

Annual Report 2011

PRECIOUS WOODS Annual Report 2011



PRECIOUS WOODS

◀ Cover:

Tropical forest in Gabon

Precious Woods 2011 – a year characterized by turnaround measures

- Harvestable forest in Brazil is increased by 105 000 hectares to over 300 000 hectares
- Production capacities at the sawmill for “bois divers” in Gabon are expanded
- Restructuring measures at Precious Woods Europe create a good initial position for 2012
- Carbon & Energy receives and sells outstanding emission certificates (Certified Emission Reductions, CERs) from 2009
- Partial divestment of 75% of Precious Woods Central America
- Precious Woods Holding Ltd repays bank loans and reduces debt burden
- Precious Woods Holding Ltd initiates new, centrally run sales and marketing organization

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

Key figures and information for investors

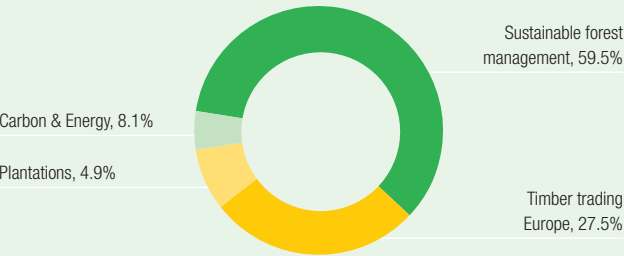
5-year summary of key financial data (in TUSD)

	2011	2010 ¹	2009	2008	2007
Total operating income	68 974	69 959	87 843	116 758	99 752
Amortization & Depreciation, Impairments	6 330	46 699	14 763	20 094	12 742
Amortisation & Depreciation	10 090	11 716	12 572	13 261	11 210
Impairments	−3 760	34 983	2 191	6 833	1 532
EBITDA	−2 129	−9 861	−5 881	10 077	20 521
in % of the total operating income	−3.09%	−14.10%	−6.69%	8.63%	20.57%
EBIT	−8 459	−56 560	−20 644	−10 017	7 779
in % of the total operating income	−12.26%	−80.85%	−23.50%	−8.58%	7.80%
Net result	−56 156	−66 013	−28 389	−14 434	10 852
in % of the total operating income	−81.42%	−94.36%	−32.32%	−12.36%	10.88%
Balance sheet total	145 394	224 404	291 324	279 458	312 250
Shareholders' equity	71 798	112 347	168 318	184 340	213 252
in % of the balance sheet total	49.38%	50.06%	57.78%	65.96%	68.30%
Net indebtedness	34 437	58 045	51 361	48 451	41 474
Cash flow from operating activities	−9 101	−3 800	2 841	11 464	4 355
Investments/acquisitions	41 054	−343	3 448	17 195	53 732
Average full-time-equivalent employee	1 511	1 557	1 706	2 261	2 387

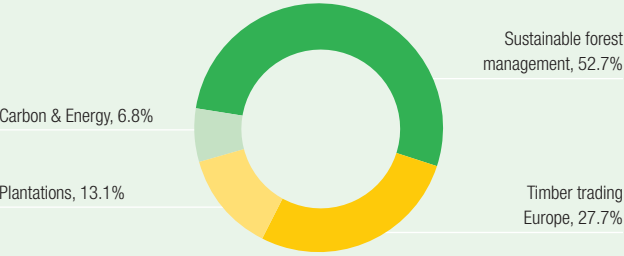
¹ The prior-year figures have been restated.

Total operating income by business segment

2011: TUSD 72 535

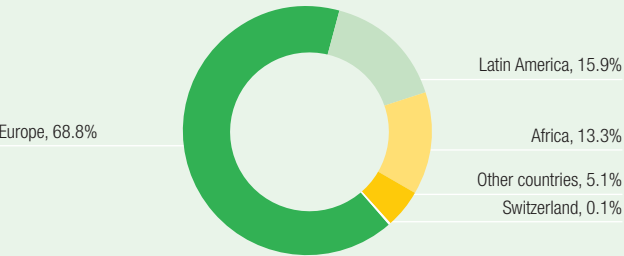


2010: TUSD 80 501

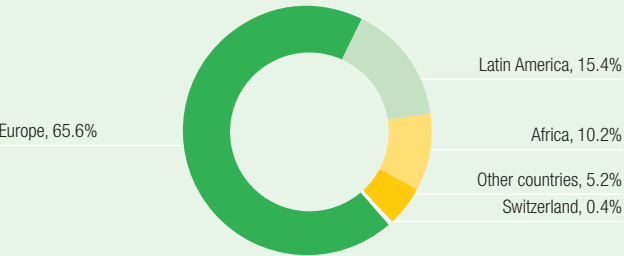


Total net sales by market region

2011: TUSD 71 646

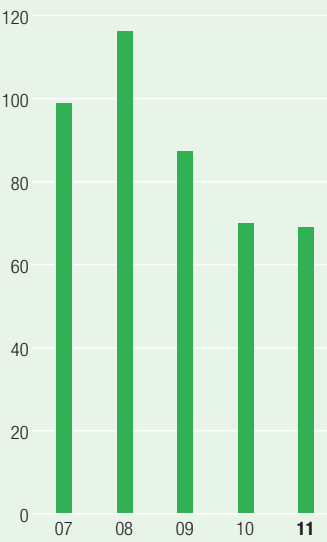


2010: TUSD 72 064



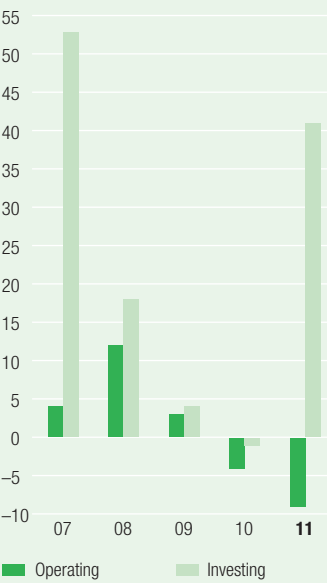
Total operating income

USD million



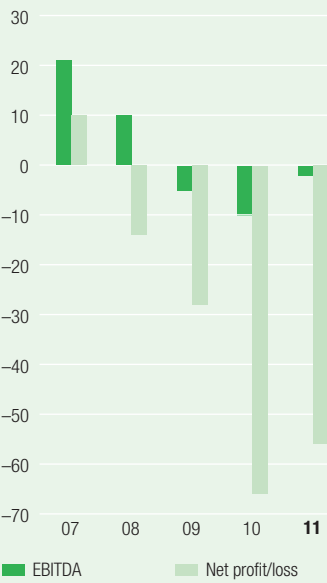
Cash flow from operating and investing activities

USD million



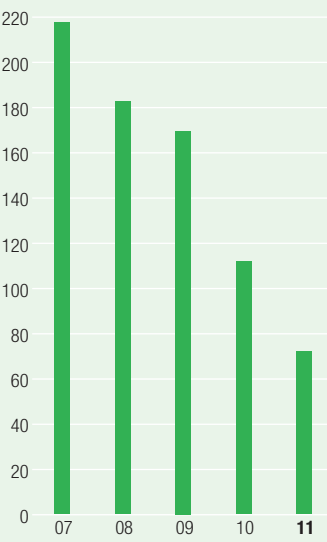
EBITDA and net profit/loss

USD million



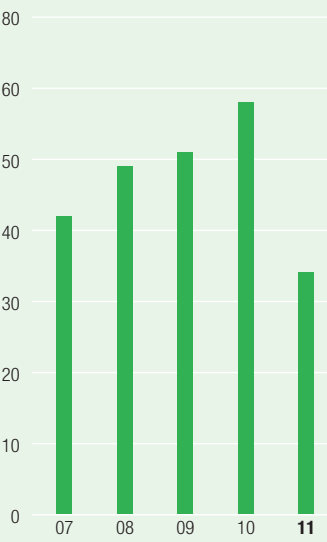
Shareholders' equity

USD million

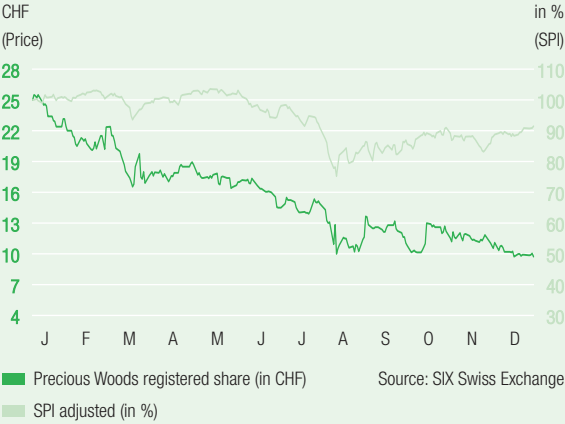


Net indebtedness

USD million



Performance of the Precious Woods registered share 1.1.2011–31.12.2011



Information for investors

	2011
Share price in CHF	10
Stock market capitalization in CHF million	34
Earnings per share in USD	−16.33

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To our shareholders

For Precious Woods, 2011 was shaped by the conclusion of the turnaround measures and the resolution of issues from the past, with processes and organizational structures being further optimized, personnel measures taken and risks reduced. From an operational perspective – i.e. without taking Precious Woods Central America into account – EBITDA has improved 78% on the previous year. While the operating result for 2011 is not yet satisfactory, the turnaround process that has been under way for the last two years should start to bear fruit in 2012.

EBITDA (all figures restated with PWCA classified as discontinued operation) amounted to USD –2.1 million, representing an increase of USD 7.7 million on the previous year. Issues from the past, cost of turnaround measures and the divestment loss on PWCA led to a net comprehensive loss of USD –41.5 million including a negative net impact of USD –14.5 million resulting from discontinued operations in Central America. The turnaround process involved a series of far-reaching measures, with the partial divestment of Precious Woods Central America – as approved by the general assembly – in particular having been a difficult but vital step given the debt and liquidity situation. The general assembly decided to carry out a reduction in nominal value with a view to re-establishing capital market viability. It was also decided to seek a cash-neutral solution to existing debts associated with the purchase of the biomass power plant in Brazil in 2005, and to sell it if necessary. Throughout this process Precious Woods has continued to adhere to the business model of FSC-based forest and timber management in the tropics. For us, the three-way approach to value creation – economic, social and ecological – is not only desirable but also achievable. The Board of Directors and Management are confident of developing Precious Woods into a sustainable and profitable company.

The key success factors include increased productivity in all areas, committed and competent staff at all levels, greater market and customer proximity and improved logistics. Our company made significant progress in these areas in 2011. Sales activities have been coordinated centrally since the beginning of 2012, and have been optimized with the aim of improving wood yields and margins. While Management and staff will continue to face significant challenges in both operational and commercial terms in 2012, the turnaround should start to bear fruit in the form of positive EBITDA. We would like to thank all employees for their strong commitment in these times of rapid and far-reaching change.

Precious Woods is considered to be the benchmark for sustainable forest and timber management in the tropics, and the FSC certification of our production underlines our commitment to the highest ecological and social standards in sustainable forest management.



Ernst A. Brugger
Chairman of the Board of Directors



Joachim Kaufmann
CEO

We follow amendments and new legislation such as the EU Timber Regulation (EUTR), which comes into force in March 2013, or the REDD programme. We are fully convinced that achieving entrepreneurial success based on the principles of sustainability is the only way to preserve the tropical forests over the long term and to contribute to maintaining biodiversity, an intact water balance and a healthy climate. 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 Board and the entire staff for your continued support during this challenging turnaround process.



Ernst A. Brugger
Chairman of the Board of Directors



Joachim Kaufmann
CEO

Overview of the year – turnaround measures with major impact

With the successful implementation of important turnaround measures in 2011, Precious Woods is looking to the future with confidence. Precious Woods' activities in Gabon made a significant contribution to sales and operating income in 2011. In Brazil, major issues from the past were resolved or significantly mitigated while operating performance continues to be unsatisfactory. By optimizing its workforce, Precious Woods Europe laid the basis for a solid start in 2012. In addition, the marketing and sales organization, now managed centrally in Switzerland, will have positive effects on Precious Woods' sales and pricing strategy. In Central America Precious Woods continues to participate actively in the good potential for the future with its share and commitment. The measures taken point to a conclusion of the turnaround in 2012. EBITDA in 2011 was at USD –2.1 million, which is an improvement of USD 7.7 million compared to the previous year. The total comprehensive loss in 2011 amounted to USD –41.5 million, an improvement of USD 30.2 million compared to 2010. This loss includes a net negative impact of USD 14.5 million resulting from the partial sale of PWCA. Figures have been reclassified in order to facilitate a comparison between 2011 and 2010.

The challenges for 2011 were the implementation of the measures for a successful turnaround, managing issues from the past, reducing cost and capital intensity as well as maintaining liquidity. Management and Board, which concentrated on efficiency and transparency and rigorously tackled the very complex issues from the past, made it possible to complete the major turnaround measures by the end of 2011.

Precious Woods Holding Ltd: central sales organization and maintaining liquidity

At the end of 2011, a centrally managed sales organization out of Switzerland was established, which became operational at the beginning of 2012. Thanks to the new organization, the product/client portfolio is to be optimized, margins improved and market shares in the emerging markets increased. The activities of the new sales organization will already have a positive impact on the Group in the second half of 2012.

The partial divestment of Precious Woods Central America as well as new shareholder loans in the aggregate amount of USD 11 million assured the repayment of all bank debt at holding level, the repayment of EUR 5 million in shareholder loans and assured liquidity.

Precious Woods Gabon: significant contribution to business development

Activities in Gabon/West Africa made a significant contribution to Precious Woods' 2011 sales and operating result. With the expansion of production capacity in the sawmill from the middle of 2011

onwards, the basis for future growth was established. The use of further types of wood is thus possible. At the same time, the group works on an extension of the concession basis. The restructuring measures and process optimizations have not yet resulted in a higher EBITDA. This is mainly due to demanding logistical challenges particularly by inland train transportation and capacity bottlenecks in the Port of Libreville, which led to considerable delays in shipments of Precious Woods Gabon's products. With an EBITDA of USD 6.9 million, Precious Woods Gabon's result fell short of expectations and was slightly below last year's figure of USD 7.2 million. Major progress was made in social and ecological activities, which was reflected in an excellent FSC audit.

Precious Woods Amazon: resolving the situation in Brazil

Since 2010, Management's and the Board of Directors' full attention has been focused on resolving the difficult situation and strengthening the operations of Precious Woods Brazil. Staff was reduced by 131. In the first half of the year inventory and production bottlenecks due to heavy rainfalls made it difficult to keep costs down. Initial delays in obtaining harvesting permits were successfully overcome. Major progress was made operationally, particularly in view of the increase in productivity in the value chain and important sales achievements in the domestic market. Since October, the transport of logs has been completely outsourced. Moreover, the first contract for the sale of biomass waste from the forest was concluded. Management was successful in settling several legal disputes regarding land titles, and was thus able to increase Precious Woods Amazon's harvestable forest area by 105 000 hectares to some 300 000 hectares (out of a total of 467 637 hectares). In addition, a purchase contract dating back to 2007 and involving 39 000 hectares was converted into a 50-year concession contract, thus enabling the resolution of further issues from the past. A potential tax penalty was successfully cancelled. In autumn 2011, Precious Woods agreed to a cash-neutral solution for outstanding debt dating back to 2005 in connection with the purchase of the BK Energia biomass power plant. Precious Woods Amazon's EBITDA came to USD –1.7 million, an improvement of USD 9.5 million compared to the previous year.

Precious Woods Europe: efficiency improvements

The restructuring and optimization measures at Precious Woods Europe were implemented in a difficult market environment. Outstanding government decisions, a weak euro and delivery problems from Brazil and Gabon resulted in an 8% decrease in sales. The restructuring measures with a reduction in the workforce were continued in 2011, but will not positively impact Precious Woods Europe's results until 2012. Greater emphasis on market orientation, which is part of the newly formulated centralized sales organization out of Switzerland, will likewise make a positive contribution to the 2012 results.

Compared to the previous year, Precious Woods Europe's operating results improved by USD 1.8 million. Because of severance payments and inventory write-downs, however, the 2011 result was again negative by USD –1.8 million.

Carbon & Energy: successful debt restructuring

Precious Woods received and sold emission certificates (Certified Emissions Reductions, CERs) for Brazil outstanding from 2009, whose validation had been postponed to 2011 because of an additional requirement made by the competent inspection office. The CER certification for the 2010 and 2011 harvests is expected for the last quarter of 2012. The 9-megawatt power plant in Itacoatiara supplied Precious Woods' sawmill and the town of Itacoatiara with electricity, which was produced from wood waste from the sawmill. The Carbon & Energy business segment achieved sales of USD 5.9 million in 2011 (2010: USD 5.4 million) and posted a positive EBITDA of USD 2.6 million (2010: USD 0.7 million). Due to the debt restructuring with the minority shareholder in the power plant, Precious Woods will transfer 40% of its share in the power plant to the minority shareholder as of 1 April 2012 and will thenceforth no longer consolidate the power plant, but will remain a shareholder with 40% (Note 38).

Central America: minority participation in reforestation

The divestment by Precious Woods of forestry activities in Central America down to a minority participation of 25%, which was completed at the end of September, in order to repay all holding bank debt and to maintain liquidity in 2011 was the major event of the year. Thanks to this, however, a significant reduction in capital costs for 2012 was achieved and liquidity improved. A comparison of group figures with the previous year is only possible by reclassifying the segment PWCA as discontinued operation. In Nicaragua and Costa Rica successful FSC audits were conducted in 2011.

Social and ecological sustainability

Since the founding of Precious Woods, sustainability is not only the core of its corporate philosophy; it is also at the heart of its business model. Precious Woods' current business situation is putting its goal of creating social and economic added value to the test. In 2011, further staff reductions were necessary. Unfortunately, this could not be achieved entirely by attrition, but was nevertheless done on fair terms and within the regulatory framework. Thanks to this restructuring, which was no easy choice for Precious Woods, the remaining employees can continue to receive fair pay and social security benefits.



Precious Woods – a sustainable forest management company

As one of the world's largest companies active in the sustainable management of tropical rainforests, Precious Woods is regarded as a pioneer in many areas. Its entrepreneurial focus is the manufacturing and sale of FSC (Forest Stewardship Council)-certified semi-finished tropical timber products. In Brazil Precious Woods also sells electricity and Certified Emission Reductions (CERs) generated by recycling wood waste from production. The ultimate aim of all activities is to increase customer benefits while preventing deforestation of tropical landscapes. Economic success is in turn the prerequisite for socially and ecologically sustainable activities and thereby for the targeted preservation of the tropical forests over the long term. Headquartered in Switzerland, the Precious Woods Group employed an average of 1511 people in Brazil, Gabon, the Netherlands and Switzerland in 2011.

Vision

As an economically successful company, Precious Woods contributes by means of sustainable forest management and the marketing of the resulting products to the long-term preservation of tropical forests, their biodiversity and their positive impact on the global climate and water balance.

Focus on economic, social and environmental value

Precious Woods creates economic value via its sustainable use of tropical forest resources. The wide range of timber and non-timber products creates value that goes beyond that of the traditional forestry and timber industry and secures the long-term development of the Group. Precious Woods generates social value through the creation of jobs, schools and health clinics in remote tropical forest areas, thereby making a valuable contribution to economic and social development in outlying regions. Precious Woods actively promotes lasting improvements in the living conditions of its employees and their families and of village communities. Environmental value means managing Precious Woods' forest areas 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. (The social and ecological commitment of Precious Woods is described in detail in the Sustainability chapter on pages 33–35 and in the reports on the individual business segments.)

Products and markets: an improvement in framework conditions

Precious Woods produces and sells logs, sawn timber (beams, posts and boards), planed timber and veneers made from high-quality tropical wood to the main target groups of the marine/hydraulics sector, garden, facade and road construction and exterior furniture manufacturers in the European, Brazilian, Asian and American markets. Thanks to the ongoing work of prominent non-governmental

organizations, awareness of the ecological and social consequences of uncontrolled exploitation 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 increasing market potential. With the acquisition of companies in Gabon in 2007, attention also turned to France and the southern European markets, which are less advanced in terms of FSC certification. With a new, centrally coordinated sales organization, Precious Woods aims in 2012 to expand its market and customer portfolio in a targeted manner in both new and existing markets.

Global and economic challenges in a dynamic environment

The important function of the tropical forests in sequestering CO₂ is gradually becoming established in the awareness of the population, and tropical forest management is increasingly being viewed in the light of global resource depletion. 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 on the framework conditions of the respective countries: economic and institutional structures, forestry policies and the associated legislation, and their implementation in practice.

A pioneer – not only in FSC

Precious Woods defines and measures the sustainability of all its activities on the basis of the principles of the Forest Stewardship Council (FSC), which was founded in 1993. Precious Woods' adherence to defined ecological and social criteria is ensured through periodic inspections conducted by independent FSC auditors. Precious Woods is convinced that, in the long term, countries with tropical forest resources will grant new concessions to those forest management companies that are able to fully meet the sustainability criteria, and that certification will reinforce the company's position on the market. Customers in the public sector in particular are putting increasing pressure on producers and suppliers of tropical timber and demanding sustainably produced wood. Precious Woods adopted a leadership role in FSC certification in Brazil, and the company also led the way in forest planning by means of GPS as well as road and land use planning in the forest. The company is also regarded as a pioneer when it comes to the use of forest resources for non-timber products, including electricity generation from wood waste in Brazil and trade in emission certificates (since 2006), an additional source of income that has been managed in collaboration with the renowned myclimate foundation since 2011. New, lesser known wood species are currently being tested and launched on the market.

Strategy: market orientation and ongoing optimization of the value chain

The company's comprehensive approach – ranging from sustainable forest management through timber production to the distribution and marketing – means that it can ensure a complete chain of custody. The procurement of third-party timber products for Precious Woods' own trading focuses on forestry companies that are also FSC certified. Today, Precious Woods concentrates more closely on what its forests – with some 80 different wood species – have to offer, with a view to meeting the demands of its customers and the market and facilitating sustainable economic activity over the long term.

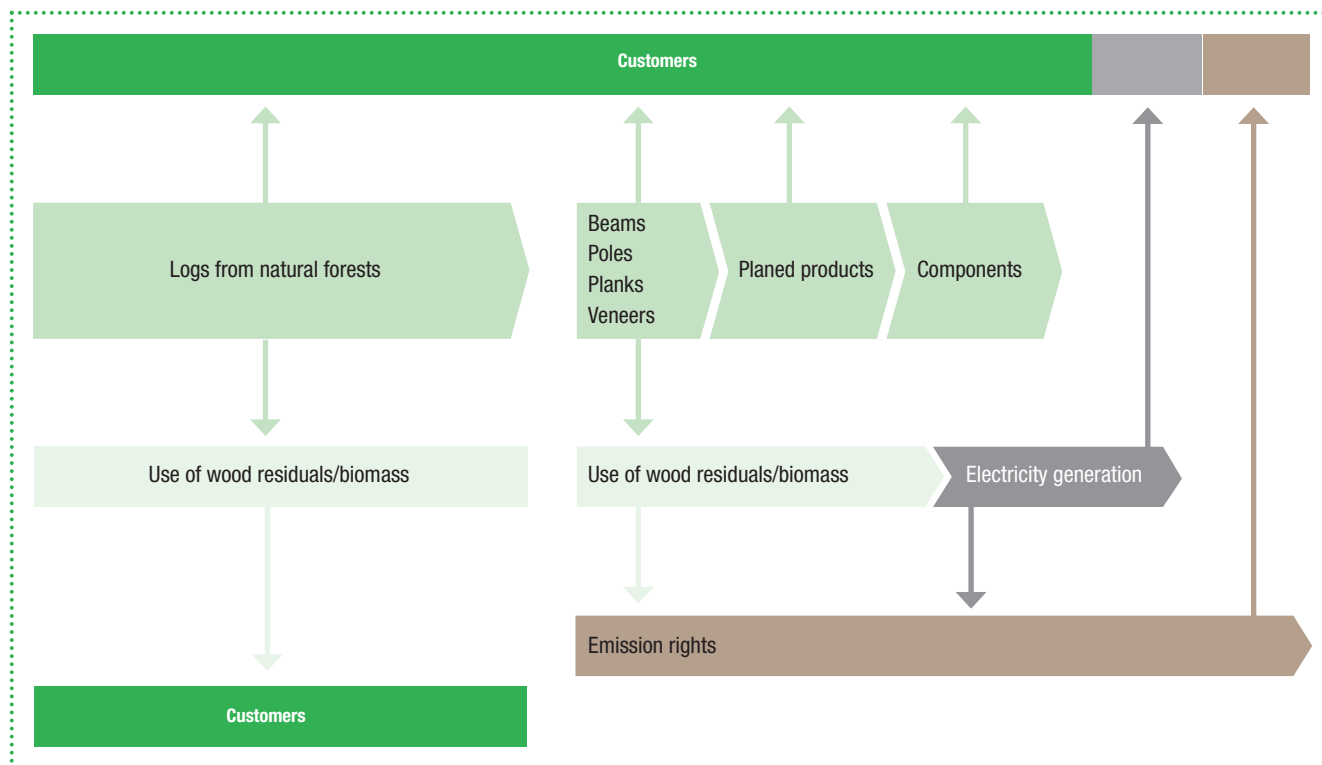
Medium-term targets: profitable organic growth

Following the acquisition-driven growth of recent years, the company is now aiming to achieve sustainable organic growth, with medium-term targets including an EBITDA margin of 12% to 15% of net annual sales and an equity ratio of over 50%. 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 achieve, or to keep, 100% FSC certification.

Greater market and customer orientation through organizational changes

Precious Woods consists of operationally independent national companies and a lean Group Management that focuses on the achievement of strategic objectives, sales and marketing, communication and financial management and control. The aim from 2012 onwards is to rapidly implement a systematic focus on customers and the market through the new sales organization.

Products and value chain



Precious Woods milestones

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

1993 With the creation of Precious Woods Ltd, the private company is opened up to shareholders.

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

2001 Precious Woods creates another forestry company (Precious Woods Pará) in the Brazilian state of 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 Itacoatiara, Brazil, Precious Woods acquires BK Energia, a wood chip power plant that has been in operation since 2002 and affiliated to its Precious Woods Amazon sawmill. Precious Woods takes over its largest customer and partner, the Dutch firm A. van den Berg B.V.

2006 Precious Woods sells its first CO₂ emission rights, thereby expanding its activities in the sector of non-timber products derived from tropical forests.

2007 Market entry in West Africa: acquisition of the CEB forestry company and the TGI veneer company in Gabon.

2008 The subsidiary Precious Woods Gabon receives FSC certification in October 2008 for its forestry activities and chain of custody (CoC) 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 The market environment demands rapid adaptation in terms of an increase in productivity, marketing and organizational structure. 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 radical restructuring of the Precious Woods Group is intensified further, with issues from the past being resolved, productivity increased and the Group's market position strengthened. Precious Woods receives the annual award of the Swiss Environmental Foundation.

2011 The 2011 Annual General Meeting approves the partial divestment of 75% of the shares in Precious Woods Central America (PWCA). In October, they are sold to two existing Swiss shareholders, resulting in a significant reduction in the debts of Precious Woods Holding Ltd, which maintains its involvement in business developments in Central America by holding a seat on the Board of Directors of PWCA.



2011 results of the Precious Woods Group

In the year under review, the Precious Woods Group achieved sales of USD 69 million. On a comparable basis, i.e. without Precious Woods Central America (PWCA) which was reclassified as “discontinued operations” following the partial divestment of the business unit, sales were slightly down by USD 1 million on the previous year. EBITDA amounted to USD –2.1 million. Compared to the previous year – without PWCA – this equates to an improvement of USD 7.7 million in the operating result. The net loss from continuing operations improved sharply from USD –66.3 million to USD –21.8 million. The 2011 total comprehensive net loss for the period of USD –41.5 million improved by USD 30.2 million against the previous year despite the net negative impact of USD 14.5 million from the treatment of the partial divestment of PWCA as “discontinued operation”.

Income statement

Operating income

In 2011, Precious Woods Group posted total consolidated operating income of USD 69 million (2010: USD 70 million). The decline in sales can be attributed mainly to transport and shipping problems in Gabon and reduced harvest volumes in the first half of the year in Brazil (extreme rainfalls and delayed issue of harvest permits by the government).

With gently rising prices, sales in Brazil's domestic market developed well. The commissioning of the new sawmill in Gabon partially compensated for the export ban on logs from Gabon. Together with higher sales deductions this led to a slightly lower contribution margin. Sales in Central America were stimulated by economic recovery, higher harvest volumes and easing price pressure on teak wood.

Precious Woods hopes to maintain the price level in 2012 and to increase sales volumes with the new sales organization. At the same time, the measures to boost efficiency and productivity (process optimization) taken as part of the turnaround as well as cost cutting (workforce reduction in Brazil and Europe) should be reflected in the results for the 2012 financial year.

Operating result (EBITDA)

At USD –2.1 million (2010: USD –9.9 million, with PWCA classified as discontinued operations in 2010 and 2011) the operating result continued to improve. This was attributable to rigorous improvement of the cost basis in all units, leaner processes, and less costs for issues from the past.

Precious Woods Gabon's (PWG) business activities, which include forestry and sawn wood processing, were particularly affected by logistics and shipping problems which affected all producers in the region. For this reason PWG reported a below-expectation sales

increase of 1.6% to USD 36.4 million – despite the partial inauguration of the new sawmill on 1 July 2011. Due to an increase in problems at the new sawmill it was not yet able to compensate for the log-export ban, until then PWG's most profitable business area. However, compared with the previous year, sales prices for sawn wood, planed wood and veneers remained stable. Despite all these problems a positive EBITDA of USD 6.9 million (2010: USD 7.2 million) was achieved.

Although Precious Woods Amazon was able to generate healthy sales in the domestic market, exports were still below expectations because of delayed harvest permits and unusually heavy rainfalls in the first half of the year. To optimize harvest and inventory storage procedures, the Kanban system was introduced at the end of 2011, aiming at reducing storage costs. As in the previous year, these measures had an, albeit significantly reduced, negative impact on costs. Sales and gross profit in this area were thus still below expectations, and the cost basis still too high compared to sales of USD 14.7 million (2010: USD 14.1 million). This all led to a negative EBITDA of USD –1.7 million (2010: USD –11.2 million).

Precious Woods Europe's result suffered a sales drop from USD 23.4 million in 2010 to USD 21.5 million in 2011. While the operating result of Precious Woods Europe rose by USD 1.8 million on the previous year in 2011, the overall figure of USD –1.8 million for the year remained negative due to redundancy costs and inventory write-downs. Despite its impact on the result in 2011, these dismissals will ensure a significantly improved cost structure in 2012.

Energy production of the Carbon & Energy business segment was running at 20% below normal levels in the first half of the year because of the unusually heavy rainfalls and the resulting lower quantities of waste wood. This depressed sales, which was the main reason for a below-expectation increase of the operating income to USD 5.9 million (2010: USD 5.4 million). In March 2011, Precious Woods received the emission certificates (Certified Emission Reductions, CERs) generated by the power plant in 2009. Their sale generated income of USD 0.9 million. Together with effects from the local debt restructuring, an EBITDA of USD 2.6 million was achieved, an increase of some USD 1.9 million compared to 2010. Owing to a regulatory change in the calculation method for CERs, revenue recognition of the 2010 and 2011 harvests cannot be expected until the fourth quarter of 2012.

The partial divestment of the Precious Woods Central America segment approved by the Annual General Meeting in May 2011 was successfully concluded at the end of September 2011. The capital received from the divestment was used first and foremost to reduce debt, boost liquidity and finance operating investment plans.

In view of the intention of its sale, the Precious Woods Central America business segment has been treated as a “discontinued operation” since the beginning of 2011. A direct comparison with the previous year is therefore possible only if the 2010 key figures are correspondingly reclassified (see note 1 in Precious Woods Group’s financial statement).

For corporate activities, expenses at EBITDA level were USD 5.1 million higher than in the previous year. Around half of this increase was due to higher one-time restructuring costs, the other half are due to inter-segment eliminations. However, costs in 2012 have been significantly reduced already.

Financial result

At USD –13 million the financial result is USD 3 million down on the previous year. This is due entirely to the valuation adjustment of the non-current financial assets. Due to the debt repayment in fall 2011, the financial result should improve significantly in 2012.

Balance sheet

Year on year, the Group’s total assets decreased by 35% to USD 145 million. The asset decrease was due to the sale of the biological assets and the land of PWCA, with the remainder coming from inventory reductions, non-operating asset disposals in Brazil and other adjustments.

Net debt decreased sharply by USD 23.6 million to USD 34.4 million (–41%). Total liabilities were reduced by USD 38.5 million. The total capital/equity ratio slightly decreased to 49%.

Cash flow statement

Operating cash flow (before changes in working capital) improved by USD 8.1 million. However, the paydown of old payables and liabilities resulted in a negative cash contribution of operating activities of USD 9.1 million despite cash generating measures (inventory reductions).

Capital expenditure of more than USD 12 million was markedly higher than in the previous year. Most of this investment was made at Precious Woods Gabon and used for the “bois divers” sawmill, forest roads, plants and equipment and Precious Woods Amazon (acquisition of concession).

Cash flow from financing activities amounted to USD –30.9 million (previous year: USD –5.5 million). This was mainly due to repayment of bank debt at holding level with proceeds received from the divestment of PWCA.



PRECIOUS WOODS
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Brazil – strong efforts with impact

Precious Woods Amazon started to achieve significant progress in the turnaround process during the year under review, although the achievements are not yet visible in the operating result. Price increases were implemented on the local market, a major new customer for log deliveries was acquired, and an initial agreement for the sale of forest biomass waste was concluded. New procedures were introduced in secondary processing, and all log transportation was outsourced to an external company as of 1 October 2011. While further issues from the past were resolved, unusually heavy rainfall unfortunately made forest management significantly more difficult in the first half of the year. The ongoing restructuring process both facilitated and necessitated the further reduction of some 130 jobs in the second half of 2011. The EBITDA of Precious Woods Amazon amounted to USD –1.7 million which corresponds to an improvement of USD 9.5 million on the previous year.

Productivity: positive business developments towards the end of the year

Unusually heavy rainfall in Brazil made forest management significantly more difficult in the first half of 2011, in particular the transport of logs out of the forest. This resulted in inventory and production bottlenecks as well as increased transport and personnel costs, and the challenging terrain placed significant strain on machinery. Harvesting proceeded as planned in the second half of the year. The transportation of logs was fully outsourced as of 1 October, thereby eliminating the need for intensive machinery maintenance. The Kanban system was introduced at the end of 2011 in order to optimize harvesting and warehousing processes, with a view to reducing warehousing costs. As in the previous year, these costs again had a negative impact – albeit a much smaller one – on overall costs. Unlike the previous year however, Precious Woods ultimately received all harvest permits, although some were slightly delayed. At the beginning of December the company received the harvest permit for Itapiranga II and III. In parallel to this, an agreement was reached for the first time with the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) for a multi-year approval process that will help to improve production planning significantly from 2013 onwards.

In the first half of the year, Precious Woods was able to increase sales prices for the local market by around 15%. In addition, over 4000 cubic metres of logs were delivered to a new customer in the local market, representing a major step in the establishment of the local Brazilian market. These achievements in sales are all the more significant given that local competitors offer sawn wood at lower prices, albeit not FSC certified. At the end of 2011, the first order was signed with a new customer for the supply of 2000 stere of biomass from forest management activities (1 stere is equivalent to 0.5–0.7 cubic metres of wood). The first deliveries began in January

2012, with the aim being to reach an agreement for larger supply quantities from mid-2012 onwards. A settlement agreement was concluded with Manaus Transmissora de Energia (MTE), allowing MTE to lay, maintain and operate an electricity cable stretching from the Tucuruí hydroelectric power plant to Manaus and passing through Precious Woods forest area. Approval from the Brazilian environmental agency IBAMA concerning the sale of the resulting wood waste was still outstanding as at the beginning of 2012.

Successful resolution of issues from the past and exceptional factors

One of the main turnaround measures was the clarification of land rights in Brazil. The total area of forest owned by Precious Woods amounts to 467 637 hectares (not including concessions). Thanks to the strong commitment of Management, several legal disputes were resolved in 2011, thereby increasing the total area of “harvestable” forest held by Precious Woods Amazon by around 105 000 to almost 300 000 hectares. The aim is to obtain approval to harvest a further 75 000 or so hectares of forest over the medium term.

Last year, Precious Woods additionally succeeded in converting a purchase agreement dating from December 2007 and involving 39 000 hectares of land into a concession agreement with a duration of 50 years. This led the way to the resolution of two further issues from the past. A threatened legal dispute was resolved regarding Precious Woods estates amounting to around 174 000 hectares, which had been claimed by a third party. The company also eliminated the risk of potential land loss presented by the purchase

Precious Woods Amazon in brief

Precious Woods has been operating in the state of Amazonas, Brazil since 1996. Today it is running a sustainable forestry operation on 506 637 hectares (End of 2011) of its own land and of concessions near Itacoatiara, 250 kilometers east of Manaus. In 2008 Precious Woods terminated its operational activities in the state of Pará, where since 2001 the company had managed around 46 000 hectares of forest (from a total 76 000 hectares). Precious Woods Amazon has been certified according to the criteria of the Forest Stewardship Council (FSC) since 1997. FSC 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. At the same time, this moderate and sustainable use generates a source of income for the local population, which in turn contributes further to the protection of the forest. The harvested timber is processed by our own factories into sawn timber, planed timber, construction piles and finished products. As well as being sold on the local market, these timber products are exported to Europe, the USA and Asia.

agreement with Reflorestadora Holanda concluded in December 2005. Additionally, there are plans to sell three outlying forest areas of around 45 000 hectares in the next two to three years.

In autumn 2011, Precious Woods agreed a cash-neutral solution for all parties concerned in connection with debts outstanding from 2005 relating to the purchase of the biomass power plant BK Energia. An agreement was reached with the current minority shareholder to find a buyer for all outstanding shares of BK Energia in 2012. If no buyer is found within a defined period, 40% of the shares of BK Energia will be transferred to the current minority shareholder to offset the outstanding debts. This would leave Precious Woods as a minority shareholder with the remaining 40% of the shares of BK Energia.

In January 2011 Precious Woods succeeded in selling the ABN port facility in Pará for USD 2.5 million, 5% more than the target price, and payment was made by the buyer during the same month. At the end of the year, Port II in Pará was sold for USD 1.2 million, a figure 15% higher than the target price, and payment was received in December 2011. In mid-2011, Precious Woods Amazon succeeded in averting the threat of a tax fine of USD 12.8 million dating back to 2006. Two additional fines remain to be resolved over the medium term. One is a USD 8.7 million fine from the Brazilian environmental protection authorities from 2002, which according to Precious Woods' legal counsel can be avoided with a high probability. The second one is a threatened property tax fine of USD 13.3 million from 2007, for which Precious Woods anticipates costs of USD 1.6 million. This expected amount has been fully provisioned for.

The success that has been achieved enables Precious Woods Amazon to look with confidence to the future. Chances are good that the Group can resolve its outstanding issues from the past over the medium term.

Social and ecological sustainability

A follow-up audit in spring 2011 resulting from a series of corrective measures implemented in 2010 was completed successfully, and renewal of FSC certification is planned for 2012. In 2011, the Brazilian "Socioambiental" sustainability team of Precious Woods Amazon carried out a detailed study into the needs and requirements of the 513 families living in the 14 communities of the Precious Woods Amazon region. The study produced a selection of extremely accurate socio-economic data. The team also paid regular visits to village communities in order to maintain contact, and relationships with mayors of the towns of Itacoatiara and Silves were strengthened. In December the FSC team supported the "Solidarity at Christmas" project, which involved distributing gifts to the children of the village communities.

Further activities from the Annual Report of the sustainability team include:

- The Capacity Development Programme for improved recruitment. Vacancies are advertised on the noticeboards of the village communities of Precious Woods Amazon, and applicants are evaluated and selected by the sustainability team and the HR department of Precious Woods Amazon.
- Local food produced by the village communities (cassava, palm fruit, oranges, etc.) is purchased by Precious Woods at fair-trade conditions and sold on to the workforce.
- The sustainability team functions as an intermediary between the village communities and Precious Woods Amazon, with a view to improving the flow of communication.
- Partnerships with local organizations such as Avive (Associação Vida Verde da Amazônia), which promotes sustainable development. In cooperation with the village communities of Precious Woods Amazon, it 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.
- Raising awareness of sustainable forest management among village communities.

A confident start to the new year

Precious Woods Amazon is now more confident about the future than it was at the beginning of 2011. Precious Woods Amazon began the new business year with a streamlined structure and a lower cost base, with the headcount having been reduced by 131 employees. The new ERP process optimization programme, for which a specialist was brought in in November 2011, is intended to secure further improvement in the cost situation in Brazil, with the aim in 2012 being to increase productivity further thanks to Kanban, ERP, process improvements in the sawmill and a reduction in the use of services from third parties. The local market is showing a positive trend, as indicated by the development of a local customer base from the last quarter of 2011 onwards and the successful sale of softer wood species ("white logs"), as well as activities in the Brazilian economy in view of the 2014 Football World Cup. While Precious Woods anticipates an increase in volumes on the local market, progress at the international level is strongly dependent on the development of the global economy. In the export trade, prices per cubic metre are expected to rise.

Key figures Precious Woods Amazon

		2011	2010	Change
Economic				
Sales sawn and industrialized wood	in m ³	30 400	28 700	5.9%
Sales logs and piles	in m ³	10 500	1 600	556.3%
Sales biomass	in m ³	95 200	93 400	1.9%
Timber harvest	in m ³	157 300	122 900	28.0%
Net sales	in USD million	14.7	14.1	4.3%
Operating result (EBITDA)	in USD million	-1.7	-11.2	-84.8%
Environmental				
Energy consumption	in GJ	62 900	66 700	-5.7%
CO ₂ emissions	in t	3 800	3 700	2.7%
FSC share of timber sales	in %	99	99	—
Employment				
Employees (yearly average)		544	679	-19.9%
Women	in %	16.7	11.5	45.2%
Accidents at work ¹		158	24	558.3%
Days lost per accident		3.9	10.6	-63.2%

¹ While the accidents at work increased, the days lost per accidents decreased strongly.



Precious Woods Gabon – positive developments, promising market environment, constraints in logistics

The commissioning of the new hardwood sawmill on 1 July 2011 was the defining event in 2011 for Precious Woods Gabon (PWG) and amplified its industrial value chain as planned. Positive developments included the high demand for PWG products against a backdrop of rising prices and an excellent result in the FSC audit, as well as the rapid impact of the restructuring measures and process optimizations on EBITDA. The result of the mid-year forest inventory was disappointing, however, with the potential for available wood proving to be lower than expected in the concession areas. Particularly severe logistical difficulties were experienced with rail transport in the interior of the country and significant capacity constraints at the Port of Libreville, leading to extensive delays for the export of the product shipments and an increase in stocks by some 2000 cubic metres; additionally there were stock write offs and high start-up costs of the new hardwood sawmill. PWG's results were below expectations in the second half of the year, with EBITDA amounting to USD 6.9 million for the year, corresponding to a slight decrease of USD 0.3 million compared to 2010.

Business developments in a promising market environment

Precious Woods Gabon profited from a positive market environment, with local demand for logs increasing and leading to higher prices. With its investment of USD 3.5 million in the new hardwood sawmill, Precious Woods is supporting the Gabon government in its goal of increasing value creation within the country. The new “bois divers” sawmill was commissioned on 1 July 2011 and produced a total of 2000 cubic metres of sawn wood from various wood species (“bois divers”), in particular Padouk, Kevazingo, and Movingui in the first few months. Output capacity after completion will reach around 1800-2000 cubic metres per month following the final completion of the facility in 2012. The ban on the export of logs introduced in 2010 led to a drop in sales, which is now gradually being offset by sales from additional processing capacities and increasing sales on the local market.

The heaviest rainfall for 30 years caused harvesting to be suspended for certain periods, a development previously almost inexistent. Therefore, harvest volumes, of Okoumé timber in particular, were below the 2010 level, and the revenue potential from the new concession of 57 300 hectares was lower than expected. Despite the increased capacity for hardwood processing, production was below expectations due to various initial difficulties and delays in machinery imports. While income was up 1.6% to USD 36.4 million thanks to higher prices than in 2010, the company did not achieve its sales targets mainly because of insufficient export capacities at the harbour and, as a consequence, increased stocks of finished products. Various new products such as AD (air-dried) rotary cut veneer and lesser known species such as Faro, Omvong and Niové were

launched on the market in 2011, helping to expand the customer portfolio. Further encouraging developments included the reduction in personnel costs, consumer goods and costs for road construction. Various process improvements such as the redeployment of the production lines of the moulding plant and forest management procedures had a positive impact on productivity. Machinery downtime was reduced thanks to a systematic maintenance programme, resulting in increased labour productivity.

Unforeseeable events that affected the forest management business in Gabon in general had a negative impact on the results, with armed conflict in Côte d'Ivoire compromising shipping traffic in West and Central Africa and causing complications and delays in the export trade in the first half of the year. The last quarter of 2011 saw heavy capacity constraints in the Port of Libreville relating to the construction activities for the Africa Football Cup taking place in the beginning of 2012. Additional delays to exports were caused by a shortage of railway carriages for the transportation of timber from the interior of the country to the port.

Restrictive conditions in a stable political environment

Following the elections in autumn 2011, the political situation in Gabon remained relatively stable. However, areas of infrastructure such as rail transport, port capacities and road construction that are important to the forest industry are not expected to improve until the medium term, despite extensive efforts by the government.

Precious Woods Gabon in brief

Precious Woods Gabon consists of the two companies Compagnie Equatoriale des Bois (CEB) and Tropical Gabon Industrie (TGI), and has been managing a tropical forest in eastern Gabon across a concession area of 616 700 hectares since 2007. A small concession of 57 300 hectares, which is managed for third parties, was added in 2011. Community forests for village communities are occasionally managed on the basis of annually allocated felling quotas. Precious Woods Gabon employs a workforce of around 670, and approximately 160 000 cubic metres of logs are harvested every 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 two sawmills and a small moulding plant in Bambidie, the main base camp of Precious Woods Gabon's forestry operation. TGI's rotary cut veneer factory for Okoumé veneers is located in Owendo, a suburb of the port city of Libreville. The main sales markets for timber products manufactured in Gabon are Europe, South Africa and Asia. In October 2008, Precious Woods Gabon achieved FSC certification for its forestry activities, and TGI followed in January 2010 with the FSC certification for its chain of custody.

In June 2012, Gabon will present its official national strategy for sustainable development, attaching great importance to forest and timber management.

Discussions are under way regarding the introduction of an environmental and noise tax, which would also affect Precious Woods in connection with the wood waste generated during processing. Further measures affecting the timber sector include increased bureaucracy in the regulation of export documentation and in the organization and management of the harbour.

Further progress in social and environmental sustainability

The excellent result of the third FSC Forest Management and FSC Chain of Custody audits is a reflection of the efforts made in the areas of social and environmental sustainability. The outstanding certificate for the sliced veneer facility is in the planning stage.

The focus in the area of training was on the development and teaching of occupational safety. A month of intensive training was provided to loggers, for example, resulting in a further reduction in the number of accidents in the forest. In connection with the commissioning of the new sawmill, training courses with a diploma in electricity and electro mechanics were organized for technical staff. In the health sector, nursing staff were brought up to date in the diagnosis of malaria and polio.

More than 20 houses were built to coincide with the commissioning of the new sawmill in order to accommodate new staff and their families, and in 2011 a shuttle bus from Lastourville to Bambidie was introduced for Fridays and Sundays to enable high school students to spend the weekends with their parents in Bambidie.

In addition to licence fees for forest management, which are used to establish new villages, in 2011 Precious Woods Gabon periodically donated timber to village residents for their own use in house construction or for selling on.

A successful banana and cocoa project has been running for the last year, with the first bananas having been harvested and sold. An agreement with the ministry of agriculture ensures the provision of technical advice and a purchase commitment for the cacao produced.

For more than five years Precious Woods Gabon, in collaboration with the Wildlife Conservation Society and Cornell University in New York, has been monitoring the presence of gorillas and elephants and, since 2011, also the African golden cat, in the Precious Woods' concession area. Current data show that sustainable forest man-

agement as practised by Precious Woods Gabon does not impact on the habitats of these animals. Parallel to this, efforts are under way to increase awareness among the population of the need to protect these animals and to maintain biodiversity.

The activities performed by Precious Woods in Gabon are all the more remarkable given the environment in which it operates: in Gabon unemployment stands at 25%, 33% of the population live below the poverty line, 50% have no access to clean drinking water and the infant mortality rate is still high. Precious Woods Gabon will continue to work on providing valuable momentum for the local population as a pioneer and leader in sustainable forest management in Gabon.

A cautious outlook because of logistic challenges for 2012

In general, despite ambivalent economic forecasts, lively demand – accompanied by correspondingly higher prices – is anticipated for FSC Precious Woods products from Gabon. The new hardwood sawmill is scheduled to be expanded further in 2012, with annual capacity rising to 20 000-25 000 cubic metres of sawn wood and sales set to increase accordingly. Negotiations for the acquisition of further concession areas are under way to ensure the availability of the necessary quantities of logs. With a view to ensuring further improvements in services and customer benefit, the Gabon sales organization will be integrated in a new, central sales department of Precious Woods Holding Ltd as of 2012. Close collaboration with local transport companies is also on the agenda, and will secure the transfer of products from the interior of the country to Libreville and reduce the dependence of Precious Woods Gabon on the rail operator. Solutions such as the loading of containers at the production location in Bambidie, as well as on-site customs clearance, are being examined.

Since the most important bridge over the Kango River has been damaged at the beginning of 2012 and will be impassable for possibly more than a year, prospects of the business development of Precious Woods Gabon are currently hampered by the consequential accentuation of the logistics bottlenecks. Less efficient barges will instead serve as transport and further solutions are being sought. Taking into account the already insufficient logistic capacities, the full involvement of Precious Woods' business potential is further hampered. A substantial improvement of the inconvenient logistics situation in Gabon can only be anticipated for the mid-term once the harbour capacities in Owendo will be doubled, the wagon capacities of the railway company increased significantly, and the 650-kilometre road connection from Libreville to Bambidie upgraded and tarred.

Key figures Precious Woods Gabon

		2011	2010	Change
Economic				
Sales sawn and industrialized wood	in m ³	14 531	18 600	-21.9%
Sales veneer	in m ³	23 800	22 400	6.3%
Sales logs	in m ³	42 277	29 800	41.9%
Timber harvest	in m ³	154 800	161 800	-4.3%
Net sales	in USD million	36.4	35.8	1.7%
Operating result (EBITDA)	in USD million	6.9	7.2	-4.2%
Environmental				
Energy consumption	in GJ	141 900	154 100	-7.9%
CO ₂ emissions	in t	12 549	13 600	-7.7%
FSC share of timber sales	in %	53	74	-28.4%
Employment				
Employees (yearly average)		677	638	6.1%
Women	in %	9	7	20.8%
Accidents at work		40	45	-11.1%
Days lost per accident		19	39	-50.1%



Precious Woods Europe – optimization in a difficult market environment

Progress in the restructuring and optimization measures implemented by Precious Woods Europe accelerated in 2011, against the backdrop of a difficult market environment affected by the euro crisis. Decisions by both authorities and consumers were postponed, thereby preventing a reduction in inventories. As a trading partner of Precious Woods Amazon and Precious Woods Gabon, Precious Woods Europe suffered due to weather and shipping-related delays of deliveries from Brazil and Gabon respectively. While the EBITDA of Precious Woods Europe rose by USD 1.8 million (50%) on the previous year in 2011, the overall figure of USD –1.8 million for the year remained negative due to redundancy costs and inventory write-downs.

External influences impacting business developments

Sales remained below expectations in the year under review due to delivery problems from Brazil and Gabon and the difficult market environment, with the total of USD 21.5 million coming in 8% below the previous year's figure. Heavier than usual rainfall in Brazil in the first half of the year led to delivery delays from Precious Woods Amazon, while Precious Woods Gabon struggled with capacity constraints at the Port of Libreville that resulted in delays of deliveries from this region in the second half of the year in particular. Thanks to increased deliveries from Precious Woods Amazon in the second half of 2011 and the optimization of logistics channels in the Netherlands, business remained stable during this period. Just as the timber industry as a whole, Precious Woods Europe also faced difficult market conditions. A continuously weak Dutch real estate market led to postponements of new-builds and house renovations in anticipation of changes to the term structure of interest rates. In addition, significant pressure on the state to save money had a negative impact on investments in infrastructure projects relevant to the timber industry, and also meant that inventories at Precious Woods Europe could not be reduced as planned. Furthermore, the fourth quarter result suffered due to lower sales volumes as a consequence of the euro crisis. Despite having impacted the result in 2011, redundancy costs as part of the restructuring process and inventory write-downs will ensure a significantly improved cost structure in 2012.

Sales figures in cubic metres declined by 19%, with the total quantity of wood sold amounting to 17 300 cubic metres. Sales comprised 75% of timber from Precious Woods and 25% from external suppliers. Prices for tropical timber rose due to general shortages in the supply of wood from South America and Asia. The increase in sales prices, together with better than expected margins for the over 50 timber species, had a positive impact on the operating result, which rose to USD –1.8 million in 2011.

Restructuring measures, in the area of administration in particular, continued throughout the year, with the headcount falling from

30 FTEs at the beginning of 2011 to 23 as at 31 December. Six further redundancies were announced at the end of the fourth quarter of 2011 and the corresponding provision made; the positive effects, however, will not be reflected before the results for the first half of 2012.

Long-standing experience with FSC-certified wood

Precious Woods Europe has long-standing experience in the sale and use of hardwood, and is one of northern 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 Benelux states, the United Kingdom and Germany being significant target markets. Construction projects by the public sector in these countries also play an important role, while in the private construction sector the motivation to use FSC-certified wood is increasing only slowly.

The FLEGT action plan (see page 33) approved by the European Parliament in 2010 to prevent illegally harvested timber from entering the European market will come into force in March 2013. The timber industry hopes that this new legislation will result in an increase in demand for legally and sustainably produced wood.

Outlook – confident thanks to cost optimization and marketing activities

Efforts to reduce administrative personnel costs continued up to March 2012, with the headcount being reduced to 17. The focus for 2012 in terms of applications and increased customer benefit will be on marine/hydraulics, garden, facade and road construction,

Precious Woods Europe in brief

Precious Woods Europe (based in the Netherlands) was created following the acquisition of A. van den Berg B.V. by the Precious Woods Group in 2005. The company had 23 employees at the end of 2011, and is one of northern 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 and (since 2011) African timber species to the European market. Its customers range from timber distributors through 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, and it also exports timber to Belgium, the United Kingdom, Germany, France, Switzerland and other European countries. The product range consists primarily of rough sawn timber; in some cases, however, more value is created by the kiln drying, planning and treating of the precious hardwoods.



as well as on interior and exterior furniture manufacturers, with targeted marketing efforts under way in these areas since the end of 2011. These efforts are concentrated on the Dutch and Belgian markets, as well as on customers in the areas of the retail trade and garden construction, where strict regulation concerning FSC certification continues to apply. In view of the centrally coordinated marketing activities launched at the beginning of 2012 and the cost optimization in administration implemented up to the end of the first quarter of 2012, the cost basis has markedly improved. The main factors that will influence success will be the availability of timber and increased just-in-time deliveries.

Key figures Precious Woods Europe

		2011	2010	Change
Economic				
Sales sawn and industrialized wood	in m ³	17 300	21 300	−18.8%
Net sales	in USD million	21.5	23.4	−8.1%
Operating result (EBITDA)	in USD million	−1.8	−3.6	50.0%
Environmental				
Energy consumption	in GJ	7 600	6 700	13.4%
CO ₂ emissions	in t	603	439	37.4%
FSC share of timber sales	in %	91	81	12.3%
Employment				
Employees (yearly average)		23	32	−28.1%
Women	in %	14.0	28.0	−50.0%
Accidents at work		—	—	—
Days lost per accident		—	—	—



Carbon & Energy – successful restructuring

In 2011, the Carbon & Energy business segment posted a positive operating income of USD 5.9 million (+9.3% in comparison to 2010) and an EBITDA of USD 2.6 million which lays USD 1.9 million above last year's result. Precious Woods received and traded Certified Emission Reductions (CERs) for Brazil outstanding from 2009, following a delay in their validation until 2011 due to an additional requirement imposed by the inspection body responsible. The CERs for 2010 and 2011 are anticipated for the fourth quarter of 2012. At the beginning of 2011, Precious Woods gained the Swiss myclimate¹ foundation as a renowned strategic partner for future management of CERs.

CERs from Brazilian biomass

Energy production at Precious Woods Amazon was around 20% below its normal level in the first half of 2011 due to unusually heavy rainfall and the related drop in wood waste volumes. For the second half of 2011 the operating result was as expected for electricity generation and sales. The 9-megawatt power plant at Precious Woods Amazon (Brazil) provided the city of Itacoatiara and the sawmill of Precious Woods with a total of 42 500 MWh electricity in 2011 (2010: 45 600 MWh). All electricity is generated from renewable biomass, the wood waste of the sawmill. Income from electricity sales amounted to USD 5.9 million in 2011 an increase of 9.3% to 2010.

In 2011, some 103 811 CERs outstanding from 2009 were received and traded, resulting in a positive impact on revenue in the first half of 2011. Due to a change in the calculation method for CERs, revenue for the 2010 and 2011 harvests – the validation of which started at the beginning of 2012 – will not be recognized until the fourth quarter of 2012. CERs are being revalued as per the Clean Development Mechanism (CDM). As in preceding years, the Itacoatiara power plant was in constant operation and generated a total of 44 400 metric tons of CO₂ equivalents in 2011.

Putting a monetary value on the forest – new perspectives thanks to REDD

A new perspective will open up for Precious Woods following the launch of the REDD compensation system, which aims to compensate developing countries for conserving tropical forest and reducing deforestation and forest degradation. REDD is a model that is based on the function of forests as carbon sinks in the global cycle, and places a monetary value on the carbon sequestered in the forests. The exact rules of the REDD programme have yet to be defined, and complex questions relating to the protection of indigenous rights and the inspection of projects remain to be answered. The ground-

work was laid at the 16th Conference of the Parties (COP 16) held in Cancún at the end of 2010, governing the activities that extend beyond the scope of the REDD programme – including sustainable forest management, forest protection and additional carbon sequestration – for which developing countries receive financial compensation. These activities are also known as REDD+ projects, and have been under way since the end of 2010. Precious Woods is looking into the possibility of REDD+ pilot projects for FSC-certified forest areas in Gabon and Brazil.

Precious Woods Carbon & Energy

The Precious Woods business segment Carbon & Energy comprises a power plant run on wood waste and trade in CERs. Precious Woods operates a biomass power plant in Itacoatiara (Brazil), which has been running since 2002 and was purchased by Precious Woods in 2005. The plant is involved in climate projects aimed at replacing diesel with biomass. All climate projects comply with the Clean Development Mechanism (CDM) of the Kyoto Protocol, and the resulting CERs are traded in the European Union Emissions Trading System (EU ETS), a task performed since 2011 by the myclimate foundation on behalf of Precious Woods. Research activities in 2011 continued to focus on the REDD (Reducing Emissions from Deforestation and Forest Degradation) system, which is currently under development.

¹ myclimate is a Switzerland-based organization set up in 2002 to facilitate innovative climate protection solutions for individuals and companies. www.myclimate.org



Carbon markets and emissions trading

According to the World Bank, global carbon markets grew constantly from 2005 onwards to reach their current value of USD 142 billion. This market has been stagnant since 2010, due above all to the lack of clarity as to the continuation of the Kyoto Protocol, a situation that was not resolved by the United Nations Framework Convention on Climate Change (UNFCCC) held in Durban in November 2011. A binding climate protection agreement should be concluded by 2015 at the latest and come into force in 2020, with the USA, India and China also signing up for the first time.

Extensive changes are planned following the second phase of the EU ETS, which runs until the end of 2012. After this time, emissions allowances will be issued and traded centrally instead of on the basis of national allocation plans (NAPs), as is currently the case, and air traffic will also be included. Furthermore, the EU is upholding its reduction targets for 2020, and has clearly indicated that EU emissions trading will continue after 2012.

In 2010 already, the share of the European market, including secondary Clean Development Mechanism (CDM) transactions, rose to 97% of the global carbon market. From 2005 to 2010, Precious Woods profited from a price of up to EUR 20 per metric ton of avoided CO₂ emissions in CDM projects – the biomass power plant in Itacoatiara (Brazil), for example. 2010 saw an over-supply of CERs from CDM projects, and aspects such as dubious projects, lax auditing and loopholes cast a bad light on the carbon market. The UNFCCC tightened the rules and increased pressure on the certification bodies in response, with prices falling to EUR 8 per metric ton of CO₂ for Precious Woods as a result. The new calculation method for the project in Brazil cut the number of CERs in half, and conservative calculating by the certification body reduced the figure by a further 15%. On top of this came delays in inspection and validation. For 2012, the World Bank anticipates a price of EUR 6 to 8 per metric ton of avoided CO₂ emissions.

Key figures Precious Woods Carbon & Energy

		2011	2010	Change
Economic				
Energy production	in MWh	42 500	45 600	–6.8%
Carbon credits sold	in t CO ₂ -eq	–	–	–
Carbon credits generated	in t CO ₂ -eq	44 400	45 600	–2.6%
Net sales	in USD million	5.9	5.4	9.3%
Operating result (EBITDA)	in USD million	2.6	0.7	271.4%
Environmental				
Internal energy consumption	in GJ	21 600	26 900	–19.7%
CO ₂ emissions	in t	65.0	63.0	3.2%
Employment				
Employees (yearly average)		39	39	–
Women	in %	–	–	–
Accidents at work		17	–	–
Days lost per accident		5.5	–	–
Training hours per employee		0.8	0.9	–11.1%



Central America – successful partial divestment

The partial divestment of the business segment Precious Woods Central America (PWCA) approved by the Annual General Meeting in May 2011 was completed successfully at the end of September 2011. The capital generated in this way was used primarily to reduce the debts of Precious Woods Holding Ltd, to strengthen liquidity and finance the investment plans. With a view to process optimization, Precious Woods Central America implemented various improvements in the areas of sales/export and shipping during the year under review. As a result of the partial divestment, the income statement of Precious Woods Central America is fully consolidated up to the end of September 2011 and regarded as an equity investment from October onwards.

Partial divestment to Swiss shareholders

The 75% partial divestment of Precious Woods Central America to two larger Swiss shareholders of Precious Woods Holding Ltd (PWH) was a turning point, with each of these shareholders purchasing 37.5% of the newly created subholding company Precious Woods Central America (PWCA). The purchase followed an extensive and independently monitored bidding process. All assets in Central America are integrated in PWCA, of which PWH shall remain a minority shareholder with a stake of 25%. Following the decision by the Board of Directors on 22 December 2010 to dispose of Precious Woods Central America, it was regarded as a “discontinued operation” from the beginning of 2011. Therefore, a direct comparison with the previous year is only possible if the figures for 2010 are reclassified accordingly as discontinued operation. The 2011 operating income without biological assets increased by USD 0.8 million up to USD 3.6 million. Following the partial divestment, Precious Woods was able to repay timely all the bank debts of the holding as well as a convertible loan due in 2012, while at the same time substantially reducing capital costs and improving liquidity.

Economic slowdown in the export countries

The economic slowdown in Europe and the USA triggered by the debt crisis led to a decline in demand for wooden furniture in these regions. Demand for teak fell above all in the producing markets, Vietnam in particular, forcing Precious Woods to sell significant quantities to other countries at lower prices, with the biggest market being India with around 2000 cubic metres.

Precious Woods Central America implemented various process optimizations in 2011, including efficiency improvements in sales and exports, with the sales department being restructured. Invoicing was optimized, and labour costs were cut thanks to improvements in productivity. Direct contacts with shipping companies were reinforced, and the relationships with its largest customers were strengthened.

Ongoing improvements in sustainability

Successful FSC audits were carried out in Nicaragua and Costa Rica in 2011, and Precious Woods Central America introduced high-quality safety trousers for loggers in 2011. It also supported scientific research into the quality of native wood and teak of various age classes carried out by the Technological Institute of Costa Rica (TEC).

In 2011, Precious Woods Central America launched a communication programme based around the message of “We help the environment”, building on a CDM (Clean Development Mechanism) project launched in 2006 with the World Bank to measure how much CO₂ is captured from the atmosphere and sequestered in the plantations in the form of carbon. The communication programme involves informing schools, government institutions and community leaders about the project.

Precious Woods Central America in brief

Precious Woods has been planting hardwoods on former pastureland in northern Costa Rica since 1990. The first commercial thinnings are performed when trees are approximately 12 years old. The first harvest that provided Precious Woods Central America with a significant source of revenue took place 18 years after planting in Garza, and the areas are immediately replanted after harvesting. In 2003, Precious Woods also began reforestation activities in southern Nicaragua. In total, Precious Woods’ plantations in Central America include 5472 hectares of teak, 556 hectares of pochote and 52 hectares with around 20 different native species. Of these, 3439 hectares are in Costa Rica and 2641 hectares in Nicaragua. In addition, the land comprises a further 5329 hectares of natural forest and wooded conservation land. The main product sold is teak logs, which are exported primarily to Asia. The prices for exported logs are higher than corresponding prices for sawn timber in the regional market. Pochote from early plantations entered the market for the first time in 2010. Furthermore, 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 permanent workforce comprises around 38 employees, with up to 300 people in total working for Precious Woods Central America depending on the season. Precious Woods Holding Ltd has been a minority shareholder with a stake of 25% since 1 October 2011.



A look ahead with PWH as an active minority shareholder

As a minority shareholder of Precious Woods Central America, Precious Woods Holding Ltd is represented on the Board of Directors through Ernst A. Brugger, Chairman of Precious Woods Holding Ltd, as one of its three members. With its long-standing experience and know-how PWH contributes to the benefit of PWCA and represents the interests of the shareholders of Precious Woods Holding Ltd.

Key figures Precious Woods Central America

		1–9/2011	2010	Change
Economic				
Sales sawn wood	in m ³	—	1 500	–100.0%
Sales logs	in m ³	32 700	14 000	133.6%
Timber harvest	in m ³	18 400	18 900	–2.6%
Net sales	in USD million	3.6	2.8	28.6%
Operating result (EBITDA)	in USD million	–35.0	1.2	–3016.7%
Environmental				
Energy consumption	in GJ	7 600	5 900	28.8%
CO ₂ emissions	in t	534	382	39.8%
FSC share of timber sales	in %	96	100	–4.0%
Employment				
Employees (yearly average)		217	155	40.0%
Women	in %	2	4	–53.8%
Accidents at work		29	101	–71.3%
Days lost per accident		10	20	–50.0%



Sustainability as a company compass

Throughout the turnaround process in 2011, Precious Woods continued to adhere to the principle of sustainability, certifying its forests and facilities in accordance with the Forest Stewardship Council (FSC), the most well-known environmental and social standard. The latest figures from the Food and Agriculture Organization of the United Nations (FAO, November 2011) confirm that the conservation of tropical forests remains an urgent priority: over 10 million hectares of tropical forest continue to be lost every year, corresponding to an area two and a half times the size of Switzerland. Around two-thirds of this land is covered by primary forest. Deforestation in the tropics contributes around 17% of global greenhouse gas emissions and causes a dramatic loss of biodiversity. Sustainable forest management, however, is subject to competition by clear-cutting for agricultural purposes as well as illegal and/or unsustainable logging. The central challenge for sustainable forest management faced by Precious Woods is the simultaneous creation of economic, environmental and social value. Legislative measures in the USA, Europe and Switzerland can increase the market share of FSC-certified wood, but are either not yet having an effect or do not come into force until 2013 or later. While customer interest in FSC-certified wood is increasing constantly, it remains a niche in the overall market.

FSC certification as standard

Precious Woods is a major proponent of the FSC standard: over 90% of products from Precious Woods Amazon are FSC-certified, 100% of those from Central America and over 80% of those from Gabon. In regions that are not yet certified, the time-consuming and costly process of FSC certification, which can take up to two years, is under way, primarily involving smaller and newly acquired concessions. Thanks to its unswerving commitment to sustainability, Precious Woods remains the leading forest and timber management company in the tropics in terms of quality. In 2011, successful FSC-audits by independent external certification institutes were completed in Gabon, Brazil and Central America.

FSC-certified tropical timber remains a niche product in terms of global trade volumes. Various countries have taken measures to curb illegal logging and trade in illegally harvested timber. In 2011, the European Parliament decided to implement the EU Timber Regulation (EUTR) aimed at prohibiting the import of illegally harvested timber and products derived from such timber into Europe as of March 2013. The EUTR is a result of the Forest Law Enforcement, Governance and Trade (FLEGT) action plan defined in 2003, and pursues the same objectives as the Lacey Act brought into force in the USA in 2009. While the legality of the origin and trade of tropical timber is a necessary basic requirement for implementing the principles of sustainability, it is however not sufficient. FSC certification

extends way beyond the aspects of legality, additionally comprising social and environmental criteria in particular.

In Brazil a decision remains pending with regard to a new forest law. For some time now environmental organizations have been fighting to prevent its enactment, which is being supported by a strong Brazilian agricultural lobby. The new law would probably have devastating consequences for the success achieved so far in the preservation and protection of the forest, and would be equivalent to a carte blanche for massive future land clearance. The Brazilian Institute for Applied Economic Research (IPEA) has calculated that enactment of the law would result in the removal of protection from up to 47 million hectares of previously formally protected forest,

Sustainability as the corporate compass of Precious Woods

Ever since its foundation, sustainability has been at the core of the corporate philosophy of Precious Woods. Sustainability means creating economic, environmental and social value – for investors, employees, partners and other stakeholders, with the task being to create long-term value to the benefit of both current and future generations. In its tropical forest management activities, Precious Woods has taken on one of the world's greatest sustainability challenges. The 761 million hectares of permanent forest estate included around 400 million hectares of productive forest in 2011, with around 165 million hectares of this figure being approved for timber exploitation, of which less than 20% is managed sustainably (Status of Tropical Forest Management 2011)¹. According to the FAO (November 2011), 10.4 million hectares of tropical forest are lost every year. Among other things, deforestation accounts for around 17% of global greenhouse gas emissions, not to mention the dramatic loss of biodiversity. Sustainable forest management contributes to the conservation of tropical forests and value creation within them by means of careful use. Depending on the tropical forest region, just one to five trees per hectare are felled during the course of one felling cycle (normally 25 years). Particularly valuable forest habitats remain untouched and are protected by Precious Woods. The forest is attributed an economic value, which significantly reduces the risk of it being converted to agricultural monoculture. The achievements of Precious Woods in all areas of sustainability – the economic, environmental and social – contribute in this way to the long-term preservation of the natural ecosystem of a country, offsetting state failures to a certain extent. Political stability and a certain degree of institutional reliability and efficiency are however necessary to sustainability. Finding the right balance between the various sustainability values is an ongoing challenge for Precious Woods.

¹ Blaser, J., Sarre, A., Poore, D. & Johnson, S. 2011. Status of Tropical Forest Management 2011. Tech. Ser. No 38 ITTO.

an area the size of Spain. WWF forest expert Roberto Maldonado says that an additional 28 billion metric tons of CO₂ would be released into the atmosphere as a result of this move.

In Switzerland it has been compulsory since October 2010 to indicate the country of origin on wood products, a development that will promote sales of FSC-certified (and thus legal) timber, a positive trend for Precious Woods. There is, however, a risk that customers will in future be content with the lower standard of legal timber. For the future of the tropical forests it is important to increase awareness

among consumers of the significantly more extensive guarantee of sustainability provided by FSC certification.

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 particularly important ecosystem services

Environmental and social key performance indicators

Environmental indicators		2011	2010	2009
Forest management				
Reforestation	total area in ha	–	6 488	6 656
Forest protection	total area in ha	1 123 300	1 089 700	1 094 000
FSC share of timber sales	in %	74	86	61
Energy consumption and emissions				
Reduction of CO ₂ emissions	in t	44 400	45 600	114 000
CO ₂ emissions	in t CO ₂ -equivalents	17 865	18 205	19 471
Production of renewable energy	in GJ	152 900	176 900	132 300
Electricity consumption	in GJ	27 100	33 000	31 000
Fossil fuel consumption	in GJ	198 394	201 830	209 300
Social indicators				
Employees				
Number of employees (yearly average)		1 511	1 557	1 706
Brazil		544	679	689
Gabon		677	638	641
Central America		217	155	280
Europe		23	32	44
Carbon & Energy		39	39	38
Corporate		11	14	14
Women	in %	11	10	9
Rate of employee turnover	in %	5	8	3
Health and safety				
Accidents at work		244	170	120
Accidents per 1000 employees		162	109	71
Days lost per accident		6.5	22.4	16.9
Fatal accidents at work		–	–	1
Training				
Training hours		2 003	1 156	11 499
Training hours per employee		1.3	0.7	6.7

(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 works together with NGOs and academic institutions on a series of research programmes including the State Herbarium of the Wageningen University in the Netherlands, Ivindo National Park and the Wildlife Conservation Society (WCS), as well as collaborating with various institutions in the protection and research of gorillas and chimpanzees. The aim of the projects 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 CO₂ storage capacity of the forest in Milolé, with the primary objective of identifying the extent to which timber harvesting affects the carbon balance of a tropical forest. Together with the NGO Nature+ and the Gembloux Agro-Bio Tech faculty of the University of Liège, both of which are based in Belgium, Precious Woods Gabon is also researching the natural regeneration capacity of the forest.

Social sustainability: Precious Woods leads the way

The clear goal of Precious Woods to create social value was tested again in 2011, with 131 jobs having to be cut at Precious Woods Amazon and 9 at Precious Woods Europe due to the financial situation and with a view to achieving increased productivity. These redundancies were carried out respecting FSC standards as well as social and labour laws of the country. At Precious Woods Gabon on the other hand, 30 new jobs were created. Redundancy packages have been offered to the employees who have lost their jobs, and fair wages and social insurance arrangements have been secured for new and current employees. Social benefits for village communities and families in Africa and Brazil have been maintained at an appropriate level (apartments, electricity and drinking water supplies, schools, medical care, etc.). The social contributions provided by Precious Woods extend beyond the legal requirements (for further details see the reports on the individual business segments).

Sustainability Advisory Committee (SAC)

The Sustainability Advisory Committee (SAC) advises Precious Woods on the latest developments in sustainability in the management of tropical forests, and supports the company in maintaining its relations with local and international stakeholder groups and specialist organizations. The SAC formulates recommendations concerning reporting by Precious Woods and the achievement of sustainability objectives in their economic, environmental and social dimensions. The SAC began its work in 2011 under the leadership of Claude Martin, and focuses primarily on the FSC, as well as FLEGT and REDD instruments of certification.

SAC members:

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

- Vice-Chairman of the International Institute for Sustainable Development (IISD), former Director General of WWF International and former member of the Board of Directors of Precious Woods.

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

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

Heiko Liedeker, MSc. Forest Ecology, University of Vermont

- Head of the FLEGT and REDD units at the European Forest Institute and former Executive Director of FSC International.

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

- General Director of the Association Technique des Bois Tropicaux (ATBT), former Head of the FLEGT and REDD units and Head of the Global Forest Program at the World Resources Institute in Washington.

Carbon footprint

The CO₂ emissions generated by Precious Woods are recorded in three categories on the basis of World Resources Institute (WRI) classification (see illustration):

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

The total emissions amount to 23 157 metric tons of CO₂ equivalents, 10% more than in the previous year.

Precious Woods footprint	Category 1	Category 2	Category 3		Total
	Direct emissions from fuel consumption	Indirect emissions from electricity consumption	Flights	Transportation	
In metric tons of CO ₂	14 665	3 200	491	4 801	23 157
Share per category	63%	14%	2%	21%	100%



Clearly defined lines of responsibility and a high degree of transparency are vital factors in the success of Precious Woods' efficient business management and strong, responsible corporate culture. We believe that by embracing the principles of corporate responsibility we are benefiting all stakeholders of Precious Woods: 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.precious-woods.com). The following abbreviations are used:

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

1. Group structure and shareholders

Precious Woods is active in five operational business segments: sustainable forest management in Brazil, sustainable forest management in Gabon, timber trading, forest plantations (until the end of September 2011 in Central America) as well as Carbon & Energy. For more information about the individual segments, please refer to pages 13 to 31 of this Annual 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 2011, the company's market capitalization was CHF 33.4 Million. More information about the Precious Woods stock can be found on page 42 ff of this report. For additional details about the holding company and the Group's consolidated subsidiaries (name, headquarters, share capital and percentage ownership), please refer to Note 1 of the consolidated Financial Statements of Precious Woods Holding Ltd.

A list of shareholders with over 3% of the voting rights can be found in Note 35 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 2011 stood at CHF 3 438 355 (3 438 355 registered shares at CHF 1 each). More details about the company's capital structure can be found in Note 22 of the Group Financial Statements.

On 19 May 2011 Precious Woods Holding Ltd increased its conditional capital from CHF 60 million to CHF 72.5 million for the issuing of conversion and option rights. The move was a response to Precious Woods' funding requirements. The CHF 12.5 million increase in conditional capital corresponds to 250 000 new shares. A simultaneous reduction in nominal value from CHF 50 to CHF 1 per share restored Precious Woods' capital market viability. Additionally, conditional share capital amounting to CHF 284 764 (284 764 shares) was cancelled (deletion of Art. 3c of the Articles of Association [Shareholder Options]). As at year-end the conditional capital therefore amounts to CHF 1 590 488 (1 305 724 shares each with a nominal value of CHF 1 resulting from 1 625 252 shares at the end of 2010 plus 250 000 minus 284 764). This means that a capital increase can be contemplated at the appropriate moment. For further information see Note 21 of the Group Financial Statements.

On 17 May 2011, two new convertible loans at a total par value of CHF 5.5 million were issued. They are repayable in four years or can be converted into shares at the rate of 100 shares per CHF 2250 if the conversion requirements are met. These convertible loans are split into a liability and an equity component. In 2011, a net USD 1.3 million of new local bank loans was granted to the Group in Gabon. In addition, long-term finance lease liabilities increased. In September 2011 shareholders granted two new USD loans of USD 2.5 million each, to run until the end of 2012. At the same time, a EUR 5 million convertible loan was repaid early in September 2011. For further information see note 21 of the Group Financial Statements.

On 1 October 2010, for the year preceding the year under review, Precious Woods Holding Ltd placed CHF 7 million of convertible notes with a four-year term and a coupon rate of 6.25% with a view to improving the Group's liquidity. Further information on the convertible notes can be found in Note 21 of the Group Financial Statements 2010. On 15 December 2009, CHF 17 million of convertible notes with a five-year term and a coupon rate of 6.25% were placed.

Allocation of tasks within the Board of Directors as per 31 December 2011

	RAC	RNC	First elected in	Mandate ends
Ernst A. Brugger		* (chair)	2004	2012
Thomas Hagen	*		2004	2012
Rudolf Wehrli	* (chair)		2007	2013
Katharina Lehmann		*	2008	2014
Marga Gyger		*	2011	2014
Markus Breitenmoser	*		2011	2014

3. Board of Directors

The BoD is responsible for strategy, organizational development 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 and constructively 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 for a term of three years.

The BoD is self-constituting and elects the Vice-Chairman and the members of the Board Committees from among its own members for a term of one year. 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.

At the Annual General Meeting on 19 May 2011 the BoD was reduced in size and new members were appointed: Daniel Girsberger and Rolf Jeker chose not to stand for re-election. Inge Jost resigned her BoD mandate for professional reasons. Claude Martin chairs the newly established Sustainability Advisory Committee, which provides the BoD and Management with active and systematic support on sustainability issues (see the Sustainability chapter on page 33 ff). Katharina Lehmann was confirmed in office for a further three years as a member of the BoD. Marga Gyger and Markus Breitenmoser were newly elected, each for a three-year period. The composition of the revised BoD is therefore as follows: Ernst A. Brugger (Chairman), Rudolf Wehrli (Vice-Chairman), Thomas Hagen, Katharina Lehmann, Marga Gyger and Markus Breitenmoser.

Members of the Board of Directors

The Precious Woods BoD has six members. The following information about the members of the BoD as well as their activities at Precious Woods and cross-involvements represents the situation on 31 December 2011.

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



Board of Directors (from left): Thomas Hagen, Marga Gyger, Ernst A. Brugger, Katharina Lehmann, Markus Breitenmoser, Rudolf Wehrli

- Chairman of the Board of Directors of BHP – Bruggen und Partner AG, Zurich
- Chairman of the Board of Directors of BlueOrchard Finance S.A., Geneva
- Chairman of the Board of Directors of Lausanne Hospitality Consulting, Lausanne
- Chairman of the Board of Directors of sanu future learning ag
- Chairman of the Board of Directors of Sustainable Performance Group SPG, Zurich
- Chairman of the Board of Directors of SV Group, Zurich
- Member of the Board of Directors of BG Bonnard & Gardel Holding SA, Lausanne
- Member of the Board of Directors of Erdgas Zürich AG
- Member of the Board of Directors of Mercuri Urval AG, Zollikon
- Member of the Board of Directors of Paul Reinhart AG, Winterthur
- Member of the Board of Directors of Precious Woods Central America AG, Zug

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:

- Since 1 January 2012 Head of Capital Investments of Aargauische Pensionskasse (APK), Aarau
- 1988 to December 2011 Baloise, most recently 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

Dr. Rudolf Wehrli (PhD and DD), Swiss citizen, born in 1949, Chairman of the RAC, member of the BoD since 2007, Vice-Chairman of the BoD since 2011, 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
- Chairman of the Board of Directors of Sefar Holding AG, Thal SG
- 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
- Chairman of the Foreign Trade Committee of economiesuisse, Zurich
- Member of the Board of Trustees of Avenir Suisse, Zurich

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 2014. Other activities and interests:

- Since 1996 Chairwoman of the Board of Directors and Chief Executive of the companies that make up Erlenhof AG, in particular Holzwerk Lehmann AG and Blumer-Lehmann AG
- Member of the Board of Directors of Wey Modulbau AG, Wohlen

Marga Gyger (business degree, University of Mainz), dual Swiss and German citizen, born in 1945, member of the BoD since 2011, mandate ends in 2014. Other activities and interests:

- Since 2010 corporate consultant at Franke Artemis Management AG, Aarburg
- 1994–2010 CEO of Franke Coffee Systems, Aarburg
- 2007–2010 member of the extended Group Management of the Franke Group, Aarburg
- Member of the Board of Directors of Franke Commercial Systems Group, Aarburg
- Member of the Board of Directors of Metall Zug AG, Zug
- Member of the Board of Directors of Precious Woods Central America AG, Zug

Markus Breitenmoser (economist, graduate of the University of St. Gallen, HSG), Swiss citizen, born in 1963, member of the BoD since 2011, mandate ends in 2014. Other activities and interests:

- Head of Breitenmoser Management GmbH, Jona
- Positions from 1993 to 2010:
- 2007–2010 Director/member of the Management of Helbling Management Consulting AG, Zurich
 - 2004–2007 Partner/Head of Corporate Finance Central Europe at Arthur D. Little AG, Zurich
 - 2002–2003 Managing Director at Translink Corporate Finance AG, Zurich
 - 1998–2002 Partner/Director at A&A Actienbank AG, Zurich
 - 1993–1998 Vice-President at Credit Suisse First Boston, Zurich
 - Chairman of the Board of Directors of Precious Woods Central America AG, Zug

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

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. 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 [Chairman], Markus Breitenmoser, 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.

The *Remuneration & Nomination Committee (RNC)* (Ernst A. Brugger [Chairman], Marga Gyger, Katharina Lehmann) 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.

The *Strategy & Organization Committee (SOC)* (Ernst A. Brugger [Chairman], 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, under the leadership of the Chairman of the BoD. The full 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, operational management is delegated to the CEO and GM.

The BoD met a total of 15 times during 2011 (each meeting lasted from two to eight hours). The BoD and the GM also held one two-day closed conference. The RNC met on a total of 14 occasions, the RAC on 7.

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, and had no connections with the BoD and managerial members.

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

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 our bylaws, which are laid down by the BoD. 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 Bylaws).

In the year under review, GM consisted of Joachim Kaufmann, CEO, Cornelia Gehrig, CFO (until 31 July 2011), and Gerhard Willi, CFO (since 1 August 2011).

Joachim Kaufmann (Ing. HTL), born in 1954, German citizen, has been Chief Executive Officer (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 (lic. rer. pol., chartered accountant), born in 1966, Swiss citizen, was Chief Financial Officer (CFO) of the Precious Woods Group from 1 February 2009 to 31 July 2011. 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 companies and foundations.

Gerhard Willi (BA International Business Administration and Chartered Financial Analyst [CFA]), born in 1976, Swiss citizen, has been Chief Financial Officer (CFO) of the Precious Woods Group since 1 August 2011. Following the departure of Cornelia Gehrig as CFO on 25 May 2011, Gerhard Willi took over as head of finance ad interim in a consultative capacity, but without signing authority. From 2001 to 2011 Gerhard Willi was Engagement Manager (until 2003),



Group Management (from left): Gerhard Willi (CFO) and Joachim Kaufmann (CEO)

Senior Engagement Manager (until 2006) and thereafter a Partner of Zetra International AG, Zurich. He previously worked as an advisor and analyst at Credit Suisse Private Banking, Merrill Lynch Investment Bank and others.

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

5. Compensation, shareholdings, loans

Employment contracts and the “Compensation Regulations for the Board of Directors of Precious Woods Holding Ltd” provide the framework for the compensation and stock option plans of the BoD, GM and the senior managers of the subsidiaries. In the case of services provided by members of the BoD 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, based on the Compensation Regulations for the BoD and market criteria.

The regulations mentioned as well as a detailed list of compensation granted to the members of the BoD and GM can be found on our website (Investor Relations – Corporate Governance – Remuneration Policy), in Note 23b 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 2011, 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 governing body members. 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 Group 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 ordinary Annual General Meeting, subject to compliance with legal requirements. At the ordinary Annual General Meeting held on 19 May 2011, 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. Since the 2010 reporting year Ernst & Young, Zurich, has assumed the role of Group auditor. The auditing fees paid to Ernst & Young for auditing the accounts of Precious Woods Holding Ltd, the Group and the companies worldwide amounted to USD 626 817 in 2011. In 2011, the Group auditor received an additional USD 51 845 in consulting fees from the company. The significant subsidiary companies were audited by Ernst & Young. The efficiency and effectiveness of the external audit is monitored by the RAC. Three meetings between the RAC and the auditors took place in the year under review. Detailed information can be found in the bylaws, which can be found on our website (Investor Relations – Corporate Governance – Articles of Association and Bylaws).

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 the Half-Year Report. Shareholders also receive the newsletter “update” containing general information and reports about the Group’s activities. Precious Woods maintains an informative website (www.preciouswoods.com), which is updated on a regular basis. In compliance with the regulations of the 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 Group Communications (phone +41 44 245 81 20 or media@preciouswoods.com).

Shareholder information

Share capital

On 31 December 2011, the fully paid share capital of Precious Woods Holding Ltd amounted to CHF 3 438 355. It is divided into 3 438 355 registered shares with a nominal value of CHF 1 each. Additionally, the company has conditional capital of CHF 1 590 488 to cover options and conversion rights.

Equivalent to 100 shares

In Brazil, Precious Woods is owner or concession holder of 506 637 hectares of forests, and in Gabon it holds a forest concession of 674 000 hectares. With the purchase of 100 shares, in 2011 a shareholder had indirect access to around 147 600 square metres (2010: 137 600 square metres) of forest in the Amazon region and 196 000 square metres (2010: 179 000 square metres) in Gabon.

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 1.00

Security number: 1 328 336

ISIN: CH0013283368

Ticker symbol: PRWN

Reuters: PRWZn.S

Share register information

(Entries, transfers, changes of address, etc.)

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Information for investors

		2011	2010	2009	2008	2007
Share price per 31.12.11	in CHF	10	22	38	36	122
Stock market capitalization	in CHF million	34	76	131	124	410
Earnings per share	in USD	-16.33	-18.81	-8.17	-4.25	3.35
Equity (book value) per share	in USD	20.88	32.67	48.95	53.62	64.71

Assets per share

Primary forest in Brazil

(ownership and concession)

in m²

1 476

1 376

1 376

1 597

1 632

Primary forest in Gabon (concession)

in m²

1 960

1 794

1 794

1 794

1 782

Stock price development

The Precious Woods stock price fell significantly in 2011, and the stock performance was also negative in comparison with the SIX Swiss Exchange indices, the SMI and the SPI. The price stood at CHF 25.00 at the beginning of the year and reached its lowest level of CHF 9.73 in December, with the average for the year being CHF 15.50. Daily trading volumes were subject to large fluctuations, which is normal for small-cap stocks. In 2011 the average daily trading volume of 2735 shares was above the figure for 2010, which amounted to 2472 shares.

Share price performance for the year under review was -56.47%. The stock price fell almost continuously during the year under review with smaller periodic upturns, starting the year with an annual high of CHF 25.50 on 4 January 2011, falling to CHF 14.50 towards the middle of the year and reaching an annual low of CHF 9.73 in December.

In relation to its main listed competitors, the Precious Woods stock price performance was comparable with that of DLH and weaker than that of Groupe Rougier in 2011, with all three experiencing a strong downward trend up to the end of the year.

In May 2011 a convertible loan with a nominal value of CHF 5.5 million was issued in order to help secure liquidity at the holding level. The nominal value of the share was reduced from CHF 50 to CHF 1 at the ordinary Annual General Meeting, thereby significantly strengthening the capital market viability of Precious Woods.

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 1.1.2011–31.12.2011





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Consolidated balance sheet as of 31 December 2011 and 2010 (in TUSD)

ASSETS	Notes	2011	2010 ¹	As at ¹ 1 January 2010
Current assets				
Cash and cash equivalents		11 440	10 326	18 825
Trade and other receivables	3	11 435	12 384	13 655
Inventories	4	20 529	27 262	28 748
Other current assets	5	1 958	1 911	1 633
Total current assets		45 362	51 883	62 861
Non-current assets				
Property, plant and equipment	6, 8	65 504	83 444	107 955
Biological assets	7	–	63 654	59 048
Intangible assets	9	13 789	12 437	33 528
Investment property	10	–	–	6 393
Investments in associates	11	14 865	1 925	2 046
Non-current financial assets	12	557	3 526	7 958
Other non-current assets	14	7	341	1 905
Recoverable taxes	13	–	6	1 222
Deferred income tax assets	36	611	1 174	5 526
Total non-current assets		95 333	166 507	225 581
Non-current assets held for sale	15	4 699	6 014	2 882
TOTAL		145 394	224 404	291 324
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade and other payables	16	13 649	23 348	18 770
Current income tax liabilities		610	2 006	634
Current financial liabilities	17	2 938	35 889	13 835
Current provisions	18	1 289	3 799	3 963
Current derivative financial instruments	20	515	490	–
Total current liabilities		19 001	65 532	37 202
Non-current liabilities				
Long-term convertible bonds and loans	17, 21	27 238	29 255	13 988
Non-current financial liabilities	17	15 701	3 227	42 363
Deferred tax liabilities	36	1 818	5 913	11 164
Non-current provisions	18	6 173	8 130	2 554
Total non-current liabilities		50 930	46 525	70 069
Non-current liabilities held for sale	15	3 665	–	–
Equity				
Share capital		2 923	127 002	127 002
Additional paid-in capital		66 823	65 823	65 750
Foreign currency translation reserve		17 197	2 396	8 177
Retained earnings		–15 759	–83 706	–19 038
Equity attributable to owners of Precious Woods Holding Ltd		71 184	111 515	181 891
Non-controlling interests		614	832	2 162
Total shareholders' equity		71 798	112 347	184 053
TOTAL		145 394	224 404	291 324

¹ The prior-year figures have been restated for a correction of an error. Please refer to page 53.

Consolidated statement of comprehensive income 2011 and 2010 (in TUSD)

	Notes	2011	2010 ¹
Net sales from trading activities	25	68 085	69 215
Revenue from emission reduction activities	26	889	744
Total operating income		68 974	69 959
Cost of sales	28	-58 878	-59 260
Operational contribution		10 096	10 699
Administration and other labour costs	28	-9 135	-10 364
Other expenses	29	-10 134	-19 826
Other income	29	7 044	9 630
Earnings before interest, tax, depreciation and amortization (EBITDA)		-2 129	-9 861
Depreciation, amortization and impairment	27	-6 330	-46 699
Earnings before interest and tax (EBIT)		-8 459	-56 560
Financial income	30	11 674	9 340
Financial expenses	30	-24 699	-19 117
Share of profit of associates	11	16	162
Earnings before tax (EBT)		-21 468	-66 175
Income taxes (expenses)/income	36	-293	-112
Net (loss)/profit from continuing operations		-21 761	-66 287
Result from discontinued operations	15	-34 395	274
Net (loss)/profit for the period		-56 156	-66 013
Foreign currency translation differences		14 607	-5 767
Total other comprehensive income		14 607	-5 767
Total comprehensive (loss)/profit for the period		-41 549	-71 780
Allocation of net (loss)/profit:			
Equity owners of Precious Woods Holding Ltd		-56 132	-64 669
Non-controlling interests		-24	-1 344
Allocation of total comprehensive (loss)/profit:			
Equity owners of Precious Woods Holding Ltd		-41 331	-70 450
Non-controlling interests		-218	-1 330
Basic earnings per share	32	-16.33	-18.81
Diluted earnings per share	32	-16.33	-18.81
Basic earnings per share from continuing operations	32	-6.33	-18.89
Diluted earnings per share from continuing operations	32	-6.33	-18.89

¹ The prior-year figures have been restated for a correction of an error. Please refer to page 53. In addition, the results from discontinued operations have been represented. Please refer to Note 15.

Consolidated statement of changes in equity for the years ended 31 December 2011 and 2010 (in TUSD)

	Notes	Attributable to equity holders of Precious Woods Ltd					Non-controlling interests	Total equity
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance 1 January 2010		127 002	65 750	8 177	-34 673	166 256	2 062	168 318
Correction of an error		–	–	–	15 635	15 635	100	15 735 ¹
Restated balance 1 January 2010		127 002	65 750	8 177	-19 038	181 891	2 162	184 053
Net (loss)/profit for the period		–	–	–	-64 669	-64 669	-1 344	-66 013
Other comprehensive (loss)/income for the period		–	–	-5 781	–	-5 781	14	-5 767
Total comprehensive (loss)/income for the period		–	–	-5 781	-64 669	-70 450	-1 330	-71 780
Equity component convertible loans	21	–	73	–	–	73	–	73
Balance 31 December 2010		127 002	65 823	2 396	-83 706	111 515	832	112 347
Net (loss)/profit for the period		–	–	–	-56 132	-56 132	-24	-56 156
Other comprehensive (loss)/income for the period		–	–	14 801	–	14 801	-194	14 607
Total comprehensive (loss)/income for the period		–	–	14 801	-56 132	-41 331	-218	-41 549
Reduction in nominal value		-124 079	–	–	124 079	–	–	–
Equity component convertible loans	21	–	1 047	–	–	1 047	–	1 047
Costs of capital increase/transaction costs		–	-47	–	–	-47	–	-47
Balance 31 December 2011		2 923	66 823	17 197	-15 759	71 184	614	71 798

¹ The prior-year figures have been restated for a correction of an error. Please refer to page 53.

Consolidated statement of cash flows 2011 and 2010 (in TUSD)

Net cash flow from operating activities	Notes	2011	2010¹
Profit/(loss) for the period		-56 156	-66 013
Income taxes (income)/expenses	36	293	112
Income taxes (income)/expenses (Central America)	15, 36	-583	871
Interest income	30	-400	-504
Interest expenses	30	6 369	5 081
Profit/loss for the period before interest and tax		-50 477	-60 453
Depreciation and amortization		10 244	12 350
Impairment on property, plant and equipment	6	399	17 651
Impairment of intangible assets	9	-	17 856
Impairment financial assets	12	3 072	6 723
Reversal of impairment of non-current assets	27	-4 160	-449
(Profit)/loss on sale of property, plant and equipment	29	-5 432	-2 695
(Profit)/loss on sale of subsidiaries (Central America)		33 892	-
Share of profit of associates	11	-16	-162
Fair value adjustments of financial liabilities		-	-828
Changes in provisions		-2 882	4 862
Allowance on inventories		2 760	923
Certified Emission Reductions recognized as government grant	26	863	-383
Net change in fair value of biological assets	7	-	-7 693
Other non-cash items		4 552	-3 045
Operating cash flow before working capital changes		-7 185	-15 343
Decrease/(increase) in trade and other receivables		-778	2 054
Decrease/(increase) in inventories		2 043	-54
Decrease/(increase) in other current assets		3 761	750
Change in biological assets	7	-	3 087
Increase/(decrease) in trade payables and other liabilities		-5 518	6 142
Income tax paid/received		-1 349	-436
Net cash flow operating activities		-9 026	-3 800
Cash flow from investing activities			
Purchase of intangible assets	9	-4 911	-17
Proceeds from sale of property, plant and equipment		4 129	3 834
Purchase of property, plant and equipment	6	-5 479	-5 212
Proceeds from disposal of subsidiaries	15	32 262	-43
Proceeds from disposal of financial assets		7 667	435
Sale/(Purchase) of financial assets		-26	22
Dividends received	11	139	133
Interest received		401	505
Net cash flow investing activities		34 182	-343
Cash flow from financing activities			
Proceeds from borrowings		14 885	4 462
Repayment of borrowings		-38 631	-12 357
Proceeds from convertible bonds and loans	21	5 897	6 730
Interest paid		-6 198	-4 290
Net cash flow financing activities		-24 047	-5 455
(Decrease)/increase in cash and cash equivalents		1 109	-9 599
Translation effect on cash		80	1 100
Cash and cash equivalents, at the beginning of the year		10 326	18 825
Cash and cash equivalents, at the end of the year (as per balance sheet)		11 440	10 326
Cash in disposal group held for sale		75	-
Total Cash and cash equivalents, at the end of the year		11 515	10 326

¹ The prior-year figures have been restated for a correction of an error. Please refer to page 53. The cash flows include both continuing and discontinued operations. The respective cash flows for discontinued operations only are shown in Note 15.

1. Basis of presentation and accounting policies

Basis of presentation

Precious Woods Holding Ltd (the Group) was incorporated as an international business group on 17 December 1990 under the laws of the British Virgin Islands. In 2001 the corporate domicile was relocated to Switzerland. The registered office is located in Zug. The Group's subsidiaries are organized and operate under the laws of 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 four operating segments supported by a central corporate office. The Segment forest plantation was discontinued in 2011

- *Sustainable Forest Management Brazil*: operations active in the sustainable management of tropical forests and the processing of tropical hardwoods commenced in 1996 in Brazil
- *Sustainable Forest Management Gabon*: operations active in the sustainable management of tropical forests and the processing of tropical hardwoods commenced in 2007 in Gabon
- *Timber Trading Europe*: timber trading which became a major additional distinct operational area following the acquisition of the A. van den Berg Group's business activities in 2005
- *Carbon & Energy*: with the acquisition of BK Energia (Precious Woods Energia) and the launch of several Greenhouse Gas (GHG) emission reduction projects, Precious Woods entered into the carbon emission reduction and energy generation business in 2005
- *Forest Plantations (discontinued)*: operations conducting reforestation projects commenced in 1990 in Central America. This activity has been sold to Precious Woods Central America AG, an entity in which Precious Woods Group currently holds a 25% stake, effective 30 September 2011. The segment is thus consolidated only until 30 September 2011.

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 investment property, financial assets at fair value through profit or loss and available-for-sale financial assets, which are valued at fair value.

Significant accounting judgments, estimates and assumptions

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

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 titles 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 Reduction

The operation on the Group's power plant in Brazil generates CERs (Certified Emission Reductions). The CERs are recognized when it is virtually certain that the Group will comply with the conditions of the Kyoto Protocol. Management's judgment is used to estimate the probability (see Note 26).

Valuation of derivative financial instruments / convertible bonds and loans

Where the fair value of derivative financial instruments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of management judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Notes 20 and 21).

Biological assets in Central America

In October 2011, 75% of the Central America operations were divested (see Note 15). As the remaining 25% share of Precious Woods Group is no longer consolidated, the Group does not have any biological assets as of 31 December 2011.

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 at 31 December 2010 as the respective requirements for classification as non-current assets held for sale had not yet been met. The carrying amount of both land and biological assets amounted to TUSD 74 894 at 31 December 2010.

Non-current assets held for sale

In prior years the Group has classified some items as held for sale. Most of these assets were sold in 2010 and 2011. Due to the fact that the selling efforts are ongoing the Group has decided to keep the remaining items classified under non-current assets held for sale. Furthermore, the assets of BK Energia have been classified as assets held for sale as at 31 December 2011. More details are given in Note 15.

Debt and operating restructuring

During the course of the ongoing turnaround process, the Group achieved the following in 2011:

1. Debt restructuring

- Following the divestment of 75% of Central American assets, all bank debts at the Holding company level were repaid, thereby completing the debt restructuring process.
- Furthermore, the successful placement of convertible loans with a par value of CHF 5.5 million and repayable in 2015 enabled the Group to secure its long-term capital.
- In addition, a convertible loan of EUR 5 million was repaid early by offsetting and replaced by a short-term loan of USD 5 million, repayable by the end of 2012.
- Net debt fell significantly by 40%.

2. Balance sheet restructuring

The reduction in the nominal value of the shares to CHF 1 completely eliminated the capital loss in the statutory financial statements of Precious Woods Holding Ltd.

3. Operational restructuring

With the turnaround making good progress, Management and the Board of Directors believe that the operating result for 2012 can be improved significantly. The cost base was reduced in all segments by a total of USD 6.5 million in 2011 (staff reductions, outsourcing and a considerable reduction in consulting costs), effective as of 2012, while a significant investment was made in the new business area of "bois divers" and price increases were implemented and processes optimized. All of these measures, both on the revenue and on the cost side, will primarily impact the results of 2012. A new medium-term plan will be drawn up in 2012 to incorporate the achievements made so far, together with new opportunities and possibilities for development.

Management and the Board of Directors also anticipate that the upcoming five-year plan will realistically confirm the medium-term goals.

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 2011.

- *IAS 24 Related Party Transactions (Amendment)* – The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment had no effect on the financial position of the Group.
- *IAS 32 Financial Instruments: Presentation (Amendment)* – The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency. The amendment had no effect on the financial position or performance of the Group.
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)* – The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service costs by the entity to be recognized as pension assets. The amendment to the interpretation had no effect on the financial position or performance of the Group.
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* – This interpretation provides guidance on the accounting for debt for equity swaps. It had no effect on the financial position or performance of the Group.
- *Improvements to IFRSs (issued May 2010)*: In May 2010 the IASB issued its third 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 amendments resulted in changes to accounting policies but had no effect 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 2012 and beyond, which include:

- *IAS 1 (Amendment) – Financial Statement Presentation: Presentation of items of other comprehensive income* (effective for annual periods beginning on or after 1 July 2012)
- *IAS 12 (Amendment) – Income Taxes: Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012)
- *IAS 19 (Amendment) – Employee Benefits* (effective for annual periods beginning on or after 1 January 2013): The IASB has issued numerous amendments to IAS 19. These range from fundamental changes, such as removing the corridor mechanism, and the concept of expected returns on plan assets, to simple clarifications and re-wording. In the future, not recognized actuarial gains and losses (as at 31 December 2011: TUSD 503) will be shown in the other comprehensive income.
- *IAS 27 – Separate Financial Statements* (as revised in 2011) (effective for annual periods beginning on or after 1 January 2013)
- *IAS 32/IFRS 7 – Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014 respectively 2013)
The amendment is the basis for offsetting financial instruments. It is intended to reduce the level of diversity in current practice. In this connection also an amendment to IFRS 7 "Financial instruments: Disclosures" was published.
- *IAS 28 – Investments in Associates and Joint Ventures* (as revised in 2011) (effective for annual periods beginning on or after 1 January 2013)
- *IFRS 7 (Amendment) – Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements* (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 2015)
- IFRS 10 – Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11 – Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12 – Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2013)
- IFRS 13 – Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

Restatement of prior period due to the correction of an error

International Financial Reporting Standards require that deferred tax assets from tax loss carry forwards are recognized when it is probable that they can be utilized in future periods against taxable income up to the amount of deferred tax liabilities for each subsidiary unless the benefit from the tax loss carry forwards forfeit before the reversal of the respective deferred tax liabilities.

Precious Woods Holding AG identified in 2011 that this requirement has not been applied for a number of its subsidiaries. Consequently, the Group identified the amounts that should have been recognized and corrected this error by restating its consolidated financial statements as at 1 January 2010 and for the period ended 31 December 2010. As required by IFRS a third balance sheet as per 1 January 2010 has been presented.

As of 1 January 2010 deferred tax assets of USD 15.7 million were recognized from tax loss carry forwards of subsidiaries and as a consequence retained earnings increased by USD 15.6 million as well as non-controlling interests by USD 0.1 million. For presentation purposes these deferred tax assets were offset against deferred tax liabilities, which decreased by USD 15.7 million following the netting with the corresponding deferred tax assets. The recognition of deferred tax assets also impacted the consolidated statement of comprehensive income for the year 2010. Income tax expense increased by USD 0.4 million leading to a net loss for the period of USD 66.0 million. Foreign currency translation differences recognized in other comprehensive income decreased by USD 0.2 million resulting in a total comprehensive loss for the period of USD 71.8 million.

The amount of loss / total comprehensive loss for the period attributable to non-controlling interests increased by USD 0.1 million, USD 0.1 million respectively.

As a result of the correction basic and diluted EPS 2010 decreased by USD 0.14 to USD -18.81 and basic and diluted EPS from continuing operations 2010 decreased by USD 0.22 to USD -18.89.

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	
		2011	2010
Maderas Preciosas de Costa Rica S.A. ¹	Costa Rica	0%	100%
Macori Las Playas S.A. ¹	Costa Rica	0%	100%
Multiservicios Forestales de Guanacaste S.A. ¹	Costa Rica	0%	100%
Maderas Preciosas Nicaragua S.A. ¹	Nicaragua	0%	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.	Brazil	100%	100%
Monte Verde Madeiras Ltda.	Brazil	100%	100%
BK Energia Ltda. (Precious Woods Energia)	Brazil	80%	80%
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%
Geveltlim B.V.	The Netherlands	100%	100%
Exobois S.A. ³	Luxembourg	0%	100%
Lastour & Co. S.A. ³	Luxembourg	100%	100%
African Wood Trading Company S.A. ³	Luxembourg	0%	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 At 30 September 2011, all Central American subsidiaries of Precious Woods were integrated into the newly established subholding Precious Woods Central America AG. 75% of the shares of the newly established subholding have been divested. With a stake of 25%, PWH remains a minority shareholder. The investment is accounted for using the equity method since the Group has no control over Precious Woods Central America AG but significant influence.

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.

³ In September 2011, Exobois S.A. and African Wood Trading Company S.A. merged with Lastour & Co. S.A. After the merger Exobois S.A. and African Wood Trading Company S.A. no longer exist.

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

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

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

b. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. They are stated at nominal value. Bank overdrafts are shown within borrowings in current liabilities 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. Round wood and finished products are recorded at the average cost of production, less provision for losses, when applicable. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to make the sale.

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

e. Property, plant and equipment

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The effect of such change is recognized immediately in the statement of comprehensive income. 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 increased the future depreciation on permanent forest roads by TUSD 148 annually. The forests in Brazil are valued at cost as fair values cannot be reliably measured in sustainable management of existing tropical forest. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of comprehensive income.

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

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. 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.

In January 2011, the assets of Central America were reclassified as non-current assets held for sale. On 30 September 2011, 75% of the Central America operations have been divested. As the remaining 25% share held by the Precious Woods Group is no longer consolidated, the Group does not have any biological assets as of 31 December 2011.

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. As at 31 December 2011 and 31 December 2010 the goodwill was fully impaired.

Acquired trademarks and licences have a finite useful life and are carried at historical cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and 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 50 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 statement of comprehensive income. 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 statement of comprehensive income on a straight-line basis over the lease term.

k. Financial assets

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

Financial assets at fair value through profit or loss

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

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 trade date. Trade date is the date on which the Group commits itself to the purchase or sale of the asset.

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

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

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

The Group assesses at each 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 statement of comprehensive income 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 through profit or loss for that period, at a maximum of the previously recognized impairment loss.

I. 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 for non-convertible instruments.

The difference between cash received before the allocation of the transaction costs at the date of inception and the fair value of the liability component represents the fair value of the embedded equity conversion option. 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 expense 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 and returns from gross sales. Revenue trading activities are recognized when the entity has transferred the significant risks and rewards of ownership of the goods to the buyer, when the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when the amount of revenue can be measured reliably, and when it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. For information on revenue from emission reduction activities please refer to chapter w. on government grants.

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 2011	Average 2011	31 December 2010	Average 2010
Swiss franc	1 CHF	1.0640	1.1316	1.0632	0.9615
Brazilian real	1 BRL	0.5357	0.5987	0.6002	0.5708
Euro	1 EUR	1.2949	1.3924	1.3253	1.3279
Central African CFA franc	1 XAF	0.0019	0.0021	0.0021	0.0021

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 statement of comprehensive income 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 through profit or loss.

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.

u. Pension plans

The Group has both defined benefit and defined contribution plans.

The pension plan in Switzerland covers 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 statement of comprehensive income as they fall due (see Note 24).

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

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 conditions approved by the Board of Directors and Group Management. The Group Management takes decisions covering specific areas, such as foreign exchange risk, on a case-by-case basis.

Market risk

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

Interest rate risk

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

Management's policy is to maintain its borrowings in fixed rate instruments. There was no material variable interest rate borrowing on 31 December 2011. At 31 December 2010 there was 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 at 31 December.

in TUSD	31.12.11 Reasonable shift	31.12.11 "Impact" on profit or loss before tax	31.12.11 "Impact" on equity	31.12.10 Reasonable shift	31.12.10 "Impact" on profit or loss before tax	31.12.10 "Impact" on equity
EUR/CHF	+/-5%	+/-348	+/-1 593	+/-5%	+/-980	+/-289
USD/CHF	+/-10%	+/-211	+/-1 112	+/-10%	+/-54	+/-1 836
USD/BRL	+/-15%	+/-0	+/-1 935	+/-15%	+/-99	+/-11 906
CHF/BRL	+/-15%	+/-3	+/-5 865	+/-15%	+/-0	+/-5 514
CHF/XAF	+/-15%	+/-0	+/-2 339	+/-15%	+/-0	+/-4 302

Price risk

The Group is exposed to equity securities price risks because of unlisted investments held by the Group and classified as available for sale or at fair value through profit or loss. At the reporting date, the exposure to unlisted equity securities at fair value was USD 0.6 million (2010: USD 3.5 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 company. Cash deficits are funded by the holding company in general. Group administration raises the majority interest-bearing debt centrally. The Group seeks to reduce liquidity risks through sufficient cash reserves and credit facility arrangements. The 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 applied to the credit facilities which were in place and utilized as of 31 December 2010 and which were repaid in 2011.

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

in TUSD	Less than 1 year	Between 1 and 2 years	Over 2 years
31 December 2011			
Trade and other payables	13 439	–	–
Financial liabilities	11 027	5 389	39 800
Non-derivative financial liabilities	24 466	5 389	39 800
Net settled derivative financial instruments	515	–	–
Derivative financial instruments	515	–	–
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	–	–

Credit risk

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

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

Capital management

When managing capital, the Precious Woods Group's objectives are to safeguard the Group's ability to continue as a going concern, 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 mid-term 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 2011, Precious Woods Holding AG has pledged its 25% share in Precious Woods Central America AG to secure loans of USD 5 million (see Note 11). The subsidiary MIL Madeiras Preciosas Ltda. has offered to pledge land with a book value of USD 2.6 million to secure a pending legal case with IBAMA (also see Note 33). The subsidiary CEB has pledged machinery and equipment in the amount of USD 1.5 million to secure a bank loan. To secure bank loans the subsidiary TGI has mortgaged land in the amount of USD 4.2 million.

As of 31 December 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, as of 31 December 2010, inventory in the amount of USD 12.7 million, trade accounts receivable in the amount of USD 1.8 million and fixed assets of USD 17.7 million have been pledged as security for these credit facilities. In October 2011 these credit facilities have been repaid and the pledges have been cancelled.

3. Trade and other receivables

in TUSD	2011	2010
Trade receivables, third parties:		
Trading sales	9 365	8 330
Energy sales	–	662
Trade receivables, associates	59	162
Less allowance for bad debts	–2 097	–2 061
Total trade receivables net	7 327	7 093
Other short-term receivables	4 108	5 291
Total	11 435	12 384

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	2011	2010
Not overdue	5 725	4 345
Less than 30 days overdue	1 296	662
31 to 60 days overdue	683	3 253
61 to 180 days overdue	499	–
More than 180 days overdue	1 221	894
Total trade receivables gross	9 424	9 154
Allowance for bad debts	–2 097	–2 061
Total trade receivables net	7 327	7 093

Allowances for bad debts

in TUSD	2011	2010
At 1 January	2 061	1 410
Addition in allowance for bad debts	304	621
Release of allowance for bad debts	–15	–58
Translation differences	–253	88
At 31 December	2 097	2 061

Trade receivables net include amounts denominated in the following currencies:

in TUSD	2011	2010
EUR	4 444	2 698
USD	85	37
BRL	853	3 550
XAF	1 913	539
Other currencies	32	269
Total trade receivables net	7 327	7 093

4. Inventories

in TUSD	2011	2010
Logs	5 254	6 208
Sawn wood	13 665	16 723
Veneers	1 150	689
Industrialized products	259	28
Seeds	–	49
Certified Emission Reductions (CERs)	1 453	2 226
Export products in transit	715	920
Spare parts and other	1 937	1 952
Biomass	63	–
Less obsolescence reserve	–3 967	–1 533
Total inventories	20 529	27 262

Obsolescence reserve

in TUSD	2011	2010
At 1 January	1 533	1 429
Increase	2 760	1 005
Decrease	–68	–816
Translation differences	–258	–85
At 31 December	3 967	1 533

5. Other current assets

in TUSD	2011	2010
Prepaid expenses, prospecting	1 169	1 039
Prepaid expenses, other	485	558
Marketable securities	304	314
Total other current assets	1 958	1 911

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 improvements	Machinery and vehicles	Leased machinery and vehicles	Furniture and fixtures	Construction in progress	Advanced payment for property, plant and equipment	Total
Cost									
At 1 January 2010	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
Additions	748	–	233	1 208	2 445	178	3 113	–	7 925
Disposals	–691	–	–	–9 444	–	–173	–	–	–10 308
Change in consolidation scope ¹	–8 847	–739	–1 754	–2 149	–	–417	–	–	–13 906
Reclassifications	9 736	–	1 156	3 025	–1 363	–160	–2 818	–9 932	–356
Reclassification of assets held for sale	–	–	–879	–9 010	–	–159	–	–	–10 048
Translation differences	–2 515	–1 589	–2 299	–2 948	–208	–248	–175	–632	–10 614
At 31 December 2011	24 447	15 781	24 483	30 000	2 212	4 066	1 868	5 046	107 903
Accumulated depreciation									
At 1 January 2010	–	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
Elimination 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
Charge for the year	–	881	2 197	4 463	467	527	–	–	8 535
Impairment charge	–	–	–	–	–	–	–	203	203
Reversal of impairment	–	–	–	–	–	–	–	–4 160	–4 160
Elimination on disposals	–	–	–	–8 236	–	–164	–	–	–8 401
Change in consolidation scope ¹	–	–193	–768	–1 679	–	–299	–	–	–2 939
Reclassifications	–	–	–	1 336	–1 336	–127	–	–	–127
Reclassification of assets held for sale	–	–	–314	–7 877	–	–123	–	–	–8 314
Translation differences	–	–495	–982	–2 216	–21	–161	–	–291	–4 165
At 31 December 2011	–	4 720	10 057	22 177	422	2 693	–	2 330	42 399
Carrying amount									
At 31 December 2010	26 016	13 582	18 102	12 932	26	2 005	1 748	9 033	83 444
At 31 December 2011	24 447	11 061	14 426	7 822	1 790	1 373	1 868	2 716	65 504

¹ Resulting from the disposal of Precious Woods Central America AG.

For certain land acquired by Precious Woods in Brazil the land title registration is not yet finalized. This land was in 2010 reclassified as advanced payments for property, plant and equipment. For prepayments for land title with a certain risk of losing the land, an allowance is recorded based on Management's estimate of the outcome. Please refer to "Land titles Brazil", Note 1. The continued effort in 2011 to clean the land titles from legal issues resulted in further reclassifications from advanced payments for property, plant and equipment to land. Furthermore these actions resulted in a reversal of prior impairments of TUSD 4160.

7. Biological assets in Central America

Valuation principles

In January 2011, the assets and liabilities of Central America were classified as held for sale. On 30 September 2011, 75% of the Central America operations were divested. As the remaining 25% share of the Precious Woods Group is no longer consolidated, the Group does not have any biological assets in the consolidated balance sheet as of 31 December 2011.

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 at 31 December 2010. 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.

For the year ended 31 December 2010, the fair value less costs to sell of the CGU amounted to TUSD 89 257. The carrying amount of both land and biological assets amounted to TUSD 74 894. The fair value of the land and the biological assets was 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.

Changes in carrying amount of biological assets in 2010

in TUSD	Teak	Pochote	Natives	Total
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	1 834	628	63 654

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 fulfillment 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

in TUSD	Goodwill	Trademarks and licences	Other	Total
Cost				
At 1 January 2010	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
Additions	–	–	4 911	4 911
Reclassifications	–	–	3 108	3 108
Reclassification of assets held for sale	–	–2 741	–	–2 741
Translation differences	–609	–1 092	–1 172	–2 873
At 31 December 2011	16 145	15 463	11 837	43 445
Accumulated amortization and impairment				
At 1 January 2010	1 819	6 915	2 421	11 155
Charge of 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
Charge for the year	–	1 208	501	1 709
Reclassifications	–	–	3 075	3 075
Reclassification of assets held for sale	–	–2 142	–	–2 142
Translation differences	–609	–471	–510	–1 589
At 31 December 2011	16 145	7 997	5 514	29 656
At 31 December 2010	–	9 895	2 542	12 437
At 31 December 2011	–	7 466	6 323	13 789

Other intangible assets mainly include forest concessions and software. In 2011, a new concession for a period of 50 years was acquired in Brazil.

Impairment of goodwill

In 2011, no impairment test was necessary as the entire goodwill had been impaired in 2010. At 31 December 2010, for both CGUs Precious Woods Gabon and Precious Woods Europe, an impairment test for goodwill was carried out. The impairment test 2010 was based on the business plan for the next five years that had 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 were 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 were applied for the impairment tests 2010:

in TUSD	Book value of goodwill	Gross margin	EBIT margin	Growth rate	Discount rate (WACC)
Cash-generating unit					
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 as at 31 December 2010 has been calculated based on a value-in-use calculation. The growth rate used for the terminal value was 0%. Based on the calculation performed, the entire goodwill has been written off in 2010.

The recoverable amount for Precious Woods Gabon as at 31 December 2010 has been calculated based on a fair value less costs to sell calculation. The growth rate used for the terminal value was 2.2%. Based on the calculation performed, the entire goodwill was written off in 2010.

10. Investment property

in TUSD	2011	2010
At 1 January	–	6 393
Reclassifications – non-current assets held for sale	–	–6 393
At 31 December	–	–

In 2010, the Group decided to sell the remaining investment property. Therefore it was reclassified to assets held for sale in 2010 (see Note 15). As at 31 December 2011, there is no investment property anymore.

11. Investment in associates

in TUSD	2011	2010
At 1 January	1 925	2 046
Share of profit of associates	16	162
Additions	13 724	–
Dividends earned	–139	–133
Translation differences	–661	–150
At 31 December	14 865	1 925

Precious Woods Central America AG

In 2011, all Central American assets of Precious Woods were integrated in the newly established subholding Precious Woods Central America AG. 75% of the shares of the newly established subholding have been sold. With a stake of 25%, Precious Woods remains a minority shareholder (also see Note 15). The investment is valued using the equity method since the Group has no control over Precious Woods Central America AG and amounts to TUSD 12 932 as of 31 December 2011.

in TUSD (representing 100%)	Assets	Liabilities	Revenues	Profit
Key figures 2011 (income statement 1.10. – 31.12.2011)	62 843	8 641	44	-719

GWW Houtimport B.V.

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 is valued using the equity method since the Group has no control over GWW Houtimport B.V. and amounts to TUSD 1933 as of 31 December 2011.

in TUSD (representing 100%)	Assets	Liabilities	Revenues	Profit
Key figures 2010	6 440	3 828	11 353	370
Key figures 2011	8 697	5 782	14 176	391

12. Non-current financial assets

in TUSD	2011	2010
Congo	530	3 499
NIBO	27	27
At 31 December	557	3 526

The non-current financial assets contain an investment of TUSD 530 (2010: TUSD 3499) in Norsudtimber Company (Congo) in Vaduz and an investment of TUSD 27 (2010: TUSD 27) in Nederlandse Internationale Bosbouw Onderneming NV (NIBO). The non-controlling interest in Norsudtimber was purchased on 11 March 2007. Norsudtimber holds majority participations in four important forestry companies in the Democratic Republic of the Congo. Based on the last available financial figures (standalone financial statements 2010) Group Management decided to impair its participation in Norsudtimber Company by TUSD 2969 (2010: TUSD 4292).

13. Recoverable taxes

As of 31 December 2011, the Brazilian subsidiaries have recorded TUSD 0 (2010: TUSD 6) of recoverable ICMS (value added tax), which may be offset with ICMS payable on local sales. In 2010, 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.

14. Other non-current assets

The details of other non-current assets are as follows:

in TUSD	2011	2010
Long-term loan to Sumapacha Industrial S.A.	–	325
Deposits	7	7
Other	–	9
At 31 December	7	341

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 2010. In 2011, a final settlement and payment of a net amount of TUSD 560 was achieved resulting in a gain of TUSD 235.

15. Non-current assets and liabilities held for sale / discontinued operations

At 31 December 2011, the non-current assets held for sale amount to TUSD 4699 (2010: TUSD 6014) and associated non-current liabilities held for sale amount to USD 3665 (2010: TUSD 0).

In 2009, the Board of Directors of the Precious Woods Group decided to sell non-operating and non-current assets in Brazil. Therefore, in 2009 non-operating assets totaling TUSD 2882 were reclassified as non-current assets held for sale according to IFRS 5. Some of these assets have been sold in the meantime. The remaining balance of these assets at 31 December 2011 is USD 1095 (2010: USD 1616).

Precious Woods Central America

In 2010, certain investment properties in Costa Rica of USD 4398 were also classified as non-current assets held for sale (see also Note 10). In 2011, all Central American assets of Precious Woods were integrated in the newly established subholding Precious Woods Central America AG. 75% of the shares of the newly established subholding have been sold. These assets belong to the Forest Plantations segment.

The results of Central America (discontinued operations) are as follows:

in TUSD	2011	2010
Net sales from trading activities	3 561	2 849
Increase in fair value of biological assets	–	7 693
Total operating income	3 561	10 542
Cost of sales	–5 899	–5 589
Operational contribution	–2 338	4 953
Administration and other labour costs	–447	–744
Other expenses	–212	–210
Other income	214	203
Earnings before interest, tax, depreciation and amortization (EBITDA)	–2 783	4 202
Depreciation, amortization and impairment	–154	–3 051
Earnings before interest and tax (EBIT)	–2 937	1 151
Financial result	–7	–5
Earnings before taxes (EBT)	–2 944	1 146
Income taxes (expenses)/income	583	–871
Earnings after taxes	–2 361	274
Loss on sale of discontinued operations	–32 034	–
Tax on loss on sale of discontinued operations	–	–
Result from discontinued operations (attributable to owners of Precious Woods Holding Ltd)	–34 395	274
Basic earnings per share from discontinuing operations	–10.00	0.08
Diluted earnings per share from discontinuing operations	–10.00	0.08
Cash flows from discontinued operations		
in TUSD	2011	2010
Net cash flows from operating activities	339	–435
Net cash flows from investing activities	–949	117
Net cash flows from financing activities	–1	895
(Decrease)/increase in cash and cash equivalents	–611	577

Effect of disposal on the financial positions of the Group

in TUSD	2011
Property, plant and equipment	-11 510
Biological assets	-59 799
Inventories and others	-48
Trade and other short-term receivables	-397
Cash and cash equivalents	-989
Deferred tax liabilities	1 775
Trade and other short-term liabilities	285
Net assets and liabilities	-70 683
Consideration for 100%	54 896
Investments in associates (25%)	-13 724
Consideration paid to escrow account	-500
Consideration offset with convertible bond (Note 21)	-6 872
Consideration received in cash for 75%	33 800
Cash and cash equivalents disposed of	-989
Net cash inflow	32 811

The loss on sale of discontinued operations includes the recycling of foreign currency translation differences of USD 19 892.

BK Energia

In autumn 2011, Precious Woods agreed a cash-neutral solution in connection with debts outstanding from 2005 relating to the purchase of the biomass power plant BK Energia. An agreement was reached with the current minority shareholder to search a buyer for all outstanding shares of BK Energia in 2012. If no buyer is found within a defined period, 40% of the shares of BK Energia will be transferred to the current minority shareholder to offset the outstanding debts. This would leave Precious Woods as a minority shareholder with the remaining 40% of the shares of BK Energia. Therefore assets of BK Energia in the amount of USD 3604 and liabilities in the amount of USD 3665 were reclassified as non-current assets and liabilities held for sale:

in TUSD	2011
Assets	
Intangible assets	537
Property, plant and equipment	1 579
Inventories	67
Trade and other receivables	1 346
Cash and cash equivalents	75
Assets classified as held for sale	3 604
Liabilities	
Deferred tax liabilities	273
Trade and other payables	-3 938
Liabilities classified as held for sale	-3 665
Included in other comprehensive income:	
Foreign currency translation	559

16. Trade and other payables

in TUSD	2011	2010
Trade payables, third parties	6 817	9 998
Trade payables, related parties	111	370
Total trade payables	6 928	10 368
Other current liabilities, third parties	4 203	4 672
Other current liabilities, related parties	1 128	6 519
Other accrued liabilities	1 390	1 789
At 31 December	13 649	23 348

17. Financial liabilities

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

Net book value of financial liabilities

in TUSD	2011	2010
Financial liabilities from borrowings	43 993	68 371
Financial liabilities finance-lease	1 884	–
Total financial liabilities	45 877	68 371
Total current financial liabilities	2 938	35 889
Total non-current financial liabilities	42 939	32 482
Total financial liabilities	45 877	68 371

The standstill agreement with the banks at holding level expired at the end of March 2011 and was extended to 30 September 2011. Therefore, at 31 December 2010, the remaining bank debts of TUSD 32 725 with these relevant two banks were reclassified from non-current to current. In October 2011, these bank debts were fully repaid.

Interest expenditure from finance-lease liabilities amounted to TUSD 128 (2010: TUSD 0). 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	2011	2010
Currencies financial liabilities		
Borrowings denominated in:		
EUR	–	30 830
XAF	10 136	6 163
CHF	27 384	31 296
BRL	3 357	82
USD	5 000	–
Total financial liabilities	45 877	68 371

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

	2011	2010
EUR	-	5.1–6.3%
XAF	9.0–12.0%	8.5%
CHF	6.3%	6.3%
USD	6.5%	-

18. Provisions

in TUSD	Legal claims	Restructuring	Others	2011 Total	2010 Total
Short-term provisions	54	222	1 013	1 289	3 799
Long-term provisions	1 736	–	4 437	6 173	8 130
Total	1 790	222	5 450	7 462	11 929
At 1 January	6 655	596	4 678	11 929	6 517
Additions	414	–	1 867	2 282	9 922
Unused amounts reversed	–773	–	–2 704	–3 477	–2 545
Used during the year	–	–436	–1 668	–2 104	–2 239
Change in consolidation scope ¹	–	–	–172	–172	–
Reclassifications	–4 296	74	3 963	–260	39
Translation adjustments	–210	–12	–514	–736	235
At 31 December	1 790	222	5 450	7 462	11 929

¹ Resulting from the disposal of Precious Woods Central America AG.

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 2011.

Restructuring

In 2009, the Group's activities in Pará were discontinued. The provision for onerous contracts amounts to TUSD 0 (2010: TUSD 437).

An amount of TUSD 156 (2010: TUSD 159) 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 2011 represents provisions for MIL Madeiras Preciosas Ltda. in Brazil.

Others

The amount includes 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 2011				
Assets				
Cash and cash equivalents	11 440	–	–	11 440
Trade and other receivables	9 320	–	–	9 320
Available-for-sale financial assets	–	–	557	557
Other financial assets at fair value through profit and loss	–	304	–	304
Total	20 760	304	557	21 621

in TUSD	Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	Total
31 December 2011			
Liabilities			
Trade and other payables	—	13 424	13 424
Convertible bonds/loans	—	27 238	27 238
Financial liabilities	—	18 639	18 639
Derivative financial instruments	515	—	515
Total	515	59 301	59 816

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	—	—	3 526	3 526
Other financial assets at fair value through profit and 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

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 2011	Level 1	Level 2	Level 3
Available-for-sale financial assets	557	–	–	557
Other financial assets at fair value through profit and loss	304	–	–	304
Total	861	–	–	861

Liabilities measured at fair value

in TUSD	31 December 2011	Level 1	Level 2	Level 3
Financial liabilities	–	–	–	–
Derivative financial instruments	515	–	515	–
Total	515	–	515	–

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
Derivative financial instruments	490	–	490	–
Total	490	–	490	–

Reconciliation of fair value measurement of level 3 financial assets

in TUSD	2011	2010
At 1 January	3 840	7 958
Sales	–	–
Purchases	–	–
Gains and losses recognized in the statement of comprehensive income	–2 979	–4 118
At 31 December	861	3 840

20. Derivative financial instruments

Derivative financial instruments contain embedded derivatives liabilities of TUSD 515 (2010: TUSD 490) 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 convertible loans at a total par value of CHF 7 million were issued. They are repayable in 4 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).

On 1 October 2010, an existing loan of EUR 5 million was replaced by a convertible loan with the same conditions. It represented a financial liability and a derivative financial instrument (see Note 20). In the course of the partial divestment of Precious Woods Central America (see Note 15), this loan has been offset in 2011 against the purchase price, and therefore no longer exists.

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

The carrying amount of the convertible bonds and loans (financial liabilities) amounts to TUSD 27 238 (2010: TUSD 29 255) and at initial recognition was calculated using market interest rates for equivalent non-convertible bonds of 10.2-12.7% (2010: 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 2011	CHF 2011	Number of shares 2010	CHF 2010
Issued and fully paid-in capital beginning of year	3 438 355	171 917 750	3 438 355	171 917 750
Reduction in the nominal value from CHF 50 to CHF 1	–	–168 479 395	–	–
Issued and fully paid-in capital end of year	3 438 355	3 438 355	3 438 355	171 917 750
Conditional share capital authorized during year	250 000	250 000	800 000	40 000 000
Conditional share capital eliminated during year	–284 764	–284 764	–	–
Conditional share capital at end of the year	1 590 488	1 590 488	1 625 252	81 262 600

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 options of employees and shareholders.

On 19 May 2011, the Annual General Meeting approved that the conditional capital reserved for the issue of shareholder options should be eliminated without replacement. At the same time, the conditional capital was increased from CHF 60 million to CHF 72.5 million for the issue of conversion and option rights.

At the same time, the reduction in the nominal value from CHF 50 to CHF 1 per share was approved. This reduction in the nominal value did not lead to an outflow of funds. The consequences of the reduction in nominal value was the netting against loss carry-forwards and the reposting of share capital to the company's reserves. On 2 August 2011, the reduction in the nominal value from CHF 50 to CHF 1 per share was entered in the trade register of Zug.

23. Related party balances and transactions

An overview of the subsidiaries of Precious Woods is presented on page 54. Balances and transactions between Precious Woods and its subsidiaries, which are related parties of Precious Woods, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. Major shareholders holding 3% or more of Precious Woods Holding Ltd are disclosed in Note 35. 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 2011 and 2010, are detailed below:

in TUSD	2011	2010
Trade and other current receivables	1	588
Trade receivables, associates	59	162
Trade and other current liabilities	1 239	6 889
Non-current loans from shareholders with significant influence	22 432	24 182
Non-current loans from other shareholders	10 015	4 699
Non-operating expenses	–	571
Interest expenses to shareholders with significant influence	1 682	825
Interest expenses to other shareholders	530	270
Other financial expenses	131	410

In a bidding process, two large Swiss shareholders of Precious Woods Holding Ltd (shareholders with significant influence) have each purchased 37.5% (75% in total) of the newly established subholding Precious Woods Central America AG (see Note 15). The negotiated enterprise value is slightly higher than alternative offers from third parties that did not take into account a minority shareholding by Precious Woods Holding Ltd.

b. Compensation

During the ordinary course of business in 2011 and 2010, the Group granted compensation to related parties as follows:

in TUSD	2011	2010
Group Management		
Short-term employee benefits	847	712
Post-employment employee benefits	137	82
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
Total Group Management	984	794
Board of Directors		
Short-term employee benefits	636	426
Post-employment employee benefits	74	15
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
Total remuneration and fees Board of Directors	710	441
Operating management		
Short-term employee benefits	1 249	1 556
Post-employment employee benefits	170	16
Long-term benefits	–	–
Termination benefits	–	48
Share-based payment	–	–
Total operating management	1 419	1 620
Total compensation to key management personnel	3 113	2 855

24. 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 2011 (2010: no shares). The effect on the statement of comprehensive income 2011 was USD 0 (2010: 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 161 in 2011 (2010: TUSD 297). The pension plans for employees in Switzerland are defined benefit plans.

Changes in the present value of the defined benefit obligation

in TUSD	2011	2010
Defined benefit obligation at 1 January	3 195	3 521
Current service cost	285	178
Interest cost	96	100
Contribution by plan participants	119	119
Actuarial losses/(gains)	456	-56
Benefits paid/transferred	40	-965
Past service costs	-	-
Exchange differences	-58	298
31 December	4 133	3 195
Plans wholly or partly funded	4 133	3 195
Plans wholly unfunded	-	-

Movement in the present value of the plan assets

in TUSD	2011	2010
Opening fair value of plan assets	2 823	3 253
Expected return on plan assets	80	73
Actuarial gains/(losses)	228	-106
Contributions from the employers	206	185
Contributions from plan participants	119	119
Benefits paid/transferred	40	-965
Exchange differences	-40	264
31 December	3 456	2 823

in TUSD	2011	2010	2009
Present value of obligations	4 133	3 195	3 521
Fair value of plan assets	3 456	2 823	3 253
(Surplus)/deficit in the plan	677	372	268
Net actuarial gains/(losses) not yet recognized	-503	-288	-212
Net liability	174	84	56

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

in TUSD	2011	2010
Current service costs	285	178
Interest costs	96	100
Expected return on plan assets	-80	-73
Actuarial gains and losses	—	—
Past service costs	—	—
Recognized in profit or loss	301	205

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	2011	2010
Actual return on plan assets	308	-33

Principal actuarial assumptions used

	2011	2010
Discount rates	2.25%	2.75%
Expected rates of return on plan assets	2.50%	2.50%
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

	2011	2010	2009
Experience adjustments on plan liabilities	-2.58%	8.48%	-4.66%
Experience adjustments on plan assets	6.20%	-4.14%	10.09%

in TUSD	2011	2010
Expected employer contributions	225	187

25. Net sales from trading activities

in TUSD	2011	2010 ¹
Sales of wood	66 027	66 461
Sales of energy	6 968	6 577
Sales deductions	-4 910	-3 823
Net sales	68 085	69 215

¹ The prior-year figures have been represented following the classification of Central America as discontinued operations. Please refer to Note 15.

26. Revenue from emission reduction activities

in TUSD	2011	2010
Revenue from Certified Emission Reductions (CERs) over book value	1 752	–
CERs recognized as government grants	–863	744
Revenue from emission reduction activities	889	744

The 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 sawmill and forest operations for electricity generation. The CERs recognized as government grants represent the grant from the UNFCCC for the CERs produced during 2011 valued at fair value. The Group expects that the grant for the 44 433 CERs generated in 2011 (2010: 45 582 CERs) will be issued after a final verification scheduled in 2012, therefore no revenue has been recognized in 2011. 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.

27. Depreciation, amortization and impairment

in TUSD	2011	2010 ¹
Depreciation and amortization	10 091	11 715
Impairment of property, plant and equipment	399	19 016
Reversal of impairment of property, plant and equipment	–4 160	–
Impairment of goodwill	–	15 968
Total	6 330	46 699

¹ The prior-year figures have been represented following the classification of Central America as discontinued operations. Please refer to Note 15.

The impairment of TUSD 399 (2010: TUSD 21 432) includes impairment of property, plant and equipment, intangible assets and assets held for sale. Details to the reversal of impairment are given in Note 6.

28. Personnel expenses

in TUSD	2011	2010 ¹
Wages and salaries	22 121	26 977
Social security costs	3 480	449
Pension costs	462	358
Other employment benefits	3 862	1 974
Total	29 925	29 758

in TUSD	2011	2010
Forest, processing and plantation costs ²	20 790	19 394
Administration and other labour costs	9 135	10 364
Total	29 925	29 758

¹ The prior-year figures have been represented following the classification of Central America as discontinued operations. Please refer to Note 15.

² Included in cost of sales.

29. Other income and expenses

in TUSD	2011	2010 ¹
Other income		
Gain on disposal of fixed assets	2 465	3 430
Other income	4 579	6 200
Total other income	7 044	9 630
Other expenses		
Audit fees	741	202
Legal and tax	2 557	2 600
Other consulting fees	2 213	2 026
Travel	976	890
Marketing	240	373
Loss on disposal of fixed assets	280	913
Other administrative expenses	3 127	12 822
Total other expenses	10 134	19 826

¹ The prior-year figures have been represented following the classification of Central America as discontinued operations. Please refer to Note 15.

In 2011, other income included TUSD 2311 and other expenses included USD 859 resulting from the restructuring with the minority shareholder of BK Energia.

In 2010, other income included 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 statement of comprehensive income 2010. Other administrative expenses include tax expenses (non-income) and various costs in relation to the Brazilian one-offs.

30. Financial income and expenses

in TUSD	2011	2010 ¹
Interest income and dividends	400	504
Gain on derecognition of loans and receivable	235	—
Unrealized gain from adjustments of financial assets at fair value through profit or loss	326	130
Foreign-exchange gains	9 907	8 445
Other financial income	806	261
Total financial income	11 674	9 340
Financial expenses		
Interest expenses	6 369	5 081
Impairment of financial assets available for sale	2 969	3 354
Impairment of loans	—	841
Foreign-exchange losses	13 519	8 655
Other financial expenses	1 842	1 186
Total financial expenses	24 699	19 117

¹ The prior-year figures have been represented following the classification of Central America as discontinued operations. Please refer to Note 15.

31. Leasing

Operating leasing

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

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

in TUSD	2011	2010
Within one year	570	667
Within two to five years	1 126	1 677
After more than five years	–	–
Total lease payments	1 696	2 344

Finance leasing

In 2011, the Group entered into several finance leases for vehicles and machinery. The finance leases have lifespans of three to four years.

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

in TUSD	2011	2010
Within one year	–	–
Within two to five years	2 192	–
After more than five years	–	–
Total lease payments	2 192	–
Minus interest expense component	–308	–
Total lease payments	1 884	–

32. Earnings per share

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

In USD	2011	2010 ¹
Net loss/income attributable to Group equity holders	–56 131 731	–64 669 300
Net loss/income from continuing operations attributable to Group equity holders	–21 736 730	–64 943 750
Weighted average number of shares	3 438 355	3 438 355
Basic loss/earnings per share	–16.33	–18.81
Basic loss/earnings per share from continuing operations	–6.33	–18.89
Number of options at the beginning of the year	–	–
Weighted average number of shares for diluted earnings per share	3 438 355	3 438 355
Diluted earnings per share	–16.33	–18.81
Diluted earnings per share from continuing operations	–6.33	–18.89

¹ The prior-year figures have been represented following the classification of Central America as discontinued operations. Please refer to Note 15.

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.

33. Contingencies

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities other than those for which a provision has been made will arise from contingent liabilities (see Note 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 imposed on the Group, which are not yet settled, amount to approximately USD 8 million. The Group's Management and its attorneys believe that the remaining fines are arbitrary in nature, unjustified, and will also be eventually cancelled, and therefore consider that no material loss will occur as a result of the final decision on this process; consequently, no accrual was recorded in the Group's consolidated financial statements as of 31 December 2011 (31 December 2010: 0). In 2011, the subsidiary was notified by the Federal Justice to offer assets to pledge or to prepay the penalty. The subsidiary offered 61 907 hectares to pledge. The counterparty has not yet accepted the pledge.

34. 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.

The Forest Plantations segment has been sold to Precious Woods Central America AG, an entity in which the Precious Woods Group currently holds a 25% stake, effective as of 30 September 2011. The segment is thus consolidated only until 30 September 2011. In the consolidated income statements 2010 and 2011 the results of this segment are therefore disclosed as discontinued operations.

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 2011

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other ¹	Total continuing 31.12.2011	Forest Plantations (discontinued)	Total 31.12.2011
Operating income								
Third parties	6 771	36 388	19 955	5 860	–	68 974	3 561	72 535
Intersegment	7 920	–	1 544	–	–9 464	–	–	–
Change in biological assets	–	–	–	–	–	–	–	–
Total operating income	14 691	36 388	21 499	5 860	–9 464	68 974	3 561	72 535
Loss/profit on sale of fixed assets and affiliates	2 092	94	1	–2	–	2 185	–30 852	–28 667
EBITDA	–1 736	6 895	–1 832	2 550	–8 006	–2 129	–34 817	–36 946
Depreciation and amortization	–1 501	–7 324	–274	–853	–138	–10 090	–154	–10 244
Impairment charges	3 760	–	–	–	–	3 760	–	3 760
Loss/profit from operating activities (EBIT)	523	–429	–2 106	1 697	–8 144	–8 459	–34 971	–43 430
Financial income and expenses	–867	–1 187	1 064	431	–12 466	–13 025	–7	–13 032
Share of profit of associates	–	–	–	–	–	16	–	16
Net (loss)/profit before tax						–21 468	–34 978	–56 446
Income taxes	–1 768	453	264	520	239	–293	583	290
Segment assets	69 615	77 441	16 094	10 220	–27 976	145 394	–	145 394
Investments in associates	–	–	1 933	–	12 932	14 865	–	14 865
Capital expenditures	1 146	6 741	6	6	24	7 923	–	7 923
Segment liabilities	82 550	60 089	9 941	4 199	–83 183	73 596	–	73 596

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 2010

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other ¹	Total continued 31.12.2010	Forest Plantations (discontinued)	Total 31.12.2010
Operating income								
Third parties	6 680	35 813	22 029	5 437	–	69 959	2 849	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	5 437	–8 741	69 959	10 542	80 501
Loss/profit on sale of fixed assets and affiliates	2 657	–186	–6	52	–	2 517	179	2 696
EBITDA	–11 218	7 190	–3 596	663	–2 900	–9 861	4 202	–5 659
Depreciation and amortization	–1 773	–8 082	–546	–1 196	–119	–11 716	–634	–12 350
Impairment charges	–16 780	–6 476	–7 034	–921	–3 772	–34 983	–2 417	–37 400
Loss/profit from operating activities (EBIT)	–29 771	–7 368	–11 176	–1 454	–6 791	–56 560	1 151	–55 409
Financial income and expenses	–370	–1 015	–542	–1 053	–6 797	–9 777	–5	–9 782
Share of profit of associates	–	–	–	–	–	162	–	162
Net (loss)/profit before tax						–66 175	1 146	–65 029
Income taxes	1 949	1 691	–2 138	–1 350	–264	–112	–871	–983
Segment assets	69 317	73 690	18 727	14 183	–36 612	139 305	85 099	224 404
Investments in associates	–	–	1 925	–	–	1 925	–	1 925
Capital expenditures	784	3 936	41	23	336	5 120	92	5 212
Segment liabilities	77 878	54 819	10 350	7 761	–53 952	96 856	15 201	112 057

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

Geographic information

in TUSD	2011		2010	
Revenue from external customers				
Switzerland	76	0.1%	250	0.3%
European Union	46 989	65.6%	49 595	68.8%
Latin America	11 392	15.9%	11 138	15.5%
Africa	9 529	13.3%	7 367	10.2%
Other countries	3 660	5.1%	3 714	5.2%
Total	71 646	100.0%	72 064	100.0%

Location of non-current assets

Switzerland	14 381	15.1%	4 703	2.8%
European Union	2 258	2.4%	2 530	1.5%
Latin America	29 549	31.0%	104 271	62.6%
Africa	49 145	51.5%	55 003	33.1%
Total	95 333	100.0%	166 507	100.0%

Reconciliation of reportable segment profit or loss

	2011	2010
Total EBITDA for reportable segments, continuing operations	5 877	-6 961
EBITDA Other	-8 006	-2 900
EBITDA of continuing operations	-2 129	-9 861
Depreciation, amortization and impairment	-6 330	-46 699
EBIT	-8 459	-56 560
Financial income and expenses	-13 025	-9 777
Share of profit of associates	16	162
Earnings before tax from continuing operations	-21 468	-66 175

35. 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 2011		Additional number of shares in case of conversion of convertible bonds/ loans 2011		Number of shares 2010		Additional number of shares in case of conversion of convertible bonds/ loans 2010	
Round Enterprises Ltd.	201 203	5.85%	242 857	7.06%	201 203	5.85%	441 428	12.84%
Franke Artemis Holding AG	189 571	5.52%	157 142	4.57%	189 571	5.52%	157 142	4.57%
Baloise Holding	305 300	8.88%	–	–	305 300	8.88%	–	–
Aires International Investment Inc	–	–	222 222	6.46%	–	0.00%	–	–
UBS Fund Management	163 480	4.75%	–	–	171 735	4.99%	–	–
Beatrice Oeri	99 000	2.88%	50 000	1.45%	99 000	2.88%	50 000	1.45%
Pension Fund Novartis	140 000	4.07%	–	–	140 000	4.07%	–	–
Beamtenversicherungskasse des Kantons Zürich	134 350	3.91%	–	–	134 350	3.91%	–	–

¹ Calculation is based on the current number of shares. Please also refer to Note 21 for information on convertible bonds/loans.

36. Income taxes

Major components of tax expenses/income

in TUSD	2011	2010 ¹
Current tax expenses/income	612	2 157
Deferred tax expenses/income relating to temporary differences	-319	-2 045
Total	293	112

Reconciliation of tax expenses/income

in TUSD	2011	2010 ¹
Result before taxes from continuing operations	-21 468	-66 175
Result before taxes from discontinued operations	-34 978	1 146
Accounting loss before taxes	-56 446	-65 029
Expected tax expenses/income	-14 828	-19 845
Income not subject to tax (Central America)	-1 461	-797
Expenses not deductible for tax purposes	3 107	2 203
Not recognized current tax losses	12 892	19 423
Total income taxes from continuing and discontinued operations	-290	984

¹ The prior-year figures have been restated. Please refer to page 53.

The weighted average applicable tax rate, considering all profit and loss making entities, was 26% (2010: 30%).

Deferred income tax

in TUSD	2011	2010 ¹	As at ¹ 1 January 2010
Total deferred income tax assets	27 146	33 062	21 261
Total deferred income tax liabilities	-28 353	-37 801	-26 899
Net deferred income tax assets/(liabilities)	-1 207	-4 739	-5 638

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	2011	2010 ¹	As at ¹ 1 January 2010
Tax loss carry-forwards	26 533	32 319	20 690
Provisions	327	440	82
Other	286	303	489
Total deferred income tax assets	27 146	33 062	21 261

Deferred income tax liabilities

in TUSD	2011	2010 ¹	As at ¹ 1 January 2010
Inventories	-35	-241	-41
Property, plant and equipment	-8 278	-8 007	-17 677
Intangible assets	-2 775	-3 169	-7 720
Financial assets	-15 586	-15 594	-
Other	-1 679	-10 790	-1 461
Total deferred income tax liabilities	-28 353	-37 801	-26 899
Net deferred income tax assets/(liabilities)	-1 207	-4 739	-5 638
Reported in the balance sheet as follows:			
Deferred income tax assets	611	1 174	5 526
Deferred income tax liabilities	-1 818	-5 913	-11 164
Net deferred income tax assets/(liabilities)	-1 207	-4 739	-5 638

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

in TUSD	2011	2010 ¹
At 1 January	-4 739	-5 638
Disposal of subsidiaries	1 750	-626
Income statement charge	-319	-2 045
Tax charged to other comprehensive income	930	-1 979
Translation difference	1 171	5 549
At 31 December	-1 207	-4 739

The Group did not recognize deferred income tax assets of TUSD 44 263 (2010: TUSD 40 808) in respect of unused tax losses amounting to TUSD 225 881 (2010: TUSD 216 395). These tax loss carry-forwards expire as shown in the table below:

in TUSD	2011	2010 ¹
0–2 years	7 924	11 300
3–5 years	3 312	7 680
5–7 years	135 825	16 569
over 7 years	78 820	180 846
Total tax loss carry-forwards	225 881	216 395

¹ The prior-year figures have been restated. Please refer to page 53.

TUSD 26 020 of these loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 25% (2010: TUSD 25 711 with an applicable tax rate of 26%), TUSD 48 335 belong to the Brazilian operations with an applicable tax rate of 34% (2010: TUSD 37 123 with an applicable tax rate of 34%), USD 13 658 belong to the Gabonese operations with an applicable tax rate of 35% (2010: USD 13 925 with an applicable tax rate of 35%) and USD 137 867 belong to the Swiss operation with an applicable tax rate of 12% (2010: USD 139 636 with an applicable tax rate of 12%).

37. Divestments and acquisitions

In 2011 Precious Woods sold 75% of its Central American operations (see Note 15). There were no acquisitions in 2010 and 2011.

38. Subsequent events

In autumn 2011, the Group achieved a debt restructuring agreement with the minority shareholder of its 80% subsidiary BK Energia. At the same time, Precious Woods and the minority shareholder agreed to seek a buyer for the shares of BK Energia. The parties further agreed that the debt of the Precious Woods Group towards the minority shareholder would be settled by transferring 40% of the shares of BK Energia to the minority shareholder should such sale transaction not be completed within a defined time period. Since no buyer has been found by the end of March 2012, the parties agreed to transfer these shares. Thus, starting 1 April 2012, BK Energia is no longer consolidated since Precious Woods only holds a minority position of 40% in the company.

39. Approval of financial statements and dividends

The financial statements were approved by the Board of Directors on 17 April 2012 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 2011 (2010: no dividend paid).

Report of the statutory auditor on the consolidated financial statements

To the General Meeting of Precious Woods Holding AG, Zug

As statutory auditor, we have audited the consolidated financial statements of Precious Woods Holding AG, which comprise the consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements (pages 46 to 86), for the year ended 31 December 2011.

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 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and 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
Licensed audit expert (Auditor in charge)



Christoph Michel
Licensed audit expert

Zurich, 17 April 2012



Precious Woods Holding Ltd financial statements

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Balance sheets as of 31 December 2011 and 2010 (in TCHF)

ASSETS	Notes	2011	2010
Current assets			
Cash and cash equivalents		7 754	15 031
Trade receivables third		2 848	1 197
Trade receivables Group		2 763	4 684
Short-term receivables third		215	368
Short-term receivables Group		8 625	1 129
Inventories		—	290
Prepaid expenses		98	96
Total current assets		22 304	22 795
Non-current assets			
Fixed assets, net		259	359
Loans to third parties		—	306
Loans to affiliates		38 921	31 673
Investments	2	83 608	122 626
Long-term financial assets		6	6
Intangible assets		—	—
Total non-current assets		122 794	154 970
TOTAL		145 098	177 765
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables third		324	788
Trade payables Group		3 246	392
Trade payables affiliates		105	348
Other payables		382	383
Short-term bank loan		0	30 780
Accrued expenses		1 211	3 140
Provisions		437	578
Total current liabilities		5 705	36 409
Non-current liabilities			
Long-term liabilities		33 781	30 233
Bank loan		—	—
Provisions		0	—
Total non-current liabilities		33 781	30 233
Shareholders' equity			
Share capital	1	3 438	171 918
General reserve		24 337	2 912
Reserve from contribution in kind		83 348 ¹	83 348
Accumulated losses		−5 511	−147 055
Total shareholders' equity		105 612	111 123
TOTAL		145 098	177 765

¹ The final decision of the federal tax administration is still pending.

See notes to Precious Woods Holding Ltd financial statements on pages 92 to 97.

Statements of income and accumulated deficit 2011 and 2010 (in TCHF)

INCOME	Notes	2011	2010
Sales			
Net trading-sales timber products		26 440	31 817
Net trading-sales CO ₂ certificates		–	–
General costs of production		–19 818	–26 882
Total income, net		6 622	4 935
OPERATIONAL EXPENSES			
Personnel expenses	5	–3 925	–3 700
Administrative expenses		–1 770	–3 314
Audit fees		–423	–96
Total operating expenses		–6 118	–7 110
Interest expenses and bank charges		–4 428	–3 461
Total non-operating expenses		–4 428	–3 461
OTHER INCOME/(EXPENSES)			
Foreign exchange differences		89	–6 189
Other expenses		–	–925
Amortizations		–2 715	–95 650
Other income		1 083	2 574
Total other income/expenses, net		–1 543	–100 190
Profit before taxes		–5 466	–105 826
Taxes		–45	21
Net profit		–5 511	–105 805

See notes to Precious Woods Holding Ltd financial statements on pages 92 to 97.

1. General

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

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

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

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

The share capital as of 31 December 2011 is composed of 3 438 355 (2010: 3 438 355) fully paid-in registered shares, each with a nominal value of CHF 1. Additional information about the capital can be found in Note 3 and 4.

2. Investments in subsidiaries

The company holds the following direct investments:

Company	Currency	31 December 2011		Currency	31 December 2010	
		Nominal share capital	Participation		Nominal share capital	Participation
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	—	0.00%	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	—	0.00%	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	4 400 000	99.98%
MIL Madeiras Preciosas Ltda. Brazil (land and forest operations) 2.7% of the shares are held by Madeiras Preciosas de Amazonia Manejo Ltda., Brazil	BRL	68 074 251	97.30%	BRL	68 074 251	97.30%
Precious Woods do Pará S.A. Brazil (sub-holding company, land and forest operations)	BRL	1 003	100.00%	BRL	1 003	100.00%
Precious Woods Manejo Florestal Ltda. Brazil (land and forest operations)	BRL	24 429 917	100.00%	BRL	24 429 917	100.00%
Precious Woods Europe B.V. Netherlands (sub-holding, timber trade)	EUR	18 000	100.00%	EUR	18 000	100.00%
African Wood Trading Company S.A. Luxembourg (sub-holding for Gabon entities)	EUR	—	0.00%	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	372 575	100.00%	EUR	185 000	100.00%
Precious Woods Central America AG Switzerland	CHF	10 000 000	25.00%		—	—
Exobois S.A. Luxembourg (sub-holding for Gabon entities)	EUR	—	0.00%	EUR	165 050	100.00%

CRC – Costa Rican colón

BRL – Brazilian real

NIO – Nicaraguan córdoba

EUR – European euro

USD – US dollar

3. Authorized capital

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 800 000 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 1 each. In the event that conversion and option rights were to be granted based on the conditional share capital (pursuant to section 4 herein below) 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 2011, 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 2011, the company had the following conditional share capital:

- a. On 19 May 2011, Precious Woods Holding Ltd increased its conditional capital from CHF 60 million to CHF 72.5 million for the issuing of conversion and option rights. The move was a response to Precious Woods' funding requirements. The CHF 12.5 million increase in conditional capital corresponds to 250 000 new shares. A simultaneous reduction in nominal value from CHF 50 to CHF 1 per share restored Precious Woods' capital market viability. Additionally, conditional share capital amounting to CHF 284 764 (284 764 shares) was cancelled (deletion of Article 3c of the Articles of Association [Shareholder Options]). As at year end the conditional capital therefore amounted to CHF 1 590 488 (1 590 488 shares each with a nominal value of CHF 1 resulting from 1 625 252 shares at the end of 2010 + 250 000 shares – 284 764 shares). 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 140 488 by the issuance of no more than 140 488 (2010: 140 488) registered shares that are to be fully paid in and have a nominal value of CHF 1 each; this increase being the result of the exercise of option rights that can be granted to employees of the company or of affiliated companies (Article 3b of the Articles of Association).

5. Board and Executive compensation

Compensation

The compensation of the Board of Directors was as follows:

For the year 2011	Compensation Fix in cash	Compensation Fix in shares	Compensation For part. in committees	Other ¹ compensation	Total compensation	Loans and credits	Numbers of shares
all amounts in TCHF							
Ernst A. Brugger	288	–	–	51	339	–	13 592
Markus Breitenmoser	12	–	26	3	41	–	2 000
Daniel Girsberger ³	8	–	6	1	15	–	3 665
Marga Gyger	12	–	30	–	42	–	–
Thomas Hagen	20	–	17	2	39	–	2 900
Rolf Jeker ³	8	–	–	1	9	–	1 767
Inge Jost ³	8	–	14	1	23	–	582
Katharina Lehmann	20	–	36	4	60	–	2 680
Claude Martin ³	8	–	9	–	17	–	400
Rudolf Wehrli	20	–	20	3	43	–	2 000
Total	404	–	158	66	628	–	29 586
For the year 2010	Compensation Fix in cash	Compensation Fix in shares	Compensation For part. in committees	Other compensation	Total compensation	Loans and credits	Numbers of shares
all amounts in TCHF							
Ernst A. Brugger ²	167	–	–	–	167	–	9 992
Daniel Girsberger	20	–	9	2	31	–	3 665
Thomas Hagen	20	–	11	2	33	–	2 900
Rolf Jeker	20	–	2	1	23	–	1 767
Inge Jost	20	–	19	3	42	–	582
Katharina Lehmann	20	–	42	4	66	–	280
Claude Martin	20	–	2	1	23	–	400
Rudolf Wehrli	20	–	20	3	43	–	867
Total	307	–	105	16	428	–	20 453

¹ These amounts comprise social contributions and indirect remuneration (secretary: TCHF 51 in 2011) for the Chairman of the Board of Directors and social contributions for all other members of the Board.

² This amount does not include compensation for operational management in 2010 as CEO ad interim.

³ These Board members resigned as of May 2011.

The compensation of the Group Management was as follows:

For the year 2011	Salary Fix in cash	Salary ¹ Variable in cash and shares	Other ² compensation	Total compensation	Loans and credits
all amounts in TCHF					
Joachim Kaufmann, CEO	440	–	50	490	–
Group Management Total	748	–	76	824	–

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

¹ During 2010 and 2011 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 2011	Shares	Options
Joachim Kaufmann, CEO	1 000	–
Gerhard Willi, CFO	–	–
Cornelia Gehrig, CFO	1	–

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

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 2011		Additional number of shares in case of conversion of convertible bonds/ loans 2011		Number of shares 2010		Additional number of shares in case of conversion of convertible bonds/ loans 2010	
Round Enterprises Ltd.	201 203	5.85%	242 857	7.06%	201 203	5.85%	441 428	12.84%
Franke Artemis Holding AG	189 571	5.52%	157 142	4.57%	189 571	5.52%	157 142	4.57%
Baloise Holding	305 300	8.88%	–	–	305 300	8.88%	–	–
Aires International Investment Inc	–	–	222 222	6.46%	–	0.00%	–	–
UBS Fund Management	163 480	4.75%	–	–	171 735	4.99%	–	–
Beatrice Oeri	99 000	2.88%	50 000	1.45%	99 000	2.88%	50 000	1.45%
Pension Fund Novartis	140 000	4.07%	–	–	140 000	4.07%	–	–
Beamtenversicherungskasse des Kantons Zürich	134 350	3.91%	–	–	134 350	3.91%	–	–

¹ Calculation is based on the current number of shares. Please also refer to Note 21 for information on convertible bonds/loans.

7. Enterprise-wide risk management

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

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

8. Debt and operating restructuring

During the course of the ongoing turnaround process, the Group achieved the following in 2011:

8.1. Debt restructuring

Following the divestment of 75% of Central American assets, all bank debts at holding level were repaid, thereby completing the debt restructuring process.

Furthermore, the successful placement of convertible loans with a par value of CHF 5.5 million and repayable by 2015 enabled the Group to secure its long-term capital.

In addition, a convertible loan of EUR 5 million was repaid early by offsetting and replaced by a short-term loan of USD 5 million, repayable by the end of 2012.

Net debt fell significantly by 40%.

8.2. Balance sheet restructuring

The reduction in the nominal value of the shares to CHF 1 succeeded in completely eliminating the capital loss.

8.3. Operational restructuring

With the turnaround making good progress, Management and the Board of Directors believe that the operating result for 2012 can be improved significantly. The cost base was reduced in all segments by a total of USD 6.5 million in 2011, effective 2012 (staff reductions, outsourcing and a considerable reduction in consulting costs), while significant investment was made in the new business area of “bois divers” and price increases were implemented and processes optimized. All of these measures, both on the revenue and on the cost side, will primarily impact the results of 2012. A new medium-term plan will be drawn up in 2012 to present the achievements so far, together with new opportunities and possibilities for development.

Management and the Board of Directors also anticipate that the upcoming five-year plan will realistically confirm the medium-term goals.

9. Pledged assets/other securities

As of 31 December 2011, Precious Woods Holding Ltd has pledged its 25% share in Precious Woods Central America AG to secure loans of USD 5 million received from Round Enterprises Ltd. and Franke Artemis Holding AG.

10. Fire insurance value

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 90 to 97), for the year ended 31 December 2011.

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 2011 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and 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.

Ernst & Young Ltd



Rico Fehr
Licensed audit expert (Auditor in charge)



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Licensed audit expert

Zurich, 17 April 2012

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

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

► Back cover:

Biodiversity is a term used to denote life in all its richness, like the diversity of animal and plant species, the diversity of habitats and the genetic variety within species. With its sustainable forest management in the tropics Precious Woods contributes to the conservation of biodiversity.



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PRECIOUS WOODS