

Annual Report 2012

PRECIOUS WOODS Annual Report 2012



PRECIOUS WOODS

◀ **Cover:**

City pavilion made of Brazilian hardwood at Roosendaal, The Netherlands

Precious Woods 2012 – a year characterized by strong measures

- A comprehensive cost-reduction program, reached desired results until the end of the year
- Reinforcement of the management in Gabon
- Downsizing of the Board of Directors and the Group management to two Executives
- As of 12.08.13, delisting from the stock exchange (SIX) due to the involved high costs
- Divestment of 25% of Precious Woods Central America
- Precious Woods Holding Ltd repaid early two convertible bonds and two loans

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

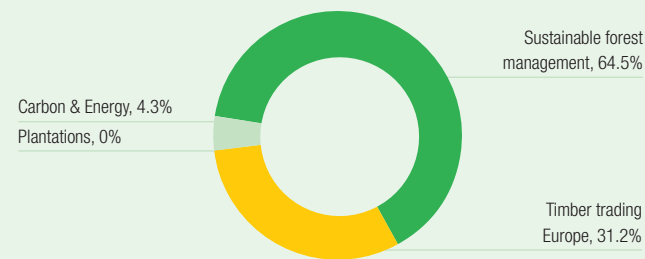
5-year summary of key financial data (in TUSD)

	2012	2011	2010 ¹	2009	2008
Total revenue	43 886	68 974	69 959	87 843	116 758
Amortization & Depreciation, Impairments	9 437	6 330	46 699	14 763	20 094
Amortisation & Depreciation	7 933	10 090	11 716	12 572	13 261
Impairments	1 504	-3 760	34 983	2 191	6 833
EBITDA	-3 840	-2 129	-9 861	-5 881	10 077
in % of the total revenue	-8.75%	-3.09%	-14.10%	-6.69%	8.63%
EBIT	-13 277	-8 459	-56 560	-20 644	-10 017
in % of the total revenue	-30.25%	-12.26%	-80.85%	-23.50%	-8.58%
Net result	-17 747	-56 156	-66 013	-28 389	-14 434
in % of the total revenue	-40.44%	-81.42%	-94.36%	-32.32%	-12.36%
Balance sheet total	116 765	145 394	224 404	291 324	279 458
Shareholders' equity	53 500	71 798	112 347	168 318	184 340
in % of the balance sheet total	45.82%	49.38%	50.06%	57.78%	65.96%
Net indebtedness	34 782	34 437	58 045	51 361	48 451
Cash flow from operating activities	-5 579	-9 101	-3 800	2 841	11 464
Investments/acquisitions	-1 226	41 054	-343	3 448	17 195
Average full-time-equivalent employee	1 183	1 511	1 557	1 706	2 261

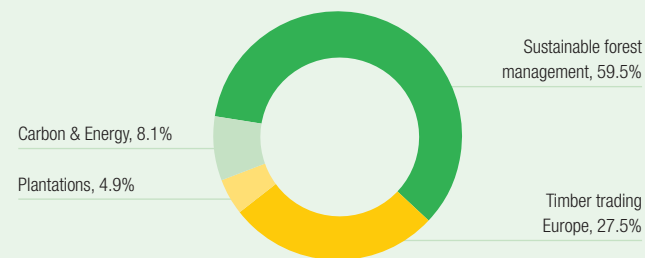
¹ The prior-year figures have been restated.

Total revenue by business segment

2012: TUSD 43 886

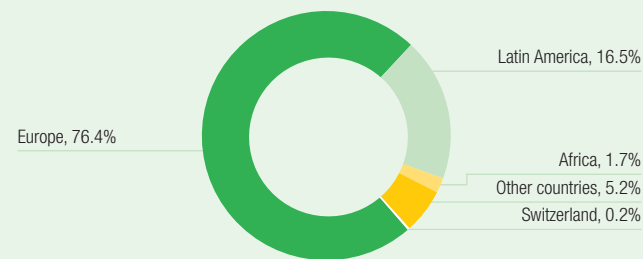


2011: TUSD 72 535

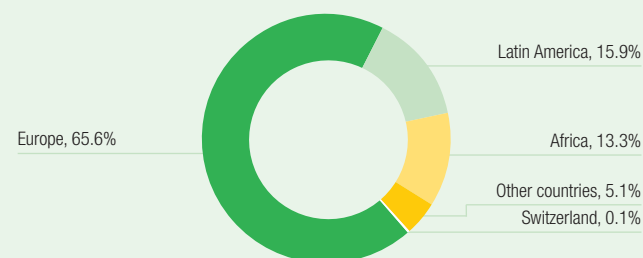


Total net sales by market region

2012: TUSD 43 223

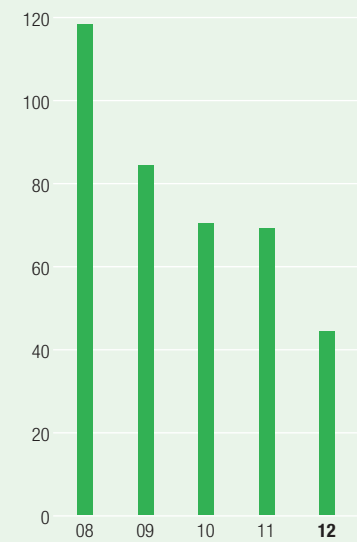


2011: TUSD 71 646



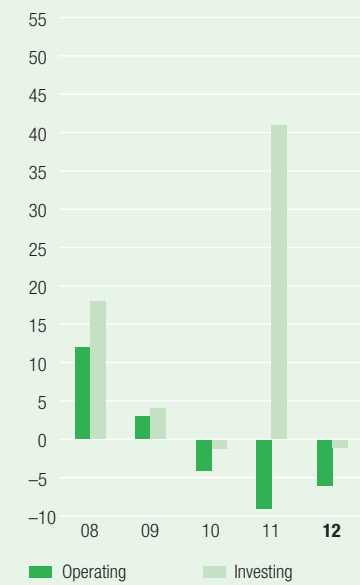
Total revenue

USD million



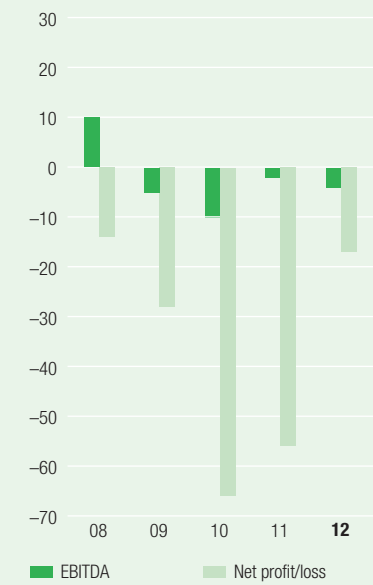
Cash flow from operating and investing activities

USD million



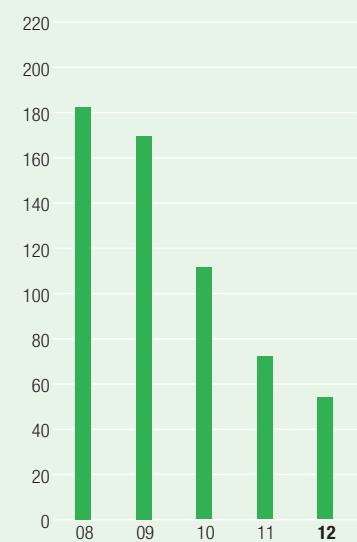
EBITDA and net profit/loss

USD million



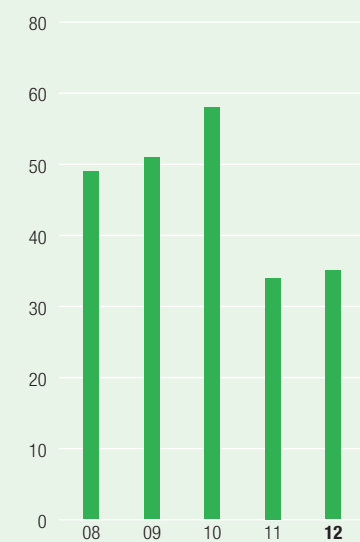
Shareholders' equity

USD million



Net indebtedness

USD million



Performance of the Precious Woods registered share 1.1.2012-31.12.2012

CHF (Kurs)



Information for investors

	2012
Share price in CHF	3
Stock market capitalization in CHF million	10
Earnings per share in USD	-5.07

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To our shareholders

Dear Shareholders

2012 was a difficult and challenging year – contrary to the positive expectation at the beginning of the year. Accordingly, the results are disappointing, despite progresses in production (p.e. PW Brazil). The main reason was the drastic setback in turnover and operating result of PW Gabon caused by a large logistical crisis, severely affecting the entire forestry and timber sector in the country. The envisioned catch-up in the second half of the year proved to be unrealisable not only for us but all timber companies. At the same time, the significant economic recession in the Benelux countries, a key market for Brazilian timber, had a very negative influence: the inventory of PW Europe could not be sufficiently reduced. In addition, the domestic market in Brazil suffered from the availability of low-priced illegal timber, cutting sales prices significantly.

Revenues in 2012 of USD 43.9 million (-36%) and an EBITDA of USD -3.8 million (USD -1.7 million) represent a worse result than that of 2011. Solely the net loss of USD 17.7 million (USD +4.1 million) improved.

Given these problems, comprehensive measures were initiated in the middle of the year and since then consistently implemented:

- A comprehensive cost-reduction program; reached desired results until the end of the year;
- Reinforcement of the management in Gabon through the engagement of the new CEO Frederic Ober, an Africa-experienced forestry manager; and a focus of Joachim Kaufmann (CEO until 19.09.12 of the Holding) on PW Brazil;
- Downsizing of the Group management to two Executives: Gerhard Willi as CFO (Chief Financial Officer) and Stefan Meinhardt as CCO (Chief Commercial Officer); the Board of Directors was simultaneously reduced from six to three members;
- As of 12.08.2013, delisting from the stock exchange (SIX), due to the involved high costs in comparison to the size of the company, and changing to the OTC trade platform of the ZKB while keeping tradability and transparency for shareholders.

A shortfall in liquidity, which was to be expected due to the above-mentioned developments was solved through a range of measures: On the one hand, the 25% share investment in PW Central America was sold to the two major shareholders at the same conditions as the previous sale of 75% of the shares, resulting in further debt reduction and positively affecting liquidity; on the other hand, capital measures were initiated in order to secure liquidity in the medium term as determined by the Board of Directors. Two convertible loans of CHF 2 million each were committed by two investors in the last quarter of the year and the extraordinary General Meeting on 18.12.2012 approved with an overwhelming majority the additional



Ernst A. Brugger
Chairman of the Board of Directors

statutory capital increase of CHF 0.3 million. Both transactions were successfully concluded in the following weeks.

2012: a difficult and challenging year for us all: for shareholders, for the Board of Directors and Group Management, for the local management often working in challenging conditions, for our approximately 1'200 members of staff. A year, which started with great hopes, but surprised us negatively with unexpected logistical problems in Gabon. The unexpected difficulties only could be handled with hard and fast implementation of measures. We have become more efficient and stronger through this. And the open, modern information and the dialog were prerequisite for the trust between the management and the shareholders.

We, as the Board of Directors and Group Management, are extremely grateful for this trust and long-term engagement of all our shareholders. And we stress once more the reason that we can and will achieve the goal of an economically sustainable company. We all know that the achieved FSC-certifications in Brazil and Gabon during a very difficult year prove the high quality of our operations. We also know that only the additional economic success will lead to true sustainability. Therefore increase in productivity, market positioning and systematic use of new positive market regulation in the EU and in the USA are our most important priorities.



Ernst A. Brugger
Chairman of the Board of Directors



Precious Woods – a sustainable forestry company

Precious Woods is one of the leading companies in sustainable management of tropical rainforests globally, and is regarded as a pioneer in many areas. Its core business is the production and sale of FSC-certified semi-finished tropical timber products. In Brazil, Precious Woods holds a 40% share in a biomass power plant allowing the company to also sell certified emission reductions (CER) by utilizing waste wood from the manufacturing process. The aim of all activities is highest customer value while preventing deforestation in tropical forests in utilizing them sustainably. Economic success is the key prerequisite for all socially and ecologically sustainable activities aimed at preserving tropical forests for the long term. The Precious Woods Group is headquartered in Switzerland and employed an average of 1183 people in Brazil, Gabon, The Netherlands and Switzerland in 2012.

Vision

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

Focus on economic, social and ecological added value

Precious Woods creates added value in economic terms through sustainable use of tropical forest resources. The broad range of timber and non-timber products generates added value which goes beyond the traditional forestry industry and which secures the long-term development of the Group. Precious Woods ensures added value socially through the creation of jobs, schools and health clinics as well as other infrastructure, in remote tropical forest areas. Thereby, the company provides an important contribution to economic and social development in these regions. Precious Woods actively engages to improve the living conditions of its employees, their families and communities. Added value in ecological terms means managing Precious Woods' forest areas consistently with sustainable practices to preserve these renewable, natural resources and their biodiversity also for future generations. (A comprehensive description of Precious Woods' social and ecological engagement is provided in the Sustainability chapter on pages 25 – 27 as well as in the reports on the individual business segments.)

Products and markets

Precious Woods produces and sells logs and sawn timber (beams, poles, boards), planed products and veneer made from high quality tropical timber. Main target groups are the marine- and hydraulic engineering sector, garden-, building- and road construction as well as outdoor furniture manufacturers in markets across Europe, Brazil, Asia and the United States. Thanks to continuous public campaigning of prominent non-governmental-organisations, awareness of

the ecological and social consequences of uncontrolled exploitation of tropical forest resources is increasing and leading to a positive change in framework conditions. This development offers Precious Woods, with its strategy aimed consequently at sustainability, an increasing market potential. In 2013, Precious Woods with the centralized Sales and Marketing organisation will expand its market and customer portfolio in existing as well as in new markets.

Global and economic challenges in a dynamic environment

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

A pioneer – more than FSC certification

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

Strategy: market orientation and continuous optimisation of the value chain

Due to the holistic approach, ranging from sustainable forest management through timber production to marketing and distribution, Precious Woods promotes certification of the whole chain of custody and complete traceability. The procurement of additional timber

products for Precious Woods' own trading focuses on forestry companies that are also FSC-certified. Today, Precious Woods concentrates more closely on what its forests – with some 80 different timber species – have to offer in order to meet customer and market demands and to enable sustainable economic management over the long term.

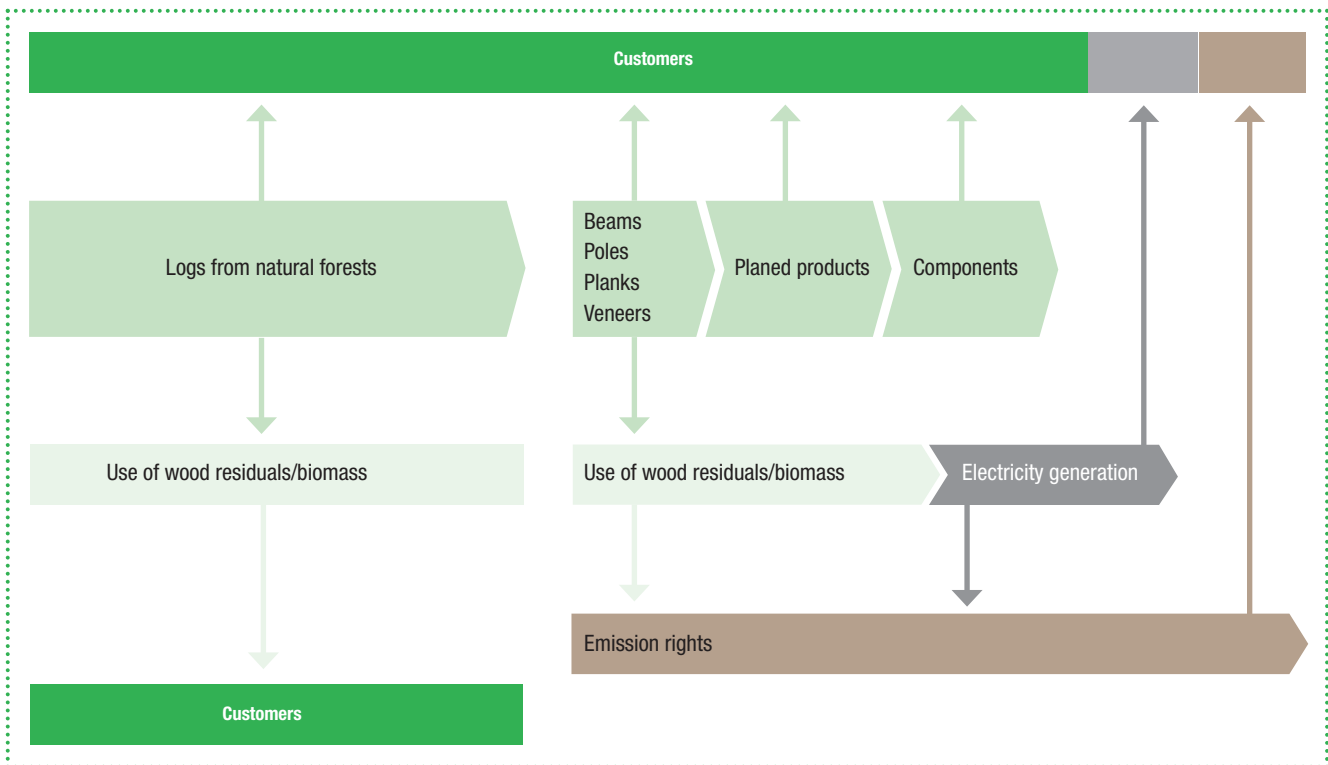
Midterm targets: sustainable growth

Following the acquisition-driven growth between 2000 and 2008, the company is now aiming for an organic, sustainable growth. Midterm targets are an EBITDA margin of around 15% of net annual sales and an equity ratio of over 50%. In order to secure the operational activities, Precious Woods has to ensure sufficient liquidity so that also seasonal fluctuation can be absorbed. In addition, Precious Woods aims at 100% FSC-certification of its net sales.

Management organisation with increased market orientation

Precious Woods consists of four business units and a lean Group management that focuses on the realisation of strategic goals, sales and marketing, communication as well as financial management and control. From 2013 onwards, the aim is to rapidly and successfully implement the systematic market and customer focus through the new sales organisation.

Products and value chain



Milestones Precious Woods

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

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

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

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

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

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

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

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

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

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

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

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

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

2012 The Extraordinary General Meeting approves the increase of the ordinary, conditional and authorized capital. The remaining 25% of shares in PWCA are sold to the existing co-shareholders and the debt is reduced further. The Group sells 40% of its shares in BK Energia to the co-shareholder, holding now only 40% of the shares.



2012 results of the Precious Woods Group

In the reporting year, the Precious Woods Group achieved a turnover of USD 43.9 million. On a comparable basis, i.e. excluding BK Ener-gia, which was consolidated only for three months as a result of the partial divestment, this represents reduced revenue of USD 21.1 mil-lion on the previous year. Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to USD –3.8 million in 2012. This constitutes a worse result to the previous year of USD 1.7 million. The net loss improved by contrast, from USD –21.8 million to USD –17.7 million. The result, which was significantly impacted by the logistics crisis in Gabon, is a big disappointment.

Income statement

Operating income

The Precious Woods Group recorded consolidated total operating income of USD 43.9 million in 2012 (2011: USD 69 million). The fall in turnover is mainly a result of the transport- and shipping problems in Gabon and the decline in sales at PW Europe.

The sales figures in the Brazilian domestic market plummeted by 23% due to increased competition with illegal timber. Thanks to the significant boost in biomass sales and export sales, the sales volume decreased by only 4% to USD 14.2 million. In Gabon the logistics crisis and technical problems in the production units let the turnover plummet by 40% to USD 21.8 million. PW Europe suffered from the weak economy in the Benelux countries and recorded a decline in sales by 36% to USD 13.7 million. Since Carbon & Energy was only consolidated till 31 March 2012, sales decreased by 68% to USD 1.9 million.

Both in Europe as well as sporadically in Asia, prices and volumes came under pressure. A much higher volume of African timber could have been sold at good prices, if PW Gabon had not suffered from the above-mentioned capacity constraints. Precious Woods is con-fident that the positive environment for African timber will continue and that with increased capacities growth above average is possible in 2013. The European market for Brazilian timber will remain chal-lenging in 2013. Even though further measures to improve efficiency and productivity (process optimisation) as well as cost reductions (staff reductions in Brazil and Europe) are being implemented, it is primarily the sales volume that has the greatest potential for achiev-ing improved results.

Operating result (EBITDA)

At USD –3.8 million (2011: USD –2.1 million) the operating result worsened despite further drastic improvements at cost level in all units and leaner processes.

The focus at PW Amazon was on process optimisation and cost reductions totalling USD 4.1 million. This meant that the operating profit could be increased by USD 0.1 million to USD –1.7 million, despite a slight decrease in sales and loss of positive extraordinary items in the previous year. Thereby, PW Amazon took a significant step closer to the goal of a sustainable positive operating result.

Due to the logistics crisis and some technical problems, the busi-ness segment Gabon slipped into negative figures for the first time and achieved an EBITDA of USD –0.8 million compared to USD 6.9 million in the previous year. The collapse of local log sales, veneer exports and a sharp fall in sales prices was slightly absorbed by a small increase in sawn-timber volumes. It is positive to note that the production costs have been reduced above average compared to the reduced sales.

The result of PW Europe suffered from a massive slump in sales also this year. Nevertheless, the result has been improved by USD 0.8 million to USD –1.0 million. Labour costs were reduced by USD 1.5 million. Once the volume of sales recovers, especially in the Benelux countries, PW Europe will be able to profit above-average due to the drastically reduced costs. However, this improvement is not in sight, yet.

The operating result of Carbon & Energy was mainly influenced by the positive effect from the divestment and the associated decon-solidation. This effect contributed approximately USD 3.4 million to an EBITDA of USD 3.5 million. Due to the deconsolidation the oper-ating result of BK Ener-gia is included only until 31.03.2012. In the reporting year, there were no sales of CERs because of external fac-tors. These are expected in the first half of 2013.

In October 2012, the remaining 25% share of the business segment PW Central America was successfully sold for USD 13.7 million. The capital received by the divestment was mainly used to reduce debt. Due to the sale of 40% of the shares in BK Ener-gia, debt was also reduced in Brazil and a long-standing legal dispute resolved.

For corporate activities, expenses at EBITDA level have been reduced by USD 4.1 million to USD 3.9 million. Above all, adminis-tration, consulting and labour costs have been reduced significantly. These costs will further decrease in 2013. By now, the holding including trading administrations consists of less than 8 full-time positions.

Financial result

At USD -4.9 million, the financial result improved USD 8.1 million on the previous year. Due to the lower debt, financing costs have been reduced by USD 2.3 million. At the same time the previous year's result was financially impacted by an impairment of USD 3 million. In 2012, the burden of currency fluctuations was also USD 2.8 million lower. Other financial expenses have been decreased by some USD 1 million.

Balance sheet

Year on year the Group's total assets decreased by 19% to USD 117 million in 2012. The decrease is partly due to the sale of the remaining shares of PW Central America and the associated debt reduction, with the remainder mainly due to the decrease in assets held for sale, cash and fixed assets. Total financial liabilities were reduced by some USD 6 million. The total capital/equity ratio decreased slightly to 46%.

Cash flow statement

Operating cash flow (before changes in working capital) decreased by USD 1.4 million. Despite cash generating measures (inventory reductions and reduction of receivables) cash flow from operating activities was negative by USD 5.6 million.

Capital expenditure of USD 3.7 million was markedly lower than in the previous year. Including disposal proceeds cash flow from investing activities was USD -1.2 million.

Cash flow from financing activities amounted to USD 0.7 million (previous year: USD -24 million). This was mainly due to repayment of loans at holding level with proceeds received from the divestment of the remaining shares of PW Central America, debt restructurings and the increase of loans with local banks and investors.



Brazil – positive operational progress

At USD 14.2 million in 2012, PW Amazon's turnover was 4% below that of the previous year. However, biomass sales doubled during the same period. Further improvements were made to reduce costs; in particular productivity was significantly increased, which involved the reduction of 72 staff positions. The conversion of the first saw line as well as further process optimisation had first positive impacts already in the second half of the year. In addition, the last major non-operating assets were successfully sold at profit. The divestment at BK Energia had a negative impact of USD 1.1 million in the segment Brazil. The EBITDA amounts to USD -1.7 million which corresponds to an improvement of USD 0.1 million on the previous year. Yet, from an operational perspective, the operating result improved by USD 4.9 million.

Productivity has increased again

The turnover was around 4% below that of the previous year. In the first half of the year, yield of logs on inventory was lower than expected and production had to be interrupted at the end of the rainy season for much longer than initially planned due to a lack of logs (effect of the delayed harvest permit in November 2011). In the second half of the year it was mainly the low prices on the local market that prevented a better result. Even though Precious Woods was able to compete on the local market. However prices and volumes were heavily negatively impacted by competitors' illegal timber on the market and sales in local currency plummeted by 23%. In addition, the weak demand in Europe also negatively influenced a more efficient production plan even though export sales in local currency (in particular because of currency fluctuations) increased by 26%. In 2012, biomass supplies could almost be doubled and have now contributed USD 2.6 million to the turnover.

While the problems of the first half-year have been resolved for the future through an improved harvest and log inventory management, the local trade in illegal timber will reduce prices also in the future. In 2012, Precious Woods received all harvest permits in time and was therefore able to harvest logs as planned and without interruption during the second half of the year. The log inventory from the end of 2012 will allow sawing throughout 2013, with the exception of a planned interruption for maintenance.

The production volume in cubic metres of semi-finished products decreased by 16% in 2012. This was due to the lack of logs and poor yields during the first half of the year. The first optimised saw line is in full operation since the 3rd quarter 2012. The productivity on this line could be increased by 25%. Furthermore, production of products made from softwoods has been outsourced to third parties for testing in order to utilize the company's own production capacity for more valuable products. The operational structure was further streamlined and the headcount reduced by 72 staff in a socially

acceptable way. Following the departure of the local CEO, PW Amazon is now led by two experienced managers and is strongly supported through the Holding management.

Costs on all levels were significantly reduced. Staff costs were reduced by USD 3.3 million despite redundancy costs of USD 0.7 million; production costs were lowered by USD 0.2 million and administration costs by USD 0.4 million.

In total, around USD 0.7 million were invested in infrastructure projects, mainly for road construction, the new saw mill layout and a new camp for forest workers.

The option for the concession Acré has been abandoned as a result of an in-depth analysis. In the meantime, the down payment made in 2009 has been returned in full and without P&L effect to PW Amazon.

The divestment in BK Energia (refer also to the section "Carbon & Energy") and higher provisions for legal cases had a negative impact on EBITDA of USD 1.1 million. However, from an operational perspective the operating result has improved by USD 4.9 million.

Continuous efforts on legacies and exceptional factors

In April 2012, Precious Woods negotiated 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 take over 40% of the shares with an offset of the outstanding debts. This transaction made Precious Woods a minority

Precious Woods Amazon in brief

Precious Woods has been operating in the state of Amazon, Brazil, since 1996. PW Amazon runs sustainable forestry operations on 506'637 hectares (end 2012) of its own land and concessions near Itacoatiara, 250 kilometres East of Manaus. In 2008, Precious Woods discontinued its operational activities in the state of Pará, where the company had managed around 46'000 hectares of forest (from a total of 76 000 hectares) since 2001. PW Amazon has been certified according to FSC-standards since 1997. FSC forests are managed sustainably on the basis of a forestry management plan under which only two or three trees per hectare are harvested during a 25-year cycle. Simultaneously, the moderate and sustainable use generates a source of income for the local population, which in turn contributes further to the protection of the forest. The harvested timber is processed into sawn timber, planed timber, construction piles and finished products at the company's own factory. The wood products are exported to Europe, to the United States and to Asia as well as sold on the local market.

shareholder with the remaining 40% of the shares of BK Energia. The last, major non-operational asset Carolina II was also successfully sold for USD 1.5 million.

Risk considerations following new claims for land titles required additional provisions on 24'000 hectares of land titles of around USD 1.4 million. That means that currently approximately 312'000 hectares of forests (own forest and smaller concessions) are available for harvest. Negotiations are underway to further increase the harvest area. The sale of three very remote forest areas of about 45'000 hectares continues to be moved forward in order to come to a solution within the next two years.

There are no new developments since last year regarding the pending threat of two major fines. One is a USD 8.7 million fine from the Brazilian environmental protection authority dating back to 2002, which according to Precious Woods' legal council can be avoided with a high probability. The second one is a threatening property tax fine of USD 13.3 million from 2007 for which Precious Woods anticipates costs of USD 1.6 million. This amount has already been provisioned for previously.

Social and ecological sustainability

Precious Woods successfully passed the FSC-certification renewal process for 2012–2017 in Brazil. Likewise, Precious Woods received again the Chain of Custody of Production certificate. In addition, Precious Woods received the distinguished award of the "Order of Merit of the Legislative Assembly Deputies of the State of Amazonas".

As in the past Precious Woods pays regular visits to the communities in order to assess and agree on mutual expectations.

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

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

- Partnerships with local organizations, such as Avive (Associação Vida Verde da Amazônia) promote sustainable development. In cooperation with Avive, PW Amazon supported communities in their efforts to extract essential oils from tropical trees and other wild plants. The oils are used for medical purposes as well as for cosmetic products. This enables Avive to provide job opportunities for local communities and to secure sustainably the livelihoods of families, who also use the oils to produce soaps, candles and incense sticks. The products are sold in AVIVE shops in Silves, Manaus and São Paulo as well as online.
- In 2012, PW Amazon commenced with a socio-economic study to assess the community's social and economic situation. The result of the survey helps PW Amazon to develop and implement a better strategy for the economic development of communities. The survey also contributes to the acquisition of population data, which is essential to enter Federal- and State support programs.
- PW Amazon, in cooperation with governmental and non-governmental organisations, supported a small-scale farming fair. All cooperatives brought their products to the town of Itacoatiara for sale. With this partnership PW Amazon also supported the establishment and maintenance of the communal garden, which produces food for sale and thus contributes to better income generation for the community. Another project running is the creation of a glasshouse and packaging facility for clean production and better marketing.
- PW Amazon offered in partnership with SENAI courses in organic and mineral recycling, woodcarving and decoration.
- PW Amazon organised in cooperation with the Federal university of Amazon and the local population computer and books for the local community library, encouraging students to read and to learn.
- Awareness-raising of sustainable forestry among communities.

Confident start into the new year

At the start of 2013, PW Amazon looks confidently to the future. The new business year started with a workforce reduced by 72 staff and thus a leaner structure and a lower cost base, even though also this year, salaries are set to increase by more than 10% as prescribed by the State. The harvest plan was further fine-tuned to concentrate on fewer, but better marketable species. In the meantime, the second modified saw line started operating in February 2013. During the course of this year the other saw lines will undergo the same optimisation, which will allow for further staff reduction. The productivity should improve even further. As it is unlikely that the local market will improve any time soon due to illegally operating competitors, the result in 2013 will mainly depend on success also in the export markets. Biomass sales should further increase in 2013. Overall, we expect a significant improvement of our EBITDA.

Key figures Precious Woods Amazon

		2012	2011	Change
Economic				
Sales sawn and industrialized wood	in m ³	25 500	30 400	-16.1%
Sales logs and piles	in m ³	9 200	10 500	-12.4%
Sales biomass	in m ³	109 200	95 200	14.7%
Timber harvest	in m ³	204 300	157 300	29.9%
Net sales	in USD million	14.2	14.7	-3.4%
Operating result (EBITDA)	in USD million	-1.7	-1.7	-
Environmental				
Energy consumption	in GJ	55 700	62 900	-11.4%
CO ₂ emissions	in t	3 400	3 800	-10.5%
FSC share of timber sales	in %	100	99	1.0%
Employment				
Employees (yearly average)		472	544	-13.2%
Women	in %	14.2	16.7	-15.0%
Accidents at work		131	158	-17.1%
Days lost per accident		3.6	3.9	-7.7%



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Precious Woods Gabon – logistical constraints affect the result

The national logistics crisis and its severe negative impacts on the business year 2012 continued throughout the first half of the year and had consequences for large parts of the remaining year because of backlogs. It is positive to note though, that despite the challenges the sales of sawn timber were slightly above level on the previous year and would have been higher if not for the logistical constraints. The production units had to also face major technical problems on several occasions. Especially the new hard wood sawmill (Bois Divers) still struggled with significant start-up difficulties. The causes of the problems have been identified and some of them are already resolved. Therefore, PW Gabon's results also remained way below expectations in the second half of the year. Overall, EBITDA amounted to USD –0.8 million in 2012, which corresponds to a significant decrease of USD 7.7 million compared to 2011. This is a big disappointment.

Business developments marked by logistics crisis

The logistics crisis and its severe impacts on the business year 2012 began in January caused by significant limitations in port capacities due to the Africa Cup. These problems were reinforced by the closure of the Kango Bridge, the main traffic link between Bambidie and Libreville due to a collision as well as strikes in the harbour of Owendo. Unrelated to that, the railway company Setrag withdrew for safety reasons around half of their wagons for transporting logs and sawn timber in the first half of the year. These logistical problems in the first part of the year led to severe delivery problems and caused a significant loss in revenue. These unforeseen developments, which have affected the whole forestry and timber industry in Gabon severely, had a major negative impact on the result. Simultaneously, obtaining urgently needed spare parts was made extremely difficult. Especially the supply of wood and spare parts for the veneer factory was critically affected and Precious Woods was forced to cease part of the production temporarily.

Local log sales plummeted by 30% due to poor harvests quantitatively and qualitatively as well as reduced demand (not at least because of the logistics crisis). Sawn timber sales in terms of volume could be increased by 17%; however, at the same time prices fell for Okoumé by 17% and for Bois Divers products by 28%. Sales volume for veneer dropped by 17% and prices by 9% (also partly because of a change in product mix). The additional technical problems and the inferior wood quality led unexpectedly to a reduction in yield by 1%. The collapse in prices and volumes were partly a consequence of the above mentioned external logistical difficulties, reinforced by global pricing pressure, decline of sales in the Asian market, and also interruptions in production caused by technical problems. The second production line for the new hardwood sawmill was installed towards the end of the year. Technical adjustments will

be necessary to increase productivity performance. The necessary measures were implemented in the first quarter of 2013.

The result, for all the reasons mentioned above, does not meet expectations at all. Turnover dropped by 40% from USD 36.4 million to USD 21.8 million. Even though production costs could be reduced by 44% or USD 7.9 million, and the administration costs by USD 0.6 million, EBITDA amounted to only –0.8 million, USD 7.7 less than that of the previous year. Especially during the last quarter of 2012 an in-depth process- and cost analysis was done again and necessary measures initiated as well as the productive management capacity improved and increased. Comprehensive tests with new timber species (Padouk, Azobé) and specifications were undertaken, allowing for an improved product range in 2013.

Politically stable environment, but increasing bureaucracy

A new government was elected in February 2012. Important improvements needed in infrastructure, rail transport, port capacity and road construction were delayed in the transition. In November 2012, the new Minister of Forestry promised improvements while visiting the forestry companies in the country. Unfortunately, additional bureaucratic rules and regulations for export documentation as well as in port organisation and administration were imposed in 2012.

Precious Woods Gabon in brief

PW Gabon consists of two companies: CEB (Compagnie Equatoriale des Bois) and TGI (Tropical Gabon Industrie). Since 2007, PW Gabon has been managing a tropical forest in Eastern Gabon across a concession area of 616'700 hectares. In 2011, a small concession of 57'300 hectares was added. Occasionally, PW Gabon manages sustainably community forests for communities based on annually allocated felling quotas. PW Gabon employs around 645 staff and harvests approximately 150'000 cubic metres of logs each year. The company operates according to a forest management plan that ensures that no more timber is harvested per hectare than will grow back within a harvest cycle of 25 years. PW Gabon runs two sawmills and a small moulding plant in Bambidie, the centre base of PW Gabon's forestry operation. TGI's rotary veneer factory for Okoumé veneer is located in Owendo, a suburb of the port city Libreville. The main export markets for PW Gabon's manufactured timber products are Europe, South Africa and Asia. PW Gabon's forestry operation is FSC-certified since October 2008, and the TGI-chain-of-custody since January 2010.

Further progress in social and ecological sustainability

The successful ASI FSC audit in June 2012 and the positive FSC monitoring audit in October 2012 were a reflection of the efforts made regarding the social and ecological sustainability of PW Gabon. An operational health & safety team under the leadership of the new person in charge of certification and environment was set up.

In the area of training the program has been reinforced. The focus was on further improvements in occupational safety, which resulted in a reduction of sick leave days caused by accidents by a third.

The second part of the “Moabi camp” has been finalized by building an additional 23 houses. This camp was set up to accommodate the new staff of the bois divers sawmill.

In addition to the licence fees for forestry operations that are used for community development, in 2012 PW Gabon also donated or sold at low prices periodically timber to village residents for their own use in house construction or for further trade.

A fire truck has been bought in 2012 and with the assistance of the professional firefighters of Libreville. A team of firefighters has been set up to react quickly in case of an incident. Every weekend trainings are realized in order to keep the service effective.

Furthermore, as in previous years Precious Woods participated in different research projects. The banana and cocoa project continued into its second year and in 2013 the first cocoa pod can be harvested.

Outlook

In general, despite ambivalent economic forecasts for Europe, high demand for FSC products from Precious Woods from Gabon and accordingly good prices – are anticipated also in future. The logistical problems should have practically no influence on our operations in 2013. The optimisation of the hardwood sawmill will continue in 2013 and a comprehensive maintenance program should get all production units back on track. Thereby, the annual capacity will be increased to 35'000 cubic metre sawn timber and sales are set to increase accordingly. It is envisaged to increase capacity for veneer production to 27'000 cubic metre simultaneously. Precious Woods will operate in harvest areas that have again a higher wood quality and quantity. All these measures should get the profitability at least back to 2011 levels.

Key figures Precious Woods Gabon

		2012	2011	Change
Economic				
Sales sawn and industrialized wood	in m ³	17 000	14 531	17.0%
Sales veneer	in m ³	19 700	23 800	-17.2%
Sales logs	in m ³	18 400	42 277	-56.5%
Timber harvest	in m ³	140 100	154 800	-9.5%
Net sales	in USD million	21.8	36.4	-40.1%
Operating result (EBITDA)	in USD million	-0.8	6.9	-111.6%
Environmental				
Energy consumption	in GJ	134 000	141 900	-5.6%
CO ₂ emissions	in t	11 900	12 549	-5.2%
FSC share of timber sales	in %	100	53	88.7%
Employment				
Employees (yearly average)		644	677	-4.9%
Women	in %	5	9	-37.9%
Accidents at work		38	40	-5.0%
Days lost per accident		14	19	-27.8%



Precious Woods Europe – Unchanged difficult market environment affects business substantively

In 2012, PW Europe operated in an extremely difficult market environment. The main market, The Netherlands, is going through a deep economic crisis, which started in February 2012. Public spending as well as private consumption went further down and led to a recession. Property sales continued to decrease significantly in 2012 – in particular the construction industry struggles against the industry-wide decline in new orders. In 2012 insolvencies in the construction industry rose by 25% over the previous year. Demand for timber for public sector infrastructure programs also weakened due to cuts in public spending. The operating result of PW Europe has improved compared to last year by USD 0.8 million. However, the operating result of USD –1.0 million remained negative due to the collapse of volumes and prices.

Benelux construction industry in crisis

In 2012, PW Europe achieved a turnover of USD 13.7, which is 36% below that of the previous year. This means, the decrease in sales has accelerated in the second half of the year. Sales quantity dropped from 17'300 m³ in 2011 to 14'000 in 2012. During the 4th quarter the inventory was completely cleared of old stocks of about 1'500 m³ wood in unfavourable specifications: Timber species, which are not harvested anymore in our forests and leftover products were sold out and thus the quality of the remaining inventory significantly improved. The inventory of around 11'900 m³ could be reduced in 2012 by 13%, despite the difficult economic environment.

Due to the economic crisis, prices and thus the achievable gross margins got under pressure in 2012. This development together with the collapse in sales caused a negative operating result (EBITDA) of USD 1.0 million, despite a reduction in staff costs of USD 1.5 million (–56%) in the reporting year.

Sales activities in neighbouring countries were intensified to further reduce PW Europe's timber stock. With the exception of increasing sales in France, the efforts in the 3rd and 4th quarter did not yet achieve the desired results.

In particular the markets in Germany, England and Denmark have been attended to intensively, but that will only lead to the desired diversification in sales in 2013. In the 4th quarter 2012 the demand in the English market also weakened markedly.

In the 4th quarter 2012 staff positions were further reduced by 10% to align company costs with the current business situation. As the costs for kiln-drying of timber drastically increased due to higher energy prices in The Netherlands, the decision was taken to kiln-dry sawn timber in Brazil as of 2nd quarter 2013, and to cease most of the kiln-drying processes at our location in Nieuwerbrug. The associated reduction in staff costs will only come into effect in the second quarter of 2013.

Growing market potential for FSC-certified timber

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

Outlook – economically difficult framework conditions in Europe also in 2013

The business of PW Europe will continue to be affected by weak demand from public and private sectors also in 2013.

The Dutch subsidiary will therefore have to continue in 2013 to align its costs with the difficult economic environment. The focus of all business activities will completely be on marketing the wood products from the sawmill of PW Amazon. Procurement of FSC-certified timber from third party suppliers will be very limited and only as required for optimizing the product range.

Sales activities in the neighbouring countries will be extended in order to compensate for weak sales also expected for 2013 in the Dutch market, concentrating on the sale of wood products delivered directly from the sawmill in Brazil to customers in Europe. PW Europe aims to significantly reduce stock quantity as well as stock movements in 2013, in order to further optimise costs as well as free up liquidity.

Precious Woods Europe in brief

PW Europe (based in The Netherlands) was established following the acquisition of A. van den Berg B.V. by the Precious Woods Group in 2005. At the end of 2012, the company employed 15 members of staff. PW Europe is one of Europe's leading trading companies specialized in FSC-certified tropical timber from South America. PW Europe can look back on nearly 100 years of experience in the sale and professional application of hardwoods, and has introduced numerous previously unknown Brazilian timber species to the European market. Customers range from timber traders, medium-sized and large timber-processing industries to home-improvement retailers, large construction companies as well as public authorities. The main market with a share of 80% is still The Netherlands, one of the largest markets for FSC-certified tropical hardwoods in Europe. The company also exports timber to Belgium, Great Britain, Germany, France, Switzerland and other European countries. The largest part of the product range consists of logs and sawn timber. Kiln drying, planing and special treatments of the precious hardwoods result in the creation of additional value.

Key figures Precious Woods Europe

		2012	2011	Change
Economic				
Sales sawn and industrialized wood	in m ³	14 000	17 300	-19.1%
Net sales	in USD million	13.7	21.5	-36.3%
Operating result (EBITDA)	in USD million	-1.0	-1.8	-44.4%
Environmental				
Energy consumption	in GJ	7 300	7 600	-3.9%
CO ₂ emissions	in t	533	603	-11.6%
FSC share of timber sales	in %	93	91	2.2%
Employment				
Employees (yearly average)		17	23	-27.0%
Women	in %	11.9	14.0	-15.0%
Accidents at work		—	—	—
Days lost per accident		—	—	—



PRECIOUS WOODS
ENERGIA



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Carbon & Energy – marked by partial divestment in BK Energia

In 2012, the business segment Carbon & Energy registered a net turnover of USD 1.9 million (-68% on 2011 as BK Energia was consolidated for only 3 months) and a positive EBITDA of USD 3.5 million, which is USD 1 million above the result of the previous year. The reported divestment had a one-off positive effect of around USD 3.4 million on EBITDA. Certification and subsequent sales of the outstanding CERs for 2010/2011 are expected in the first half of 2013; certification and subsequent sales of the 2012 CERs will occur end of 2013.

The expiring contract with the state-owned energy utility was extended in the second half of 2012 on the same terms for a further 3 years until 2016.

CERs from Brazilian biomass

Energy production at PW Amazon increased by 3% compared with the previous year. This was mainly due to much better availability of wood waste in the first half of the year (energy production +7%), while the production during the second part of the year also slightly improved (+1%). PW Amazon's 9-megawatt power plant in Brazil provided the city of Itacoatiara and the sawmill of Precious Woods with a total of 46'977 MWh electricity in the reporting year 2012 (2011: 45'622 MWh). All electricity is generated from the sawmill's wood waste, i.e. renewable biomass.

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 – can only be expected in the first half of 2013. The CERs are re-valued according to the Clean Development Mechanism (CDM). As in preceding years, the power plant Itacoatiara operated continuously for eleven months (one month maintenance) and generated a total of 45'894 metric tons of CO₂ equivalents in 2012, which amounts to an increase of 3% on the previous year.

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

Precious Woods Carbon & Energy

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

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

Carbon markets and emissions trading

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

The EU adheres to her reduction targets for 2020 and endeavours strongly to improve the current market situation in the emissions certificate trading again sustainably. After the expiry of the last obligation period in 2012 the European emissions trading system (EU ETS) has seen major changes for its third obligation period 2013 – 2020. The emission rights are now allocated uniformly centrally rather than according to national allocation plans of (NAPs) as until now. A greater and still increasing share is auctioned to enterprises

rather than allocated at no charge as until now. Moreover, the EU has obligated the intra-european air traffic to participate in the EU ETS since the year 2012. Already in 2010, the European market share of the global carbon market, including secondary Clean Development Mechanism (CDM) transactions, rose to 97%. From 2005 to 2010, Precious Woods benefited from prices of up to EUR 20 per metric ton of avoided CO₂-emissions of its CDM projects, e.g. the biomass power plant in Itacoatiara (Brazil). In 2010, an oversupply of CERs from CDM projects developed. Dubious projects, lax auditing, loopholes and criminal activities against the EU ETS cast a bad light on the carbon market. The UNFCCC tightened the rules and increased pressure on the certification bodies in response. Consequently, prices dropped in general and therefore also the achievable prices for Precious Woods, to EUR 8 per metric ton of avoided CO₂-emissions. The new calculation method for the project in Brazil cut the number of CERs in half, and conservative calculating by the certifier reduced the figure by a further 15%. On top of this came delays in inspection and validation, which are becoming more and more complex.

Key figures Precious Woods Carbon & Energy

		2012	2011	Change
Economic				
Energy production	in MWh	11 100 ¹	42 500	-73.9%
Carbon credits sold	in t CO ₂ -eq	–	–	–
Carbon credits generated	in t CO ₂ -eq	45 900	44 400	3.4%
Net sales	in USD million	1.9 ¹	5.9	-67.8%
Operating result (EBITDA)	in USD million	3.5 ¹	2.6	34.6%
Environmental				
Internal energy consumption	in GJ	6 900 ¹	21 600	-68.1%
CO ₂ emissions	in t	6.0 ¹	65.0	-90.8%
Employment				
Employees (yearly average)		40	39	2.6%
Women	in %	–	–	–
Accidents at work		6	17	-64.7%
Days lost per accident		1.7	5.5	-69.1%

¹ only 3 months



Sustainability as a corporate principle

The FSC standard is core to Precious Woods' corporate identity: 100% of PW Amazon's and Gabon's products are FSC-certified. In regions that are not yet certified, the time consuming and costly process of FSC certification is under way, which can take up to two years, primarily involving smaller and newly acquired concessions. Thanks to its firm commitment to sustainability, Precious Woods remains to be the qualitatively leading forestry company in the tropics. In 2012, FSC audits by independent external certification institutes were successfully completed in Gabon and Brazil.

Illegal logging threatens certified timber trade

Illegal logging and trade have increased to threatening dimensions in recent years, not least in tropical countries. The consequences are deforestation, loss of biodiversity, increase in carbon emissions, and often conflicts with indigenous peoples, violence and human rights abuses. The Australian government estimates an annual loss of USD 46 billion to the global economy due to illegal logging and trade. It is up to the producing as well as importing countries to prevent illegal logging and trade, as it has been determined also in the G8 action plan 1998 – 2002. Since then, various measures by governments and the private sector have been initiated, but their implementation is rather slow.

EU FLEGT action plan

Faced with the deteriorating situation of illegal logging and timber trade, which increasingly competed with legal sources and not least FSC-certified timber, the EU launched the FLEGT (Forest Law Enforcement, Governance and Trade) action plan in 2003. The EU is still one of the largest consumers of timber globally and can therefore significantly contribute to influencing legality in producing countries. Measures range from aiding producer countries, to controls and due diligence in the investment sector to providing support for private sector initiatives, which are agreed with producer countries as part of Voluntary Partnership Agreements (VPAs). On 3 March 2013, the EU Timber Regulation – EUTR – has finally come into force, prohibiting any products, which are sourced from illegally harvested or illegally traded timber on the market in all of the 27 European Member States, and obliges all importers of timber and timber products to a due diligence system. The Lacey Act in the United States was similarly amended in 2008 and Switzerland introduced in 2010 the declaration of origin for timber products. Negotiations are underway to align the Swiss systems with the EUTR.

Opportunities for FSC-certified timber

Legality in timber production and trade is an essential prerequisite for FSC certification, which in fact goes even further and requires additional standards in ecological and social sustainability in forestry and throughout the chain of custody. Tightening regulations in consumer countries should benefit trade with FSC-certified timber, not

only because it is likely that FSC certification will be accepted by the enforcement authorities in future, but also because the pressure of competition from illegal and subsequently lower priced timber should decline.

At the end of 2012, a total of 170 million hectares of forest areas were FSC-certified, which is 40-times larger than the area of Switzerland. Only around 12% are tropical and subtropical forests (20 million hectares), and thus still highly under-represented in FSC certification; Precious Woods manages around 6% thereof.

Sustainability as the corporate principle of Precious Woods

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

The role of forestry in the climate debate

Over the last decades, large areas have been deforested or degraded, especially in the tropics. Causes are non-sustainable forest use, in particular illegal logging, conversion to commercial agricultural land and pastures, slash and burn practices for subsistence farming as well as exploitation of mineral resources. The negative impact of deforestation on global warming has caused increasing concerns in recent years. Deforestation contributes around 17% of global greenhouse gas emissions. Negotiations are still continuing

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

Environmental and social key performance indicators

Environmental indicators		2012	2011	2010
Forest management				
Reforestation	total area in ha	–	–	6 488
Forest protection	total area in ha	1 123 300	1 123 300	1 089 700
FSC share of timber sales	in %	99	99	86
Energy consumption and emissions				
Reduction of CO ₂ emissions	in t	45 900	44 400	45 600
CO ₂ emissions	in t CO ₂ -equivalents	15 836	17 865	18 205
Production of renewable energy	in GJ	40 000	152 900	176 900
Electricity consumption	in GJ	24 400	27 100	33 000
Fossil fuel consumption	in GJ	173 900	198 394	201 830
Social indicators				
Employees				
Number of employees (yearly average)		1 183	1 511	1 557
Brazil		472	544	679
Gabon		644	677	638
Central America		–	217	155
Europe		17	23	32
Carbon & Energy		40	39	39
Corporate		10	11	14
Women	in %	9	11	10
Rate of employee turnover	in %	4	5	8
Health and safety				
Accidents at work		175	244	170
Accidents per 1000 employees		148	162	109
Days lost per accident		5.0	6.5	22.4
Fatal accidents at work		–	–	–
Training				
Training hours		1 394	2 003	1 156
Training hours per employee		1.2	1.3	0.7

a broad range of forest-use related development activities. Many issues related to deforestation rates, measurement of carbon sinks, as well as governance of recipients of compensation are still to be solved. Sustainable forestry has to play a key role in REDD+ activities and could potentially also benefit from compensation allowances.

Social sustainability: Precious Woods leads the way

The ambition of Precious Woods to create social value was tested again in 2012. Due to the financial situation and the essential improvements in productivity it was necessary to cut jobs at PW Amazon (-72), at PW Europe (-6) and at PW Gabon (-33). The redundancies were carried out respecting FSC-standards as well as social and labour requirements in the respective countries. Redundancy programs as needed are in place for those employees who lost their jobs. Fair wages and social insurance arrangements have been secured for new and remaining staff positions. Social benefits for communities and families in Africa and Brazil have been maintained at an equivalent level (housing, electricity and drinking water supplies, schools, medical care, etc.). The social contributions provided by Precious Woods extend considerably beyond legal requirements.

Sustainability Advisory Committee (SAC)

The Sustainability Advisory Committee (SAC) advises Precious Woods on new developments in sustainability in tropical forestry and supports the company in relations with local and international stakeholder groups and associations. It gives recommendations for achieving Precious Woods economic, ecological and social sustainability objectives and related reporting requirements. SAC started operating in 2012 under the Chair Claude Martin and has been mainly focussing on FSC-certification as well as the FLEGT and REDD mechanisms.

SAC members:

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

- Vice-Chairman International Institute for Sustainable Development – IISD. Former Director General of WWF International and former Board member of Precious Woods.

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

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

Heiko Liedeker, MSc. Forest Ecology, University of Vermont

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

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

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

Carbon footprint

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

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

The total emissions amount to 20 049 metric tons of CO₂ equivalents, 14% less than in the previous year.

Precious Woods footprint	Category 1	Category 2	Category 3		Total
	Direct emissions from fuel consumption	Indirect emissions from electricity consumption	Flights	Transportation	
In metric tons of CO ₂	12 769	3 067	363	3 851	20 049
Share per category	64%	15%	2%	19%	100%



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

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

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

1. Group structure and shareholders

Precious Woods consists of four operational business segments: sustainable forestry in Brazil, sustainable forestry in Gabon, timber trading in the Netherlands and Carbon & Energy. For more information about the individual segments, please refer to pages 11 to 23 of the 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 2012, the company's market capitalization was CHF 10 million. More information about Precious Woods' shares can be found on pages 34 and 35 of this report. For more detailed information about the holding company and the consolidated subsidiaries (name, headquarters, share capital and percentage ownership), please refer to note 1 of the consolidated Financial Statements of Precious Woods Holding Ltd. A list of shareholders with more than 3% of the voting rights can be found in note 32 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 2012 stood at CHF 3'438'355 (3'438'355 registered shares at CHF 1 each). The General Meeting decided on 18 December 2012 to increase the ordinary capital by CHF 309'451 to CHF 3'747'806.

The General Meeting agreed on the same day to increase the conditional capital from CHF 1'590'488 to CHF 1'719'177 (1'719'177

shares each with a nominal value of CHF 1) and the authorized capital from CHF 800'000 to CHF 1'547'260 (1'547'260 shares each with a nominal value of CHF 1). This allows for a capital increase at a suitable moment (p.e. conversion of convertible loans). More information about the capital structure can be found in note 18 of the consolidated Group Financial Statements.

On 18 December 2012, a partial amount of a new convertible loan of CHF 1 million (total amount of CHF 2 million) was placed with a term of approximately one year and a coupon rate of 6% in order to secure liquidity. The convertible loan was split into a liability and an equity component. For additional information about the capital structure, please refer to note 17 of the consolidated Group Financial Statements.

Two convertible loans with a total nominal value of CHF 7 million were repaid early on 22 November 2012. At the same time two loans totalling USD 5 million, which were due for payment end of 2012, have been repaid.

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

Allocation of tasks within the Board of Directors as per 31 December 2012

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

3. Board of Directors

The BoD is responsible for strategy and organizational development, and supervises and controls the operational management. It defines the Group's business strategy, policies and principles, and keeps itself regularly informed about the company's business performance. The BoD is authorized to make decisions on all matters that are not reserved for the Annual General Meeting or are conferred to another governing body of the company by law, the Articles of Association or other regulations.

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

The BoD is a self-constituting body and appoints the Chair from among its own members for a term of one year. After reaching one's 70th birthday, the respective member of the BoD will step down from its post at the company's next Annual General Meeting. The composition of the BoD was partly renewed at the Annual General Meeting on 24 May 2012: Thomas Hagen opted out of a re-election to the BoD and Dominik Mohr was elected as his successor. On 19.09.2012 Marga Gyger and Markus Breitenmoser resigned as members of the BoD. Rudolf Wehrli stepped down from his position on the BoD on 01.10.2012 due to his election as Chair of *conomiesuisse*. The composition of the revised BoD is therefore as follows: Ernst A. Brugger (Chair), Katharina Lehmann and Dominik Mohr.

Members of the Board of Directors

The Precious Woods BoD has three members. The following statement about the members of the BoD and their activities at Precious Woods and cross-involvements represents the situation on 31 December 2012.

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

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

- Chair of the Board of Directors of Lausanne Hospitality Consulting, Lausanne
- Chair of the Board of Sanu Future Learning AG
- Chair of the Board of Directors of the SV Group, Zürich
- Member of the Board of Directors of BG Bonnard & Gardel Holding SA, Lausanne
- Member of the Board of Directors of Paul Reinhart AG, Winterthur

Katharina Lehmann (lic. oec. HSG), Swiss citizen, born in 1972, BoD member since 2008, mandate ends in 2014. Other activities and interests:

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

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

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

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



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

Committees of the Board of Directors

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

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

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

The BoD met a total of 19 times during 2012. Each meeting lasted between two and eight hours. The BoD and GL also held a two-day retreat. The RNC met 5 times, the RAC four times.

The BoD keeps itself informed of business matters by means of consolidated, periodic, operational and financial reports. All relevant documents are made available to the BoD on a regular and timely basis.

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

4. Group Management

The GM under the leadership of the CEO is responsible for the operational management of the company. The organisation, roles and responsibilities of the GM and its members are defined in the bylaws, which are set by the BoD. More information is available on the Website (Investor Relations – Corporate Governance – Articles of Association and Bylaws).

In the reporting year, the GM consisted of the members Joachim Kaufmann, CEO (until 19.09.2012), Gerhard Willi, CFO and Stefan Meinhardt, COO (from 01.05.2012).

Joachim Kaufmann (Ing. HTL), born in 1954, German citizen, was CEO of the Precious Woods Group between 1 June 2010 and 19 September 2012. Previously, he was CEO of the Feintool Group in Lyss, Head of the Stamping and Forming division at Adval Tech and before that Head of the Business Unit Components and Systems in Niederwangen. He held various positions at Sulzer, Winterthur. During his time at Sulzer he spent seven years in Brazil. The BoD expresses its appreciation to Jochen Kaufmann for his dedicated engagement in the turnaround process in solving complex outstanding issues and the major progress in productivity, especially in Brazil.

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

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

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

Since 19.09.2012, Gerhard Willi and Stefan Meinhardt are jointly leading the management team. The previous roles and responsibilities of the CEO have been shared amongst these two persons.

5. Compensation, shareholdings, loans

Employment contracts and the "Compensation Regulations for the Board of Directors of PWH" provide the framework for the compensation and stock option plans of the BoD, GM and the senior managers of the subsidiaries. In the case of services provided by members of the BoD in request of the company that are clearly outside the usual scope of Board activities, compensation is determined by the Board of Directors. Committee members are compensated for their activities on the basis of effective time invested. Decisions

regarding compensation and shareholdings for BoD and GM are made annually on the basis of the Compensation Regulations for the BoD as well as market criteria.

The regulations mentioned as well as a detailed list of compensation granted to the members of the BoD and GM can be found on the Website (Investor Relations – Corporate Governance – Remuneration Policy), in note 19b of the Group Financial Statements and in note 5 of the statutory Annual Financial Statement of PWH. All management personnel and employees are insured in accordance with the minimum legal requirements of the countries in which they are employed.

In 2012, no leave settlements, loans or other benefits have been granted to any of the members of the governing bodies.

No cash compensation, shares, options, loans or other payments are made to former governing body members. A list of shares held by members of the BoD and GM can be found on the Website (Investor Relations – Corporate governance – Remuneration Policy) and in note 5 of the Group Financial Statements of PWH.



Group Management (from left): Stefan Meinhardt (CCO) and Gerhard Willi (CFO)

6. Shareholders' rights of participation

Shareholders of Precious Woods enjoy all the rights to which they are entitled to without any statutory restrictions on voting rights. There are also no clauses differing from the legal provisions regarding statutory quota. All shareholders entered in the share register four weeks before the Annual General Meeting are eligible to participate in the Annual General Meeting. No changes affecting voting rights are made to the share register after the mailing of invitations to the Annual General Meeting. Requests to add items to the agenda of the Annual General Meeting can be made up to 30 days before the ordinary Annual General Meeting. At the ordinary Annual General Meeting held on 24 May 2012, all statutory items on the agenda were approved. The minutes of the Annual General Meetings are published on the Website (Investor Relations – General Meeting).

7. Changes of control and defence measures

The agreements with the members of the BoD and GM contain no statutory "option-out" or "opting-up" clauses or clauses on changes of control.

8. Auditor

The Annual General Meeting selects an external auditor that possesses the independence and professional qualifications as stipulated by law for the term of one fiscal year. Procedures and subject of the audit are in accordance with legal provisions. Since the 2010 reporting year Ernst & Young, Zurich, has assumed the role of Group auditor. The auditing fees paid to Ernst & Young for auditing the accounts of PWH, the Group and the companies worldwide amounted to USD 305'342 in 2012. The Group auditors also received an additional USD 72'165 in consulting fees in 2012. Ernst & Young audited the relevant subsidiary companies. The Board of Directors (until September 2012 RAC) monitors the efficiency and effectiveness of the external audit. In the reporting year, two meetings took place between RAC and the auditors. Detailed information can be found in the bylaws, which are published on our Website (Investor Relations – Corporate Governance – Articles of Association and Bylaws).

9. Information policy

Precious Woods pursues a pro-active and transparent information policy. Shareholders of the company are informed regularly about current affairs through the Annual Report and the Half-Year Report. Precious Woods maintains an informative Website (www.preciouswoods.com), which is updated on a regular basis. Precious Woods publishes details of any events that may affect stock prices according to the ad hoc publicity regulations of the SIX Swiss Exchange.

Further information can be obtained from Group Communications (phone +41 44 245 80 15 or media@preciouswoods.com)

Shareholder information

Share capital

On 31 December 2012, the fully paid-in share capital of PWH 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 1'719'177 and approved capital of CHF 1'547'260 to cover option and conversion rights.

Equivalent to 100 shares

Precious Woods is owner or concession holder of 506'637 hectares of forest in Brazil, and holds a forest concession in Gabon of 674'000 hectares. With the purchase of 100 shares, a shareholder had indirectly access to around 147'350 square metres of forests (2011: 147'600 square metres) in the Amazon and 196'000 square metres of forests (2011: 196'000 square metres) in Gabon in 2012.

Stock market listing

Shares of PWH 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

		2012	2011	2010	2009	2008
Share price per 31.12.12	in CHF	3	10	22	38	36
Stock market capitalization	in CHF million	10	34	76	131	124
Earnings per share	in USD	-5.07	-16.33	-18.81	-8.17	-4.25
Equity (book value) per share	in USD	15.49	20.88	32.67	48.95	53.62

Assets per share

Primary forest in Brazil

(ownership and concession)

in m²

1 473

1 473

1 376

1 376

1 597

Primary forest in Gabon (concession)

in m²

1 960

1 960

1 794

1 794

1 794

Stock price development

The development of a Precious Woods share in 2012 was marked by a significant loss, and the stock development was also negative in comparison with the SIX Swiss Exchange indices, the SMI and the SPI. The price stood at CHF 9.73 at the beginning of the year and reached a value of CHF 2.90 in December, with the average for the year being CHF 5.77. Daily trading volumes were subject to large fluctuations, which is common for small-cap stocks. In 2012, the average daily trading volume of 10'604 traded titles per year was above the amount for 2011, which was 2'735 shares.

Share price performance for the reporting year was -70.2% (previous year -56.5%). The stock price fell continuously during the reporting year with smaller periodic upturns, starting the year with an annual high of CHF 10.65 on 27 January 2012, falling continuously to the annual low of CHF 1.79 before recovering at CHF 2.90 at the end of the year.

In comparison with the most important listed competitors DLH and Group Rougier, the Precious Woods stock price performance was also weaker in 2012, with DLH also experiencing a value loss of around 40%, while Rougier could gain 10%.

In December 2012, a convertible loan with a nominal value of CHF 1 million was successfully issued in order to secure liquidity at the holding level. At the extraordinary General Meeting, the increase of the ordinary, conditional and authorized capital was endorsed.

Performance of the Precious Woods registered share 1.1.2012-31.12.2012

CHF (Price)



■ Precious Woods registered share (in CHF)

Source: SIX Swiss Exchange



Precious Woods Group financial statements

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Consolidated balance sheet as of 31 December 2012 and 2011 (in TUSD)

ASSETS	Notes	2012	2011
Current assets			
Cash and cash equivalents		5 357	11 440
Trade and other receivables	3	11 143	11 435
Inventories	4	19 811	20 529
Current income tax receivables		22	–
Other current assets	5	1 757	1 958
Total current assets		38 090	45 362
Non-current assets			
Property, plant and equipment	6, 7	61 001	65 504
Intangible assets	8	12 644	13 789
Investments in associates	9	3 488	14 865
Non-current financial assets	10	572	557
Other non-current assets		55	7
Deferred income tax assets	33	38	611
Total non-current assets		77 798	95 333
Non-current assets held for sale	11	877	4 699
TOTAL		116 765	145 394
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	12	15 386	13 649
Current income tax liabilities		515	610
Short-term convertible bonds and loans	13, 17	1 046	–
Current financial liabilities	13	4 052	2 938
Current provisions	14	53	1 289
Current derivative financial instruments	16	–	515
Total current liabilities		21 052	19 001
Non-current liabilities			
Long-term convertible bonds and loans	13, 17	22 317	27 238
Non-current financial liabilities	13	12 724	15 701
Deferred tax liabilities	33	67	1 818
Non-current provisions	14	7 105	6 173
Total non-current liabilities		42 213	50 930
Non-current liabilities held for sale	11	–	3 665
Equity			
Share capital		2 923	2 923
Additional paid-in capital		66 594	66 823
Foreign currency translation reserve		16 939	17 197
Retained earnings		–33 207	–15 759
Equity attributable to owners of Precious Woods Holding Ltd		53 249	71 184
Non-controlling interests		251	614
Total shareholders' equity		53 500	71 798
TOTAL		116 765	145 394

Consolidated statement of comprehensive income 2012 and 2011 (in TUSD)

	Notes	2012 ¹	2011 ¹
Net sales from trading activities	21	43 223	68 085
Revenue from emission reduction activities	22	663	889
Total revenue		43 886	68 974
Changes in inventories of finished goods and work in progress		-2 393	-5 763
Raw materials and consumables used		-4 179	-7 280
Other production costs	23	-16 988	-25 045
Operational contribution		20 326	30 886
Direct and indirect labour costs	25	-22 901	-29 925
Other operating expenses	26	-5 503	-10 134
Other operating income	26	4 238	7 044
Earnings before interest, tax, depreciation and amortization (EBITDA)		-3 840	-2 129
Depreciation, amortization and impairment	24	-9 437	-6 330
Earnings before interest and tax (EBIT)		-13 277	-8 459
Financial income	27	2 924	11 674
Financial expenses	27	-7 804	-24 699
Share of profit of associates	9	555	16
Earnings before tax (EBT)		-17 602	-21 468
Income taxes (expenses)/income	33	-145	-293
Net (loss)/profit from continuing operations		-17 747	-21 761
Result from discontinued operations	11	-	-34 395
Net (loss)/profit for the period		-17 747	-56 156
Foreign currency translation differences		-241	14 607
Total other comprehensive income		-241	14 607
Total comprehensive (loss)/profit for the period		-17 988	-41 549
Allocation of net (loss)/profit:			
Equity owners of Precious Woods Holding Ltd		-17 448	-56 132
Non-controlling interests		-299	-24
Allocation of total comprehensive (loss)/profit:			
Equity owners of Precious Woods Holding Ltd		-17 707	-41 331
Non-controlling interests		-281	-218
Basic earnings per share	29	-5.07	-16.33
Diluted earnings per share	29	-5.07	-16.33
Basic earnings per share from continuing operations	29	-5.07	-6.33
Diluted earnings per share from continuing operations	29	-5.07	-6.33

¹ The consolidated statement of comprehensive income has been changed. Please refer to page 44.

Consolidated statement of changes in equity for the years ended 31 December 2012 and 2011 (in TUSD)

	Notes	Attributable to equity holders of Precious Woods Ltd					Non-controlling interests	Total equity
		Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance 31 December 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	17	–	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
Net (loss)/profit for the period		–	–	–	-17 448	-17 448	-299	-17 747
Other comprehensive (loss)/income for the period		–	–	-259	–	-259	18	-241
Total comprehensive (loss)/income for the period		–	–	-259	-17 448	-17 707	-281	-17 988
Equity component convertible loans	17	–	-228	–	–	-228	–	-228
Change in consolidation scope		–	–	–	–	–	-82	-82
Balance 31 December 2012		2 923	66 594	16 939	-33 207	53 249	251	53 500

Consolidated statement of cash flows 2012 and 2011 (in TUSD)

Net cash flow from operating activities	Notes	2012	2011¹
Profit/(loss) for the period		-17 747	-56 156
Income taxes (income)/expenses	33	145	293
Income taxes (income)/expenses (Central America)	12, 33	-	-583
Interest income	27	-41	-400
Interest expenses	27	4 051	6 369
Dividend income		-2	-
Profit/loss for the period before interest and tax		-13 594	-50 477
Depreciation and amortization		7 933	10 244
Impairment on property, plant and equipment	6	1 504	399
Impairment financial assets	10	-	3 072
Reversal of impairment of non-current assets	24	-	-4 160
Value adjustment on financial assets and investment property		-17	-
(Profit)/loss on sale of property, plant and equipment	26	-1 518	-5 432
(Profit)/loss on sale of subsidiaries (BK Energia)		-2 791	-
(Profit)/loss on sale of subsidiaries (Central America)		-	33 892
Share of profit of associates	9	-555	-16
Fair value adjustments of financial liabilities		235	-
Disposal of financial liabilities as a result of forgiveness	27	-121	-
Changes in provisions		555	-2 882
Increase in allowance on inventories		851	2 760
Certified Emission Reductions recognized as government grant	22	-654	863
Other non-cash items		-391	4 552
Operating cash flow before working capital changes		-8 563	-7 185
Decrease/(increase) in trade and other receivables		1 829	-778
Decrease/(increase) in inventories		837	2 043
Decrease/(increase) in other current assets		-219	3 761
Increase/(decrease) in trade payables and other liabilities		672	-5 518
Income tax paid/received		-135	-1 349
Net cash flow operating activities		-5 579	-9 026
Cash flow from investing activities			
Purchase of intangible assets	8	-39	-4 911
Proceeds from sale of property, plant and equipment		1 958	4 129
Purchase of property, plant and equipment	6	-3 716	-5 479
Proceeds from disposal of subsidiaries, net of cash disposed	11	-184	32 262
Proceeds from disposal of associates		671	-
Proceeds from disposal of financial assets		71	7 667
Purchase of financial assets		-30	-26
Dividends received		2	139
Interests received		41	401
Net cash flow investing activities		-1 226	34 182
Cash flow from financing activities			
Proceeds from borrowings		5 717	14 885
Repayment of borrowings		-3 826	-38 631
Proceeds from convertible bonds and loans	17	1 069	5 897
Interests paid		-2 226	-6 198
Net cash flow financing activities		734	-24 047
(Decrease)/increase in cash and cash equivalents		-6 072	1 109
Translation effect on cash		-11	80
Cash and cash equivalents, at the beginning of the year		11 440	10 326
Cash and cash equivalents, at the end of the year (as per balance sheet)		5 357	11 440
Cash in disposal group held for sale		-	75
Total Cash and cash equivalents, at the end of the year		5 357	11 515

¹ The cash flows in 2011 include both continuing and discontinued operations. The respective cash flows for discontinued operations only are shown in Note 11.

Notes to the consolidated financial statements

1. Basis of presentation and accounting policies

Basis of presentation

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

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

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

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

Significant accounting judgments, estimates and assumptions

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

Provisions

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

Land titles Brazil

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

Government grants / Certified Emission Reductions

The participation in the power plant in Brazil generates CERs (Certified Emission Reductions). These CERs are sold by the Group. The CERs are recognized when it is virtually certain that the Group will comply with the conditions of the Kyoto Protocol. Management's judgment is used to estimate the probability (see Note 22).

Valuation of derivative financial instruments / convertible bonds and loans

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

Non-current assets held for sale

In prior years the Group 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. More details are given in Note 11.

Debt and operating restructuring

During the course of the ongoing turnaround process, the Group achieved the following in 2012:

1. Debt restructuring

The Group was able to further lower its debt. In November, two loans with the total amount of USD 5 million were settled. In addition, two convertible loans with a total amount of CHF 7 million were settled early in November. In December the Group issued a new convertible bond of CHF 1 million, repayable on 18 November 2013. In Gabon additional loans in the amount of TUSD 1424 were raised in 2012.

2. Operational restructuring

While the turnaround process was distorted in 2012 by the crisis in Gabon and Europe, Management and the Board of Directors still believe that the operating result for 2013 can be improved significantly. The cost base was reduced again in all segments, while further investments in existing saw mills in Brazil were made to improve efficiency. Further investments in improvements of existing saw mills and the veneer factory in Gabon and Brazil will be made in 2013. Price increases were implemented and processes optimized. All of these measures, both on the revenue and on the cost side, are expected to positively impact the results of 2013.

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 2012.

- *IAS 12 Income Taxes: Recovery of Underlying Assets (Amendment)* – The IASB has issued an amendment to IAS 12 that clarifies the determination of deferred tax on investment property measured at fair value. It introduces a rebuttable presumption that deferred tax on investment property measured using fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Secondly, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on sale basis of the assets. The amendment had no effect on the financial position of the Group.
- *IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (Amendment)* – The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with their associated liabilities. Furthermore, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendment 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 2013 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 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 future actuarial gains and losses will be recognized immediately in other comprehensive income. On 31 December 2012, unrecognized actuarial gains and losses amounted to TUSD 535.
- 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 for annual periods beginning on or after 1 January 2014, respectively 2013)
- IAS 28 – Investments in Associates and Joint Ventures (as revised in 2011) (effective for annual periods beginning on or after 1 January 2013)
- 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)

Change in presentation

Precious Woods reported in the consolidated statement of comprehensive income in the Annual Report 2011 cost of sales, which includes various accounts related to production. As a measure to enhance transparency and meet the requirements of the capital market, Precious Woods Holding Ltd has decided to disclose the cost of sales in more detail. The cost of sales are now split into the following positions: changes in inventories of finished goods and work in progress, raw materials and consumables used as well as other production costs. Therefore, the consolidated statement of comprehensive income for the respective financial year and previous year are represented. The changed representation has no effect on EBITDA in the consolidated statement of comprehensive income 2011.

As presented in 2011 Annual Report:

	2012	2011
Total operating income	43 886	68 974
Cost of sales	-40 841	-58 878
Operational contribution	3 045	10 096
Administration and other labour costs	-5 620	-9 135
Other expenses	-5 503	-10 134
Other income	4 238	7 044
Earnings before interest, tax, depreciation and amortization (EBITDA)	-3 840	-2 129

As represented in 2012 Annual Report:

	2012	2011
Total revenue	43 886	68 974
Changes in inventories of finished goods and work in progress	-2 393	-5 763
Raw materials and consumables used	-4 179	-7 280
Other production costs	-16 988	-25 045
Operational contribution	20 326	30 886
Direct and indirect labour costs	-22 901	-29 925
Other operating expenses	-5 503	-10 134
Other operating income	4 238	7 044
Earnings before interest, tax, depreciation and amortization (EBITDA)	-3 840	-2 129

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	
		2012	2011
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) ¹	Brazil	40%	80%
Precious Woods Corporation (dormant company)	USA	100%	100%
Precious Woods Europe B.V.	The Netherlands	100%	100%
Geveltim B.V.	The Netherlands	100%	100%
Lastour & Co. S.A.	Luxembourg	100%	100%
Unio S.A.	Luxembourg	100%	100%
Compagnie Equatoriale des Bois S.A.	Gabon	96%	96%
Tropical Gabon Industry S.A.	Gabon	100%	100%

¹ At 31 March 2012, 40% of the shares of BK Energia Ltda have been divested. With a stake of 40%, PWH remains a minority shareholder. The investment is accounted for using the equity method since the Group has no control over BK Energia but significant influence.

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 production overhead costs.

e. Property, plant and equipment

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The effect of such change is recognized immediately in the statement of comprehensive income. 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. Intangible assets

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

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

g. Impairment of non-financial assets

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

h. Leases

Leasing of assets, in which substantially all the risks and rewards incidental to ownership are transferred to the lessee, are classified as finance leases. Finance leases are initially recognized in the 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.

i. Financial assets

Financial assets are designated to the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose of the financial asset. Management determines the categories of its financial assets at initial recognition and re-evaluates the classification at each 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 that are either designated as available-for-sale investments or that are not designated to any of the other categories. They are included in non-current assets, unless Management has decided to sell within 12 months after the 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 can be objectively allocated to an event that occurred after the impairment was recorded, the reversal amount is recognized through profit or loss for that period at a maximum of the previously recognized impairment loss.

j. Derivative financial instruments and hedging activities

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

k. Borrowings

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

l. Convertible bonds and loans

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

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

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

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

m. Revenue recognition

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

n. Currency

As 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 2012	Average 2012	31 December 2011	Average 2011
Swiss franc	1 CHF	1.0942	1.0667	1.0640	1.1316
Brazilian real	1 BRL	0.4880	0.5133	0.5357	0.5987
Euro	1 EUR	1.3215	1.2858	1.2949	1.3924
Central African CFA franc	1 XAF	0.0020	0.0019	0.0019	0.0021

o. Currency translation

The financial statements of the subsidiaries have been translated from their functional currencies to the presentation currency (USD). Therefore, all assets and liabilities are translated by using the rate of exchange prevailing at the 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.

p. Currency transactions

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

q. Taxation

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

r. Pension plans

The Group has both defined benefit 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 20).

s. Segment reporting

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

t. Government grants

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

Certified Emission Reductions (CERs) are granted by the United Nations Framework Convention on Climate Change (UNFCCC) for Greenhouse Gas Reduction of one metric ton of CO₂ equivalent. The Group regards the United Nations as a government agency and the CERs as an asset for sale in the normal course of business (inventory). The CERs are recognized when it is virtually certain that the Group will comply with the conditions of the Kyoto Protocol and the grants will be received.

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.

u. 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, financing risk, changes in interest rates and credit risks.

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

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

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

Market risk

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

Interest rate risk

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

Management's policy is to maintain its borrowings in fixed rate instruments. There was no material variable interest rate borrowing on 31 December 2011 as well as on 31 December 2012.

Foreign exchange risk

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

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

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

The following table summarizes the Group's sensitivity to currency exposures regarding balance sheet positions of the main currencies on 31 December.

in TUSD	31.12.12 Reasonable shift	31.12.12 "Impact" on profit or loss before tax	31.12.12 "Impact" on equity	31.12.11 Reasonable shift	31.12.11 "Impact" on profit or loss before tax	31.12.11 "Impact" on equity
EUR/CHF	+/-10%	+/-401	+/-4 245	+/-5%	+/-348	+/-1 593
USD/CHF	+/-10%	+/-160	+/-1 112	+/-10%	+/-211	+/-1 112
USD/BRL	+/-15%	+/-0	+/-1 796	+/-15%	+/-0	+/-1 935
CHF/BRL	+/-15%	+/-0	+/-6 005	+/-15%	+/-3	+/-5 865
CHF/XAF	+/-10%	+/-0	+/-613	+/-15%	+/-0	+/-2 339

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 (2011: USD 0.6 million). Please refer to Note 10.

Liquidity risk

Liquidity risk management is centralized at the Group head office and monitored through cash-flow forecasts. The subsidiaries provide regular forecasts based on the expected cash-inflows and -outflows. Excess funds are pooled in accounts managed by the holding company. Cash deficits are funded by the holding company in general. Group administration raises the majority interest-bearing debt centrally. The Group seeks to reduce liquidity risks through sufficient cash reserves and credit facility arrangements. The Group has employed certain credit facilities (see Note 13) for the financing of operations and asset purchases in the normal course of business.

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 2012			
Trade and other payables	15 386	–	–
Financial liabilities	8 458	24 381	12 472
Non-derivative financial liabilities	23 844	24 381	12 472
Net settled derivative financial instruments	–	–	–
Derivative financial instruments	–	–	–

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	–	–

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 issues 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

The subsidiary TGI has mortgaged land in the amount of USD 5.0 million and has pledged machinery and equipment in the amount of USD 1.6 million to secure bank loans.

3. Trade and other receivables

in TUSD	2012	2011
Trade receivables, third parties	6 755	9 365
Trade receivables, associates	155	59
Less allowance for bad debts	-2 044	-2 097
Total trade receivables net	4 866	7 327
Other short-term receivables	6 277	4 108
Total	11 143	11 435

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	2012	2011
Not overdue	35	5 725
Less than 30 days overdue	3 732	1 296
31 to 60 days overdue	825	683
61 to 180 days overdue	177	499
More than 180 days overdue	2 141	1 221
Total trade receivables gross	6 910	9 424
Allowance for bad debts	-2 044	-2 097
Total trade receivables net	4 866	7 327

Allowances for bad debts

in TUSD	2012	2011
At 1 January	2 097	2 061
Addition in allowance for bad debts	249	304
Release of allowance for bad debts	-139	-15
Translation differences	-163	-253
At 31 December	2 044	2 097

Trade receivables net include amounts denominated in the following currencies:

in TUSD	2012	2011
EUR	3 731	4 444
USD	68	85
BRL	668	853
XAF	370	1 913
Other currencies	29	32
Total trade receivables net	4 866	7 327

4. Inventories

in TUSD	2012	2011
Logs	4 170	5 254
Sawn wood	14 411	13 665
Veneers	568	1 150
Industrialized products	67	259
Certified Emission Reductions (CERs)	2 165	1 453
Export products in transit	927	715
Spare parts and other	1 482	1 937
Biomass	–	63
Less obsolescence reserve	–3 979	–3 967
Total inventories	19 811	20 529

Obsolescence reserve

in TUSD	2012	2011
At 1 January	3 967	1 533
Increase	851	2 760
Decrease	–931	–68
Translation differences	92	–258
At 31 December	3 979	3 967

5. Other current assets

in TUSD	2012	2011
Prepaid expenses, prospecting	1 358	1 169
Prepaid expenses, other	397	485
Marketable securities	2	304
Total other current assets	1 757	1 958

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 2011	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
Additions	29	–	558	479	681	54	2 597	–	4 398
Disposals	–58	–	–1 082	–530	–	–152	–	–	–1 822
Change in consolidation scope ²	–	–	–	–6	–	–3	–41	–	–50
Reclassifications	–1 669	–	1 003	2 323	–	9	–3 335	1 669	–
Reclassification of assets held for sale	–	–	–	–	–	–	–	–	–
Translation differences	–460	–150	660	–109	152	64	–69	–531	–443
At 31 December 2012	22 289	15 631	25 622	32 157	3 045	4 038	1 020	6 184	109 986
Accumulated depreciation									
At 1 January 2011	–	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
Charge for the year	–	671	2 063	2 729	885	364	–	–	6 712
Impairment charge	–	–	–	–	–	–	–	1 377	1 377
Reversal of impairment	–	–	–	–	–	–	–	–	–
Elimination on disposals	–	–	–634	–449	–	–142	–	–	–1 225
Change in consolidation scope ²	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–
Reclassification of assets held for sale	–	–	–	–	–	–	–	–	–
Translation differences	–	–78	292	–320	69	33	–	–274	–278
At 31 December 2012	–	5 313	11 778	24 137	1 376	2 948	–	3 433	48 985
Carrying amount									
At 31 December 2011	24 447	11 061	14 426	7 822	1 790	1 373	1 868	2 716	65 504
At 31 December 2012	22 289	10 318	13 844	8 020	1 669	1 090	1 020	2 751	61 001

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

² Resulting from the divestment of 40% of the shares of BK Energia Ltda.

In 2011, the effort to clean the land titles from legal issues resulted in a reclassification from advanced payments for property, plant and equipment to land. Furthermore, these actions resulted in a reversal of prior impairments of TUSD 4160. Despite the continued efforts to clean further land titles, Precious Woods had to re-classify in 2012 additional land of TUSD 1669 as advanced payments for property, plant and equipment as new information on potential claims became available. Based on Management's estimate of the outcome, an allowance for land titles with a certain risk of losing was recorded with the amount of TUSD 1377. Please refer to "Land titles Brazil", Note 1.

7. Forest, forest improvements

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

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.

8. Intangible assets

in TUSD	Trademarks and licences	Other	Total
Cost			
At 1 January 2011	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	–1 092	–1 172	–2 873
At 31 December 2011	15 463	11 837	43 445
Additions	38	250	288
Translation differences	693	–25	1 194
At 31 December 2012	16 194	12 062	44 927
Accumulated amortization and impairment			
At 1 January 2011	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	–471	–510	–1 589
At 31 December 2011	7 997	5 514	29 656
Charge for the year	895	575	1 470
Translation differences	345	286	1 157
At 31 December 2012	9 237	6 375	32 283
At 31 December 2011	7 466	6 323	13 789
At 31 December 2012	6 957	5 687	12 644

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

9. Investment in associates

in TUSD	2012	2011
At 1 January	14 865	1 925
Share of profit of associates	555	16
Additions	1 389	13 724
Dividends earned	–	–139
Disposal	–13 380	–
Translation differences	59	–661
At 31 December	3 488	14 865

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 remained a minority shareholder (also see Note 11).

On 22 November 2012, the Group sold the remaining 25 % of the shares to the two co-shareholders for the amount of TUSD 13 380. This amount was offsetted against outstanding non-current financial liabilities and convertible bonds (also see Note 13 and 17).

in TUSD (representing 100%)	Assets	Liabilities	Revenues	Profit
Key figures 2011 (income statement 1.10. – 31.12.2011)	62 843	8 641	44	-719
Key figures 2012 (income statement 1.01. – 22.11.2012)			9 490	1 764

BK Energia

On 31 March 2012, Precious Woods transferred 40% of the shares of BK Energia to the former minority shareholder. The two parties agreed on a cash-neutral solution by offsetting outstanding debts. The investment was recognized at fair value on the date the Group lost control and has since been valued using the equity method. It amounts to TUSD 1606 as of 31 December 2012 (also see Note 11).

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

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 1882 as of 31 December 2012.

in TUSD (representing 100%)	Assets	Liabilities	Revenues	Profit
Key figures 2011	8 697	5 782	14 176	391
Key figures 2012	8 196	5 356	11 923	-182

10. Non-current financial assets

in TUSD	2012	2011
Congo	545	530
NIBO	27	27
At 31 December	572	557

The non-current financial assets contain an investment of TUSD 545 (2011: TUSD 530) in Norsudtimber Company (Congo) in Vaduz and an investment of TUSD 27 (2011: 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. The investment in Norsudtimber Company was impaired in 2011 by TUSD 2969, and based on the latest information available to Group Management the investments remains impaired as of 31 December 2012.

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

On 31 December 2012, the non-current assets held for sale amount to TUSD 877 (2011: TUSD 4699) and associated non-current liabilities held for sale amount to USD 0 (2011: TUSD 3665).

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

BK Energia

In autumn 2011, Precious Woods agreed with the current minority shareholder a cash-neutral solution in connection with debts outstanding from 2005 – relating to the purchase of the biomass power plant BK Energia – to search for a buyer for all outstanding shares of BK Energia in 2012. Therefore in 2011, assets of BK Energia in the amount of USD 3604 and liabilities in the amount of USD 3665 were re-classified 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

Since no buyer was found in 2012, 40% of the shares of BK Energia have been transferred to the former minority shareholder to offset the outstanding debts. This leaves Precious Woods as a minority shareholder with the remaining 40% of the shares of BK Energia. Thus BK Energia is no longer consolidated in 2012 (see Note 1).

Effect of disposal on the financial positions of the Group

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

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

Precious Woods Central America

In 2011, all Central American assets of Precious Woods were integrated in the newly established subholding Precious Woods Central America AG and 75% of the shares of the newly established subholding were disposed of. The remaining 25% investment in PWCA has been reported as an investment in associate until its disposal in November 2012 (see Note 9). The Central American assets and liabilities belonged to the Forest Plantations segment, which has been discontinued. In 2012, the remaining 25% of the shares have been sold as well (see Note 9).

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

in TUSD	2011
Net sales from trading activities	3 561
Increase in fair value of biological assets	–
Total revenue	3 561
Changes in inventories of finished goods and work in progress	–170
Raw materials and consumables used	–
Other production costs	–4 657
Operational contribution	–1 266
Direct and indirect labour costs	–1 519
Other operating expenses	–212
Other operating income	214
Earnings before interest, tax, depreciation and amortization (EBITDA)	–2 783
Depreciation, amortization and impairment	–154
Earnings before interest and tax (EBIT)	–2 937
Financial result	–7
Earnings before taxes (EBT)	–2 944
Income taxes (expenses)/income	583
Earnings after taxes	–2 361
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
Basic earnings per share from discontinuing operations	–10.00
Diluted earnings per share from discontinuing operations	–10.00
Cash flows from discontinued operations	
in TUSD	2011
Net cash flows from operating activities	339
Net cash flows from investing activities	–949
Net cash flows from financing activities	–1
(Decrease)/increase in cash and cash equivalents	–611

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 17)	-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.

12. Trade and other payables

in TUSD	2012	2011
Trade payables, third parties	8 342	6 817
Trade payables, associates	18	-
Trade payables, related parties	33	111
Total trade payables	8 393	6 928
Other current liabilities, third parties	4 095	4 203
Other current liabilities, related parties	-	1 128
Other accrued liabilities	2 898	1 390
Total other payables	6 993	6 721
At 31 December	15 386	13 649

13. Financial liabilities

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

Net book value of financial liabilities

in TUSD	2012	2011
Financial liabilities from borrowings	38 174	43 993
Financial liabilities finance-lease	1 965	1 884
Total financial liabilities	40 139	45 877
Total current financial liabilities	5 098	2 938
Total non-current financial liabilities	35 041	42 939
Total financial liabilities	40 139	45 877

Interest expenditure from finance-lease liabilities amounted to TUSD 224 (2011: TUSD 128). 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	2012	2011
Currencies financial liabilities		
Borrowings denominated in:		
XAF	10 882	10 136
CHF	23 513	27 384
BRL	5 744	3 357
USD	–	5 000
Total financial liabilities	40 139	45 877

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

	2012	2011
XAF	8.0-12.2%	9.0-12.0%
CHF	11.5-12.6%	12.4-12.9%
USD	-	6.5%

14. Provisions

in TUSD	Legal claims	Restructuring	Others	2012 Total	2011 Total
Short-term provisions	–	–	53	53	1 289
Long-term provisions	2 054	–	5 051	7 105	6 173
Total	2 054	–	5 104	7 158	7 462
At 1 January	1 790	222	5 450	7 462	11 929
Additions	902	98	1 043	2 043	2 282
Unused amounts reversed	–384	–310	–1 175	–1 869	–3 477
Used during the year	–146	–6	–57	–209	–2 104
Change in consolidation scope ¹	–	–	–	–	–172
Reclassifications	53	–	–85	–32	–260
Translation adjustments	–161	–4	–72	–237	–736
At 31 December	2 054	–	5 104	7 158	7 462

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 on 31 December 2012.

Restructuring

In 2012, no restructuring provisions were needed. In 2011, an amount of TUSD 156 represented the provision needed for the restructuring of Precious Woods Manufacturing B.V. in Holland. The amount contained a provision for the salaries and the social costs for employees. The remaining amount in 2011 represented provisions for MIL Madeiras Preciosas Ltda. in Brazil.

Others

The total amount of TUSD 5104 contains TUSD 53 short-term provisions and TUSD 5051 long-term provisions. The long-term provisions include long-term provisions for employee benefits (TUSD 1118), provisions for social security (TUSD 1426), provisions for tax fees (TUSD 2077) and other provisions (TUSD 430).

15. Financial instruments by category

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

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

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

Fair value hierarchy

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

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

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

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

Assets measured at fair value

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

Liabilities measured at fair value

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

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
Derivative financial instruments	515	–	515	–
Total	515	–	515	–

Reconciliation of fair value measurement of level 3 financial assets

in TUSD	2012	2011
At 1 January	861	3 840
Sales	–	–
Purchases	–	–
Gains and losses recognized in the statement of comprehensive income	–287	–2 979
At 31 December	574	861

16. Derivative financial instruments

Derivative financial instruments contain embedded derivatives liabilities of TUSD 0 (2011: TUSD 515) in connection with convertible bonds and loans.

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

On 17 May 2011, two new convertible loans at a total par value of CHF 5.5 million were 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.

On 17 December 2012, a new convertible loan at a par value of CHF 1 million was issued. It is repayable by November 2013 or can be converted into shares at a rate of 100 shares per CHF 300. The convertible bond was split into a liability and an equity component.

The total carrying amount of the convertible bonds and loans (financial liabilities) amounts to TUSD 23 363 (2011: TUSD 27 238), thereof TUSD 1046 are recognized as short-term convertible bonds and loans. The initial recognition was calculated using market interest rates for equivalent non-convertible bonds of 10.2-12.7% (2011: 10.2-12.7%).

18. 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 2012	CHF 2012	Number of shares 2011	CHF 2011
Issued and fully paid-in capital beginning of year	3 438 355	3 438 355	3 438 355	1 711 917 750
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	3 438 355
Authorized share capital – authorized during the year	1 547 260	1 547 260	–	–
Authorized share capital – eliminated during the year	–	–	–	–
Authorized share capital at the end of the year	1 547 260	1 547 260	–	–
Conditional share capital – authorized during year	128 689	128 689	250 000	250 000
Conditional share capital – eliminated during year	–	–	–284 764	–284 764
Conditional share capital at end of the year	1 719 177	1 719 177	1 590 488	1 590 488

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

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 were 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.

In 2011 the existing authorized share capital of CHF 800 000 was linked with the conditional share capital and thus could not be used in addition to the conditional share capital. In 2012, the authorized share capital was renewed, increased to CHF 1 547 260 and the link with the conditional capital was cancelled. Therefore in 2012, the authorized capital is counted in full. Additionally, the conditional share capital was increased from CHF 1 590 488 to CHF 1 719 177.

19. Related party balances and transactions

An overview of the subsidiaries of Precious Woods is presented on page 45. 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 32. 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 2012 and 2011, are detailed below:

in TUSD	2012	2011
Trade and other current receivables	11	1
Trade receivables, associates	155	59
Trade and other current liabilities	33	1 239
Non-current loans from shareholders with significant influence	11 435	22 432
Non-current loans from other shareholders	11 934	10 015
Non-operating expenses	–	–
Interest expenses to shareholders with significant influence	1 533	1 682
Interest expenses to other shareholders	512	530
Other financial expenses	–	131

In a bidding process in 2011, 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. 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. On 22 November 2012, the remaining 25% of shares were purchased by the same two Swiss shareholders of Precious Woods Holding Ltd at the same price (see Note 11).

b. Compensation

During the ordinary course of business in 2012 and 2011, the Group granted compensation to related parties as follows:

in TUSD	2012	2011
Group Management		
Short-term employee benefits	1 046	847
Post-employment employee benefits	147	137
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
Total Group Management	1 193	984
Board of Directors		
Short-term employee benefits	392	636
Post-employment employee benefits	48	74
Long-term benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
Total remuneration and fees Board of Directors	440	710
Operating management		
Short-term employee benefits	938	1 249
Post-employment employee benefits	52	170
Long-term benefits	–	–
Termination benefits	100	–
Share-based payment	–	–
Total operating management	1 090	1 419
Total compensation to key management personnel	2 723	3 113

20. Employee benefits

Employee benefits

The employee benefit plans of the Group are based on legal requirements in the respective countries. Beyond these regulatory requirements, the Group provides meals, housing, education and access to medical care according to the local operating group's policy. The Group's contribution to defined contribution plans amounted to TUSD 82 in 2012 (2011: TUSD 161). The pension plan for employees in Switzerland is a defined benefit plan.

Changes in the present value of the defined benefit obligation

in TUSD	2012	2011
Defined benefit obligation at 1 January	4 133	3 195
Current service costs	273	285
Interest costs	93	96
Contribution by plan participants	117	119
Actuarial losses/(gains)	-590	456
Benefits paid/transferred	-152	40
Past service costs	-	-
Settlements	-285	-
Exchange differences	102	-58
31 December	3 691	4 133
Plans wholly or partly funded	3 691	4 133
Plans wholly unfunded	-	-

Movement in the present value of the plan assets

in TUSD	2012	2011
Opening fair value of plan assets	3 456	2 823
Expected return on plan assets	89	80
Actuarial gains/(losses)	-608	228
Contributions from the employers	196	206
Contributions from plan participants	117	119
Benefits paid/transferred	-152	40
Settlements	-285	-
Exchange differences	82	-40
31 December	2 895	3 456

in TUSD	2012	2011	2010	2009
Present value of obligations	3 691	4 133	3 195	3 521
Fair value of plan assets	2 895	3 456	2 823	3 253
(Surplus)/deficit in the plan	796	677	372	268
Net actuarial gains/(losses) not yet recognized	-535	-503	-288	-212
Net liability	261	174	84	56

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

in TUSD	2012	2011
Current service costs	273	285
Interest costs	93	96
Expected return on plan assets	-89	-80
Actuarial gains and losses	-9	-
Past service costs	-	-
Recognized in profit or loss	268	301

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		2012	2011
Actual return on plan assets		-519	308

Principal actuarial assumptions used

		2012	2011
Discount rates		1.75%	2.25%
Expected rates of return on plan assets		1.75%	2.50%
Expected salary increases		1.00%	1.00%
Expected inflation rate		1.00%	1.00%
Expected long-term interest on retirement assets		2.00%	2.50%
Expected long-term increase of pensions		0.00%	0.00%

Experience adjustments

	2012	2011	2010	2009
Experience adjustments on plan liabilities	-2.43%	-2.58%	8.48%	-4.66%
Experience adjustments on plan assets	-2.15%	6.20%	-4.14%	10.09%

in TUSD		2012	2011
Expected employer contributions		192	225

21. Net sales from trading activities

in TUSD		2012	2011
Sales of wood		48 689	66 027
Sales of energy		1 722	6 968
Sales deductions		-7 188	-4 910
Net sales		43 223	68 085

22. Revenue from emission reduction activities

in TUSD		2012	2011
Revenue from Certified Emission Reductions (CERs) over book value		-	1 752
CERs recognized as government grants		663	-863
Revenue from emission reduction activities		663	889

The Precious Woods Group obtains the CERs from its BK Energia renewable-power-generation project located in the Amazon region of Brazil, complying with all the necessary conditions established in the Kyoto Protocol and by the UNFCCC (United Nations Framework Convention on Climate Change). Carbon emissions are avoided by substituting diesel fuel with wood waste from the sawmill and from forest operations for electricity generation. The CERs recognized as government grants represent the grant from the UNFCCC for the CERs produced during 2011 valued at fair value. The Group expects that the CERs generated in 2010 and 2011 (Total of 90 015 CERs) will be issued after a final verification scheduled in the first half year of 2013. The verification of the 45 894 CERs produced in 2012 is expected in 2014. Therefore no CERs have been sold in 2012. 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.

23. Other production costs

in TUSD	2012	2011
Logistics, transportation costs and freight	2 417	6 705
Fuel, oil and lubricants	3 959	5 060
Energy – third parties	660	702
Forest taxes & expenses	1 255	515
Maintenance and spare parts	4 728	5 268
Insurances (production)	340	627
Rent and lease (production)	1 735	2 720
Capitalized own production	-281	-
Miscellaneous production costs	2 175	3 448
Total	16 988	25 045

24. Depreciation, amortization and impairment

in TUSD	2012	2011
Depreciation and amortization	7 933	10 091
Impairment of property, plant and equipment	1 504	399
Reversal of impairment of property, plant and equipment	-	-4 160
Total	9 437	6 330

The impairment of TUSD 1504 (2011: TUSD 399) includes impairment of property, plant and equipment and assets held for sale. Details to the reversal of impairment are given in Note 6.

25. Direct and indirect labour costs

in TUSD	2012	2011
Wages and salaries	16 212	22 121
Social security costs	3 292	3 480
Pension costs	301	462
Other employment benefits	3 096	3 862
Total	22 901	29 925

in TUSD	2012	2011
Forest, processing and plantation costs	17 281	20 790
Administration and other labour costs	5 620	9 135
Total	22 901	29 925

26. Other operating income and expenses

in TUSD	2012	2011
Other income		
Gain on disposal of fixed assets	1 363	2 465
Other income	2 875	4 579
Total other operating income	4 238	7 044
Other expenses		
Audit fees	385	741
Legal and tax	541	2 557
Other consulting fees	219	2 213
Travel	725	976
Marketing	116	240
Loss on disposal of fixed assets	2	280
Other administrative expenses	3 515	3 127
Total other operating expenses	5 503	10 134

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

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

27. Financial income and expenses

in TUSD	2012	2011
Financial income		
Interest income and dividends	42	400
Gain on derecognition of loans and receivable	–	235
Unrealized gain from adjustments of financial assets at fair value through profit or loss	–	326
Foreign-exchange gains	1 766	9 907
Other financial income	1 116	806
Total financial income	2 924	11 674
Financial expenses		
Interest expenses	4 051	6 369
Impairment of financial assets available for sale	–	2 969
Foreign-exchange losses	2 628	13 519
Other financial expenses	1 125	1 842
Total financial expenses	7 804	24 699

The other financial income in 2012 includes the gain on sale of the investment in PWCA of TUSD 485 (see Note 9). Furthermore it contains also reversals of accrued financial liabilities of TUSD 453 and disposal of financial liabilities as a result of forgiveness of TUSD 121.

28. 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	2012	2011
Within one year	472	570
Within two to five years	586	1 126
After more than five years	–	–
Total lease payments	1 058	1 696

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	2012	2011
Within one year	901	–
Within two to five years	1 305	2 192
After more than five years	–	–
Total lease payments	2 206	2 192
Minus interest expense component	–241	–308
Total lease payments	1 965	1 884

29. Earnings per share

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

In USD	2012	2011
Net loss/income attributable to Group equity holders	–17 448 299	–56 131 731
Net loss/income from continuing operations attributable to Group equity holders	–17 448 299	–21'736'730
Weighted average number of shares	3 438 355	3 438 355
Basic loss/earnings per share	–5.07	–16.33
Basic loss/earnings per share from continuing operations	–5.07	–6.33
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	–5.07	–16.33
Diluted earnings per share from continuing operations	–5.07	–6.33

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.

30. Contingencies

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

Assessment by Brazilian authorities

In 2002, a Brazilian subsidiary was assessed by IBAMA, the Brazilian Institute of Environment and Renewable Natural Resources, in relation to certain log-transporting procedures, which had been in place and approved informally by government agencies for many years. In July 2010, an important administrative case was won against IBAMA. The fines imposed on the Group, which are not yet settled, amount to approximately USD 8 million. The Group's Management and its attorneys believe that the remaining fines are arbitrary in nature, unjustified, and will also be eventually cancelled, and therefore consider that no material loss will occur as a result of the final decision on this process; consequently, no accrual was recorded in the Group's consolidated financial statements as of 31 December 2012 (31 December 2011: 0). In 2011, the subsidiary was notified by the Federal Justice to offer assets to pledge or to prepay the penalty. The subsidiary offered 61 907 hectares to pledge. The counterparty has not accepted the pledge and instead blocked an amount of TUSD 249 in cash on Group accounts.

31. Financial information by segment

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

At 30 September 2011, 75% of the shares of the Forest Plantations segment have been sold to Precious Woods Central America AG. Therefore, the results of this segment were disclosed as discontinued operations in the consolidated income statements 2011. In 2012, the remaining 25% stake was sold to the majority stakeholder.

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 2012

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other ¹	Total 31.12.2012
Revenue						
Third parties	6 531	21 791	13 672	1 892		43 886
Intersegment	7 628	–	–	–	–7 628	–
Total revenue	14 159	21 791	13 672	1 892	–7 628	43 886
Loss/profit on sale of fixed assets and affiliates	208	20	1	3 409	–	3 638
EBITDA	–1 681	–751	–981	3 521	–3 948	–3 840
Depreciation and amortization	–1 022	–6 593	–204	–	–114	–7 933
Impairment charges	–1 504	–	–	–	–	–1 504
Loss/profit from operating activities (EBIT)	–4 207	–7 344	–1 185	3 521	–4 062	–13 277
Financial income and expenses	–1 150	–1 502	–500	–14	–1 714	–4 880
Share of profit of associates						555
Net (loss)/profit before tax						–17 602
Income taxes	–1 366	1 182	–259	237	61	–145
Segment assets	57 713	74 185	14 928	–	–30 061	116 765
Investments in associates	1 606	–	1 882	–	–	3 488
Capital expenditures	1 145	3 138	64	50	–	4 397
Segment liabilities	78 143	67 126	10 737	417	–93 157	63 266

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 2011

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other ¹	Total continued 31.12.2011	Forest Plantations (discontinued)	Total 31.12.2011
Revenue								
Third parties	6 771	36 388	19 955	5 860		68 974	3 561	72 535
Intersegment	7 920	–	1 544	–	–9 464	–	–	–
Total revenue	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.

Geographic information

in TUSD	2012		2011	
Revenue from external customers				
Switzerland	102	0.2%	76	0.1%
European Union	33 011	76.4%	46 989	65.6%
Latin America	7 142	16.5%	11 392	15.9%
Africa	728	1.7%	9 529	13.3%
Other countries	2 240	5.2%	3 660	5.1%
Total	43 223	100.0%	71 646	100.0%
Location of non-current assets				
Switzerland	243	0.3%	14 381	15.1%
European Union	2 068	2.7%	2 258	2.4%
Latin America	26 786	34.7%	29 549	31.0%
Africa	48 091	62.3%	49 145	51.5%
Total	77 188	100.0%	95 333	100.0%

Reconciliation of reportable segment profit or loss

	2012	2011
Total EBITDA for reportable segments, continuing operations	108	5 877
EBITDA Other	-3 948	-8 006
EBITDA of continuing operations	-3 840	-2 129
Depreciation, amortization and impairment	-9 437	-6 330
EBIT	-13 277	-8 459
Financial income and expenses	-4 880	-13 025
Share of profit of associates	555	16
Earnings before tax from continuing operations	-17 602	-21 468

32. Major shareholders

On 31 December 2012, the major shareholders holding 3% (rounded) or more of Precious Woods Holding Ltd registered shares were as follows:

	Number of shares 2012		Additional number of shares in case of conversion of convertible bonds/loans 2012		Number of shares 2011		Additional number of shares in case of conversion of convertible bonds/loans 2011	
Round Enterprises Ltd.	201 203	5.85%	126 316	3.67%	201 203	5.85%	242 857	7.06%
Franke Artemis Holding AG	189 571	5.52%	73 684	2.14%	189 571	5.52%	157 142	4.57%
Baloise Holding	305 300	8.88%	–	–	305 300	8.88%	–	–
Aires International Investment Inc	–	–	555 555	16.15%	–	–	222 222	6.46%
UBS Fund Management	–	–	–	–	163 480	4.75%	–	–
Novartis Pooling Fund I	140 000	4.07%	–	–	140 000	4.07%	–	–
Beamtenversicherungskasse des Kantons Zürich	–	–	–	–	134 350	3.91%	–	–
Fleischmann Immobilien AG	103 500	3.00%	–	–	–	–	–	–

¹ Calculation is based on the current number of shares. Please also refer to note 17 for information on convertible bonds/loans.

33. Income taxes

Major components of tax expenses/(income)

in TUSD	2012	2011
Current tax expenses/(income)	6	612
Deferred tax expenses/(income) relating to temporary differences	139	-319
Total	145	293

Reconciliation of tax expenses/(income)

in TUSD	2012	2011
Loss before taxes from continuing operations	-17 605	-21 468
Loss before taxes from discontinued operations	-	-34 978
Accounting loss before taxes	-17 605	-56 446
Expected tax expenses/(income)	-6 021	-14 828
Income not subject to tax (Central America)	-	-1 461
Income not subject to tax (BK Energia)	-1 396	-
Expenses not deductible for tax purposes	-	3 107
Not recognized current tax losses	7 562	12 892
Total income taxes from continuing and discontinued operations	145	-290

The weighted average applicable tax rate, considering all profit and loss making entities, was 32% (2011: 26%).

Deferred income tax

in TUSD	2012	2011
Total deferred income tax assets	31 513	27 146
Total deferred income tax liabilities	-31 542	-28 353
Net deferred income tax assets/(liabilities)	-29	-1 207

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	2012	2011
Tax loss carry-forwards	31 052	26 533
Provisions	347	327
Inventories	21	-
Other	93	286
Total deferred income tax assets	31 513	27 146

Deferred income tax liabilities

in TUSD	2012	2011
Inventories	-	-35
Property, plant and equipment	-6 491	-8 278
Intangible assets	-2 172	-2 775
Financial assets	-18 585	-15 586
Other	-4 294	-1 679
Total deferred income tax liabilities	-31 542	-28 353

Net deferred income tax assets/(liabilities)

Net deferred income tax assets/(liabilities)	-29	-1 207
Reported in the balance sheet as follows:		
Deferred income tax assets	38	611
Deferred income tax liabilities	-67	-1 818
Net deferred income tax assets/(liabilities)	-29	-1 207

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

in TUSD	2012	2011
At 1 January	-1 207	-4 739
Disposal of subsidiaries	-237	1 750
Income statement charge	139	-319
Tax charged to other comprehensive income	-288	930
Translation difference	1 564	1 171
At 31 December	-29	-1 207

The Group did not recognize deferred income tax assets of TUSD 44 974 (2011: TUSD 44 263) in respect of unused tax losses amounting to TUSD 243 975 (2011: TUSD 225 881). These tax loss carry-forwards expire as shown in the table below:

in TUSD	2012	2011 ¹
0–2 years	8 161	7 924
3–5 years	3 406	3 312
5–7 years	139 258	135 825
over 7 years	93 150	78 820
Total tax loss carry-forwards	243 975	225 881

TUSD 20 664 of these loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 25% (2011: TUSD 26 020 with an applicable tax rate of 25%), TUSD 44 108 belong to the Brazilian operations with an applicable tax rate of 34% (2011: TUSD 48 335 with an applicable tax rate of 34%), USD 14 377 belong to the Gabonese operations with an applicable tax rate of 35% (2011: USD 13 658 with an applicable tax rate of 35%) and USD 164 826 belong to the Swiss operation with an applicable tax rate of 12% (2011: USD 137 867 with an applicable tax rate of 12%).

34. Divestments and acquisitions

In 2011, Precious Woods sold 75% of its Central American operations (see Note 11). In 2012, the remaining 25% shares of Precious Woods Central America AG were sold. Furthermore in 2012, 40% of the BK Energia operations were sold in a cash-neutral solution. There were no acquisitions in 2011 and 2012.

35. Subsequent events

In January and February 2013, the Group issued three additional convertible loans in the aggregated amount of CHF 3 million at a conversion price of CHF 3.00 per share.

In March 2013, the group successfully increased its ordinary capital by 309'451 shares with CHF 1.00 par value each to CHF 3'747'806.

36. Approval of financial statements and dividends

The financial statements were approved by the Board of Directors on 17 April 2013 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 2012 (2011: 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 38 to 76), for the year ended 31 December 2012.

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 2012 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)



Olivier Mange
Licensed audit expert

Zurich, 17 April 2013



Precious Woods Holding Ltd financial statements

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Balance sheets as of 31 December 2012 and 2011 (in TCHF)

ASSETS	Notes	2012	2011
Current assets			
Cash and cash equivalents		3 191	7 754
Trade receivables third		2 556	2 848
Trade receivables Group		2 751	2 763
Short-term receivables third		82	215
Short-term receivables Group		10 961	8 625
Inventories		–	–
Prepaid expenses		98	99
Total current assets		19 639	22 304
Non-current assets			
Fixed assets, net		152	259
Loans to third parties		–	–
Loans to affiliates		26 223	38 921
Investments	2	65 793	83 608
Long-term financial assets		34	6
Intangible assets		36	–
Total non-current assets		92 238	122 794
TOTAL		111 877	145 098
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables third		176	324
Trade payables Group		2 943	3 246
Trade payables affiliates		30	105
Other payables		60	382
Short-term bank loan		–	–
Accrued expenses		883	1 211
Short term financial liabilities		1 137	437
Total current liabilities		5 229	5 705
Non-current liabilities			
Long-term liabilities		22 082	33 781
Bank loan		–	–
Provisions		–	–
Total non-current liabilities		22 082	33 781
Shareholders' equity			
Share capital	1	3 438	3 438
General reserve		29 535	24 337
Reserve from contribution in kind		78 151 ²	83 348 ¹
Accumulated losses		–26 557	–5 511
Total shareholders' equity		84 567	105 612
TOTAL		111 877	145 098

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

² The decision of the federal tax administration is now final.

See notes to Precious Woods Holding Ltd financial statements on pages 82 to 87.

Statements of income and accumulated deficit 2012 and 2011 (in TCHF)

INCOME	Notes	2012	2011
Sales			
Net trading-sales timber products		21 861	26 440
Net trading-sales CO ₂ certificates		–	–
General costs of production		–18 834	–19 818
Total income, net		3 027	6 622
OPERATIONAL EXPENSES			
Personnel expenses	5	–2 960	–3 925
Administrative expenses		–1 516	–1 770
Audit fees		–205	–423
Total operating expenses		–4 681	–6 118
Interest expenses and bank charges		–3 374	–4 427
Total non-operating expenses		–3 374	–4 427
OTHER INCOME/(EXPENSES)			
Foreign exchange differences		1 498	89
Other expenses		–64	–
Amortizations		–19 400	–2 715
Other income		1 939	1 083
Total other income/expenses, net		–16 027	–1 543
Profit before taxes		–21 056	–5 466
Taxes		10	–45
Net profit		–21 046	–5 511

See notes to Precious Woods Holding Ltd financial statements on pages 82 to 87.

Notes to the financial statements of Precious Woods Holding Ltd

1. General

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

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

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

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

The share capital as of 31 December 2012 is composed of 3 438 355 (2011: 3 438 355) fully paid-in registered shares, each with a nominal value of CHF 1. On 18 December 2012, the extra ordinary General Meeting authorized the Board of Directors to increase the ordinary capital of CHF 3'438'355 to CHF 3'747'806 (3'747'806 shares nominal CHF 1.00). 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 2012		Currency	31 December 2011	
		Nominal share capital	Participation		Nominal share capital	Participation
Precious Woods Management Ltd. British Virgin Islands (sub-holding)	USD	20 000	100.00%	USD	20 000	100.00%
Madeiras Preciosas de Amazonia Manejo Ltda. Brazil (sub-holding company) 0.02% of the shares are held by Precious Woods Management Ltd., B.V.I.	BRL	4 400 000	99.98%	BRL	4 400 000	99.98%
MIL Madeiras Preciosas Ltda. Brazil (land and forest operations) 2.7% of the shares are held by Madeiras Preciosas de Amazonia Manejo Ltda., Brazil	BRL	68 074 251	97.30%	BRL	68 074 251	97.30%
Precious Woods do Pará S.A. Brazil (sub-holding company, land and forest operations)	BRL	1 003	100.00%	BRL	1 003	100.00%
Precious Woods Manejo Florestal Ltda. Brazil (land and forest operations)	BRL	24 429 917	100.00%	BRL	24 429 917	100.00%
Precious Woods Europe B.V. Netherlands (sub-holding, timber trade)	EUR	18 000	100.00%	EUR	18 000	100.00%
Unio S.A. Luxembourg (sub-holding for Gabonese entities)	EUR	1 000 000	100.00%	EUR	1 000 000	100.00%
Lastour & Co. S.A. Luxembourg (sub-holding for Gabonese entities)	EUR	372 575	100.00%	EUR	372 575	100.00%
Precious Woods Central America AG Switzerland	CHF	–	0.00%	CHF	10 000 000	25.00%

BRL – Brazilian real

EUR – European euro

USD – US dollar

3. Authorized capital

On 24 May 2012 the Annual General Meeting renewed the existing authorized capital of CHF 800'000 until 24 May 2014. On 18 December 2012, the extra ordinary General Meeting authorized the Board of Directors to increase the authorized capital of CHF 800'000 to CHF 1'547'260 (1'547'260 shares nominal CHF 1.00). The Board of Directors is thus authorized to increase the share capital at any time before 18 December 2014 by a maximum amount of CHF 1'547'260 by way of issuance of no more than 1'547'260 registered shares that are to be fully paid in with a nominal value of CHF 1 each. During 2012 no new shares were issued by the company under the authorized share capital.

The authorized share capital expires on 18 December 2014.

4. Conditional share capital

As of 31 December 2012, the company had the following conditional share capital:

- a. On 18 December 2012 the extra ordinary General Meeting authorized the company to increase its conditional capital according to Article 3a of the Articles of Association from CHF 1'450'000 to 1'578'689. (1'578'689 shares each with a nominal value of CHF 1).
- b. Additionally, according to Article 3b of the Articles of Association the share capital of the company may be increased by the maximum amount of CHF 140 488 by the issuance of no more than 140 488 (2011: 140 488) registered shares that are to be fully paid in and have a nominal value of CHF 1 each; this increase being the result of the exercise of option rights that can be granted to Board members and employees of the company or of affiliated companies.

5. Board and Executive compensation

Compensation

The compensation of the Board of Directors was as follows:

For the year 2012	Compensation Fix in cash	Compensation Fix in shares	Compensation For part. in committees	Other ¹ compensation	Total² compensation	Loans and credits	Numbers of shares
all amounts in TCHF							
Ernst A. Brugger	235	–	–	31	266	–	21 848
Markus Breitenmoser ³	14	–	8	1	23	–	–
Marga Gyger ³	14	–	5	–	19	–	–
Thomas Hagen ⁴	8	–	4	1	13	–	11 000
Katharina Lehmann	20	–	5	2	27	–	8 680
Dominik Mohr	12	–	10	8	30	–	–
Rudolf Wehrli ⁵	15	–	7	2	24	–	2 500
Total	318	–	39	45	402	–	44 028
<hr/>							
For the year 2011	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	288	–	–	51	339	–	13 592
Markus Breitenmoser	12	–	26	3	41	–	2 000
Daniel Girsberger ⁵	8	–	6	1	15	–	3 665
Marga Gyger	12	–	30	–	42	–	–
Thomas Hagen	20	–	17	2	39	–	2 900
Rolf Jeker ⁵	8	–	–	1	9	–	1 767
Inge Jost ⁵	8	–	14	1	23	–	582
Katharina Lehmann	20	–	36	4	60	–	2 680
Claude Martin ⁵	8	–	9	–	17	–	400
Rudolf Wehrli	20	–	20	3	43	–	2 000
Total	404	–	158	66	628	–	29 586

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

² The effective amount paid to the chairman was TCHF 235, TCHF 31 were paid for secretarial services behalf of the holding to the company BHP-Brugger and Partner, invoiced at cost price.

³ These Board members resigned as of September 2012.

⁴ This Board member resigned as of May 2012.

⁵ These Board members resigned as of May 2011.

The compensation of the Group Management was as follows:

For the year 2012	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 ³	388	–	69	457	–
Group Management Total	981	–	138	1 119	–

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	–

¹ During 2012 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.

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

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

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

For the year 2011	Shares	Options
Joachim Kaufmann, CEO	1 000	–
Gerhard Willi, CFO	–	–
Cornelia Gehrig, CFO	1	–

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 2012		Additional number of shares in case of conversion of convertible bonds/ loans 2012		Number of shares 2011		Additional number of shares in case of conversion of convertible bonds/ loans 2011	
Round Enterprises Ltd.	201 203	5.85%	126 316	3.67%	201 203	5.85%	242 857	7.06%
Franke Artemis Holding AG	189 571	5.52%	73 684	2.14%	189 571	5.52%	157 142	4.57%
Baloise Holding	305 300	8.88%	–	–	305 300	8.88%	–	–
Aires International Investment Inc	–	–	555 555	16.15%	–	–	222 222	6.46%
UBS Fund Management	–	–	–	–	163 480	4.75%	–	–
Novartis Pooling Fund I	140 000	4.07%	–	–	140 000	4.07%	–	–
Beamtenversicherungskasse des Kantons Zürich	–	–	–	–	134 350	3.91%	–	–
Fleischmann Immobilien AG	103 500	3.00%	–	–	–	–	–	–

¹ Calculation is based on the current number of shares. Please also refer to note 17 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 2012:

8.1. Debt restructuring

The company was able to further lower its debt. In November two loans of the total amount of USD 5 million were repaid. In addition, two convertible loans of total CHF 7 million were repaid early in November. In December the company issued a new convertible bond of CHF 1 million, repayable in 18 November 2013.

8.2. Operational restructuring

While the turnaround process was distorted in 2012 by the crisis in Gabon and Europe, Management and the Board of Directors still believe that the operating result for 2013 can be improved significantly. The cost base was reduced again in all segments, while further investments in existing saw mills in Brazil were made to improve efficiency. Further investments in improvements of existing saw mills and the veneer factory in Gabon and Brazil will be made in 2013. Price increases were implemented and processes optimized. All of these measures, both on the revenue and on the cost side, will positively impact the results of 2013.

9. Pledged assets/other securities

As of 31 December 2012, Precious Woods Holding Ltd has no pledged assets or other securities.

10. Fire insurance value

The fire insurance value of tangible fixed assets amounts to CHF 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 80 to 87), for the year ended 31 December 2012.

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 2012 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)



Olivier Mange
Licensed audit expert

Zurich, 17 April 2013

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

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



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