**10 151**

4. Inventories

in TUSD	2010	2009
Logs	6 208	4 955
Sawn wood	16 723	17 619
Veneers	689	725
Industrialized products	28	283
Seeds	49	–
Certified Emission Reductions (CERs)	2 226	1 633
Export products in transit	920	2 942
Spare parts and other	1 952	2 020
Less obsolescence reserve	–1 533	–1 429
Total inventories	**27 262**	**28 748**

Obsolescence reserve

in TUSD	2010	2009
At 1 January	**1 429**	**1 724**
Increase	1 005	560
Decrease	–816	–872
Translation differences	–85	17
At 31 December	**1 533**	**1 429**

5. Other current assets

in TUSD	2010	2009
Prepaid expenses, prospecting	1 039	870
Prepaid expenses, other	872	763
Total other current assets	**1 911**	**1 633**

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	Land	Forest roads	Buildings and im-provements	Machinery and vehicles	Leased machinery and vehicles	Furniture and fixtures	Construction in progress	Advanced payment for property, plant and equipment	**Total**
Cost									
At 1 January 2009	**42 585**	**16 159**	**30 435**	**47 590**	**–**	**4 194**	**3 347**	**–**	**144 310**
Additions	508	1 577	508	1 963	–	367	1 156	–	6 079
Disposals	–30	–	–295	–3 033	–	–789	–	–	–4 147
Reclassifications	–300	–2 346	–1 979	–863	1 373	270	–2 526	–	–6 371
Translation differences	5 860	2 589	3 413	8 685	18	408	113	–	21 086
At 31 December 2009	**48 623**	**17 979**	**32 082**	**54 342**	**1 391**	**4 450**	**2 090**	**–**	**160 957**
Additions	–	748	221	1 071	–	673	2 499	–	5 212
Disposals	–6 943	–604	–5 386	–5 472	–	–568	–	–	–18 973
Change in consolidation scope	–	–	–	–2 137	–	–40	–	–	–2 177
Reclassifications	–15 266	–	1 577	1 352	–	555	–2 778	14 846	286
Translation differences	–398	–14	–468	162	–53	–25	–63	764	–95
At 31 December 2010	**26 016**	**18 109**	**28 026**	**49 318**	**1 338**	**5 045**	**1 748**	**15 610**	**145 210**
Accumulated depreciation									
At 1 January 2009	**–**	**3 561**	**8 006**	**26 962**	**–**	**2 135**	**–**	**–**	**40 664**
Charge for the year	–	770	2 367	6 320	373	485	–	–	10 315
Elimination on disposals	–	–	–119	–2 857	–	–377	–	–	–3 353
Impairment charge	–	–	–	243	–	–	–	–	243
Reclassifications	–	–2 452	–930	–1 060	726	–30	–	–	–3 746
Translation differences	–	596	1 553	6 420	21	289	–	–	8 879
At 31 December 2009	**–**	**2 475**	**10 877**	**36 028**	**1 120**	**2 502**	**–**	**–**	**53 002**
Charge for the year	–	819	2 443	5 871	234	555	–	–	9 922
Impairment charge	6 847	1 781	1 324	1 369	–	56	19	6 255	17 651
Eliminated on disposals	–6 775	–604	–4 606	–5 290	–	–560	–	–	–17 835
Change in consolidation scope	–	–	–	–1 934	–	–40	–	–	–1 974
Reclassifications	–72	–	–41	–28	–	550	–19	–	390
Translation differences	–	56	–73	370	–42	–23	–	322	610
At 31 December 2010	**–**	**4 527**	**9 924**	**36 386**	**1 312**	**3 040**	**–**	**6 577**	**61 766**
Carrying amount									
At 31 December 2009	**48 623**	**15 504**	**21 205**	**18 314**	**271**	**1 948**	**2 090**	**–**	**107 955**
At 31 December 2010	**26 016**	**13 582**	**18 102**	**12 932**	**26**	**2 005**	**1 748**	**9 033**	**83 444**

Reclassifications in 2009 mainly represent positions which were reclassified to non-current assets held for sale according to IFRS 5 (TUSD 2882) or within the table. For certain land acquired by Precious Woods in Brazil the land title registration is not yet finalized. This land is in 2010 reclassified as advanced payments for property, plant and equipment. For prepayments for land title with a certain risk to lose the land an allowance is recorded based on Management's estimate of the outcome. Refer to "Land titles Brazil", Note 1.

7. Biological assets in Central America

Valuation principles

At the end of 2010, the Board of Directors of the Precious Woods Group decided to seek a buyer for its Central American plantations in Nicaragua and Costa Rica. The decision to dispose of the assets is an indicator for impairment, requiring the Group to carry out an impairment test. Consequently, Precious Woods calculated the recoverable amount based on fair value less costs to sell on the smallest group of assets generating separate cash-inflows (CGU). This CGU consists of the land together with the corresponding biological assets as they are physically connected and, therefore, cannot be sold separately.

Therefore, for the year ended 31 December 2010, the value disclosed in the consolidated financial statements does not represent the fair value of biological assets but rather the carrying value at the time the Board of Directors decided to seek a buyer. However, the value disclosed for the year ended 31 December 2009 as a comparative amount represents the fair value of biological assets.

On 31 December 2009, market-determined prices or values for the forest plantations were not readily available. Therefore, the company used the present value of expected net cash flows from the sale of these assets discounted at a current market-determined pre-tax rate in determining fair value.

For the year ended 31 December 2010, the fair value less costs to sell of the CGU amounts to TUSD 89 257. The carrying amount of both land and biological assets amounts to TUSD 74 894. The fair value of the land and the biological assets has been determined based on an appraisal from an external valuation expert for the land and on a model for the biological assets, taking into account the expected net cash flows of the biological assets. The parameters used and assessed by an external expert are shown in the table on page 72.

Description of biological assets

The company possesses trees in forest plantations of teak, pochote (a native tree primarily known in Costa Rica) and mahogany. These plantations are located in Costa Rica and Nicaragua. Every year, new areas are planted to replace harvested areas or to plant new areas of purchased land. For the teak plantation, the company uses the best genetic clones from its own nursery. After the trees are planted, these plantations are maintained and managed according to a predefined programme, with the aim of achieving the best possible timber growth and volumes at the age of harvesting. The harvesting cycle has been defined to 20 years for teak plantations, to 22 years for pochote plantations and to 30 years for mahogany plantations. At certain intervals (several times between the age of 6 and 15 years depending on the growth class) commercial thinnings are also performed and the extracted timber may be sold depending on commercial utility. Based on a thorough analysis of the growth and economic viability of mahogany and pochote plantations, the majority of these plantations was adjusted in 2009. The value of the teak plantations has also been revised as shown under the "Fair Value Determination" section. On 31 December 2010, standing timber consisted of approximately 6488 hectares of teak, pochote and mahogany plantations (2009: 6656 hectares). During the year, the company harvested approximately 18 057 cubic metres of wood (final harvest and thinning) that had a fair value less costs to sell of TUSD 3279 (2009: 8515 cubic metres of wood that had a fair value less costs to sell of TUSD 678).

Summary of plantations

	31.12.2010 ha	31.12.2009 ha	Increase/ (decrease) ha
Teak	5 800	5 951	–151
Pochote	636	653	–17
Natives[1]	52	52	–
Total	**6 488**	**6 656**	**–168**

Plantations in Costa Rica	3 848	4 119
Plantations in Nicaragua	2 640	2 537
Total	**6 488**	**6 656**

[1] As of 31 December 2009 and 31 December 2010 only mahogany

Increase/(decrease) of planted area in 2010

	Harvest ha	New plantations ha	Other changes ha	Total changes ha
Teak	–350.7	219	–19.6	–151.3
Pochote	–17	–	–	–17
Natives	–	–	–	–
Total	**–367.7**	**219**	**–19.6**	**–168.3**

Other changes are due to areas expropriated by local authorities.

Fair value determination for the year ended 31 December 2009

Fair value has been determined using discounted cash-flow models that are based on various estimates regarding expected harvesting volumes, ex-works sales prices at the expected year of harvest, costs and interest rates. Additional information from the different measurement points that had an impact on the estimated volumes and price classes was made available to Management. The teak plantations have been measured with an additional statistical sample of 2369 permanent sampling points, and the commercial volume at the age of harvesting has been estimated with volumes as measured in the markets by separating the trees into different segments by diameter. A sample of 1848 trees was used to obtain more reliable data on estimated commercial sales volume. Similar but less extensive estimates of growth and volumes have been made for pochote and mahogany. Based on the review of the plantations and the possible commercial viability, pochote plantations have been re-estimated due to areas with low or insufficient growth and lower prices than can be expected in the long term. The same review of the native species resulted in the exclusion of species other than mahogany for the valuation.

The fair value has been calculated with the major parameters given below. Where possible, Management performed benchmarking with peer companies although such data is not openly available in all details and at all levels. Forestry companies usually use expected real-term price or inflation-rate increases to value their timber because they more appropriately reflect the expected future cash flows. The company used the 10-year average inflation rate of the US dollar economy to project both costs and revenue expected from the timber operations because teak is traded in the US dollar currency. The inflation rate is supported by long-term real price increase studies. The assumptions might, however, deviate from year to year based on the outcome of economic development.

Comparison of valuation parameters

Teak	**31.12.2010**	**31.12.2009**
Valued plantations	5 800 ha	5 951 ha
Harvest volumes according to growth class	34–143 m^3	87–174 m^3
Harvest age	14–20 years	20 years
Expected diameters according to growth class	21.5–35.1 cm	28.0–44.6 cm
Average prices	USD 130–369	USD 160–284
Price and cost adjustments (nominal)	2.50%	2.50%
Interest rate	11%	11%

Pochote	**31.12.2010**	**31.12.2009**
Valued plantations	636 ha	653 ha
Harvest volumes according to growth class	50–60 m^3	47–125 m^3
Harvest age	22 years	22 years
Average prices	USD 18	USD 65
Price and cost adjustments (nominal)	2.50%	2.50%
Interest rate	11%	11%

Natives	**31.12.2010**	**31.12.2009**
Valued plantations	52 ha	52 ha
Species	only mahogany	only mahogany
Harvest volumes according to growth class	74–192 m^3	74–192 m^3
Harvest age	30 years	30 years
Average prices	USD 400	USD 400
Price and cost adjustments (nominal)	2.50%	2.50%
Interest rate	11%	11%

Changes in carrying amount of biological assets 31 December 2009 and 2010

(in TUSD)	Teak	Pochote	Natives	Total
Carrying amount at 31.12.2008	**41 984**	**10 466**	**2 436**	**54 886**
Value of harvested area	–651	–27	–	–678
Increases due to new plantations	259	–	9	268
Changes of fair value	15 045	–8 590	–1 883	4 572
Gross change	**15 304**	**–8 590**	**–1 874**	**4 840**
Net change	**14 653**	**–8 617**	**–1 874**	**4 162**
Carrying amount at 31.12.2009	**56 637**	**1 849**	**562**	**59 048**
Value of harvested area	–2 919	–50	–	–2 969
Value of expropriated area	–310	–	–	–310
Increases due to new plantations	192	–	–	192
Changes of fair value	7 592	35	66	7 693
Gross change	**7 784**	**35**	**66**	**7 885**
Net change	**4 555**	**–15**	**66**	**4 606**
Carrying amount at 31.12.2010	**61 192**	**1 833**	**624**	**63 654**

Management of biological risks (fire, flooding, lightning)

During the dry season, the risk of damage from fire is significant for young plantations. The Group reduces this risk in the best possible manner by implementing appropriate fire-prevention measures such as clearing underbrush ahead of the dry season, construction of fire breaks and 24-hour surveillance. Beyond a height of 4 to 6 metres, teak trees are no longer damaged by fire.

Tropical hurricanes may cause windfall and significant flooding. The undulating plantation terrain would very likely prevent significant losses from flooding. However, significant damage from a tropical hurricane cannot be totally excluded. A limited number of trees are lost annually to local lightning strikes. These losses are included in the Group's expectations for the natural mortality of trees. The Group has not obtained insurance coverage for these risks as the premium would be excessive in relation to the expected losses.

Assurance of completion

Tree plantations retain their value only if the Group can provide the financial resources required to maintain the plantations through to final harvest on an ongoing basis. Currently this self-sufficiency is achieved.

8. 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 as described below. 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.

Precious Woods Amazon

In May 1994 the Group acquired two companies that owned approximately 80 000 hectares of tropical forests located near Itacoatiara, state of Amazonas in Brazil, for the main purpose of establishing and operating a project to extract and industrialize logs in a sustainable manner. In 2001 the Group acquired a new area of tropical forest of approximately 42 000 hectares, also located near Itacoatiara. An additional forest area of 189 000 hectares was purchased in 2003 and 126 000 hectares in 2005. Additional expense was incurred to achieve FSC certification. FSC certification demonstrates fulfilment of social and ecological criteria, while increasing the prices achievable for timber. During 2007, 36 000 hectares were purchased in the same area.

9. Intangible assets

Cost in TUSD	Goodwill	Trademarks and licences	Other	Total
At 1 January 2009	**17 197**	**23 275**	**6 436**	**46 908**
Additions	75	–	496	571
Disposals	–	–	–	–
Reclassifications	908	–4 029	–948	–4 069
Translation differences	261	921	91	1 273
At 31 December 2009	**18 441**	**20 167**	**6 075**	**44 683**
Additions	–	–	17	17
Change in consolidation scope	–1 323	–	–	–1 323
Disposals	–	–55	–312	–367
Reclassifications	–	–116	–558	–674
Translation differences	–364	–700	–232	–1 296
At 31 December 2010	**16 754**	**19 296**	**4 990**	**41 040**

Accumulated amortization and impairment in TUSD	Goodwill	Trademarks and licences	Other	Total
At 1 January 2009	**–**	**8 956**	**1 375**	**10 331**
Charge for the year	–	1 516	742	2 258
Impairment charge	1 776	–	172	1 948
Reclassifications	–	–4 045	80	–3 965
Translation differences	43	488	52	583
At 31 December 2009	**1 819**	**6 915**	**2 421**	**11 155**
Charge for the year	–	1 514	913	2 427
Change in consolidation scope	–1 323	–	–	–1 323
Disposals	–	–55	–312	–367
Impairment charge	15 968	851	587	17 406
Reclassifications	–	398	–1 078	–680
Translation differences	290	–222	–83	–15
At 31 December 2010	**16 754**	**9 401**	**2 448**	**28 603**
At 31 December 2009	**16 622**	**13 252**	**3 654**	**33 528**
At 31 December 2010	**–**	**9 895**	**2 542**	**12 437**

Other intangible assets mainly include forest concessions and software.

Impairment of goodwill

For both CGUs Precious Woods Gabon and Precious Woods Europe, an impairment test for goodwill has been carried out. This impairment test is based on the business plan for the next five years that has been approved by the Board of Directors. The cash flows expected in this period were extrapolated based on the growth rates shown below. These growth rates are in line with past experience for expected long-term average growth in the corresponding business segment. The margin assumed by Management is based on past experience and expectation for the future. The applied discount rate (WACC) is before tax.

The following assumptions have been applied for the impairment tests:

Cash-generating unit in TUSD	Book value of goodwill	Gross margin	EBIT margin	Growth rate	Discount rate (WACC)
Used for 2009					
Precious Woods Europe	6 250	14.0%–17.0%	n/a	0.0%–15.0%	9.8%
Precious Woods Gabon	10 372	n/a	15.0%	1.5%	16.0%
Total	**16 622**				
Used for 2010					
Precious Woods Europe	–	10.8%–11.2%	n/a	7.1%–12.0%	9.8%
Precious Woods Gabon	–	n/a	–6.1%–5.3%	1.4%–21.3%	16.0%
Total	**–**				

The recoverable amount for Precious Woods Europe has been calculated based on a value-in-use calculation. The growth rate used for the terminal value is 0% (2009: 0%). Based on the calculation performed, the entire goodwill has been written off.

The recoverable amount for Precious Woods Gabon has been calculated based on a fair value less cost to sell calculation. The growth rate used for the terminal value is 2.2% (2009: 0%). Last year, a value-in-use calculation was applied. In 2010 the new president of Gabon introduced a new law prohibiting the export of logs while still allowing the export of processed wood. Therefore, Precious Woods has planned to set up additional infrastructure in order to be able to process logs (bois divers) within Gabon. The business plan used for the impairment test includes the additional investments as well as the expected additional cash-inflows from the export of processed wood. This is based on the assumption that in order to maximize cash-inflows for concessions on hand, investors would have taken the same decision. Based on the calculation performed, the entire goodwill has been written off.

10. Investment property

in TUSD	2010	2009
At 1 January	6 393	7 126
Reclassifications – non-current assets held for sale	–6 393	–
Disposals	–	–733
At 31 December	**–**	**6 393**

Due to the potential to develop properties in Costa Rica, particularly ocean-view lots, the Group decided in January 2007 to stop plantation activities on an area of 139 hectares in Garza, mostly planted with pochote, and to convert and hold the land for future real estate development and capital appreciation. The Group's investment properties are valued annually on 31 December at fair value, comprising market value by an independent, professionally qualified valuer. In 2009 Precious Woods sold investment property for TUSD 1006. The realized profit on this sale in 2009 amounted to TUSD 273. In 2010 the Group decided to sell the remaining investment property. Therefore it was reclassified to assets held for sale (see Note 15).

11. Investment in associates

in TUSD	2010	2009
At 1 January	2 046	2 048
Share of profit of associates	162	104
Dividends earned	–133	–139
Currency translation effects	–150	33
At 31 December	**1 925**	**2 046**

In 2005, 50% of the participation of GWW Houtimport B.V. was acquired within the business activities of A. van den Berg Group. The investment of TUSD 1925 is valued using the equity method since the Group has no control over GWW Houtimport B.V.

GWW Houtimport B.V.

in TUSD (representing 100%)	Assets	Liabilities	Revenues	Profit
Key figures 2009	5 322	2 398	9 383	209
Key figures 2010	6 440	3 828	11 353	370

12. Non-current financial assets

in TUSD	2010	2009
Congo	3 499	7 791
NIBO	27	26
SNBG	–	141
At 31 December	**3 526**	**7 958**

The non-current financial assets contain an investment of TUSD 3499 (2009: TUSD 7791) in Nordsüdtimber Company (Congo) in Vaduz and an investment of TUSD 27 (2009: TUSD 26) in Nederlandse Internationale Bosbouw Onderneming NV (NIBO). The non-controlling interest in Nordsüdtimber was purchased on 11 March 2007. Nordsüdtimber holds majority participations in four important forestry companies in the Democratic Republic of the Congo. The investment in SNBG (Société Nationale des Bois du Gabon) (2009: TUSD 141) was sold in 2010.

13. Recoverable taxes

As of 31 December 2010 the Brazilian subsidiaries have recorded TUSD 6 (2009: TUSD 1222) of recoverable ICMS (value added tax), which may be offset with ICMS payable on local sales. However, the volumes of local sales and, as a consequence, ICMS payable have not been sufficient to recover the whole amount of tax credit in the normal course of Group operations. As a result the Management decided to record recoverable ICMS as non-current assets.

14. Other non-current assets

Other non-current assets are mainly non-operational fixed assets and investments that are not being used in the Group's current operations. The details of other non-current assets are as follows:

in TUSD	2010	2009
Long-term loans to related parties	–	658
Long-term loan to Sumapacha Industrial S.A.	325	1 000
Deposits	7	6
Other	9	241
At 31 December	**341**	**1 905**

During 2007, a loan of TUSD 2000 was granted to Sumapacha Industrial S.A., bearing interest of 9%. Due to decreases in the value of collaterals, creditworthiness and uncertainties of the incoming payments, Management decided to impair the loan by TUSD 1675 in total (2009: TUSD 1000). The carrying amount of the loans corresponds approximately to their fair value.

15. Non-current assets held for sale

At 1 December 2009 the Board of Directors of Precious Woods Group decided to sell non-operating and non-current assets in Brazil. In connection with the five-year planning, non-operating assets totalling TUSD 2882 were reclassified as non-current assets held for sale according to IFRS 5 in 2009. In 2010 certain investment properties in Costa Rica have also been classified as non-current assets held for sale (see also Note 10). In 2010, an impairment of TUSD 2343 was recognized on non-current assets held for sale (2009: TUSD 0). At 31 December 2010 the non-current assets held for sale totalled TUSD 6014 (2009: TUSD 2882).

16. Trade and other payables

in TUSD	2010	2009
Trade payables, third parties	9 998	9 400
Trade payables, related parties	370	63
Total trade payables	**10 368**	**9 463**
Other current liabilities	11 191	6 097
Other accrued liabilities	1 789	3 210
At 31 December	**23 348**	**18 770**

17. Financial liabilities

The carrying amount of financial liabilities corresponds approximately to its fair value. The maturities are as follows:

Net book value of financial liabilities

in TUSD	2010	2009
Financial liabilities from borrowings	68 371	67 835
Financial liabilities finance lease	–	2 351
Total financial liabilities	**68 371**	**70 186**
Total current financial liabilities	35 889	13 835
Total non-current financial liabilities	32 482	56 351
Total financial liabilities	**68 371**	**70 186**

The standstill agreement expired at the end of March 2011 and has been extended to 30 September 2011 (see Note 1, "Going concern"). Therefore the remaining bank debts of TUSD 32 725 with these relevant two banks were reclassified from non-current to current.

Interest expenditure from finance-lease liabilities amounted to TUSD 0 (2009: TUSD 121). 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 balance sheet date.

in TUSD	2010	2009
Currencies financial liabilities		
Borrowings denominated in:		
EUR	30 830	42 855
XAF	6 163	10 336
CHF	31 296	13 988
Other	82	3 007
Total financial liabilities	**68 371**	**70 186**

Financial liabilities in the category "Other" mainly contain liabilities in BRL.

The effective interest rates on the balance sheet date by currency were as follows:

	2010	2009
EUR	5.1–6.3%	5.5%
CHF	6.3%	6.3%
XAF	8.5%	9.1%

18. Provisions

in TUSD	Legal claims	Restructuring	Other	2010 Total	2009 Total
Short-term provisions	2 143	596	1 060	3 799	3 963
Long-term provisions	4 512	–	3 618	8 130	2 554
Total	**6 655**	**596**	**4 678**	**11 929**	**6 517**
At 1 January	773	2 955	2 789	6 517	2 444
Additions	5 556	290	4 076	9 922	4 589
Unused amounts reversed	–	–1 603	–942	–2 545	–391
Used during the year	–	–976	–1 263	–2 239	–607
Reclassifications	39	–	–	39	–
Translation adjustments	287	–70	18	235	482
At 31 December	**6 655**	**596**	**4 678**	**11 929**	**6 517**

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 at 31 December 2010.

Restructuring

In 2009, the Group's activities in Pará were discontinued. The provision for onerous contracts amounts to TUSD 437 (2009: TUSD 904).

In 2009, the state of Gabon announced a ban on all log exports from 1 January 2010. However, existing log stock could be exported up until 30 April 2010. Therefore, in 2009, Precious Woods Gabon announced the closure of one of its forestry fields and the resulting lay-offs in personnel. In 2009, the provision amounted to TUSD 675 and contained the estimated costs for the social plan, the close of certain forestry fields and onerous contracts for trucks and cars.

An amount of TUSD 159 (2009: TUSD 772) represents the provision needed for the restructuring of Precious Woods Manufacturing B.V. in Holland. The amount contains a provision for the salaries and the social costs for employees.

The remaining amount in 2009 of TUSD 604 represents provisions for Madeiras Preciosas da Amazônia Manejo Ltda. and Precious Woods Holding Ltd. (2010: USD 0).

Other

The amount includes provisions for accrued vacation, severance payments to employees, as well as workers' contingencies.

19. Financial instruments by category

in TUSD	Loans and receivables	Assets at fair value through profit and loss	Available-for-sale assets	**Total**
31 December 2010				
Assets				
Cash and cash equivalents	10 326	–	–	10 326
Trade and other receivables	12 384	–	–	12 384
Available-for-sale financial assets[1)]	–	–	3 526	3 526
Other financial assets at fair value through profit or loss	–	314	–	314
Total	**22 710**	**314**	**3 526**	**26 550**

in TUSD	Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	**Total**
31 December 2010			
Liabilities			
Trade and other payables	–	23 348	23 348
Convertible bonds/loans	–	29 255	29 255
Financial liabilities	–	39 116	39 116
Derivative financial instruments	490	–	490
Total	**490**	**91 719**	**92 209**

in TUSD	Loans and receivables	Assets at fair value through profit and loss	Available-for-sale assets	**Total**
31 December 2009				
Assets				
Cash and cash equivalents	18 825	–	–	18 825
Trade and other receivables	13 655	–	–	13 655
Available-for-sale financial assets[1)]	–	–	167	167
Other financial assets at fair value through profit and loss	–	7 791	–	7 791
Total	**32 480**	**7 791**	**167**	**40 438**

in TUSD	Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	**Total**
31 December 2009			
Liabilities			
Trade and other payables	–	18 770	18 770
Convertible bonds/loans	–	13 988	13 988
Financial liabilities	–	56 198	56 198
Total	**–**	**88 956**	**88 956**

[1)] Please refer to Note 1, “Restatement”, on page 58.

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 which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3 – techniques which 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 2010	Level 1	Level 2	Level 3
Available-for-sale financial assets	3 526	–	–	3 526
Other financial assets at fair value through profit and loss	314	–	–	314
Total	**3 840**	**–**	**–**	**3 840**

Liabilities measured at fair value

in TUSD	31 December 2010	Level 1	Level 2	Level 3
Financial liabilities	–	–	–	–
Derivative financial instruments	490	–	490	–
Total	**490**	**–**	**490**	**–**

Assets measured at fair value

in TUSD	31 December 2009	Level 1	Level 2	Level 3
Available-for-sale financial assets	167	–	–	167
Other financial assets at fair value through profit and loss	7 791	–	–	7 791
Total	**7 958**	**–**	**–**	**7 958**

Liabilities measured at fair value

in TUSD	31 December 2009	Level 1	Level 2	Level 3
–	–	–	–	–
Total	**–**	**–**	**–**	**–**

Reconciliation of fair value measurement of Level 3 financial assets

in TUSD	2010	2009
At 1 January	7 958	7 867
Sales	–	–
Purchases	–	–
Gains and losses recognized in the comprehensive income statement	–4 118	91
At 31 December	**3 840**	**7 958**

20. Derivative financial instruments

Derivative financial instruments contain embedded derivatives of TUSD 490 (2009: TUSD 0) in connection with convertible bonds and loans (see Note 21).

21. Convertible bonds and loans

On 15 December 2009 Precious Woods Holding issued 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 new convertible loans at a total par value of CHF 7 million were issued. They are also repayable in 5 years or can be converted into shares at the rate of 100 shares per CHF 3500 if the conversion requirements are met. CHF 2 million of this convertible loan is split into a liability and an equity component. CHF 5 million of this convertible loan is treated as a financial liability and a derivative financial instrument (see Note 20).

Also on 1 October 2010, an existing loan of EUR 5 million was replaced by a convertible loan with the same conditions. It represents a financial liability and a derivate financial instrument (see Note 20).

The carrying amount of the convertible bonds and loans (financial liabilities) amounts to TUSD 29 255 (2009: TUSD 13 988) and was calculated using market interest rates for equivalent non-convertible bonds (10.2–14.4%).

22. 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 Ltd. In the financial statements it is translated into the Group's presentation currency (USD) using historical exchange rates.

Share capital overview	Number of shares 2010	CHF 2010	Number of shares 2009	CHF 2009
Issued share capital (nominal value CHF 50)				
Issued and fully paid-in capital at the beginning of the year	**3 438 355**	**171 917 750**	**3 437 721**	**171 886 050**
Shares issued during the year	–	–	634	31 700
Options exercised during the year (new shares)	–	–	–	–
Issued and fully paid-in capital at the end of the year	**3 438 355**	**171 917 750**	**3 438 355**	**171 917 750**
Conditional share capital authorized during the year	800 000	40 000 000	400 000	20 000 000
Conditional share capital at the end of the year	1 625 252	81 262 600	825 886	41 294 300

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 is intended to be utilized for acquisitions, the purchase of forests or for reforestations. The shareholders' subscription rights can be excluded in these cases, as when increasing capital to satisfy Employee Share Purchase and Stock Option Plans, or firm underwriting agreements. The conditional share capital is intended to cover the outstanding and future options of employees and shareholders.

The Annual General Meeting of May 2010 approved the creation of conditional and authorized share capital. The company can thus place either a convertible bond/loan of an amount up to CHF 60 million or a capital increase of an amount up to CHF 40 million on the capital market.

23. Stock options

No stock options were exercised in 2010 and no new shares were created from conditional share capital (2009: 0). No stock options expired at the end of 2010 (all remaining outstanding 17 446 stock options expired at the end of 2009). No stock options were granted during 2010 (2009: 0).

24. Related party balances and transactions

Related parties are all members of the Board of Directors, the operating management and associated companies. 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 2010 and 2009, are detailed below:

in TUSD	**2010**	**2009**
Trade and other current receivables	588	128
Long-term loans receivable	–	658
Current financial liabilities	–	387
Trade and other current liabilities	6 889	39
Non-current financial liabilities	–	1 913
Rental paid	–	149
Non-operating expenses	571	–
Other financial expenses	410	–

b. Compensation

During the ordinary course of business in 2010 and 2009, the Group granted compensation to related parties as follows:

in TUSD	**2010**	**2009**
Group Management		
Short-term employee benefits	712	640
Post-employment employee benefits	82	79
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
Total Group Management	**794**	**719**
Board of Directors		
Short-term employee benefits	426	455
Post-employment employee benefits	15	33
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
Total remuneration and fees Board of Directors	**441**	**488**
Operating management		
Short-term employee benefits	1 556	2 709
Post-employment employee benefits	16	88
Long-term benefits	–	–
Termination benefits	48	–
Share-based payment	–	–
Total operating management	**1 620**	**2 797**
Total compensation to key management personnel	**2 855**	**4 004**

25. Employee benefits

Employee Share Purchase Plan (ESPP)

The Group has an Employee Share Purchase Plan (ESPP) available to all employees, under which each employee may purchase up to 720 shares per year at a discount of 20% on the weighted average market price on the SIX Swiss Exchange, subject to a two-year lock-up period. No shares were purchased by employees under this scheme during 2010 (2009: no shares). The effect on the statement of comprehensive income 2010 was USD 0 (2009: USD 0).

Other 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 297 in 2010 (2009: TUSD 516). The pension plans for employees in Switzerland are defined benefit plans.

Changes in the present value of the defined benefit obligation

in TUSD	**2010**	**2009**
Defined benefit obligation at 1 January	3 521	3 751
Current service cost	178	207
Interest cost	100	108
Contribution by plan participants	119	125
Actuarial losses/(gains)	–56	58
Benefits paid	–965	–786
Past service costs	–	4
Exchange differences	298	52
31 December	**3 195**	**3 521**

Plans wholly or partly funded	3 195	3 521
Plans wholly unfunded	–	–

Movement in the present value of the plan assets

in TUSD	**2010**	**2009**
Opening fair value of plan assets	3 253	3 223
Expected return on plan assets	73	88
Actuarial gains/(losses)	–106	314
Contributions from the employers	185	234
Contributions from plan participants	119	125
Benefits paid	–965	–786
Exchange differences	264	55
31 December	**2 823**	**3 253**

Present value of obligations	3 195	3 521
Fair value of plan assets	2 823	3 253
(Surplus)/deficit in the plan	372	268
Net actuarial gains/(losses) not yet recognized	–288	–212
Net liability	**84**	**56**

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

in TUSD	2010	2009
Current service costs	178	207
Interest costs	100	108
Expected return on plan assets	–73	–88
Actuarial gains and losses	–	10
Past service costs	–	4
Recognized in profit or loss	**205**	**241**

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.

in TUSD	2010	2009
Actual return on plan assets	–33	401

Principal actuarial assumptions	**2010**	**2009**
Used for the valuation of the obligations		
Discount rates	2.75%	3.25%
Expected rates of return on plan assets	2.50%	3.00%
Expected salary increases	1.00%	1.00%
Expected inflation rate	1.00%	1.00%
Expected long-term interest on retirement assets	2.50%	2.50%
Expected long-term increase of pensions	0.00%	0.00%

Experience adjustments	**2010**	**2009**
Experience adjustments on plan liabilities	8.48%	–4.66%
Experience adjustments on plan assets	–4.14%	10.09%

in TUSD	2010	2009
Expected employer contributions	187	189

26. Net sales from trading activities

in TUSD	2010	2009
Sales of wood	70 283	79 364
Sales of energy	6 577	4 628
Sales deductions	–4 796	–2 633
Net sales	**72 064**	**81 359**

27. Revenue from emission reduction activities

in TUSD	2010	2009
Revenue from Certified Emission Reductions (CERs) over book value	–	62
CERs recognized as government grants	744	1 582
Revenue from emission reduction activities	**744**	**1 644**

Precious Woods Group obtains the CERs for 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 saw mill and forest operations for electricity generation. The CERs recognized as government grants represent the grant from the UNFCCC for the CERs produced during 2010 valued at fair value. The Group expects that the grant for the 45 582 CERs generated in 2010 (2009: 113 945 CERs) will be issued after a verification scheduled in 2011. The BK Energia power plant was operating constantly and ensured the scheduled uptime. However, due to revised UNFCCC methodology, the amount of CERs generated was much lower than in the previous years.

The issuance of CERs for the year 2009 was postponed until 2011, due to corrective action requests by the verifier DNV and a consequently necessary request for deviation at the UNFCCC. The UNFCCC finally issued the CERs in February 2011 and Precious Woods sold them in March 2011.

28. Depreciation, amortization and impairment

in TUSD	2010	2009
Depreciation and amortization	12 350	12 572
Impairment	21 432	415
Impairment of goodwill	15 968	1 776
Total	**49 750**	**14 763**

The impairment of TUSD 21 432 includes impairment of property, plant and equipment, intangible assets and assets held for sale.

29. Personnel expenses

in TUSD	2010	2009
Wages and salaries	28 737	26 243
Social security costs	508	475
Pension costs	502	757
Other employment benefits	2 246	2 363
Total	**31 993**	**29 838**

in TUSD	2010	2009
Forest, processing and plantation labour costs[1)]	20 885	17 802
Administration and other labour costs	11 108	12 036
Total	**31 993**	**29 838**

[1)] Included in cost of sales.

30. Other income and expenses

in TUSD	2010	2009
Other income		
Gain on disposal of fixed assets	3 609	1 552
Other income	6 224	2 229
Total other income	**9 833**	**3 781**
Other expenses		
Audit fees	224	425
Legal and tax	2 629	710
Other consulting fees	2 059	1 553
Travel	930	659
Marketing	385	387
Loss on disposal of fixed assets	914	30
Other administrative expenses	12 895	7 412
Total other expenses	**20 036**	**11 176**

Other income includes the result of the deconsolidation of Precious Woods Manufacturing B.V. of TUSD 1987. In connection with this deconsolidation foreign currency translation reserves of TUSD 105 have been recognized in the comprehensive income statement 2010. Other administrative expenses include tax expenses (non-income) and various costs in relation to the Brazilian one-offs.

31. Financial income and expenses

in TUSD	2010	2009
Interest income and dividends	505	1 407
Gain on fair value of investment property	–	273
Unrealized gain from fair value adjustments of financial assets	130	–
Foreign-exchange gains	8 445	793
Other financial income	262	300
Total financial income	**9 342**	**2 773**
Financial expenses		
Interest expenses	5 081	3 542
Unrealized loss from fair value adjustments of financial assets	–	2 589
Impairment of financial assets	4 195	–
Foreign-exchange losses	8 655	2 331
Other financial expenses	1 193	3 063
Total financial expenses	**19 124**	**11 525**

32. Leasing

The Group has entered into various operating leases on vehicles and buildings. The operating leases have an average lifespan 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	2010	2009
Within one year	667	3 560
Within two to five years	1 677	6 826
After more than five years	–	2 163
Total lease payments	**2 344**	**12 549**

33. Earnings per share

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

in USD	2010	2009
Net loss/income attributable to Group equity holders (in USD)	–64 203 026	–28 093 717
Weighted average number of shares	3 438 355	3 437 747
Basic loss/earnings per share	**–18.67**	**–8.17**
Number of options at the beginning of the year	–	–
Weighted average number of shares for diluted earnings per share	3 438 355	3 437 747
Diluted earnings per share	**–18.67**	**–8.17**

Basic earnings per share (EPS) are calculated by dividing the net income attributable to shareholders of Precious Woods Holding Ltd. 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.

34. 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 provision has been made will arise from contingent liabilities (Note 18).

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 court case was won against IBAMA. The fines received by the Group, which are not yet settled, amount to approximately USD 8 million (at the year-end exchange rate). 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 at 31 December 2010 (31 December 2009: 0).

35. Financial information by segment

The Group's reportable segments are sustainable forest management Brazil, sustainable forest management Gabon, timber trading Europe, forest plantations and Carbon & Energy. Precious Woods' forests in Brazil and Gabon are managed in a sustainable manner, which means that no more timber is harvested than can simultaneously grow back, and that the value of the forest is preserved. The subsidiary in Holland sells certified tropical timber to European customers. Since 1990, Precious Woods has reforested abandoned pastureland in Central America with valuable timber species such as teak and pochote, and a further 20 indigenous species. 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 2010

in TUSD	Sustainable forest management Brazil	Sustainable forest management Gabon	Timber trading Europe	Forest plantations	Carbon & Energy	Other[1]	**Total 31.12.2010**
Operating income							
Third parties	6 680	35 813	22 029	2 849	5 437	–	72 808
Intersegment	7 411	–	1 330	–	–	–8 741	–
Change in biological assets	–	–	–	7 693	–	–	7 693
Total operating income	**14 091**	**35 813**	**23 359**	**10 542**	**5 437**	**–8 741**	**80 501**
Loss/profit on sale of fixed assets	–2 657	186	6	–179	–52	–	–2 696
EBITDA	**–11 218**	**7 190**	**–3 596**	**4 202**	**663**	**–2 900**	**–5 659**
Depreciation and amortization	–1 773	–8 082	–546	–634	–1 196	–119	–12 350
Impairment charges	–16 780	–6 476	–7 034	–2 417	–921	–3 772	–37 400
Loss/profit from operating activities (EBIT)	**–29 771**	**–7 368**	**–11 176**	**1 151**	**–1 454**	**–6 791**	**–55 409**
Financial income and expenses	–370	–1 015	–542	–5	–1 053	–6 797	–9 782
Share of profit of associates							162
Net (loss)/profit before tax							**–65 029**
Income taxes	1 528	2 518	–2 138	–871	–1 350	–264	–577

in TUSD	Sustainable forest management Brazil	Sustainable forest management Gabon	Timber trading Europe	Forest plantations	Carbon & Energy	Other[1]	**Total 31.12.2010**
Segment assets	**69 317**	**73 690**	**18 727**	**85 099**	**14 183**	**–36 612**	**224 404**
Investments in associates	–	–	1 925	–	–	–	1 925
Capital expenditures	784	3 936	41	92	23	336	5 212
Segment liabilities	**89 107**	**59 097**	**10 350**	**15 201**	**7 761**	**–53 952**	**127 564**

[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 2009

in TUSD	Sustainable forest management Brazil	Sustainable forest management Gabon	Timber trading Europe	Forest plantations	Carbon & Energy	Other[2]	**Total 31.12.2009**
Operating income							
Third parties	5 256	46 996	24 356	1 449	4 946	–	83 003
Intersegment	4 116	–	3 031	–	–	–7 147	–
Change in biological assets	–	–	–	4 840	–	–	4 840
Total operating income	**9 372**	**46 996**	**27 387**	**6 289**	**4 946**	**–7 147**	**87 843**
Loss/profit on sale of fixed assets	–1 245	–257	9	–22	–	–	–1 515
EBITDA	**–8 022**	**7 746**	**–4 647**	**1 816**	**1 534**	**–4 308**	**–5 881**
Depreciation and amortization	–2 123	–7 901	–705	–404	–1 058	–381	–12 572
Impairment charges	–	–	–1 629	–	–	–562	–2 191
Loss/profit from operating activities (EBIT)	**–10 145**	**–155**	**–6 981**	**1 412**	**476**	**–5 251**	**–20 644**
Financial income and expenses	–2 486	–1 263	–3 409	109	–387	–1 316	–8 752
Share of profit of associates							104
Net (loss)/profit before tax							**–29 292**
Income taxes	1 358	47	1 118	–601	–6	–1 013	903

in TUSD	Sustainable forest management Brazil	Sustainable forest management Gabon	Timber trading Europe	Forest plantations	Carbon & Energy	Other[2]	**Total 31.12.2009**
Segment assets	**79 623**	**82 982**	**36 587**	**77 935**	**14 240**	**–43**	**291 324**
Investments in associates	50	–	1 996	–	–	–	2 046
Capital expenditures	979	4 120	81	770	76	53	6 079
Segment liabilities	**85 990**	**61 149**	**13 096**	**9 309**	**1 996**	**–48 534**	**123 006**

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

Geographic information

in TUSD	**2010**		**2009**	
Net sales from external customers				
Switzerland	250	0.3%	650	0.8%
European Union	49 595	68.8%	57 944	71.3%
Latin America	11 138	15.5%	7 911	9.7%
Africa	7 367	10.2%	2 235	2.7%
Other countries	3 714	5.2%	12 619	15.5%
Total	**72 064**	**100.0%**	**81 359**	**100.0%**
Location of non-current assets				
Switzerland	4 703	2.7%	13 442	5.9%
European Union	2 530	1.5%	15 194	6.7%
Latin America	110 285	63.9%	130 588	57.1%
Africa	55 003	31.9%	69 239	30.3%
Total	**172 521**	**100.0%**	**228 463**	**100.0%**

36. Major shareholders

At 31 December 2010, the major shareholders holding 3% (rounded) or more of Precious Woods Holding Ltd. registered shares were as follows:

	Number of shares 2010		Number of shares in case of conversion of convertible bonds/ loans 2010[1]		Number of shares 2009		Number of shares in case of conversion of convertible bonds/ loans 2009[1]	
Round Enterprises Ltd.	201 203	5.85%	441 428	12.84%	201 203	5.85%	100 000	2.91%
Franke Artemis Holding AG	189 571	5.52%	157 142	4.57%	8 000	0.23%	100 000	2.91%
Baloise Holding	305 300	8.88%			313 000	9.11%		
UBS Fund Management	171 735	4.99%			169 735	4.94%		
Beatrice Oeri	99 000	2.88%	50 000	1.45%	99 000	2.88%	50 000	1.45%
Pension Fund Novartis	139 762	4.06%						
Beamtenversicherungskasse des Kantons Zürich	134 350	3.91%			134 350	3.91%		
Swiss Reinsurance Company					130 132	3.78%		

[1] Calculation is based the actual number of shares. Please also refer to Note 21 for information on convertible bonds.

37. Income taxes

Major components of tax expenses/income

in TUSD	2010	2009
Current tax expenses/income	2 157	847
Deferred tax expenses/income relating to temporary differences	–1 580	–1 750
Total	**577**	**–903**

Reconciliation of tax expenses/income

in TUSD	2010	2009
Result before taxes	–65 029	–29 292
Expected tax expenses/income	–19 845	–9 360
Income not subject to tax (Central America)	797	1 289
Expenses not deductible for tax purposes	2 203	1 093
Utilization of previously unrecognized tax losses	–	212
Recognized income tax assets for tax loss carry-forwards from prior periods	10 008	5 388
Other	7 414	475
Total	**577**	**–903**

The weighted average applicable tax rate, considering all profit and loss making entities, was 30% (2009: 32%).

Taxation of the plantations in Costa Rica

To encourage reforestation, Costa Rica granted tax subsidies which were withdrawn for new reforestations in 2001. The plantations in the Fincas Garza, Ostional, Sta. Cecilia and Peñas Blancas (as planted up to 2001) are therefore exempt from future income taxes. The Group did not enter into any commitments such as employment or investment guarantees to receive this exemption. The plantations in Rio Tabaco are not exempt from future taxes, as other tax subsidies had been utilized upon inception. Finca Rio Tabaco and areas located near Peñas Blancas which have been purchased since 2002, have been grouped in a special subsidiary (Multiservicios Forestales de Guanacaste, S.A.) which will be subject to taxes on future profits. A respective deferred tax liability, as shown in the summary of deferred tax liabilities below, has been recognized in the balance sheet.

Taxation of the plantations in Nicaragua

To encourage reforestation, Nicaragua has effected tax legislation exempting reforestation companies from VAT on capital expenditures, as well as reducing corporate income tax by a half. The Group does not expect any material level of taxation during the initial phase of reforestation activities.

Deferred income tax

in TUSD	2010	2009
Total deferred income tax assets	17 555	5 526
Total deferred income tax liabilities	–37 801	–26 899
Net deferred income tax assets/(liabilities)	**–20 246**	**–21 373**

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	2010	2009
Tax loss carry-forward	16 812	4 955
Provisions	440	82
Other	303	489
Total deferred income tax assets	**17 555**	**5 526**

Deferred income tax liabilities

in TUSD	2010	2009
Inventories	–241	–41
Property, plant and equipment	–8 007	–17 677
Intangible assets	–3 169	–7 720
Financial assets	–15 594	–
Other	–10 790	–1 461
Total deferred income tax liabilities	**–37 801**	**–26 899**
Net deferred income tax assets/(liabilities)	**–20 246**	**–21 373**
Reported in the balance sheet as follows:		
Deferred income tax assets	1 174	5 526
Deferred income tax liabilities	–21 420	–26 899
Net deferred income tax assets/(liabilities)	**–20 246**	**–21 373**

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

in TUSD	2010	2009
At 1 January	–21 373	–17 980
Disposal of subsidiaries	–626	–
Income statement charge	1 580	1 750
Tax charged to other comprehensive income	–1 677	–3 344
Translation difference	1 850	–1 799
At 31 December	**–20 246**	**–21 373**

The Group did not recognize deferred income tax assets of TUSD 6556 (2009: TUSD 14 810) in respect of unused tax losses amounting to TUSD 25 711 (2009: TUSD 61 588). These tax-loss carry-forwards expire as shown in the table below:

in TUSD	2010	2009
0–2 years	–	10 678
3–5 years	–	8 378
5–7 years	8 188	8 807
over 7 years	17 523	33 725
Total tax-loss carry-forwards	**25 711**	**61 588**

TUSD 25 711 of these loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 26% (2009: TUSD 0). In 2009 the loss carry-forwards belonged to Precious Woods Holding with an applicable tax rate of 12% (2009: TUSD 27 863) and to the Brazilian operations with an applicable tax rate of 34% (2009: TUSD 33 725).

38. Acquisitions

There were no acquisitions in 2009 and 2010.

39. Subsequent events

At the end of 2010, the Board of Directors of the Precious Woods Group decided to seek a buyer for its Central American plantations in Nicaragua and Costa Rica. The assets impacted by this decision were not reclassified as non-current assets held for sale in 2010 as the respective requirements of classification as non-current assets held for sale had not been met.

In 2011 these requirements have been met, and the Group will classify the assets impacted by this decision as non-current assets held for sale. Precious Woods engaged a professional service firm in order to drive the sales process of the assets in Central America. Negotiations are in their early stages. According to the agreement with the banks these assets should be sold by 30 September 2011 (see page 55 ff.). These assets belong to the “forest plantations” segment.

Since the balance sheet date, no further events have occurred that have an influence on the 2010 consolidated financial statements.

40. Approval of financial statements and dividends

The financial statements were approved by the Board of Directors on 21 April 2011 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 2010 (2009: 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 balance sheet, statement of comprehensive income, statement of changes in equity, statements of cash flows and notes (pages 49 to 94), for the year ended 31 December 2010. The prior period financial statements were audited by another auditor whose report dated 12 April 2010, expressed an unqualified opinion on those financial statements.

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, 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 2010 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 the Note "Going Concern – Debt and operating restructuring" in the financial statements. This note describes the measures taken by the Board of Directors in order to ensure the going concern assumption. A material uncertainty exists with regard to the successful implementation of the restructuring plan – including the funding of the additional liquidity, which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of 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 article 11 AOA) 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	Christoph Michel
Licensed audit expert (Auditor in charge)	Licensed audit expert

Zurich, 26 April 2011

The Moabi tree is protected due to its role as an important source of food for the indigenous population as well as for animal species such as African forest elephants and gorillas.

Precious Woods Holding Ltd. financial statements

Balance sheets as of 31 December 2010 and 2009 (in TCHF)

ASSETS	Notes	2010	2009
Current assets			
Cash and cash equivalents		15 031	21 136
Trade receivables third		1 197	4 577
Trade receivables Group		4 684	6 122
Short-term receivables third		368	106
Short-term receivables Group		1 129	335
Inventories		290	593
Prepaid expenses		96	34
Total current assets		**22 795**	**32 903**
Non-current assets			
Fixed assets, net		359	132
Loans to third parties		306	1 038
Loans to affiliates		31 673	57 087
Investments	2	122 626	191 488
Long-term financial assets		6	6
Intangible assets		–	3 923
Total non-current assets		**154 970**	**253 674**
TOTAL		**177 765**	**286 577**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2010	2009
Current liabilities			
Trade payables third		788	790
Trade payables Group		392	1 996
Trade payables affiliates		348	106
Other payables		383	360
Short-term bank loan		30 780	8 926
Accrued expenses		3 140	2 274
Provisions		578	622
Total current liabilities		**36 409**	**15 074**
Non-current liabilities			
Long-term liabilities		30 233	24 553
Bank loan		–	27 488
Provisions		–	2 534
Total non-current liabilities		**30 233**	**54 575**
Shareholders' equity			
Share capital	1	171 918	171 918
General reserve		86 260	86 260
Accumulated losses		–147 055	–41 250
Total shareholders' equity		**111 123**	**216 928**
TOTAL		**177 765**	**286 577**

See notes to Precious Woods Holding Ltd. financial statements on pages 100 to 106.

Statements of income and accumulated deficit 2010 and 2009 (in TCHF)

INCOME	Notes	2010	2009
Sales			
Net trading-sales timber products		31 817	48 644
Net trading-sales CO_2 certificates		–	3 252
General costs of production		–26 882	–41 995
Total income, net		**4 935**	**9 901**
OPERATIONAL EXPENSES			
Personnel expenses	5	–3 700	–4 388
Administrative expenses		–3 314	–1 554
Audit fees		–96	–165
Total operating expenses		**–7 110**	**–6 107**
Interest expenses and bank charges		–3 461	–2 694
Total non-operating expenses		**–3 461**	**–2 694**
OTHER INCOME/(EXPENSES)			
Foreign exchange differences		–6 189	–431
Other expenses		–925	–12 955
Amortizations		–95 650	–
Other income		2 574	4 448
Total other income/expenses, net		**–100 190**	**–8 938**
Profit before taxes		**–105 826**	**–7 838**
Taxes		21	–45
Net profit		**–105 805**	**–7 883**

See notes to Precious Woods Holding Ltd. financial statements on pages 100 to 106.

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 (including plantations) in Latin America and Africa following the guidelines for sustainable forest management (including reforestation) laid out by the Forest Stewardship Council (FSC), the trading of timber products as well as the generation and sale of electricity and CO_2 emission rights.

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

On 25 June 2001, the Board of Directors and the ordinary shareholders' 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 the 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 2010 is composed of 3 438 355 (2009: 3 438 355) fully paid-in registered shares, each with a nominal value of CHF 50.

On 23 March 2010, upon registration of shares exercised under the conditional share capital of the company for employees during 2009 (Article 3b of the Articles of Association), the company's share capital was increased from CHF 171 886 050, corresponding to 3 437 721 registered shares, each with a nominal value of CHF 50, by CHF 31 700 (634 shares), to CHF 171 917 750 (3 438 355 shares).

2. Investments in subsidiaries

The company holds the following direct investments:

Company	Nominal share capital	31 December 2010 Participation in %	Nominal share capital	31 December 2009 Participation in %
Precious Woods Management Ltd. British Virgin Islands (Group Management)	USD 20 000	100.00	USD 20 000	100.00
Maderas Preciosas Costa Rica S.A. Costa Rica (sub-holding company and operations)	CRC 6 592 670 000	100.00	CRC 6 592 670 000	100.00
Maderas Preciosas Nicaragua S.A. Nicaragua (forest operations) 1% of the shares are held by Maderas Preciosas de Costa Rica S.A.	NIO 1 500 000	99.00	NIO 1 500 000	99.00
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 150 080	99.97
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) 23.2% of the shares are held by Precious Woods Europe BV, Holland	BRL 24 429 617	76.80	BRL 24 429 617	76.80
Precious Woods Europe B.V. Netherlands (sub-holding, timber trade)	EUR 18 000	100.00	EUR 18 000	100.00
African Wood Trading Company S.A. Luxembourg (sub-holding for Gabon entities)	EUR 260 000	100.00	EUR 260 000	100.00
Unio S.A. Luxembourg (sub-holding for Gabon entities)	EUR 1 000 000	100.00	EUR 1 000 000	100.00
Lastour & Co. S.A. Luxembourg (sub-holding for Gabon entities)	EUR 185 000	100.00	EUR 185 000	100.00
Exobois S.A. Luxembourg (sub-holding for Gabon entities)	EUR 165 050	100.00	EUR 165 050	100.00

CRC – Costa Rican colón
BRL – Brazilian real
NIO – Nicaraguan córdoba
EUR – European euro
USD – US dollar

3. Authorized capital

As of 1 January 2010, the company did not have authorized share capital (2009: 0).

On 20 May 2010, the Annual General Meeting authorized the Board of Directors to increase the share capital at any time before 20 May 2012, by a maximum amount of CHF 40 000 000 by way of issuance of no more than 800 000 registered shares that are to be fully paid in with a nominal value of CHF 50 each. In the case that conversion and option rights were to be granted based on the conditional share capital (pursuant to section 4 hereinbelow) after 20 May 2010, no new shares could be issued out of the authorized share capital in an amount equal to the granted conversion and option rights.

During 2010, no new shares were issued by the company under the authorized share capital. The authorized share capital expires on 21 May 2012.

4. Conditional share capital

As of 31 December 2010, the company had the following conditional share capital:

a. The Annual General Meeting of 20 May 2010 authorized the Board of Directors to create conditional capital in the maximum amount of CHF 60 000 000 (2009: CHF 20 000 000) by the issuance of no more than 1 200 000 (2009: 400 000) registered shares that are to be fully paid in and have a nominal value of CHF 50 each; this increase being the result of the exercise of conversion and option rights that are granted in connection with bonds or similar obligations of the company or of affiliated companies. In case the company issues new shares out of the authorized share capital (pursuant to section 3 hereinabove), no new conversion and option rights may be granted in an amount equal to the issued new shares (Article 3a of the Articles of Association).

b. The share capital of the company may be increased by the maximum amount of CHF 7 024 400 by the issuance of no more than 140 488 (2009: 141 122) registered shares that are to be fully paid in and have a nominal value of CHF 50 each; this increase being the result of the exercise of option rights that can be granted to employees of the company or of affiliated companies (Article 3b of the Articles of Association).

c. The share capital of the company may be increased by the maximum amount of CHF 14 238 200 by the issuance of no more than 284 764 (2009: 284 764) registered shares that are to be fully paid in and have a nominal value of CHF 50 each; this increase being the result of the exercise of shareholder option rights (Article 3c of the Articles of Association).

During 2010, no new shares were issued by the company under any conditional share capital.

5. Board and Executive compensation

Compensation

The compensation of the Board of Directors was as follows:

For the year 2010 all amounts in TCHF	Ernst A. Brugger[3]	Daniel Girsberger	Thomas Hagen	Rolf Jeker	Inge Jost	Katharina Lehmann	Claude Martin	Rudolf Wehrli	Total
Compensation									
Fix in cash	167	20	20	20	20	20	20	20	307
Fix in shares									
For part. in committees	–	9	11	2	19	42	2	20	105
Other compensation[2]	–	2	2	1	3	4	1	3	16
Total compensation	**167**	**31**	**33**	**23**	**42**	**66**	**23**	**43**	**428**
Loans and credits	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Numbers of shares	**9 992**	**3 665**	**2 900**	**1 767**	**582**	**280**	**400**	**867**	**20 453**

For the year 2009 all amounts in TCHF	Ernst A. Brugger[4]	Daniel Girsberger	Thomas Hagen	Rolf Jeker	Inge Jost	Katharina Lehmann	Claude Martin	Rudolf Wehrli	Total
Compensation									
Fix in cash	226	20	20	20	20	20	20	20	366
Fix in shares[1]	23	3	–	–	–	–	–	6	32
For part. in committees	–	17	11	4	17	4	14	30	97
Other compensation[2]	39	2	2	2	2	2	2	3	54
Total compensation	**288**	**42**	**33**	**26**	**39**	**26**	**36**	**59**	**549**
Loans and credits	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Numbers of shares	**6 362**	**3 665**	**2900**	**1 567**	**582**	**280**	**400**	**635**	**16 391**

1) In 2009, members of the Board of Directors received one third of the compensation regarding special projects paid in shares. Shares allocated in 2009 were finally approved by the Board of Directors on 15 December 2009. The market value at the grant date was CHF 40. The shares issued have a nominal value of CHF 50.

2) These amounts comprise social contributions and indirect remuneration (secretary: TCHF 18 in 2009) for the Director of the Board and social contributions for all other members of the Board.

3) This amount does not include compensation for the operational management 2010 as CEO ad interim.

4) Includes a compensation for the operational management (2009: TCHF 70).

The compensation of the Group Management was as follows:

For the year 2010	Joachim Kaufmann (May–Dec)	Group Management
all amounts in TCHF	CEO	Total
Salary		
Fix in cash	267	740
Variable in cash and shares[1]	–	–
Other compensation[2]	49	86
Total compensation	**316**	**826**
Loans and credits	**–**	**–**

For the year 2009	Andreas Heusler	Group Management
all amounts in TCHF	CEO until 31.10.2009	Total
Salary		
Fix in cash	300	695
Variable in cash and shares[1]	–	–
Other compensation[2]	37	86
Total compensation	**337**	**781**
Loans and credits	**–**	**–**

[1] During 2009 and 2010 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.

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

For the year 2010	Shares	Options
Joachim Kaufmann, CEO	200	–
Cornelia Gehrig, CFO	115	–

For the year 2009	Shares	Options
Cornelia Gehrig, CFO	75	–

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 2010		Number of shares in case of conversion of convertible bonds/ loans 2010[1]		Number of shares 2009		Number of shares in case of conversion of convertible bonds/ loans 2009[1]	
Baloise Holding	305 300	8.88%			313 000	9.11%		
Round Enterprises Ltd.	201 203	5.85%	441 428	12.84%	201 203	5.85%	100 000	2.91%
Franke Artemis Holding AG	189 571	5.52%	157 142	4.57%	8 000	0.23%	100 000	2.91%
UBS Fund Management	171 735	4.99%			169 735	4.94%		
Pension Fund Novartis	139 762	4.06%			140 000	4.07%		
Beamtenversicherungskasse des Kantons Zürich	134 350	3.91%			134 350	3.91%		
Beatrice Oeri	99 000	2.88%	50 000	1.45%	99 000	2.88%	50 000	1.45%
Swiss Reinsurance Company					130 132	3.80%		

[1] Calculation is based on the actual number of shares.

7. Enterprise-wide risk management

The Group Management regularly performs risk assessments in cooperation with the affiliates, and implements the necessary actions to minimize the business risks. The objective is to identify potential threats to the achievement of the 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 and operating restructuring

8.1. Background

Internal and external factors slowed down the turnaround of the company. In addition to the delay, the net loss was significantly impacted by one-off items and unknown issues from the past. In winter 2010 it became obvious that the Group could not increase its share capital as planned due to the slowdown in turnaround as well as the extraordinarily high number of one-off items. The objective of this capital increase would have been the raising of sufficient liquidity in order to settle the part of the debts under the standstill agreement concluded with Deutsche Bank and Zürcher Kantonalbank expiring at the end of March 2011 as well as to finance the turnaround and the necessary operational investments. Furthermore, it was clear that certain financial covenants set forth in the existing credit facilities would not be met. In December 2010 a waiver was arranged to suspend the financial covenants. Discussions were initiated with banks and other investors to find a solution.

8.2. Debt restructuring

At the end of March 2011, negotiations to extend the standstill agreement were completed. The following major debt restructuring measures were agreed upon:

- To ensure additional liquidity in the amount of at least USD 5 million by no later than 30 June 2011

- The divestment of Central American assets (land and plantations) by no later than 30 September 2011

- The repayment of the debts to Deutsche Bank and Zürcher Kantonalbank by no later than 30 September 2011

- That if by 30 June 2011 no additional liquidity in the amount of USD 5 million is contributed to Precious Woods Holding Ltd., the termination date of the standstill agreement is end of June 2011, otherwise end of September 2011

A major part of the debts will be repaid by the proceeds of the sale of the Central American assets.

8.3. Balance sheet restructuring

The planned debt restructuring measures are expected to have the following effects:

- The raising of additional liquidity by at least USD 5 million will ensure the appropriate liquidity level and bridge a possible liquidity shortage.

- The net debt will – dependent on the success of the divestments of Central American assets – be significantly reduced.

In addition, the equity of the statutory balance sheet of Precious Woods Holding Ltd. will be restructured.

- At the shareholders' meeting, the proposed reduction of the nominal value of the shares from CHF 50 to CHF 1 will compensate for the loss of capital as per article 725 paragraph 1 of the Swiss Code of Obligations. As a result of this financial restructuring measure, the capital loss will be removed.

8.4. Operational restructuring

With the support of external advisors, a detailed plan of various measures for the whole Group was prepared (e.g. to build up additional business with biomass in Brazil, to develop sawmill capacity in Gabon, to develop local businesses, to improve sales prices, to further improve processes and to reduce personnel). The turnaround is expected to be finished by the end of 2011. The new five-year plan foresees a realistic and income-oriented development of the Group.

The operational turnaround will have the following effects:

- Profit- and volume-oriented sales increases

- Increase in productivity

- Midterm key figures: EBITDA margin of 12–15%; equity ratio of > 60%

8.5. Uncertainties

The two banks have extended the standstill agreement until the end of September 2011 at the latest. The success of the restructuring plan depends on the following points, which contain significant uncertainties:

- Investors granting additional liquidity in the form of convertible loans of at least USD 5 million. Results of negotiations with potential investors are set forth in signed term sheets. The company is in the process of finalizing the loan contracts. Cash-inflows are planned to be obtained by 17 May 2011

- The assets of Precious Woods Central America being sold successfully. Precious Woods engaged a professional service firm in order to drive the sales process of the assets in Central America. Negotiations are in their early stages

- All covenants of the standstill agreement being met

- The objectives of the five-year plan being reached

The agreement of the additional convertible loans is based on term sheets. Term sheets are significantly less binding than signed contracts. Should the additional liquidity not be obtained, then the Precious Woods Group will not be in a position to settle its financial obligations in the short term. According to the standstill agreement, proceeds of the sale of the assets in Central America are to be used to settle the bank debts. Should the assets not be sold in a timely manner, then Precious Woods will not be in a position to settle its bank debts falling due on 30 September 2011.

If the additional liquidity (additional convertible bonds and sales proceeds of assets in Central America) cannot be obtained and the restructuring plan cannot be successfully implemented, this may cause the Precious Woods Group to cease to continue as a going concern and to prepare the financial statements on a liquidation value basis.

The Board of Directors and Management expect that the proposed measures will be implemented, and their effects will be to restore the liquidity of the Group and assure its financial stability in the long term. Therefore, the Board of Directors and Management believe the going-concern assumption of the Precious Woods Group should be given.

9. Pledged assets/other securities

As of 31 December 2010, the company has granted various securities, such as (i) pledges of intellectual property rights and shares in a subsidiary in the total amount of TCHF 41 242 (2009: CHF 0), as well as (ii) guarantees and promissory notes in the total amount of TCHF 21 902 (2009: CHF 0), to the banks in order to secure the respective facility agreements.

10. Fire insurance values

The fire insurance value of tangible fixed assets amounts to CHF 300 000.

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 97 to 106), for the year ended 31 December 2010. The prior period financial statements were audited by another auditor whose report dated 12 April 2010, expressed an unqualified opinion on those financial statements.

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 2010 comply with Swiss law and the company's articles of incorporation.

Emphasis of matter
We draw attention to the Note "Going Concern – Debt and operating restructuring" in the financial statements. This note describes the measures taken by the Board of Directors in order to ensure the going concern assumption. A material uncertainty exists with regard to the successful implementation of the restructuring plan – including the funding of the additional liquidity, which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of 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 article 11 AOA) 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.

We draw your attention to the fact that half of the share capital and the legal reserves are not covered anymore (article 725 paragraph 1 SCO).

Ernst & Young Ltd

Rico Fehr	Christoph Michel
Licensed audit expert (Auditor in charge)	Licensed audit expert

Zurich, 26 April 2011

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Precious Woods' primary principle is protection of the ecosystem. Detailed collection of data forms the basis for the work of the lumberman. Every tree is carefully selected for harvesting by forest planners. Before being cut down it is located on a map by means of GPS and marked for inventory. Thus every trunk and ultimately every timber product can be traced back to the forest.

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PRECIOUS WOODS