

# Annual Report 2017

PRECIOUS WOODS Annual Report 2017



PRECIOUS WOODS



◀ **Cover:**

Forest image of Brazil

**Back:**

“The Giving Cube” made of tropical timber from Precious Woods, is an initiative of Precious Forests Foundation and WeContribute

**Precious Woods 2017 – Sales and earnings growth**

- 10% increase in sales volumes
- Positive net result
- Double-certification as to the highest standards in sustainability

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

# Key figures and information for investors

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

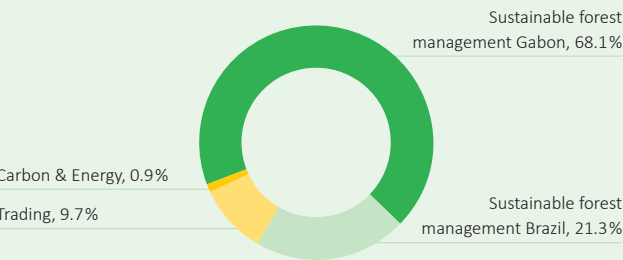
	2017	2016	2015 <sup>1</sup>	2014 <sup>1</sup>	2013 <sup>2</sup>
<b>Total revenue</b>	<b>44 997</b>	<b>41 319</b>	<b>39 994</b>	<b>38 768</b>	<b>37 303</b>
Amortization & Depreciation, Impairments	4 681	5 277	5 195	6 429	5 503
Amortisation & Depreciation	4 699	5 356	5 213	6 414	6 492
Impairments	−18	−79	−18	15	−989
<b>EBITDA</b>	<b>8 210</b>	<b>6 889</b>	<b>6 060</b>	<b>3 056</b>	<b>−7 220</b>
in % of the total revenue	18.2%	16.7%	15.2%	7.9%	−19.4%
EBIT	3 529	1 612	865	−3 373	−12 723
in % of the total revenue	7.8%	3.9%	2.2%	−8.7%	−34.1%
<b>Net result</b>	<b>1 643</b>	<b>−2 752</b>	<b>−4 265</b>	<b>−8 383</b>	<b>−16 944</b>
in % of the total revenue	3.7%	−6.7%	−10.7%	−21.6%	−45.4%
Balance sheet total	71 405	69 288	65 302	71 906	85 409
<b>Shareholders' equity</b>	<b>20 095</b>	<b>19 440</b>	<b>11 828</b>	<b>16 681</b>	<b>27 084</b>
in % of the balance sheet total	28.1%	28.1%	18.1%	23.2%	31.7%
<b>Net indebtedness</b>	<b>31 283</b>	<b>30 526</b>	<b>30 696</b>	<b>35 050</b>	<b>38 164</b>
<b>Cash flow from operating activities</b>	<b>3 351</b>	<b>2 229</b>	<b>3 972</b>	<b>899</b>	<b>−2 205</b>
Investments/acquisitions	−2 244	−2 320	−1 887	179	−1 686
Average full-time-equivalent employee	1 340	1 209	1 209	1 217	1 217

<sup>1</sup> Restated due to change of presentation currency

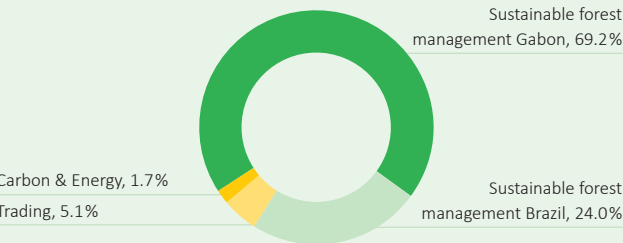
<sup>2</sup> Converted from USD to EUR with the exchange rates of 2014

### Total revenue by business segment

2017: EUR 45.0 million

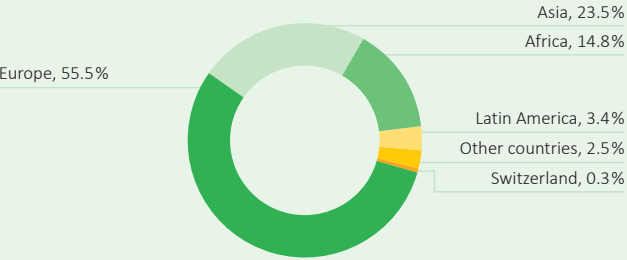


2016: EUR 41.3 million

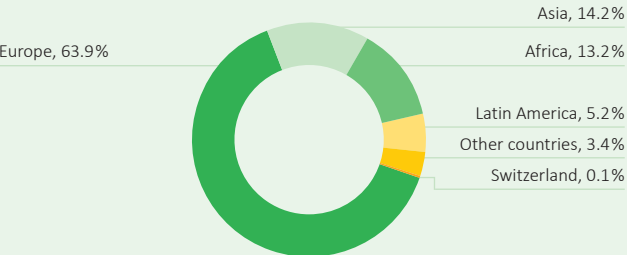


### Total net sales by market region

2017: EUR 44.6 million

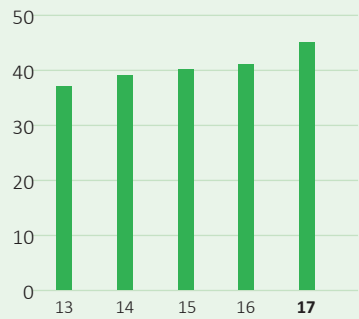


2016: EUR 40.6 million



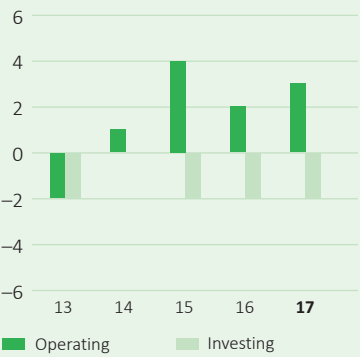
### Total revenue\*

EUR million



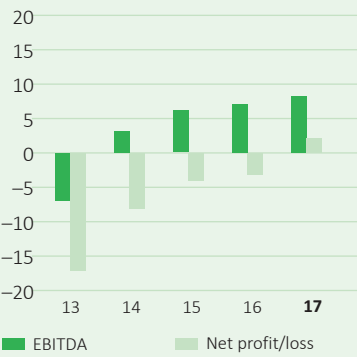
### Cash flow from operating and investing activities\*

EUR million



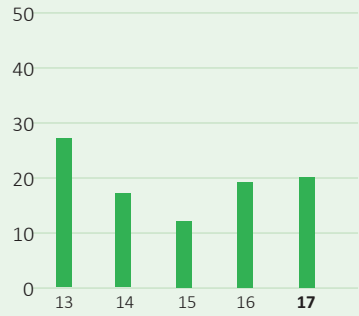
### EBITDA and net profit/loss\*

EUR million



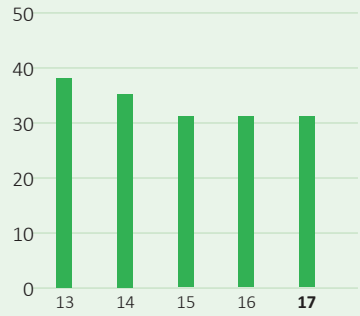
### Shareholders' equity\*

EUR million



### Net indebtedness\*

EUR million



### Information for investors

	2017
Share price in CHF	6.50
Stock market capitalization in CHF million	46
Earnings per share in EUR	0.23

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

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# To our shareholders

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Katharina Lehmann  
Chairwoman of the BoD

## Dear Shareholders

It was a great pleasure and honour to be given the opportunity to succeed Ernst A. Brugger as Chair of the Board of Directors of Precious Woods in May 2017. I have been working with this company for several years now, and although we see ourselves as an SME, the complexity of the company should not be underestimated. The challenges of our performance of services in the countries of Gabon and Brazil, the maintenance of our exceptionally high standards in the current business environment, and the constantly changing market requirements and customer needs always confront our company and our team with new challenges. Nonetheless, for me, for my colleagues on the Board of Directors, for all our managers, for more than 1 300 employees and I hope also for you as shareholders, Precious Woods means a multi-dimensional sense of purpose. This is our incentive, inspiration, and commitment.

### A milestone achieved in terms of our economic goals

We concluded the 2017 fiscal year with a consolidated net profit of EUR 1.6 million and a return of 3.6%. Thanks in part to an increase in sales by 8.9%, earnings before interest and taxes (EBIT) rose by 118.9%. At EUR 3.5 million or a margin of 7.8%, EBIT was more than twice as high as in the previous year.

The positive net result is a milestone for the Group. It was a long and hard road that we had to travel since our acquisitions in the Netherlands and Gabon, the uncertain business environment in Brazil, the sales difficulties caused by the financial crisis and the associated consequences and challenges. Moreover, this year's result is affected by setbacks at PW Amazon, which we will describe in detail in the corresponding chapter of this annual report. The current financial

situation, our evident progress in combination with the stability of the management team, as well as the credibility and commitment of our company make me believe that this positive development is only the beginning. We have learned to deal with changes in policy and infrastructure and to act accordingly. Our core business is under control, we have strengthened our competence, and we are marketable and prepared for the future.

We are very grateful that Precious Woods is able to draw on an extremely committed, long-standing and competent team at the management level, in sales, at the holding company headquarters in Zug, as well as at the local companies in Gabon and Brazil. Thanks to all these dedicated individuals, we are not only able to look back on economic successes in 2017, but also to pursue our environmental and social goals with great consistency.

### Strengthening our social and environmental goals

PW Amazon was the first company in Brazil to be certified according to FSC guidelines – already 20 years ago. In 2017 the fifth complete recertification took place, which we passed with flying colours. PW Gabon has been FSC-certified since 2008 and also passed the external audit with top marks. In addition, we underwent certification according to the principles of the PEFC/PAFC in 2017. This sustainability standard is of a similarly high level compared to that of FSC and is preferred by some customers. The voluntary external audit according to defined standards underscores our awareness of sustainability and our efforts to achieve it. With this certification, we are also documenting our pioneering role in the sustainable management of tropical forests.

In many respects, our work and performance exceed the legal and social requirements defined by governments or NGOs. We are proud of this. Our firm conviction continues to be that the rainforest can be protected only by sustainable use and/or respective valorization, even if other models are offered for the protection of intact tropical forest areas and are also financed by attractive projects. We are convinced that in the end, a sustainably operating company is in an excellent position to achieve increased social responsibility, secure jobs, additional income for surrounding communities, social stability, and a future perspective for the local population, while at the same time taking into account the valuable and renewable resource of wood and the intact ecosystem in the tropical forests. That is our vision. And we are working on this vision with complete dedication.

### **We are working on the future**

We will continue to strive to optimize our operating activities in Gabon, Brazil and the trading business. At the same time, we want to expand our activities. At the top of our priority list is the ability to contract new concession areas. This will enable us to multiply the positive and strong impact of our business activities and contribute to the protection of larger tropical forest areas. Our team has the experience, expertise and competence to take further growth or expansion steps in value added depth.

In addition, we intend to tackle other smaller projects that generate added value for our company and make productive use of our forests outside the forestry sector. But our core business will continue to be the timber operations, the management of tropical forests, as well as the use of fallow to run sustainable forest management and timber operations.

### **Outlook and thanks**

Our reported result for 2017 and the existing optimization potential make us confident for the current fiscal year 2018. The investment projects in Gabon and the Amazon described in this annual report allow for a further increase in current operating activities. We also intend to invest in our hardwood processing capacities at the Bambidie site in Gabon. This investment must be ready for operations by 2020 so that the log volume and the corresponding product range can be cut and brought to market. This expansion investment is being carried out in parallel with the corresponding updates at the PW Amazon site.

The 2017 result is a success and motivation for the entire Precious Woods team. It boosts our morale and is proof that our activity is also substantiated in financial terms. This

result was made possible by the enormous commitment of all those involved in the success. As mentioned above, this includes numerous individuals both at the holding level and in the operating companies – in particular the valuable and responsible work of our CEO, CFO, and Delegate of the Board of Directors, Markus Brütsch. The foundation of our success is based on the contributions, commitment and perseverance of all employees. I would like to express my warmest gratitude for this and for them all continuing to work for our success story.

I would also like to thank my colleagues on the Board of Directors for their excellent, open, and rewarding cooperation. They make very important contributions, not only for me and for the Board of Directors, but also for our contacts in Gabon, Brazil, and Switzerland.

And finally, our most important thanks go to our shareholders. Thank you very much for remaining loyal to us even during difficult times and for your continued support. We build on the trust that you will support us in our vision of a truly sustainable enterprise along the three dimensions of economic, environmental, and social responsibilities. Precious Woods still has a great deal of potential – thanks to your commitment, we will make this visible.

Yours faithfully,



Katharina Lehmann  
Chairwoman of the Board of Directors







# Precious Woods – a sustainable forest management and wood processing 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 Forest Stewardship Council and PEFC (Programme for the Endorsement of Forest Certification)-certified sawn and 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 (CERs) by utilizing waste wood from the manufacturing process. The aim of all activities is highest customer value while preventing deforestation in tropical forests by utilizing their wood sustainably and generating associated added value. Economic success ensures the social and environmental sustainability of activities and is essential for the long-term conservation of tropical forests. The Precious Woods Group is headquartered in Switzerland and employed more than 1 300 people in Brazil, Gabon and Switzerland in 2017.

## Vision

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

## Focus on economic, social, and environmental added value

Precious Woods creates added value in economic and multi-dimensional 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 and timber industry and secures the long-term development of the Group. Precious Woods ensures social added value through the creation of jobs, targeted basic and continuing training in emerging countries, schools, health clinics, as well as other infrastructure in remote tropical forest areas. In doing so, the company makes an important contribution to economic and social development and stability in these regions. Precious Woods actively aims 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 – including their biodiversity – also for future generations. (A comprehensive description of Precious Woods' social and environmental engagement is provided in the Sustainability chapter on

pages 25 – 29 as well as in the reports on the individual business segments).



Ecological value



Social value



Economic value

## Products and markets

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

## Global and economic challenges in a dynamic environment

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

## A pioneering role – more than simply sustainable certification

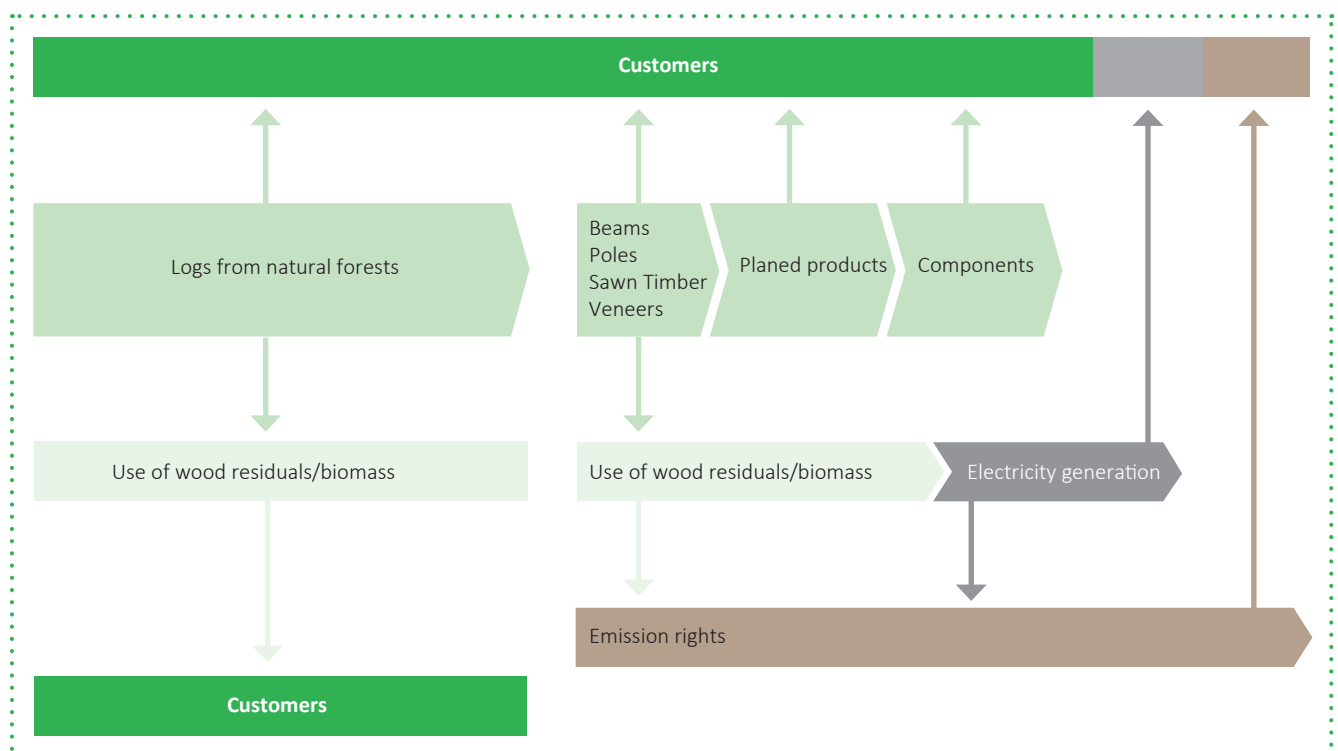
Precious Woods defines and measures the sustainability of all its activities on the basis of the principles and criteria of the FSC, which was founded in 1993. In 2017, the entire Group also underwent certification according to the principles of PEFC/PAFC (Pan-African Forestry Certification) – a sustainability standard of a similarly high level. Independent auditors regularly assess Precious Woods. Precious Woods is

convinced that in the long term, countries with tropical forest resources will grant new concessions to companies that comply with sustainability criteria. And we believe that credible 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 already played a leading role with its FSC certification in Brazil in 1997, and its PEFC certification in 2017 is another pioneering achievement. Precious Woods continues to be groundbreaking in forestry planning with GPS as well as road and land use planning in the forest. Precious Woods also plays a leading role in the use of non-timber products from forest resources. This includes the generation of electricity from wood waste in Brazil as well as trade in certified emission reductions (CERs) (since 2006). Since 2011, this has been an additional income source managed in collaboration with the renowned myclimate foundation.

### Strategy: Market orientation and continuous optimization of the value chain

Due to its holistic approach ranging from sustainable forest management and timber production to marketing, 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 certified. Unknown new species of wood are continuously tested and introduced on the market. For that purpose, Precious Woods examines applications for about 90 different timber species to satisfy customer and market demands and to enable sustainable economic management over the long term.

### Products and value chain





**Medium-term goals: Sustainable growth**

Following the acquisition-driven growth between 2000 and 2008, the company has since aimed at organic, sustainable growth. Medium-term goals are an EBITDA margin of about 20% of net annual sales and an equity ratio of about 40%. In order to secure its operational activities, Precious Woods has to ensure sufficient liquidity so that seasonal fluctuations and political risks can be absorbed. Not least of all, Precious Woods wants to secure 100% certification in all its activities.

**Management organization with increased market orientation**

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

## Milestones Precious Woods

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**2014** Successful conversion of the distribution structure over the PW Holding of the B2B of PW Amazon.

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

**2016** On 28 June 2016, the share capital increased with authorized capital in the amount of CHF 806 798 (806 798 shares with a nominal value of CHF 1.00 each). Furthermore, the share capital increased with conditional capital in the amount of CHF 93 850 (93 850 shares with a nominal value of CHF 1.00 each) in August 2016.

**2017** On 18 May 2017, the share capital increased with conditional capital, which was executed by conversion of a loan in the amount of CHF 150 000 (150 000 shares with a nominal value of CHF 1.00 each).



# Sales and earnings growth of the Precious Woods Group in 2017

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**Precious Woods achieved consolidated net sales of EUR 45.0 million in fiscal year 2017. This was 8.9 % higher than in the previous year (EUR 41.3 million). Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 19.2 % to EUR 8.2 million (previous year: EUR 6.9 million). Earnings before interest and taxes (EBIT) amounted to EUR 3.5 million, more than twice as high as in the previous year (EUR 1.6 million). The net result amounted to EUR 1.6 million, which represents an increase of EUR 4.4 million (previous year: EUR -2.8 million).**

## Income statement

### Total income

The net sales in 2017 amounted to EUR 45.0 million, which is 8.9% higher than the previous year's sales of EUR 41.3 million. This was achieved primarily through a 10% increase in sales volumes. The impact of the price/product mix and currencies was only -0.4%.

The increase in sales would have been even higher if we had been able to ship all goods by the end of the year. Infrastructure difficulties in Gabon and a far-reaching inspection of the port in Manaus (Brazil) hindered shipping, but not production capacity.

Sales from Brazil fell by EUR 0.7 million as a result of the delivery difficulties, while we achieved in Gabon an increase of 7.3% in sales. Trading sales in logs and sawn timber from Europe even increased by 111.1% over the previous year.

Sales proceeds from emission certificates amounted to EUR 0.4 million (previous year: EUR 0.7 million). The prices of the certificates are about 60% lower due to overcapacities on the market.

### Operational development: Costs and market

The production volume of sawn timber in Brazil fell by 10.6%, while yield was increased by 1 percentage point. The positive deviation from the decline in sales was due to the sale of inventories. In the context of slightly higher costs in local currency, the negative exchange rate effect was about 10% on a consolidated level due to the recovery of the BRL. This could not be compensated by the sales prices achieved.

In the saw mills in Gabon, 1.4% more logs were processed and yield was increased by 3.8 percentage points. The measures taken to increase productivity had an impact. More valuable wood species could also be processed, which

resulted in a lower yield but also achieved a higher sales price.

In the veneer plant in Gabon, production volume fell by 4.5%, while yield rose by 0.5 percentage points. We reduced production to 2-shift operations starting in September 2017 due to the temporary saturation of the customer market. 3-shift operations were resumed in mid-January 2018.

The investment volume of EUR 2.2 million remained at the previous year's level. The main focus was on replacement investments in vehicles, renovation projects in road construction, seasoning capacities for sawn timber, and a drying kiln for the veneer plant. This allowed us to further improve added value.

The average prices for sawn timber in the Group were below the previous year's level. This is mainly due to the mix of timber species in Brazil, which can vary greatly in wood species and quality depending on the harvest region. However, higher production volumes compensated for this disadvantage. The demand for certified sawn timber and veneer is steadily increasing. Since we cannot increase our own harvest volumes at will, we will continue to expand our trading business. Europe continues to be our main sales market with a share of about 56%, followed by Asia with 23%, Africa with 15%, and other countries with 6%. The share in Europe fell by 8 percentage points in favour of the Asian market, which is becoming increasingly important for the Group.

### Operational contribution

Production costs fell by 4.4%, and the operational contribution increased by 8.9% or EUR 3.7 million compared with the previous year. The focus for 2018 is on increasing production in the saw mills while at the same time improving yield. A productivity increase is also expected in the veneer plant. Additional investments in processing and road construction machinery will contribute to a further reduction in costs and an increase in efficiency.

### Operating result (EBITDA)

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 8.2 million, which was EUR 1.3 million or 19.2% above the previous year (EUR 6.9 million). This corresponds to an EBITDA margin of 18.2% (previous year: 16.7%). While the operational contribution improved by EUR 3.7 million, other costs and income rose by EUR 2.3 million.

As a result of unrealized sales, high inventory levels, and appreciation of the Brazilian currency, the EBITDA margin at PW Amazon fell to only 1.2%. In Gabon, on the other hand, the EBITDA margin increased by 5.7 percentage points to 32.4% and the EBIT margin by 9.1 percentage points to 18.6%. Consolidated depreciation was EUR 4.7 million, 11.3% lower than in the previous year. At Group level, earnings before interest and taxes reached EUR 3.5 million, corresponding to a margin of 7.8%.

### **Financial result**

At EUR -1.8 million, the financial result was significantly lower than the previous year's figure of EUR -4.4 million. In addition to the repayment of more expensive loans, the currency effect made a contribution to this. While the currency effect in the previous year was EUR -0.1 million, it amounted to EUR 0.9 million in fiscal year 2017. Net debt was within the range of the previous year, given that net working capital increased by EUR 4.1 million due to the circumstances described.

### **Net result**

Net profit reached EUR 1.6 million, an improvement of EUR 4.4 million (previous year: EUR -2.8 million). The net profit margin was 3.7%.

### **Outlook**

Both harvest and production volumes will increase again in 2018. The net sales increase will be between 5% and 10%, and costs will develop at a disproportionately low rate. The investment volume will reach about EUR 6 million. We are convinced that the Group will continue to develop positively.

### **Balance sheet**

Total assets amounted to EUR 71.4 million, EUR 2.1 million higher than in the previous year.

Shareholders' capital amounted to EUR 20.1 million (previous year: EUR 19.4 million). The equity ratio as of the balance sheet date was 28.1% (previous year: 28.1%).

Cash flow from operating activities increased by EUR 1.2 million to EUR 3.4 million. The change in working capital was EUR -3.6 million. Investments in tangible fixed assets amounted to EUR 2.2 million. Cash flow from financing activities was EUR 0.2 million. Overall, the Group's financial situation strengthened.







# Precious Woods Amazon – a difficult business year

**PW Amazon's net sales amounted to EUR 9.9 million and were 6.8 % below the previous year's figure of EUR 10.6 million. Export sales fell by 3.4 %, and deliveries of bio-mass for the energy plant fell by 5.1 %. This was due to delivery difficulties toward the end of the year and the mix of wood species processed in 2017. As a result, earnings before interest, taxes, depreciation and amortization (EBITDA) fell to EUR 0.1 million, corresponding to a margin of only 1.2 %. Earnings before interest and taxes (EBIT) amounted to EUR -0.3 million. This corresponds to a reduction of EUR 1.2 million compared to the previous year's period.**

## Higher harvest volume – lower production

The harvest volume was 129 600 m<sup>3</sup>, 4.2% more than in the previous year. The sawmill processed 120 400 m<sup>3</sup> of logs, about 10% less than in the previous year. The yield was increased by 1 percentage point. This resulted in a 5.6% reduction in sawn timber production, namely 22 620 m<sup>3</sup> (previous year: 24 000 m<sup>3</sup>). The volume of processing of 11 000 m<sup>3</sup> per month was not reached. This was due on the one hand to the availability of logs, the wood species mix, and the associated sales opportunities, and on the other hand to the necessary maintenance work.

Supplies to the energy plant were in line with regular annual volumes, while compensation deliveries had been made in the course of 2016 due to an operational interruption. On 15 December 2017, a large-scale campaign was launched against the illegal trade in sawn timber. The Federal Police blocked the entire loading of containers at the Port of Manaus – a total of 440 containers, 64 of which were shipped by PW Amazon. Although of course all of PW Amazon's containers met the requirements, the irregularities at other suppliers led to delays in delivery. No export sales could be generated during the months of December 2017 to February 2018. As a result, our working capital increased and there was a tight liquidity situation.

The investments of around EUR 0.7 million were used primarily for the expansion of the forestry road network and seasoning capacity. Various building extensions and technical adjustments to the sawmill production lines were carried out exclusively in-house.

The local currency (BRL) appreciated by around 10% against the euro. Virtually all costs are incurred in BRL, which resulted in a negative impact on the income statement. This could not be offset by sales volumes or price adjustments.

Legal rules and our commitment to the sustainable use of tropical forests require that our company in Brazil has to harvest many different species of wood. This constitutes a great task and also entails greater complexity for our operational activity. Our ongoing challenge is therefore to establish and promote unused or underused species on the export market and to examine their areas of application. On the local market, market prices are very low, and transport costs to the populous areas in the south of the country are high. For that reason – and because we compete on the home market with illegally harvested and thus cheaper sawn timber – our competitiveness on the local sales market is limited. We are thus grateful that we are regularly able to gain customers in Europe and Asia for the use of new species of wood that are not very well known on the market, that we are able to convince them of the specific qualities of those species, and that we are able to enter into promising partnerships.

## Precious Woods Amazon in brief

Precious Woods has been operating in the state of Amazonas, Brazil, since 1996. PW Amazon runs sustainable forest management on 506 699 hectares (as of the end of 2017) of its own land and concessions near Itacoatiara, 170 kilometres east of Manaus. PW Amazon has been certified according to FSC standards since 1997. In December 2017, PW Amazon was additionally certified according to PEFC standards. Certified forests are managed sustainably on the basis of an audited harvesting plan under which only two or three trees per hectare of forest are harvested during a 35-year cycle. At the same time, this gentle 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, the United States, and Asia as well as sold on the local market.

### **Continuous efforts on legacies and exceptional factors**

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

There was no change in the situation in 2017 regarding the pending threat of two major fines. One is a threatened fine from the Brazilian environmental protection authority IBAMA dating back to 2002 and the other a threatened property tax fine from the year 2007. We are expecting to resolve both cases in collaboration with our lawyers within the scope of provisions already set aside.

### **Social and environmental sustainability**

In 2017, Precious Woods Amazon passed the full FSC recertification audit – which is conducted every five years – with an excellent result, credibly documenting that we set standards in regard to the sustainable use of our forest areas. PW Amazon was additionally certified under the virtually equivalent standards of the PEFC, with the same excellent result. PW Amazon is thus the first forestry operation in Brazil with a double certification. We are currently working on several scientific projects to examine our activity over the medium and long term and to obtain information to optimize and document our forestry operations. We are also in close and intensive contact with the regional communities, allowing us to undertake useful joint projects. The focus is on forestry training, security, but also support for local small businesses.

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

- In order to raise awareness of our sustainable forest management, we inaugurated an educational forest trail. The trail is located in an area that was cultivated more than 20 years ago. This impressively documents how the natural regeneration of the rainforest takes place under sustainable use.
- Together with the military police of Itacoatiara, investigations of poaching and illegal woodcutting were conducted in the region. Monthly patrols to secure our forest areas

were also intensified, and activities were expanded – for example by installing warning signs, distributing information brochures, and initiating a series of lectures.

- In cooperation with EMBRAPA (Brazilian Agricultural Research Corporation), we started a project on the measuring of tree growth after harvesting and the productivity capacity of the tree population. This project is being continued, providing valuable analysis data over time for scientific purposes.
- A research project is currently underway for monitoring the carbon dynamic in managed forests in the Amazon. The goal of this project is to define the methodology for measuring carbon sequestration in managed forests in the Amazon in order to create the preconditions for offsets of emission rights.
- As a contribution to social engagement, PW Amazon created a playground and meeting place for all age groups in Itacoatiara, which is highly appreciated by the city government and the population.
- We continue to strive to promote the agricultural production from the communities, such as cassava flour, fruit pulp, tucumã, rambutã and vegetables. This enriches the diet of the local population, and we ourselves are an important purchaser of the products. We also continue to support the extraction of non-timber forest products (oils, resins, seeds and other natural essences). These are traditionally processed by the communities and contribute to their income.
- In addition, we continue to be active in offering courses for vocational development and improvement of skills for the manufacture of handicrafts. This programme is done in partnership with CETAM (Center for Technological Education of Amazonas) and SENAI (National Industrial Learning Service). The goal of these courses is to provide the local population with the opportunity to improve their income with the manufacture and sale of handmade products.



## Outlook for 2018

Numerous measures to increase production capacity and yield have already been initiated. For example, we expect harvest volumes to be around 10% higher and production and sales volumes to be around 15% higher. Thanks to investment loans from a local bank, we will invest in road construction and forestry machinery in addition to smaller investments in the sawmill. These measures are intended to increase our productivity and result in a positive business result.

Our ambition continues to be to gain a foothold in the local Brazilian market with sustainably produced sawn timber products. We are committing substantial resources for this purpose. We are currently still dependent on the export markets and therefore on long-term partnerships in our traditional European and increasingly also Asian countries.

### Key figures for Precious Woods Amazon

		2017	2016	Change
<b>Economic</b>				
Sales sawn and industrialized wood	in m <sup>3</sup>	22 300	24 200	−7.9%
whereof export	in m <sup>3</sup>	17 700	20 500	−13.7%
Sales logs and piles	in m <sup>3</sup>	—	—	—
Sales biomass	in m <sup>3</sup>	81 700	107 500	−24.0%
Harvest volume	in m <sup>3</sup>	129 600	124 400	4.2%
Net sales	in EUR million	9.9	10.6	−6.6%
Operating result	in EUR million	0.1	1.2	−91.7%
<b>Environmental</b>				
Energy consumption	in GJ	43 000	44 500	−3.4%
Direct CO <sub>2</sub> emissions	in t	2 000	2 300	−13.0%
FSC share of timber production sold	in %	100	100	—
<b>Social indicators</b>				
Employees (yearly average)		499	480	4.0%
Women	in %	12.0	11.1	8.1%
Accidents at work		19	107	−82.2%
Days lost per accident		8.3	4.8	72.9%







# Precious Woods Gabon – further progress

**PW Gabon's net sales amounted to EUR 30.7 million, 7.3 % above the previous year's figure of EUR 28.6 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) reached EUR 9.9 million. This represents an improvement of 29.8 % over the previous year (EUR 7.6 million). The EBITDA margin was 32.4 %, an increase of 5.7 percentage points. Earnings before interest and taxes (EBIT) amounted to EUR 5.7 million, more than double that of the previous year (EUR 2.7 million). Overall, this corresponds to a margin of 18.6 % (previous year: 9.5 %).**

## **Increase in productivity and profitability**

The harvest volume in 2017 was 238 600 m<sup>3</sup>, an increase of 21.2% over the previous year (196 800 m<sup>3</sup>). In the sawmills in Bambidie, 126 000 m<sup>3</sup> and thus 1.4% more logs were processed, and yield was increased by 3.8 percentage points. This resulted in a sawn timber production of 44 700 m<sup>3</sup>, an increase of 13.6% over the previous year. The fact that sales did not increase to the same extent is due on the one hand to the product mix and on the other hand to the delivery difficulties at the end of the year, which led to an increase in sawn timber inventories. Market prices for sawn timber were volatile in the reporting period. This entailed a recovery in prices at the beginning of the year and a decrease slump over the course of 2017.

The veneer plant (TGI) processed 55 200 m<sup>3</sup> and thus 4.5% fewer logs, but the yield was increased by 0.5 percentage points. As a result, the production volume of veneer declined by 3.6% in 2017. Demand for top quality was high all year round, but demand for the second-grade goods fell sharply and forced us to reduce production by one shift to 2-shift production starting in September 2017. We were able to resume full production in mid-January 2018 thanks to changed market conditions.

PW Gabon's total investments in the amount of EUR 2.5 million were used mainly for forest machinery, homes for employees and their families in Bambidie, the replacement and expansion of our vehicle fleet, and a new drying kiln for the veneer plant. The increase in the harvest volume required the establishment of an additional team for forestry operations and the associated technical equipment.

The staffing situation remained stable, and the fluctuation among expats was in line with the usual pattern. The maintenance team was strengthened, and additional skills were developed, promoted, and expanded at various locations.

Now the focus will be on further expanding the proven management team and thus creating the conditions for managing targeted growth projects.

The liquidity situation eased thanks to the result achieved, although the input tax credit with the Gabonese government meanwhile amounts to EUR 3.7 million. In 2017, it was possible to finance parts of the investments out of the cash flow. However, a large part of the operating cash flow was tied up in inventory, which increased due to delivery difficulties. During the year, there were repeatedly bottlenecks in rail and road traffic. There were too few railcars available, and an interruption in the road network caused a detour of more than 200 km each way. While a second port was inaugurated in Owendo, operated by the same operator, the reorganization of port operations caused disruptions that lasted until the end of the year and made it impossible to ship all goods on time.

## **In a stronger position for the next phase**

With an EBITDA margin of 32.4% in 2017 (previous year: 26.7%), we were able to demonstrate that the measures taken were successfully implemented. This excellent result was achieved thanks to a stable and effective management situation and the associated continuous improvements. The result shows that we are ready for the next growth steps, be it for additional concessions or for deeper added value.

Working capital increased by EUR 2.5 million, of which EUR 1.8 million are related to the inventory build-up. As a result, tied-up capital amounts to 31.8% of net sales (previous year: 24.8%). The stated goal is to reduce this to a reasonable level of about 25%. Net debt at PW Gabon increased by EUR 0.9 million compared to the previous year. We have sufficient funds at our disposal to cope with the increased investment activity in 2018.

## **Report on further progress in social and environmental sustainability**

At both locations – Bambidie and Owendo – FSC inspection audits were conducted and again very successfully concluded in 2017. The high level from the previous year was confirmed. Forestry certification according to the PAFC guidelines was also completed. CEB is thus the first company in the Congo Basin to receive double certification.



We are also working on the following projects:

- A new project called “Maison de la Culture” was launched with the goal of offering the village community a platform for holding cultural events. A playground for children and teenagers, which was opened with a ceremony in March 2017, is also integrated into this project. The Maison de la Culture was finished at the end of the year, and installations are now being completed so that it can officially be handed over to the community.
- Numerous training sessions took place for our harvesting teams, and their knowledge and skills in “Reduced Impact Logging” have been improved.
- Training courses for first aid in cooperation with the Red Cross and advanced training of the company fire brigade in cooperation with governmental organizations were organized.
- Cooperation with the Research Institute in Tropical Ecology (IRET) for research on and further development of non-timber products was continued.
- We also continued the Dynafor project in collaboration with Natur+. The goal of this project is to study the dynamic and enrichment of the forest and to gain findings for the future.
- The joint project with the WCS (Wildlife Conservation Society) was further refined, with the goal of developing a monitoring protocol for surveying and evaluating biodiversity in our concessions. It will include a survey of fauna in future.

### **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 596 800 hectares. In 2014, a protected area of 19 900 hectares was separated out. PW Gabon employs around 830 persons and harvests approximately 240 000 cubic metres of logs each year. The company operates according to a sustainable 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 has been FSC-certified since October 2008 and the TGI chain of custody since January 2010. The forestry operation has also been PAFC-certified since 2017.

## Outlook for 2018

In 2018, further improvements will be made to the sawmills, such as increasing seasoning capacity, merging the two sharpening plants, and improving energy supply. All of this is in preparation for a capacity expansion that will be necessary in 2019. The harvest volume is to amount to 240 000 m<sup>3</sup>, and the production volume in the sawmills is to be increased by 3.5%. We expect production in the veneer plant to increase by 3%. Sales growth will be between 5% and 10%. With slightly higher costs, the EBITDA margin is likely to be slightly lower than the record result of 2017, but at least as high in absolute terms.

At the beginning of 2018, we carried out preparatory work to advance the project of an energy plant. However, as the new forestry law has not yet been definitively adopted, we will leave it at preparatory work for now and only invest in it once there is legal certainty. In addition, we are investigating additional concession areas that we intend to manage. The demand for logs in Gabon has risen massively because companies have settled in a specially created industrial zone for the first transformation (processing step).

### Key figures for Precious Woods Gabon

		2017	2016	Change
<b>Economic</b>				
Sales sawn and industrialized wood	in m <sup>3</sup>	36 700	34 700	5.8%
Sales logs	in m <sup>3</sup>	55 400	32 100	72.6%
Sales rotary veneer	in m <sup>3</sup>	26 000	27 900	-6.8%
Sales sliced veneer	in m <sup>2</sup>	57 400	543 600	-89.4%
Harvest volume	in m <sup>3</sup>	238 600	196 800	21.2%
Net sales	in EUR million	30.7	28.6	7.3%
Operating result	in EUR million	9.9	7.6	30.3%
<b>Environmental</b>				
Energy consumption	in GJ	162 000	153 100	5.8%
CO <sub>2</sub> emissions	in t	14 500	13 800	5.1%
FSC share of timber production sold	in %	100	100	—
<b>Social indicators</b>				
Employees (yearly average)		830	800	3.8%
Women	in %	9	9.6	-3.1%
Accidents at work		77	91	-15.4%
Days lost per accident		10.9	11.8	-7.6%







## Precious Woods Trading – sales in logs and sawn timber from Europe more than double

Trading in logs and sawn timber from Europe complements the current product range of Precious Woods and expands our knowledge in the sales and procurement market. It supplements our core business, which consists in the processing and trading of tropical sawn timber from Brazil and Gabon and these revenues are shown in the respective segments.

Net sales from the trading business in the 2017 reporting year amounted to EUR 4.4 million, doubling the previous year's level of business activity (2016: EUR 2.1 million).

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 0.5 million. The EBITDA margin was 11.3% (previous year: 5.4%).

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

### Precious Woods Trading in brief

After the decision to close PW Europe, the administration was taken over by PW Holding in Zug, from 2014, and goods were delivered directly from production plants from Brazil and Gabon.

Furthermore, in 2014, the trading of certified European logs and sawn timber was taken up, complementing our extensive range of products.

### Key figures for Precious Woods Trading

		2017	2016	Change
<b>Economic</b>				
Sales logs and sawn wood	in m <sup>3</sup>	19 300	11 900	62.2%
Net sales	in EUR million	4.4	2.1	109.5%
Operating result	in EUR million	0.5	0.1	400.0%
<b>Environmental</b>				
CO <sub>2</sub> emissions	in t	0	0	
PEFC share of timber sold	in %	100	100	—







# Carbon & Energy – trading in CER emission certificates

**Net sales from trading in emission certificates amounted to EUR 0.4 million in 2017 (previous year: EUR 0.7 million).**

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

## CERs from Brazilian biomass

BK Energia's 9-megawatt power plant in Brazil provides the city of Itacoatiara and the production site of Precious Woods Amazon with a total of 6 MW of electricity and steam for seasoning. All of the power plant's electricity is generated from the waste timber of the PW Amazon sawmill, i.e., renewable biomass.

It produced a total of 51 596 tons of CO<sub>2</sub> equivalents in 2017, which amounts to a decrease of 3.6% compared with the previous year.

The biomass power plant will continue to play an important role for Precious Woods: firstly from an operational perspective (inexpensive electricity and heat supply), secondly due to the opportunity to sell waste timber products, and thirdly because complete utilization of the harvested wood makes a contribution to avoiding CO<sub>2</sub> emissions.

## Emission trading together with myclimate

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

The plant produces up to 45 000 MWh of electricity each year, for which otherwise about 10 – 15 million litres of diesel would be consumed. This replaces several diesel generators and provides the city's approximately 100 000 inhabitants with more climate-friendly power. Thanks to the power plant, the local population benefits from lower energy prices and more stable energy supply (fewer outages and transport losses). The waste heat generated during electricity production is used for the wood seasoning plants.

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

João Cruz Rodrigues, Director of Precious Woods Amazon

For the production of the electrical and thermal power, about 100 000 tons of wood are required each year. This waste wood is delivered in the form of wood cuttings and sawdust from the sawmill. All this biomass comes from sustainable forestry in accordance with FSC guidelines. Prior to start-up of the plant, this wood waste was rotting in large piles on the property or in the forests. The sustainable use reduces the emissions of the greenhouse gases CO<sub>2</sub> and methane.

## Precious Woods Carbon & Energy

The Precious Woods business segment Carbon & Energy comprises trading in CERs and shares in a power plant fuelled with waste timber. Since 2005, Precious Woods ran this biomass power plant in Itacoatiara, Brazil which had been in operation since 2002. Effective 1 April 2012, Precious Woods sold 40% of its shares in the biomass power plant and reduced its own share from 80% to 40%. However, the sawmill of PW Amazon is still the sole biomass supplier of the plant. The plant is a climate project replacing diesel with biomass and thus renewable energy. Climate projects comply with the Clean Development Mechanism (CDM) of the Kyoto Protocol. The resulting CERs have been traded since 2011 by the myclimate foundation<sup>1</sup> on behalf of Precious Woods.

<sup>1</sup> myclimate is a Switzerland-based organization set up in 2002 to provide environmentally responsible solutions to individuals and companies. [www.myclimate.org](http://www.myclimate.org)





# Sustainability as the focus of entrepreneurial philosophy

Certification according to the standard of the Forest Stewardship Council (FSC) has been part of the entrepreneurial philosophy of Precious Woods for many years. This standard defines all essential criteria for sustainability in forest management. Certification covers forestry processes as well as operational timber production, trading, and the handling of social and environmental demands in the context of tropical forest management. In 2017, the entire Group was additionally certified according to the PEFC/PAFC standard. Precious Woods thus guarantees 100 %-certified products from its PW Amazon, PW Gabon, and PW Holding operations. Below, we will discuss some of the aspects of operational activity that go beyond the defined sustainability standards. Thanks to its consistent engagement on behalf of sustainability, Precious Woods is one of the leading companies in terms of quality in the future-oriented forest management and timber industry.

## Selective wood utilization is not synonymous with sustainable forest management

Selective logging is not at all equivalent to sustainable forest management. FSC/PEFC-certified tropical forest management as practiced by Precious Woods is based on careful

planning and selection of the trees to be harvested, without endangering the stock of tree species or the associated regenerative capacity. Average logging at Precious Woods is 1 to 3 trees per hectare during a cycle of 25 or 35 years. The legal foundations would permit a far higher logging quota, which would also result in lower costs. But this is not an option for Precious Woods, because we would then be unable to fulfil our environmental or social responsibility. Our activities are independently verified and documented by scientific studies. In this way, we can demonstrate that our timber is harvested in tropical forests without affecting the ecosystem. Thanks to this insight, it is possible to secure jobs and generate local added value even in remote regions of emerging countries. At the same time, Precious Woods makes a wide range of contributions to earning opportunities, basic and continuing training, social stability, and infrastructure. Our activities benefit not only our customers, but also the local population. We are convinced that the pioneering role played by Precious Woods contributes to the sustainable value of wood as a material even in tropical forests, thus achieving triple added value (economic, environmental, and social).

## Key figures for Sustainability

		Brasil	Gabon
Forest area	in ha	506 699	596 800
Net forest area	in %	78	92
Employees		499	830
Communities		9	44
Harvest volume per year	in m <sup>3</sup>	140 000	240 000
Harvested area per year	in ha	11 700	22 000
Harvest volume per ha	in m <sup>3</sup>	12	12
Harvest cycle	in years	35	25



## Our contribution to permanent forest protection

### 4 : 1

- 20 years of measurement data on forest growth
- Annual growth of 4 m<sup>3</sup>/ha in sustainably managed forests compared with 1 m<sup>3</sup>/ha in protected zones

### 330 000 000tC

- Carbon absorbed by PW forests (basis of calculation 300tC/ha)

### Fauna / Flora

- Large elephant and gorilla population (Gabon)
- Most effective protection of biodiversity through gentle management (RIL, Reduced Impact Logging)

## Precious Woods Amazon closely connected with the local population

In 2017, Precious Woods Amazon successfully completed its 20th year of FSC-certification – one of the longest and thus most sustainable track records in Brazil's forestry sector. More far-reaching investments have been made not least of all in the fields of workplace safety, accident prevention, and training. We maintain partnerships with educational institutions in order to promote schooling as well as professional training for the employees, their families, and the inhabitants of Itacoatiara.

Precious Woods attaches great importance to a good relationship with the local population: In 2016, PW Amazon began a socioeconomic survey of the local communities. We draw on this survey to gain insights about the environmental, ethnic, and religious aspects and the measures we should take to promote participation by the local population.

Over the course of 2017, Precious Woods promoted cultural events, celebrations, and sporting events, and it supported the construction of community centres. Films and videos are also used as part of an environmental education project. Pieces of waste timber and other sawmill waste are provided to artisans and used in workshop courses for the local communities.

In cooperation with the HAFL (Bern University of Applied Sciences, School of Agricultural, Forest and Food Sciences) and other educational institutions, we regularly accompany bachelor's and master's theses of prospective forest engineers. In this way, we gain important insights into the impact of our activities, the regenerative capacity of our forest areas, and any potential for improvement. And sometimes we even succeed in attracting managers for our locations in Brazil and Gabon. The 20-year data collection on the growth of different tree species in the Amazon forests provides a unique basis for new approaches to sustainable management of tropical forests.

### Sustainability as our entrepreneurial principle

With its sustainable management of tropical forests, Precious Woods has taken on a challenge of global importance. This was once again made clear at the 2015 Climate Change Conference in Paris. Sustainable management of tropical forests makes a significant contribution to achieving climate targets. Sustainability means creating economic, environmental, and social added value – for investors, employees, partners, and other stakeholders. Depending on the tropical forest region, only one to three trees are harvested per hectare during a cycle (usually every 25 to 35 years). Biologically especially valuable forest areas remain untouched and are protected by Precious Woods. The forest retains its economic value and therefore is hardly at risk of being cleared for other uses, such as agriculture. The activities and services of Precious Woods thus support the long-term protection of the country's forest ecosystems. Precious Woods can therefore make a valuable contribution, especially in countries with poorly functioning institutions, a lack of transparency, and inadequate precautions for the protection of forests and biodiversity. From an entrepreneurial perspective, however, political stability, institutional reliability, and efficiency are indispensable local conditions for long-term commitment to ensure successful business activity. That is why we are also actively involved in improving the local framework conditions.

## Precious Woods in Gabon – gentle use and wildlife protection

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

Precious Woods devotes special attention to wildlife protection: The company is involved in the training and education of its employees and the local population together with the Wildlife Conservation Society (WCS). In cooperation with the WCS, PW Gabon also works to collect data on big game, the diversity of species, and other aspects of biodiversity. We also combat illegal activities, especially poaching. Today, poaching is largely under control. In this context, it is important to prevent access via forestry roads and back paths into the zones that have already been used.

## Illegal logging threatens certified timber trade and sustainable development

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

## Carbon footprint

The CO<sub>2</sub> 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.
- The total emissions amount to 23 076 metric tons of CO<sub>2</sub> equivalents, 15.1% more than in the previous year.

Precious Woods footprint	Category 1	Category 2	Category 3		Total
	Direct emissions from fuel consumption	Indirect emissions from electricity consumption	Flights	Transportation	
<b>In metric tons of CO<sub>2</sub></b>	<b>13 023</b>	<b>3 416</b>	<b>536</b>	<b>6 101</b>	<b>23 076</b>
Share per category	56%	15%	2%	26%	100%



## Opportunities for FSC-certified timber

The FSC certification standard goes far beyond the minimum requirements of legality, setting out more extensive demands in regard to environmental and social sustainability in forest management as well as an uninterrupted chain of custody. The tightening legal situation in importing countries will benefit trade in FSC-certified timber in the medium term. The total forest area under FSC certification was

195 million hectares at the end of 2017, which is greater than the area of Germany, France, Spain, and Italy combined. But only about 10% of that area covers tropical and subtropical forests, which means they are still highly underrepresented in terms of FSC certification. Precious Woods manages about 6% of the total FSC-certified tropical and subtropical forest area.

## Environmental and social indicators

		2017	2016	2015
<b>Environmental indicators</b>				
<b>Forest management</b>				
Forest protection	total area in ha	1 103 500	1 103 500	1 103 500
FSC share of timber production sold	in %	100	100	100
PEFC share of traded timber sold	in %	100	100	100
<b>Energy consumption and emissions</b>				
Reduction of CO <sub>2</sub> emissions	in t	51 596	53 540	42 544
CO <sub>2</sub> emissions	in t CO <sub>2</sub> -equivalents	16 400	16 100	14 000
Electricity consumption	in GJ	31 800	29 500	24 500
Fossil fuel consumption	in GJ	175 100	169 900	147 300
<b>Social indicators</b>				
<b>Employees</b>				
Number of employees (yearly average)		1 340	1 291	1 269
Brazil		499	480	468
Gabon		830	800	790
Europe		1	1	1
Corporate		10	10	10
Women	in %	11	11	10
Rate of employee turnover	in %	3	2	3
<b>Health and safety</b>				
Accidents at work		96	198	170
Accidents per 1000 employees		72	153	134
Days lost per accident		12.3	8.7	9.4
Fatal accidents at work		–	–	–
<b>Training</b>				
Training hours		970	848	1 055
Training hours per employee		0.7	0.7	0.8

### **The role of forest management in the climate debate**

Over the past decades, large forest areas have been deforested or degraded, especially in the humid tropics. The causes lie in the continuous demand of land for conversion to commercial agricultural land, slash-and-burn subsistence farming, and the exploitation of mineral resources, and also in illegal logging for fuelwood and timber and unsustainable forest management. Deforestation has been a cause of great concern in recent years. This is mainly due to its negative impact on global warming and regional rainfall patterns. Today, tropical deforestation and unsustainable forest management contribute about 11% to greenhouse gas emissions. After the adoption of the Paris Climate Agreement in December 2015, the REDD+ concept (Reducing emissions from deforestation and forest degradation, sustainable forest management and enhancement of sinks) has become a key component for CO<sub>2</sub> compensation schemes to preserve forests in developing countries. Many tropical forest countries, international organizations, NGOs, and companies are now engaged in creating methodologies and capacities for such compensation schemes. Sustainable forest management, as applied by Precious Woods, will play an important role in this regard. We will continue to monitor the further development of REDD+ activities and carefully evaluate its eligibility to participate in REDD+ compensation projects.

### **Sustainability Advisory Committee (SAC)**

The Board of Directors is responsible for compliance with and further development of sustainability. The Sustainability Advisory Committee (SAC) advises Precious Woods on new developments in sustainability in the management of tropical forests and supports the company in its relations with local and international interest groups and professional organizations. The SAC gives recommendations for achieving Precious Woods' economic, environmental, and social sustainability objectives and related reporting requirements.

#### **Members of the SAC:**

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

- Chancellor of the International University in Geneva, formerly Director General of WWF International and former member of the Board of Directors of Precious Woods.

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

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

Heiko Liedeker, MSc. Forest Ecology, University of Vermont

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

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

- Forest and Wood Policy Advisor, GIZ China, formerly Director General of the Association Technique des Bois Tropicaux (ATIBT) and Head of EU-FLEGT and REDD at the European Forest Institute.







**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](http://www.preciouswoods.com)). The following abbreviations are used:

BoD = Board of Directors  
GM = Group Management

## 1. Group structure and shareholders

Precious Woods consists of four operational business segments: sustainable forestry in Brazil, sustainable forestry in Gabon, Trading and Carbon & Energy. For more information about the individual segments, please refer to pages 13 to 23 of the Annual report.

Precious Woods Holding Ltd was the only listed company within the Group. The delisting from the SIX Swiss Exchange took place on 9 August 2013. Precious Woods Holding Ltd has its headquarters in Zug. More information about Precious Woods' shares can be found on page 37 of this report. For more detailed information about the holding company and the direct subsidiaries (name, headquarters, share capital and percentage ownership), please refer to note 1 and 4 of the Financial Statements of PW Holding. A list of shareholders with more than 3% of the voting rights can be found in note 30 of the consolidated Group Financial Statements. There are no cross-shareholdings or shareholders' agreements. Further information on shareholders is published on our website (Investor Relations – Share information – Shareholder Structure) and on the website of the OTC ZKB platform.

## 2. Capital structure

The ordinary share capital on 31 December 2017 stood at CHF 7 052 745 (7 052 745 registered shares at CHF 1.00 each).

As of 31 December 2015 the conditional share capital amounted to CHF 482 963 (482 963 shares with a nominal value of CHF 1.00 each). On 18 February 2016, the right to convert a convertible bond was exercised. The capital increase amounted to CHF 40 540 (40 540 shares with a nominal value of CHF 1.00 each). In August 2016, a capital increase was effected by issuing employee shares. The capital increase amounted to CHF 93 850 (93 850 shares nominal value of CHF 1.00 each). As of 31 December 2016, the conditional share capital amounted to CHF 348 573 (348 573 shares with a nominal value of CHF 1.00 each). On 18 May, the Annual General Meeting authorized to increase the conditional share capital to CHF 1 500 000 (1 500 000 shares with a nominal value of CHF 1.00 each) in accordance with Article 3a of the Articles of Association. On 18 May 2017, the conversion right of a loan to subscribe for shares was exercised. The capital increase amounted to CHF 150 000 (150 000 shares nominal value of CHF 1.00 each). As of 31 December 2017, the conditional capital amounts to CHF 1 396 638 (1 396 638 shares with a nominal value of CHF 1.00 each).

The authorized share capital, which was renewed at the Annual General Meeting in 2016, expired on 25 May 2017. On 18 May 2017, the Annual General Meeting approved an authorized share capital of CHF 1 000 000 (1 000 000 shares with a nominal value of CHF 1.00 each). The BoD is thus authorized to increase the share capital at any time until 17 May 2019 by a maximum amount of CHF 1 000 000 by way of issuance of no more than 1 000 000 registered shares that are to be fully paid in with a nominal value of CHF 1.00 each. In 2017, no capital increase from authorized share capital was executed. On 31 December 2017, the amount of the authorized capital is CHF 1 000 000 in shares (1 000 000 shares with a nominal value of CHF 1.00 each). More information about the capital structure can be found in note 16 of the consolidated Group Financial Statements.

On March and April 2017, a loan each of EUR 1.0 million with maturities of three years was obtained. The CHF 0.5 million convertible loan was converted in May 2017. On December 2017, the existing loan was increased from CHF 17.0 million to CHF 20.0 million. Further information about loans can be found in note 15 of the consolidated Group Financial Statements.



On December 2016, a loan in the amount of EUR 1.0 million was obtained with a maturity of four years.

### 3. Board of Directors

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

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

The BoD is a self-constituting body and appoints the Chair from among its own members for a term of one year. After reaching one's 70th birthday, the respective member of the BoD will step down from its post at the company's next Annual General Meeting. At the Annual General Meeting on May 2017, Ernst A. Brugger was retired as Chairman of the Board of Directors. The re-elections of Katharina Lehmann, Jürgen Blaser and Robert Hunink lined up and new elections of Markus Brüttsch and Kurt Lüscher. They were elected for a year on a proposal from BoD. The composition of the BoD is as follows on 31 December 2017: Katharina Lehmann (Chairwoman), Markus Brüttsch (Delegate), Jürgen Blaser (Member), Robert Hunink (Member) and Kurt Lüscher (Member).

### Members of the Board of Directors

The Precious Woods BoD has five 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 2017.



**Katharina Lehmann** (lic. oec. HSG), Swiss citizen, born in 1972, Chairwoman since 18 May 2017, BoD member since 2008, mandate ends in 2018. Other activities and interests:

- Since 1996 Chair of the Board of Directors and Delegate of the companies that make up Erlenhof AG, i.e. Lehmann Holzwerk AG and Blumer-Lehmann AG
- BoD member of Frutiger AG, Thun
- BoD member of Blumer Techno Fenster AG, Waldstatt
- Board member of Industrie- und Handelskammer (IHK), St. Gallen/Appenzell
- Chairwoman of association Senke Schweizer Holt (SSH)



**Markus Brüttsch**, Swiss citizen, born in 1960, BoD member (Delegate) since 2017, mandate ends in 2018. Other activities and interests:

- CEO/CFO of Precious Woods Holding Ltd since January 2014
- CFO of Cicor Group (until the end of 2012)



**Jürgen Blaser**, Swiss citizen, born in 1955, BoD member since 2015, mandate ends in 2018. Other activities and interests:

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



**Robert Hunink**, Dutch citizen, born in 1953, BoD member since 2015, mandate ends in 2018. Other activities and interests:

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



**Kurt Lüscher**, Swiss citizen, born in 1957, BoD member since 2017, mandate ends in 2018. Other activities and interests:

- Chief Executive of the company of Implementation Force AG
- Chief Executive of the company of Energie 360° (formerly Erdgas Zürich), until the end of 2016

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

### Committees of the Board of Directors

The committee meetings have been integrated with in the regular BoD meetings, due to the small size of the BoD no separate committee meetings are taking place.

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

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

The BoD met a total of 8 times during 2017. Each meeting lasted between two and eight hours. The BoD keeps itself informed of business matters by means of consolidated, periodic, operational and financial reports. All relevant documents are made available to the BoD on a regular and timely basis. Chairman, Delegate of the board and the CEO/ CFO realised interim meetings and visited the local management in Gabon and Brazil regularly.

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



#### 4. Group Management

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

**In the reporting year, the GM consisted of the members:**



**Markus Brüttsch**, born 1960, Swiss citizen, has been CFO of Precious Woods Group since 1 January 2014. In July 2014, he was also elected as CEO of Precious Woods Group. Before he worked as CFO at Cicor Group and Winterthur Technology Group.



**Stéphane Glannaz** (Master in Marketing and Intl. Business), born in 1972, French and Swiss citizen, has been CCO of Precious Woods Group since 1 October 2013. Stéphane Glannaz was the Vicepresident of Olam Intl. Ltd. Singapore, Timber Division and Head of Marketing and Sales.

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

#### 5. Compensation, shareholdings, loans

Employment contracts and the “Compensation Regulations for the Board of Directors of PWH” provide the framework for the compensation and stock option plans of the BoD, GM and the senior managers of the subsidiaries. In the case of services provided by members of the BoD in request of the company that are clearly outside the usual scope of Board activities, compensation is determined by the Board of Directors. Members can be compensated for their individual activities on the basis of effective time invested. Decisions regarding compensation and shareholdings for BoD and GM are made annually on the basis of the Compensation Regulations for the BoD based on market criteria.

The regulations mentioned as well as a detailed list of compensation granted to the members of the BoD and GM can be found on the Website (Investor Relations – Corporate Governance – Remuneration Policy), in note 18b of the consolidated Group Financial Statements and in note 8 of the Financial Statement of PW Holding. All management personnel and employees are insured in accordance with the minimum legal requirements of the countries in which they are employed.

In 2017, no leave settlements, loans or other benefits have been granted to any of the members of the governing bodies.

No cash compensation, shares, options, loans or other payments are made to former governing body members. A list of shares held by members of the BoD can be found on the Website (Investor Relations – Corporate governance – Remuneration Policy) and in note 7 of the Financial Statements of PW Holding.

#### 6. Shareholders’ rights of participation

Shareholders of Precious Woods enjoy all the rights to which they are entitled to without any statutory restrictions on voting rights. There are also no clauses differing from the legal provisions regarding statutory quota. All shareholders entered in the share register four weeks before the Annual General Meeting are eligible to participate in the Annual General Meeting. No changes affecting voting rights are made to the share register after the mailing of invitations to the Annual General Meeting. Requests to add items to the agenda of the Annual General Meeting can be made up to 30 days before the ordinary Annual General Meeting. At the ordinary Annual General Meeting held on 18 May 2017, 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 “opting-out” or “opting-up” clauses or clauses on changes of control with the following exception: The CEO/CFO Markus Brütsch has a change of control clause in the employment contract defining a half-year salary in addition to the notice period.

## **8. Auditor**

The Annual General Meeting selects an external auditor that possesses the independence and professional qualifications as stipulated by law for the term of one fiscal year. Procedures and subject of the audit are in accordance with legal provisions. Since the reporting year 2010 Ernst & Young, Zurich, has assumed the role of Group auditor. The auditing fees paid to Ernst & Young for auditing the accounts of PWH, the Group and the companies worldwide amounted to EUR 207 872 in 2017. Ernst & Young also received an addi-

tional EUR 29 422 in non-audit services in 2017. Ernst & Young audited the relevant subsidiary companies. The Board of Directors monitors the efficiency and effectiveness of the external audit. Detailed information can be found in the bylaws, which are published on our Website (Investor Relations – Corporate Governance – Articles of Association and Bylaws).

## **9. Information policy**

Precious Woods pursues a pro-active and transparent information policy. Shareholders of the company are informed regularly about current affairs through the Annual Report and the Half-Year Report. Precious Woods maintains an informative Website ([www.preciouswoods.com](http://www.preciouswoods.com)), which is updated on a regular basis.

Further information can be obtained from Communications (phone +41 41 726 13 16 or [media@preciouswoods.com](mailto:media@preciouswoods.com))







# Shareholder information

## Share capital

On 31 December 2017, the fully paid-in share capital of PW Holding amounted to CHF 7 052 745. It is divided into 7 052 745 registered shares with a nominal value of CHF 1.00 each. Additionally, the company has conditional capital of CHF 1 396 638 and authorized capital of CHF 1 000 000 to cover option and conversion rights. Further information on the share capital can be found in note to the 2017 financial statements of Precious Woods Holding.

## Equivalent to 100 shares

Precious Woods is owner or concession holder of 506 699 hectares of forest in Brazil, and holds a forest concession in Gabon of 596 800 hectares. With the purchase of 100 shares, a shareholder had indirectly access to around 71 844 square metres of forests (2016: 71 844 square metres) in the Amazon and 84 620 square metres of forests (2016: 84 620 square metres) in Gabon in 2016.

## Stock market listing

The shares of PW Holding were listed on the SIX Swiss Exchange in Zurich between 18 March 2002 and 9 August 2013. Since 12 August 2013 the shares are traded on the OTC ZKB platform.

Stock type: registered share

Nominal value: CHF 1.00

Security number: 1 328 336

ISIN: CH0013283368

## Share register information

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

Nimbus AG

Ziegelbrückstrasse 82

CH-8866 Ziegelbrücke

Phone +41 55 617 37 37

Fax +41 55 617 37 38

preciouswoods@nimbus.ch

## Company headquarters

Precious Woods Holding Ltd

Untermüli 6

CH-6300 Zug

Phone +41 41 726 13 13

Fax +41 41 726 13 19

www.preciouswoods.com

office@preciouswoods.com

## Stock price development

At the beginning of 2017, the share price was trading at CHF 6.00 on the OTC ZKB platform; on 30 June 2017, the price was higher at CHF 6.10. The closing price of the shares was at CHF 6.50 on 31 December 2017.

## Information for investors

		2017	2016	2015	2014	2013
Share price per 31.12.	in CHF	6.50	6.00	3.85	2.46	2.30
Stock market capitalization	in CHF million	46	41	19	9	9
Basic earnings per share	in EUR	0.23	-0.43	-1.13	-2.25	-4.55
Equity (book value) per share	in EUR	2.85	2.82	2.37	4.43	7.19

## Assets per share

Primary forest in Brazil

(ownership and concession) in m<sup>2</sup> 718 734 1 017 1 345 1 345

Primary forest in Gabon (concession) in m<sup>2</sup> 846 865 1 197 1 736 1 789





# Precious Woods Group financial statements

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# Consolidated statement of financial position

in thousand EUR	Notes	2017	2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		2 136	1 370
Trade and other receivables	3	10 483	9 785
Inventories	4	14 642	12 281
Other current assets	5	719	1 653
<b>Total current assets</b>		<b>27 980</b>	<b>25 089</b>
<b>Non-current assets</b>			
Property, plant and equipment	6, 7	34 351	36 316
Intangible assets	8	4 737	5 575
Investments in associates	9	765	1 143
Non-current financial assets	10	449	491
Other non-current assets		1 502	675
Deferred tax assets	31	1 621	–
<b>Total non-current assets</b>		<b>43 425</b>	<b>44 200</b>
<b>TOTAL</b>		<b>71 405</b>	<b>69 289</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	11	12 009	12 348
Current income tax liabilities		270	314
Short-term convertible loans	12, 15	–	457
Current financial liabilities	12	9 699	11 544
Current provisions	13	176	1
<b>Total current liabilities</b>		<b>22 154</b>	<b>24 664</b>
<b>Non-current liabilities</b>			
Non-current financial liabilities	12	23 720	19 895
Deferred tax liabilities	31	1 240	–
Non-current provisions	13	4 196	5 290
<b>Total non-current liabilities</b>		<b>29 156</b>	<b>25 185</b>
<b>Equity</b>			
Share capital	16	5 731	5 595
Additional paid-in capital		64 938	64 641
Foreign currency translation reserve		7 822	9 263
Retained earnings		–58 522	–60 173
<b>Equity attributable to owners of Precious Woods Holding Ltd</b>		<b>19 969</b>	<b>19 326</b>
<b>Non-controlling interests</b>		<b>126</b>	<b>114</b>
<b>Total shareholders' equity</b>		<b>20 095</b>	<b>19 440</b>
<b>TOTAL</b>		<b>71 405</b>	<b>69 289</b>

# Consolidated statement of profit or loss

in thousand EUR	Notes	2017	2016
Net sales from trading activities	19	44 604	40 612
Revenue from emission reduction activities	20	393	707
<b>Total revenue</b>		<b>44 997</b>	<b>41 319</b>
Changes in inventories of finished goods and work in progress		2 032	900
Raw materials and consumables used		–3 911	–2 372
Other production costs	21	–13 516	–14 108
<b>Operational contribution</b>		<b>29 602</b>	<b>25 739</b>
Direct and indirect labour costs	23	–19 076	–17 357
Other operating expenses	24	–3 457	–1 960
Other operating income	24	1 095	132
Share of profits/(losses) of associates	9	46	335
<b>Earnings before interest, tax, depreciation and amortization (EBITDA)</b>		<b>8 210</b>	<b>6 889</b>
Depreciation, amortization and impairment	22	–4 681	–5 277
<b>Earnings before interest and tax (EBIT)</b>		<b>3 529</b>	<b>1 612</b>
Financial income	25	1 173	259
Financial expenses	25	–2 928	–4 622
<b>Earnings before tax (EBT)</b>		<b>1 774</b>	<b>–2 751</b>
Income taxes (expenses)/income	31	–131	–1
<b>Net profit/(loss) for the period</b>		<b>1 643</b>	<b>–2 752</b>
<b>Allocation of net (loss)/profit:</b>			
Equity owners of Precious Woods Holding Ltd		1 631	–2 747
Non-controlling interests		12	–5
<b>Basic earnings per share</b>	27	<b>0.23</b>	–0.43
<b>Diluted earnings per share</b>	27	<b>0.23</b>	–0.43



## Consolidated statement of comprehensive income

in thousand EUR	2017	2016
<b>Net profit/(loss) for the period</b>	<b>1 643</b>	<b>-2 752</b>
Actuarial gains and losses	20	159
Tax effect on actuarial gains and losses	-0	-14
<b>Items that will not be reclassified to profit or loss, net of tax</b>	<b>20</b>	<b>145</b>
Unrealised gains and losses financial assets available for sale	-1	1
Foreign currency translation differences	-1 440	2 635
<b>Items that may be reclassified subsequently to profit or loss, net of tax</b>	<b>-1 441</b>	<b>2 636</b>
<b>Total other comprehensive income/(loss) for the period</b>	<b>-1 421</b>	<b>2 781</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>222</b>	<b>29</b>
<b>Allocation of total comprehensive income/(loss):</b>		
Equity owners of Precious Woods Holding Ltd	210	37
Non-controlling interests	12	-8

## Consolidated statement of changes in equity

in thousand EUR	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		
<b>Balance 1 January 2016</b>		<b>3 835</b>	<b>58 818</b>	<b>6 627</b>	<b>-57 574</b>	<b>11 706</b>	<b>122</b>	<b>11 828</b>
Net profit/(loss) for the period		-	-	-	-2 747	<b>-2 747</b>	-5	<b>-2 752</b>
Other comprehensive income/(loss) for the period		-	-	2 636	148	<b>2 784</b>	-3	<b>2 781</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>-</b>	<b>-</b>	<b>2 636</b>	<b>-2 599</b>	<b>37</b>	<b>-8</b>	<b>29</b>
Proceeds from issue of shares		1 760	5 961	-	-	<b>7 721</b>	-	<b>7 721</b>
Costs of capital increase/transaction costs		-	-138	-	-	<b>-138</b>	-	<b>-138</b>
<b>Balance 31 December 2016</b>		<b>5 595</b>	<b>64 641</b>	<b>9 263</b>	<b>-60 173</b>	<b>19 326</b>	<b>114</b>	<b>19 440</b>
Net profit/(loss) for the period		-	-	-	1 631	<b>1 631</b>	12	<b>1 643</b>
Other comprehensive income/(loss) for the period		-	-	-1 441	20	<b>-1 421</b>	0	<b>-1 420</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>-</b>	<b>-</b>	<b>-1 441</b>	<b>1 651</b>	<b>210</b>	<b>12</b>	<b>222</b>
Proceeds from issue of shares		136	297	-	-	<b>433</b>	-	<b>433</b>
<b>Balance 31 December 2017</b>		<b>5 731</b>	<b>64 938</b>	<b>7 822</b>	<b>-58 522</b>	<b>19 969</b>	<b>126</b>	<b>20 095</b>

# Consolidated statement of cash flows

in thousand EUR	Notes	2017	2016
<b>Net cash flow from operating activities</b>			
Profit/(loss) for the period		1 643	-2 752
Income taxes (income)/expenses	31	131	1
Interest income	25	-0	-1
Interest expenses	25	2 162	2 642
Dividend income	25	-309	-28
<b>Profit/(loss) for the period before interest and tax</b>		<b>3 627</b>	<b>-138</b>
Depreciation and amortization	22	4 699	5 356
Reversal of impairment of non-current assets	22	-18	-79
(Profit)/loss on sale of non-current assets and liabilities	24	-8	-9
Share of profits/(losses) of associates	9	-151	-370
Changes in provisions		-555	397
Allowances on inventories		99	484
Other non-cash items		-770	-52
<b>Operating cash flow before working capital changes</b>		<b>6 923</b>	<b>5 589</b>
Decrease/(increase) in trade and other receivables		-1 814	-1 680
Decrease/(increase) in inventories	4	-3 153	-1 972
Decrease/(increase) in other current assets		211	-535
Increase/(decrease) in trade payables and other liabilities		1 203	840
Income tax (paid)/received		-19	-13
<b>Net cash flow operating activities</b>		<b>3 351</b>	<b>2 229</b>
<b>Cash flow from investing activities</b>			
Purchase of intangible assets	8	-30	-56
Proceeds from sale of property, plant and equipment		34	69
Purchase of property, plant and equipment	6	-2 752	-2 366
Proceeds from disposal of subsidiaries, net of cash disposed		210	-
Proceeds from disposal of financial assets		12	11
Purchase of financial assets		-27	-7
Dividends received		309	28
Interests received		0	1
<b>Net cash flow investing activities</b>		<b>-2 244</b>	<b>-2 320</b>
<b>Cash flow from financing activities</b>			
Proceeds from increase of authorized share capital		-	4 128
Proceeds from borrowings		4 485	1 538
Repayment of borrowings		-3 486	-6 083
Repayment of convertible loans	15	-18	-
Interests paid		-1 204	-1 641
<b>Net cash flow financing activities</b>		<b>-223</b>	<b>-2 058</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>884</b>	<b>-2 149</b>
<b>Translation effect on cash</b>		<b>-118</b>	<b>9</b>
<b>Cash and cash equivalents, at the beginning of the year</b>		<b>1 370</b>	<b>3 510</b>
<b>Total Cash and cash equivalents, at the end of the year</b>		<b>2 136</b>	<b>1 370</b>



# Notes to the consolidated financial statements

## 1. Basis of presentation and accounting policies

### Basis of presentation

Precious Woods Group (hereinafter referred to as “Precious Woods” or “the Group”) is one of the leading companies in sustainable management of tropical forests globally. The parent company, Precious Woods Holding Ltd., has its registered office in Zug. The Group’s subsidiaries are organized and operate under the laws of Brazil, Gabon, Netherlands, British Virgin Islands and Luxembourg.

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

- *Sustainable Forest Management Brazil*: operations active in the sustainable management of tropical forests and the processing of tropical timber in Brazil
- *Sustainable Forest Management Gabon*: operations active in the sustainable management of tropical forests and the processing of tropical timber in Gabon
- *Trading*: trading of timber from external sources in Switzerland
- *Carbon & Energy*: trading of Certified Emission Reductions (CERs)

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

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

### Significant accounting judgments, estimates and assumptions

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

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

- Deferred income tax assets (see Note 31),
- Provisions (see Note 13) and
- Land titles in Brazil (see Note 6)

### New or revised IFRS standards, amendments and interpretations

Certain IFRS and interpretations were revised or introduced,

*effective on or after 1 January 2017:*

- *IAS 7 Cash Flow Statement (amendments): Disclosure initiative* – These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The additional disclosure on changes in liabilities arising from financing activities is presented in Note 12.
- *IAS 12 Income Taxes (amendments): Recognition of deferred tax assets for unrealized losses* – These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments had no impact on the consolidated financial statements.

The Annual Improvements to IFRS Standards 2014–2016 cycle contain the following relevant amendment:

- *IFRS 12 Disclosure of interests in other entities: Scope* – The amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information. This amendment had no impact on the consolidated financial statements.

effective for annual periods beginning on or after 1 January 2018:

- IFRS 2 Share based payments (amendments): Clarification on how to account for certain types of share-based payment transactions – effective on or after 1 January 2018
- IFRS 9 Financial Instruments: Classification and Measurement, Impairment and Hedge Accounting – effective on or after 1 January 2018: The new standard replaces IAS 39 and changes the classification and measurement requirements of financial assets, financial liabilities and the rules for hedge accounting. In addition, it extends the disclosure requirements. The Group has analyzed the impact of the new standard and has not identified any material change as it will continue measuring at fair value all financial assets currently held at fair value and apply the simplified approach and record lifetime expected losses on all trade receivables. Hedge accounting is not applied within the Group.
- IFRS 15 Revenue from Contracts with Customers – effective on or after 1 January 2018: The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. It establishes a five-step model to account for revenue arising from contract with customers. The Group has analyzed the impact of the new standard and has not identified any material change in revenue recognition, except for the more detailed disclosure requirements.

The new standard will be adopted using the modified retrospective approach.

- IFRIC 22 Foreign currency transactions and advance consideration – effective on or after 1 January 2018
- IAS 28 Investments in associates and joint ventures (amendments) – effective on or after 1 January 2019
- IFRS 16 Leases – effective on or after 1 January 2019: The new standard will require lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The new standard will affect the financial reporting of the Group. In 2018, the impact on the consolidated financial statements will be assessed and the required changes implemented to comply with the new standard.
- IFRIC 23 Uncertainty over income tax treatments – effective on or after 1 January 2019

#### 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	Ownership
		2017	2016
Precious Woods Management Ltd.	British Virgin Islands	100%	100%
Madeiras Preciosas da Amazônia Manejo Ltda.	Brazil	100%	100%
Mil Madeiras Preciosas Ltda.	Brazil	100%	100%
Carolina Indústria Ltda.	Brazil	100%	100%
Precious Woods do Pará S.A.	Brazil	100%	100%
Precious Woods Manejo Florestal Ltda.	Brazil	100%	100%
Monte Verde Madeiras Ltda.	Brazil	100%	100%
Precious Woods Europe B.V.	The Netherlands	100%	100%
Geveltim Houtimport B.V. <sup>1</sup>	The Netherlands	0%	100%
Lastour & Co. S.A.	Luxembourg	100%	100%
Unio Holding S.A.	Luxembourg	100%	100%
Precious Woods – Compagnie Equatoriale des Bois S.A.	Gabon	99%	99%
Precious Woods – Tropical Gabon Industrie S.A.	Gabon	100%	100%

<sup>1</sup> Geveltim Houtimport B.V. was dissolved by 31 December 2017



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

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

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

#### **b. Cash and cash equivalents**

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

#### **c. Trade receivables**

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

#### **d. Inventories**

Inventories are valued at the lower of cost or net realizable value. Logs and finished products are recorded at the average cost of production, less provision for losses, when applicable. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to make the sale. The cost of semi-finished and finished goods contains direct production costs including materials and production costs, as well as production overhead costs.

#### **e. Property, plant and equipment**

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

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

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

#### **f. Intangible assets**

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

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

#### **g. Impairment of non-financial assets**

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

#### **h. Leases**

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

#### **i. Financial instruments**

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

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

#### **j. Derivative financial instruments**

Derivatives are initially recognized at fair value on the date a derivative contract is concluded and are subsequently measured at fair value. Where the fair value of derivative financial instruments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of management judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Note 14).

#### **k. Convertible loans**

Convertible loans represent compound financial instruments consisting of a liability as well as an equity component or a derivative financial instrument. The fair value of the liability component is determined by discounting the future cash flows with an equivalent market interest rate for non-convertible instruments. The difference between cash received before the allocation of the transaction costs at the date of inception and the fair value of the liability component represents the fair value of the embedded equity conversion option or the fair value of the derivative financial liability. The value included in shareholders' equity, net of tax, is not re-measured subsequently. The costs of issuing convertible loans are allocated to the liability and equity component at the date of inception. The part of the costs that is allocated to the equity component will be netted. The interest expense of the liability component equals a market interest rate for comparable non-convertible loans.

#### **l. Provisions**

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

#### **m. Revenue recognition**

Net sales are determined by deducting transportation costs, value added taxes, discounts and returns from gross sales. Revenue trading activities are recognized when the entity has transferred the significant risks and rewards of ownership of the goods to the buyer, when the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when the amount of revenue can be measured reliably, and when it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. For information on revenue from emission reduction activities, please refer to chapter 5 on certified emission reductions.



#### **n. Currency**

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

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

#### **o. Taxation**

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

#### **p. Pension plans**

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

In a defined benefit plan the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation is defined. Professionally qualified independent actuaries value the defined benefit obligations on a

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

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

#### **q. Employee share purchase plan**

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

#### **r. Segment reporting**

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

#### **s. Certified Emission Reductions (CERs)**

Certified Emission Reductions (CERs) are granted by the United Nations Framework Convention on Climate Change (UNFCCC) for Greenhouse Gas Reduction of one metric ton of CO<sub>2</sub> equivalent.

## 2. Financial risk management

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

Precious Woods financial risk management seeks to minimize potential adverse effects on financial performance.

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

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

### Market risk

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

#### Interest rate risk

Precious Woods has no significant interest-bearing assets. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose Precious Woods

to cash flow interest rate risks. Group borrowings are denominated in CHF, BRL, EUR and XAF.

Management's policy is to maintain its borrowings in fixed rate instruments. There was no material variable interest rate borrowing on 31 December 2016 as well as on 31 December 2017.

#### Foreign exchange risk

Precious Woods operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The XAF is in a fix relation to the EUR. Most of the sales out from Gabon are denominated in EUR and all cost in XAF. The sales out of Brazil are denominated in EUR and USD, the cost are in BRL. Therefore the currency risk for the local books is given. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. To manage their foreign exchange risk arising from future commercial transactions the Group may use forward contracts, transacted by the Group finance department.

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

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

in thousand EUR	31.12.17 Reasonable shift	31.12.17 "Impact" on profit or loss before tax	31.12.17 "Impact" on equity	31.12.16 Reasonable shift	31.12.16 "Impact" on profit or loss before tax	31.12.16 "Impact" on equity
EUR/CHF	+/-10%	+/-82	+/-2 149	+/-15%	+/-550	+/-3 224
USD/CHF	+/-10%	+/-9	+/-928	+/-10%	+/-28	+/-1 057
USD/BRL	+/-15%	+/-3	+/-1 332	+/-10%	+/-12	+/-1 069
CHF/BRL	+/-15%	+/-0	+/-6 323	+/-15%	+/-0	+/-6 678
XAF/CHF	+/-10%	+/-0	+/-755	+/-15%	+/-0	+/-822

All the loans in Precious Woods Holding are denominated in CHF or EUR. The situation will be monitored very closely when it comes to a due date of a loan whether it shall be replaced or repaid in CHF or EUR and hedged before.

#### Price risk

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

### Liquidity risk

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



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

in thousand EUR	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
<b>31 December 2017</b>				
Trade and other payables	12 009	—	—	12 009
Financial liabilities	9 699	2 046	21 674	33 419
<b>Non-derivative financial liabilities</b>	<b>21 708</b>	<b>2 046</b>	<b>21 674</b>	<b>45 428</b>

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

### Credit risk

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

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

### Capital management

When managing capital, Precious Woods' objectives are to safeguard the Group's ability to continue as a going concern and to maintain an optimal structure to reduce the cost of capital. In order to reach these goals, Precious Woods issues new shares or sells assets to reduce debts. The mid-term target of the Group is to have an equity ratio of >40%. Capital is considered the equity attributable to holders of Precious Woods Holding. There were no changes in the Group's approach to capital management during the year.

### Guarantees and pledges of assets

Precious Woods Tropical Gabon Industrie has pledged buildings in the amount of EUR 3.5 million (2016: EUR 7.6 million), machinery and equipment in the amount of EUR 0.0 million (2016: EUR 2.6 million) and leased property and plants by EUR 0.0 million (2016: EUR 0.1 million) to secure bank loans. Precious Woods Compagnie Equatoriale des Bois has pledged machinery and equipment in the amount of EUR 1.1 million (2016: EUR 4.5 million), leased property and plants by EUR 3.4 million (2016: EUR 1.6 million) and inventories in the amount of EUR 0.0 million (2016: EUR 1.2 million). Precious Woods Holding Ltd has no pledged assets, but used land in Brazil in the amount of EUR 22.2 million in connection with loans (2016: EUR 21.5 million).

### 3. Trade and other receivables

in thousand EUR	2017	2016
Trade receivables, third parties	5 872	5 964
Trade receivables, associates	48	–
Less allowance for bad debts	–899	–1 039
<b>Total trade receivables net</b>	<b>5 021</b>	<b>4 925</b>
Other short-term receivables	5 462	4 860
<b>Total</b>	<b>10 483</b>	<b>9 785</b>

The carrying amounts of the receivables approximate to their fair values. Taking into consideration the terms and conditions

established with customers, the following table sets forth details of the age of trade accounts receivable:

in thousand EUR	2017	2016
Not overdue	5 326	5 381
Less than 30 days overdue	520	479
31 to 60 days overdue	95	37
61 to 180 days overdue	82	18
More than 180 days overdue	–103	49
<b>Total trade receivables gross</b>	<b>5 920</b>	<b>5 964</b>
Allowance for bad debts	–899	–1 039
<b>Total trade receivables net</b>	<b>5 021</b>	<b>4 925</b>

#### Allowances for bad debts

in thousand EUR	2017	2016
At 1 January	1 039	843
Addition in allowance for bad debts	–	14
Release of allowance for bad debts	–	–31
Translation differences	–140	213
<b>At 31 December</b>	<b>899</b>	<b>1 039</b>

Trade receivables net include amounts denominated in the following currencies:

in thousand EUR	2017	2016
EUR	3 563	4 365
USD	199	387
BRL	118	61
XAF	1 141	112
<b>Total trade receivables net</b>	<b>5 021</b>	<b>4 925</b>



#### 4. Inventories

in thousand EUR	2017	2016
Logs	3 554	3 361
Sawn timber	4 674	4 801
Veneers	726	362
Industrialized products	1 071	464
Certified Emission Reductions (CERs)	117	145
Export products in transit	2 071	1 723
Spare parts and other	3 061	2 039
Less obsolescence reserve	-632	-614
<b>Total inventories</b>	<b>14 642</b>	<b>12 281</b>

#### Obsolescence reserve

in thousand EUR	2017	2016
At 1 January	614	222
Increase	99	484
Decrease	-68	-119
Translation differences	-13	27
<b>At 31 December</b>	<b>632</b>	<b>614</b>

#### 5. Other current assets

in thousand EUR	2017	2016
Prepaid expenses, prospecting	484	1 001
Prepaid expenses, other	235	652
<b>Total other current assets</b>	<b>719</b>	<b>1 653</b>

Prepaid expenses are expenses paid in the current accounting period but relating to a future accounting period. Prospecting

costs are the costs incurred in the collection of data regarding the area to be harvested the next year.

## 6. Property, plant and equipment

in thousand EUR	Forest and land	Forest roads	Buildings and improvements	Machinery and vehicles	Leased machinery and vehicles	Furniture and fixtures	Construction in progress	Advanced payments for PPE	Total
<b>Cost</b>									
<b>At 1 January 2016</b>	<b>14 152</b>	<b>11 178</b>	<b>19 910</b>	<b>24 241</b>	<b>3 761</b>	<b>2 007</b>	<b>255</b>	<b>3 052</b>	<b>78 556</b>
Additions	–	–	535	885	1 092	157	787	–	3 458
Disposals	–	–	–	–134	–	–9	–	–	–143
Reclassifications	450	68	194	1 768	–1 535	–	–494	–450	–
Translation differences	1 051	838	52	950	–87	29	3	744	3 580
<b>At 31 December 2016</b>	<b>15 653</b>	<b>12 084</b>	<b>20 691</b>	<b>27 710</b>	<b>3 231</b>	<b>2 184</b>	<b>551</b>	<b>3 346</b>	<b>85 451</b>
Additions	–3	–1	351	1 230	1 198	78	1 098	–	3 951
Disposals	–	–	–	–313	–	–25	–	–	–338
Reclassifications	–	–	–205	2 222	–844	68	–1 241	–	–
Translation differences	–860	–662	–301	–966	6	–51	–18	–457	–3 309
<b>At 31 December 2017</b>	<b>14 790</b>	<b>11 421</b>	<b>20 536</b>	<b>29 883</b>	<b>3 591</b>	<b>2 254</b>	<b>390</b>	<b>2 889</b>	<b>85 755</b>
<b>Accumulated depreciation</b>									
<b>At 1 January 2016</b>	<b>–</b>	<b>4 711</b>	<b>12 654</b>	<b>21 363</b>	<b>1 994</b>	<b>1 470</b>	<b>–</b>	<b>1 154</b>	<b>43 346</b>
Charge for the year	–	632	1 043	1 655	1 036	120	–	–	4 486
Reversal of impairment	–	–17	–	–	–	–	–	–62	–79
Elimination on disposals	–	–	–	–75	–	–8	–	–	–83
Reclassifications	–	–	–	1 535	–1 535	–	–	–	–
Translation differences	–	297	4	880	–44	34	–	294	1 465
<b>At 31 December 2016</b>	<b>–</b>	<b>5 623</b>	<b>13 701</b>	<b>25 358</b>	<b>1 451</b>	<b>1 616</b>	<b>–</b>	<b>1 386</b>	<b>49 135</b>
Charge for the year	–	362	1 386	1 199	1 065	147	–	–	4 159
Reversal of impairment	–	–18	–	–	–	–	–	–	–18
Elimination on disposals	–	–	–	–313	–	–25	–	–	–338
Reclassifications	–	–	–14	901	–901	14	–	–	–
Translation differences	–	–273	–185	–844	3	–45	–	–190	–1 534
<b>At 31 December 2017</b>	<b>–</b>	<b>5 694</b>	<b>14 888</b>	<b>26 301</b>	<b>1 618</b>	<b>1 707</b>	<b>–</b>	<b>1 196</b>	<b>51 404</b>
<b>Carrying amount</b>									
<b>At 31 December 2016</b>	<b>15 653</b>	<b>6 462</b>	<b>6 990</b>	<b>2 352</b>	<b>1 780</b>	<b>568</b>	<b>551</b>	<b>1 960</b>	<b>36 316</b>
<b>At 31 December 2017</b>	<b>14 790</b>	<b>5 727</b>	<b>5 648</b>	<b>3 582</b>	<b>1 973</b>	<b>547</b>	<b>390</b>	<b>1 693</b>	<b>34 351</b>

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

Despite the continued efforts to clean the land titles from legal issues, Precious Woods was not able to reclassify in 2017 any advanced payments for property, plant and equipment to land (2016: EUR 0.4 million).

## 7. Forest, forest improvements

The forests of Precious Woods in Brazil are managed in a sustainable manner, which means that no more than the incremental growth will be harvested and the substance of the forest will be preserved. These forests and forest improvements are valued at the lower of cost or market. The

fair value approach cannot be applied due to the lack of reliable information about biological growth rates for more than 300 species in the field and associated market prices for potential harvest quantities.

## 8. Intangible assets

in thousand EUR	Trademarks and licences	Other	Total
<b>Cost</b>			
<b>At 1 January 2016</b>	<b>12 534</b>	<b>8 491</b>	<b>21 025</b>
Additions	–	56	56
Disposals	–	–461	–461
Translation differences	–233	380	147
<b>At 31 December 2016</b>	<b>12 301</b>	<b>8 466</b>	<b>20 767</b>
Additions	–	30	30
Disposals	–	–	–
Translation differences	18	–365	–347
<b>At 31 December 2017</b>	<b>12 319</b>	<b>8 131</b>	<b>20 450</b>
<b>Accumulated amortization and impairment</b>			
<b>At 1 January 2016</b>	<b>9 320</b>	<b>5 728</b>	<b>15 048</b>
Charge for the year	718	152	870
Disposals	–	–462	–462
Translation differences	–162	–103	–265
<b>At 31 December 2016</b>	<b>9 876</b>	<b>5 315</b>	<b>15 191</b>
Charge for the year	387	152	540
Disposals	–	–	–
Translation differences	14	–31	–17
<b>At 31 December 2017</b>	<b>10 277</b>	<b>5 436</b>	<b>15 713</b>
<b>Carrying amount</b>			
<b>At 31 December 2016</b>	<b>2 424</b>	<b>3 151</b>	<b>5 575</b>
<b>At 31 December 2017</b>	<b>2 042</b>	<b>2 695</b>	<b>4 737</b>

Other intangible assets mainly include forest concessions and software.



## 9. Investment in associates

in thousand EUR	2017	2016
At 1 January	1 143	587
Share of profit of associates including impairment	151	370
Dividends earned	-379	-35
Translation differences	-150	221
<b>At 31 December</b>	<b>765</b>	<b>1 143</b>

### BK Energia

The investment of 40% is valued using the equity method as Precious Woods has no control over BK Energia. The

value amounts to EUR 0.8 million as of 31 December 2017 (2016: EUR 1.1 million).

in thousand EUR (representing 100%)	Assets	Liabilities	Revenues	Profit
Key figures 2016	3 571	449	4 153	924
Key figures 2017	2 606	428	5 092	378

## 10. Non-current financial assets

in thousand EUR	2017	2016
NST	426	465
NIBO	23	26
<b>At 31 December</b>	<b>449</b>	<b>491</b>

The non-current financial assets contain an investment of EUR 0.4 million (2016: EUR 0.5 million) in Norsudtimber Company (NST) in Vaduz and an investment of EUR 22 793 (2016: EUR 25 968) in Nederlandse Internationale Bosbouw Onderneming NV (NIBO). Norsudtimber holds majority

participations in four important forestry companies in the Democratic Republic of the Congo. This investment is directly held in EUR, whilst the NIBO investment is placed in USD and has a value of USD 27 306 (2016: USD 27 306).

## 11. Trade and other payables

in thousand EUR	2017	2016
Trade payables, third parties	4 059	5 587
Trade payables, related parties	0	71
<b>Total trade payables</b>	<b>4 059</b>	<b>5 658</b>
Other current liabilities, third parties	4 403	3 086
Other current liabilities, associates	117	145
Other accrued liabilities	3 430	3 459
<b>Total other payables</b>	<b>7 950</b>	<b>6 690</b>
<b>At 31 December</b>	<b>12 009</b>	<b>12 348</b>

## 12. Financial liabilities

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

### Net book value of financial liabilities

in thousand EUR	2017	2016
Financial liabilities from borrowings	31 381	29 992
Financial liabilities finance-lease	2 038	1 904
<b>Total financial liabilities</b>	<b>33 419</b>	<b>31 896</b>
Total current financial liabilities	9 699	12 001
Non-current financial liabilities, third parties	23 613	19 287
Non-current financial liabilities, associates	107	608
<b>Total financial liabilities</b>	<b>33 419</b>	<b>31 896</b>

Interest expenditure from finance-lease liabilities amounted to EUR 0.2 million (2016: EUR 0.2 million). Finance-lease liabilities are secured effectively as the rights to the leased asset revert to the lessor in the event of a breach of contract.

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

in thousand EUR	2017	2016
<b>Currencies financial liabilities/borrowings denominated in:</b>		
EUR	3 000	1 000
XAF	6 266	6 412
CHF	22 649	22 412
BRL	1 504	2 072
<b>Total financial liabilities</b>	<b>33 419</b>	<b>31 896</b>

The changes in liabilities from financing activities are detailed below in cash and non-cash items. For 2017 a prospective reporting approach was chosen.

in thousand EUR	Non-current financial liabilities	Current financial liabilities	Short-term convertible loans	Total
<b>At 1 January 2017</b>	<b>19 895</b>	<b>11 544</b>	<b>457</b>	<b>31 896</b>
Cashflows				
Cash inflow	4 485	–	–	4 485
Cash outflow	–913	–2 517	–18	–3 447
Non-cash changes				
Reclassifications	–1 261	1 271	–432	–423
Increase in finance lease liabilities	1 198			1 198
Accrued interests	1 847	–	9	1 856
Translation differences	–1 532	–599	–16	–2 146
<b>At 31 December 2017</b>	<b>23 720</b>	<b>9 699</b>	<b>–</b>	<b>33 419</b>

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

	2017	2016
EUR	4.2%	4.5%
XAF	8.5–11.0%	8.5–11.0%
CHF	6.0%	6.0–10.7%
BRL	7.2%	4.5%

### 13. Provisions

in thousand EUR	Legal claims	Others	2017 Total	2016 Total
Short-term provisions	–	176	176	1
Long-term provisions	472	3 724	4 196	5 290
<b>Total</b>	<b>472</b>	<b>3 899</b>	<b>4 372</b>	<b>5 291</b>
At 1 January	1 293	3 997	5 290	4 563
Additions	3	967	970	605
Unused amounts reversed	–209	–707	–916	–310
Used during the year	–520	–99	–619	–64
Translation adjustments	–95	–259	–353	498
<b>At 31 December</b>	<b>472</b>	<b>3 899</b>	<b>4 372</b>	<b>5 291</b>

#### Legal claims

The amount of EUR 0.5 million represent a provision for certain legal claims brought against the Group by different stakeholders. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant losses beyond the amounts provided for as on 31 December 2017.

#### Others

The total amount of EUR 3.9 million for other short- and long-term provisions includes provisions for contributions to employee contribution plans (EUR 0.9 million), for contributions to employee benefit plans (EUR 1.3 million), for social security (EUR 25 744), for tax fees (EUR 0.5 million) and other provisions (EUR 1.0 million).



## 14. Financial instruments by category

in thousand EUR	Loans and receivables	Assets at fair value through profit and loss	Available-for-sale assets	Total
<b>31 December 2017</b>				
<b>Assets</b>				
Cash and cash equivalents	2 136	–	–	2 136
Trade and other receivables	6 865	–	–	6 865
Available-for-sale financial assets	–	–	449	449
<b>Total</b>	<b>9 000</b>	<b>–</b>	<b>449</b>	<b>9 449</b>

in thousand EUR	Liabilities at fair value through profit and loss	Other financial liabilities at amortized costs	Total
<b>31 December 2017</b>			
<b>Liabilities</b>			
Trade and other payables	–	8 322	8 322
Financial liabilities	–	33 419	33 419
<b>Total</b>	<b>–</b>	<b>41 741</b>	<b>41 741</b>

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

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

### Fair value hierarchy

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

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

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

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

## Assets measured at fair value

in thousand EUR	31 December 2017	Level 1	Level 2	Level 3
Available-for-sale financial assets	449	—	—	449
Other financial assets at fair value through profit and loss	—	—	—	—
<b>Total</b>	<b>449</b>	<b>—</b>	<b>—</b>	<b>449</b>

## Assets measured at fair value

in thousand EUR	31 December 2016	Level 1	Level 2	Level 3
Available-for-sale financial assets	491	—	—	491
Other financial assets at fair value through profit and loss	—	—	—	—
<b>Total</b>	<b>491</b>	<b>—</b>	<b>—</b>	<b>491</b>

## Reconciliation of fair value measurement of level 3 financial assets

in thousand EUR	2017	2016
At 1 January	491	485
Translation differences	–42	6
<b>At 31 December</b>	<b>449</b>	<b>491</b>

## 15. Convertible loans

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

amounted in 2016 to EUR 0.5 million and it was recognized as short-term convertible loan. On 18 May 2017, CHF 480 000 were converted into shares at the rate of CHF 3.20 per share and CHF 20 000 were paid back.

## 16. Share capital

This supplementary information, whose purpose is to show development of the Group's share capital, is denominated in Swiss francs, the functional currency of Precious Woods

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

### Share capital overview

	Number of shares at a nominal value of CHF 1	Number of shares at a nominal value of CHF 1
	2017	2016
<b>Issued and fully paid-in capital beginning of year</b>	<b>6 902 745</b>	<b>4 984 020</b>
Increase of issued and fully-paid capital	150 000	1 918 725
<b>Issued and fully paid-in capital end of year</b>	<b>7 052 745</b>	<b>6 902 745</b>
Authorized share capital – used during the year	–	–977 537
Authorized share capital – expired during the year	–	–569 723
<b>Authorized share capital at the end of the year</b>	<b>–</b>	<b>–</b>
New authorized share capital – authorized during the year	1 000 000	2 980 778
New authorized share capital – used during the year	–	–806 798
Authorized share capital – expired during the year	–2 173 980	–
<b>New authorized share capital at the end of the year</b>	<b>1 000 000</b>	<b>2 173 980</b>
Conditional share capital – authorized during year	1 198 065	–
Conditional share capital – used during year	–150 000	–134 390
<b>Conditional share capital at end of the year</b>	<b>1 396 638</b>	<b>348 573</b>

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

#### Ordinary share capital

In 2016 the ordinary share capital increased by 1 918 725 shares to CHF 6 902 745. On 18 May 2017, the ordinary share capital increased by converting a loan of 150 000 shares to CHF 7 052 745.

#### Authorized share capital

On 20 May 2016, a new authorized capital in the amount of CHF 2 980 778 was adopted by the general meeting. On 28 June 2016, a capital increase of CHF 806 798 reduced the

authorized capital to CHF 2 173 980. This residual amount expired in May 2017. On 18 May 2017, a new authorized capital in the amount of CHF 1 000 000 was adopted by the general meeting.

#### Conditional share capital

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

On 19 September 2016, 93 850 new shares for the Employees Share Purchase Plan were issued through that portion of the conditional share capital which is intended to cover options of employees and board members and reduced it to CHF 46 638. The price was CHF 4.00 per share. The total conditional share capital was reduced to CHF 348 573.

On 18 May 2017, additional conditional share capital in the amount of CHF 1 198 065 was adopted by the general meeting. Also on 18 May 2017, as a result of the exercise of conversion rights from a convertible loan for CHF 150 000, the conditional share capital was decreased to CHF 1 396 638. The price was CHF 3.20 per share.



## 17. 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 are disclosed in Note 30.

### a. Balances and transactions

The balances with related parties, as of 31 December 2017 and 2016, are detailed below:

in thousand EUR	2017	2016
Trade receivables and other current receivables, associates	48	–
Current loans from shareholders with significant influence	5 472	5 970
Current loans from other shareholders	–	457
Trade and other current liabilities, related parties	0	72
Trade and other current liabilities, associates	117	145
Non-current loans from shareholders with significant influence	19 100	16 858
Purchase CER, related parties	151	269
Interest expenses to shareholders with significant influence	517	1 455
Interest expenses to other shareholders	–	23

### b. Compensation

During the ordinary course of business in 2017 and 2016, the Group granted compensation to related parties as follows:

in thousand EUR	2017	2016
<b>Group Management</b>		
Short-term employee benefits	743	688
Post-employment employee benefits	115	104
<b>Total Group Management</b>	<b>858</b>	<b>792</b>
<b>Board of Directors</b>		
Short-term employee benefits	281	274
Post-employment employee benefits	12	8
<b>Total remuneration and fees Board of Directors</b>	<b>292</b>	<b>282</b>
<b>Operating management</b>		
Short-term employee benefits	606	593
Post-employment employee benefits	55	56
<b>Total operating management</b>	<b>662</b>	<b>649</b>
<b>Total compensation to key management personnel</b>	<b>1 812</b>	<b>1 723</b>

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

## 18. Employee benefits

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

The Group's contribution to defined contribution plans was reduced by EUR 69 648 in 2017 (2016: increase of EUR 136 920).

The pension plan for employees in Switzerland is a defined benefit plan and covers the risks of age, death and disability. Financing occurs by means of employer and employee

contributions, defined in the pension fund rules in terms of an age related sliding scale of percentages of salary, as well as returns from the investments made by the pension fund. The pension fund guarantees the vested benefit amount as confirmed annually to members, as regulated by Swiss law. Interest may be added to member balances at the discretion of the Board of Trustees. At retirement date, members have the right to take their retirement benefit as a lump sum or as an annuity.

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

### Changes in the present value of the defined benefit obligation

in thousand EUR	2017	2016
Defined benefit obligation at 1 January	2 908	2 649
Current service costs	284	291
Interest costs	20	24
Contribution by plan participants	84	75
Actuarial losses/(gains)	-60	-156
Benefits paid/transferred	6	-5
Exchange differences	-259	30
<b>31 December</b>	<b>2 983</b>	<b>2 908</b>
Plans wholly or partly funded	2 983	2 908
Plans wholly unfunded	—	—

### Movement in the fair value of the plan assets

in thousand EUR	2017	2016
Opening fair value of plan assets	1 715	1 478
Interest income	12	14
Return on plan assets excluding interest income	-40	2
Contributions by the employers	148	133
Contributions by plan participants	84	75
Benefits paid/transferred	6	-5
Exchange differences	-153	18
<b>31 December</b>	<b>1 772</b>	<b>1 715</b>

in thousand EUR	2017	2016
Present value of obligations	2 983	2 908
Fair value of plan assets	1 772	1 715
<b>Net liability</b>	<b>1 211</b>	<b>1 193</b>

## Changes in net liability

in thousand EUR	2017	2016
Opening net liability	1 193	1 171
Pension cost recognized in profit or loss	292	301
Pension cost recognized in other comprehensive income	-20	-158
Employer contributions	-148	-133
Exchange differences	-106	12
<b>Recognized in profit or loss</b>	<b>1 211</b>	<b>1 193</b>

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

in thousand EUR	2017	2016
Current service costs	284	291
Net interest costs	8	10
<b>Recognized in profit or loss</b>	<b>292</b>	<b>301</b>

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

in thousand EUR	2017	2016
Return of plan assets excluding interest income	-40	2
Changes in demographic assumptions	-	-
Changes in financial assumptions	-	4
Experience adjustments	60	152
<b>Recognized in other comprehensive income</b>	<b>20</b>	<b>158</b>

The assets are invested in a multi-employer plan and are therefore mixed. Thus, it is not possible to disclose the asset allocation as requested in IAS 19.

## Principal actuarial assumptions used

	2017	2016
Expected employer contributions in CHF	167 000	146 000
Discount rates	0.70%	0.70%
Expected salary increases	1.00%	1.00%
Expected long-term increase of pensions	0.00%	0.00%

## Sensitivity to changes in the principal assumptions

in thousand EUR	DBO	Effect
Actual assumption 31 December 2017	2 983	
Discount rate +0.5%	2 704	-9.50%
Discount rate -0.5%	3 305	11.00%
Salary increase rate +0.5%	3 019	1.30%
Salary increase rate -0.5%	2 949	-1.30%

## Number of insured persons

in thousand EUR	2017	2016
Number of insured persons	13.0	13.0
Number of insured retired persons	-	-
Average weighted duration in years	16.7	20.0



## 19. Net sales from trading activities

in thousand EUR	2017	2016
Sales of roundwood and timber	56 094	50 081
Sales deductions	-11 490	-9 469
<b>Net sales</b>	<b>44 604</b>	<b>40 612</b>

## 20. Revenue from carbon emission reduction activities

in thousand EUR	2017	2016
Revenue from sale of certified emission reductions (CERs)	393	708
<b>Revenue from emission reduction activities</b>	<b>393</b>	<b>708</b>

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

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

The verification for the 46 671 CERs produced in 2014 and for the 44 050 CERs produced in 2015 was issued by UNFCCC in 2016 and they were sold by Precious Woods. The verification for the 53 540 CERs produced in 2016 was issued by UNFCCC in 2017. In 2017 51 596 CERs were produced and their verification is planned for autumn 2018.

## 21. Other production costs

in thousand EUR	2017	2016
Logistics, transportation costs and freight	1 612	2 193
Fuel, oil and lubricants	3 869	3 784
Energy – third parties	579	454
Forest taxes & expenses	1 478	1 372
Maintenance and spare parts	4 436	4 691
Insurances (production)	258	229
Rent and lease (production)	335	271
Capitalized own production	-241	-444
Miscellaneous production costs	1 190	1 558
<b>Total</b>	<b>13 516</b>	<b>14 108</b>

## 22. Depreciation, amortization and impairment

in thousand EUR	2017	2016
Depreciation and amortization	4 699	5 356
Reversal of impairment of property, plant and equipment	-18	-79
<b>Total</b>	<b>4 681</b>	<b>5 277</b>

Details about the reversal of impairment of EUR 17 907 (2016: EUR 79 111) are given in Note 6.

## 23. Direct and indirect labour costs

in thousand EUR	2017	2016
Wages and salaries	14 019	12 212
Social security costs	2 357	2 164
Pension costs – defined contribution plans	–70	137
Pension costs – defined benefit plans	292	301
Other employment benefits	2 478	2 543
<b>Total</b>	<b>19 076</b>	<b>17 357</b>

in thousand EUR	2017	2016
Forest and processing costs	14 343	12 879
Administration and other labour costs	4 733	4 478
<b>Total</b>	<b>19 076</b>	<b>17 357</b>

## 24. Other operating income and expenses

in thousand EUR	2017	2016
<b>Other income</b>		
Gain on disposal of fixed assets	33	75
Gain on deconsolidation of subsidiaries	740	–
Other income	322	57
<b>Total other operating income</b>	<b>1 095</b>	<b>132</b>
<b>Other expenses</b>		
Audit fees	208	202
Legal and tax	356	297
Other consulting fees	241	187
Travel	579	546
IT expenses	170	223
Insurances (non-production)	180	145
Loss on disposal of fixed assets	–	65
Loss on deconsolidation of subsidiaries	709	–
Other administrative expenses	1 014	295
<b>Total other operating expenses</b>	<b>3 457</b>	<b>1 960</b>

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

## 25. Financial income and expenses

in thousand EUR	2017	2016
<b>Financial income</b>		
Interest income and dividends	35	29
Foreign-exchange gains	1 103	204
Other financial income	35	26
<b>Total financial income</b>	<b>1 173</b>	<b>259</b>
<b>Financial expenses</b>		
Interest expenses	2 162	2 643
Foreign-exchange losses	250	281
Other financial expenses	516	1 698
<b>Total financial expenses</b>	<b>2 928</b>	<b>4 622</b>

## 26. Leasing

### Operating leasing

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

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

in thousand EUR	2017	2016
Within one year	78	58
Within two to five years	8	51
<b>Total lease payments</b>	<b>86</b>	<b>109</b>

### Finance leasing

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

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

in thousand EUR	2017	2016
Within one year	1 217	1 029
Within two to five years	1 049	1 142
Total lease payments	2 266	2 171
Minus interest expense component	-228	-267
<b>Total lease payments</b>	<b>2 038</b>	<b>1 904</b>



## 27. Earnings per share

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

In EUR	2017	2016
Net income/(loss) attributable to Group equity holders	1 630 534	-2 747 481
Weighted average number of shares	6 995 564	6 376 494
<b>Basic earnings/loss per share</b>	<b>0.23</b>	<b>-0.43</b>
Weighted average number of shares for diluted earnings per share	6 995 564	6 376 494
<b>Diluted earnings per share</b>	<b>0.23</b>	<b>-0.43</b>

Basic earnings per share (EPS) are calculated by dividing the net income attributable to shareholders of Precious Woods Holding by the weighted average number of shares outstanding during the year. For diluted EPS, the weighted average

number of shares outstanding is adjusted to assume conversion of all potentially dilutive shares arising from options on Precious Woods shares.

## 28. Contingencies

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

### Assessment by Brazilian authorities

In 2002, a Brazilian subsidiary was assessed by IBAMA, the Brazilian Institute of Environment and Renewable Natural Resources, in relation to certain log-transporting procedures, which had been in place and approved informally by government agencies for many years. In July 2010, an important administrative case was won against IBAMA. The fines

imposed on the Group, which are not yet settled, amount to approximately EUR 7.6 million. The Group's Management and its attorneys believe that the remaining fines are arbitrary in nature, unjustified, and will also be eventually cancelled, and therefore consider that no material loss will occur as a result of the final decision on this process; consequently, no accrual was recorded in the Group's consolidated financial statements as of 31 December 2017 (31 December 2016: 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 has instead blocked an amount of EUR 0.1 million in cash on Group accounts.

## 29. Financial information by segment

The Group's reportable segments are Sustainable Forest Management Brazil, Sustainable Forest Management Gabon, Trading and Carbon & Energy. Precious Woods' forests in Brazil and Gabon are managed in a sustainable manner, which means that not more timber is harvested than can simultaneously grow back, and that the value of the forest is preserved. An integral part of Precious Woods' approach to sustainable

forestry is the use of waste wood to produce electricity and the registration and sale of carbon emission reductions (CERs).

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

## Operating segments – 31 December 2017

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other <sup>1</sup>	<b>Total 31.12.2017</b>
<b>Revenue</b>						
Third parties	8 656	30 674	4 351	393	–	44 073
Intersegment	271	34	67	–	–372	–
Associated and related parties	924	–	–	–	–	924
<b>Total revenue</b>	<b>9 851</b>	<b>30 708</b>	<b>4 417</b>	<b>393</b>	<b>–372</b>	<b>44 997</b>
Profit/(loss) on sale of fixed assets and affiliates	10	23	31	–	–	64
Share of profit of associates	46	–	–	–	–	46
<b>EBITDA</b>	<b>117</b>	<b>9 927</b>	<b>500</b>	<b>118</b>	<b>–2 452</b>	<b>8 210</b>
Depreciation and amortization	–454	–4 230	–	–	–15	–4 699
Impairment charges/reversals	18	–	–	–	–	18
<b>Profit/(loss) from operating activities (EBIT)</b>	<b>–319</b>	<b>5 697</b>	<b>500</b>	<b>118</b>	<b>–2 467</b>	<b>3 529</b>
Financial income and expenses	–894	–1 503	–22	–	663	–1 756
<b>Earnings before tax</b>					<b>–</b>	<b>1 774</b>
Income taxes	–488	375	–7	–	–11	–131
<b>Segment assets</b>	<b>23 168</b>	<b>44 987</b>	<b>2 776</b>	<b>261</b>	<b>213</b>	<b>71 405</b>
Investments in associates	765	–	–	–	–	765
Capital expenditures	686	3 263	–	–	2	3 951
<b>Segment liabilities</b>	<b>49 865</b>	<b>33 931</b>	<b>1 089</b>	<b>117</b>	<b>–33 693</b>	<b>51 310</b>

<sup>1</sup> 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 2016

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

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

## Geographic information

in thousand EUR

	2017		2016	
<b>Net sales from trading activities</b>				
Switzerland	126	0.3%	35	0.1%
European Union	24 765	55.5%	25 960	63.9%
Latin America	1 510	3.4%	2 125	5.2%
Africa	6 602	14.8%	5 365	13.2%
Asia	10 475	23.5%	5 769	14.2%
Other countries	1 126	2.5%	1 358	3.3%
<b>Total</b>	<b>44 604</b>	<b>100.0 %</b>	<b>40 612</b>	<b>100.0 %</b>
<b>Location of non-current assets</b>				
Switzerland	522	1.2%	553	1.3%
European Union	3	0.0%	3	0.0%
Latin America	15 787	37.8%	17 236	39.0%
Africa	25 492	61.0%	26 408	59.7%
<b>Total</b>	<b>41 804</b>	<b>100.0 %</b>	<b>44 200</b>	<b>100.0 %</b>

## Reconciliation of reportable segment profit or loss

in thousand EUR

	2017	2016
Total EBITDA for reportable segments	10 617	8 841
EBITDA Other	-2 452	-2 287
Share of profit of associates	46	335
<b>EBITDA</b>	<b>8 211</b>	<b>6 889</b>
Depreciation, amortization and impairment	-4 681	-5 277
<b>EBIT</b>	<b>3 530</b>	<b>1 612</b>
Financial income and expenses	-1 756	-4 363
<b>Earnings before tax</b>	<b>1 774</b>	<b>-2 751</b>

## 30. Major shareholders

On 31 December 2017, the major shareholders holding 3% (rounded) or more of Precious Woods Holding registered shares were as follows:

	Number of shares <sup>1</sup> 2017		Number of shares <sup>1</sup> 2016	
Fleischmann Werner	1 049 352	14.9%	943 165	13.7%
Aires International Investment Inc.	800 000	11.3%	800 000	11.6%
Campdem Development SA	644 500	9.1%	686 861	10.0%
Aage V. Jensen Charity Foundation	455 704	6.5%	455 704	6.6%
Basler Insurances	333 053	4.7%	333 053	4.8%
von Braun	324 324	4.6%	324 324	4.7%
BoD / Management Precious Woods	395 945	5.6%	322 296	4.7%
Vasalli Christian	235 000	3.3%	230 000	3.3%

<sup>1</sup> Calculation is based on the current number of shares. Please also refer to Note 16 for information on convertible loans.



### 31. Income taxes

#### Major components of tax expenses/(income)

in thousand EUR	2017	2016
Current tax expenses/(income)	561	1
Deferred tax expenses/(income) relating to temporary differences	-431	-
<b>Total</b>	<b>131</b>	<b>1</b>

#### Reconciliation of tax expenses/(income)

in thousand EUR	2017	2016
<b>Earnings before tax</b>	<b>1 774</b>	<b>-2 751</b>
Expected tax expenses/(income) based on a weighted average	488	-767
Tax adjustments related to prior years	831	-
Effect of revaluation of DTA	85	6
Prior year unrecognized tax losses	-2 538	-
Unrecognized tax losses and temporary differences	427	762
Change in permanent differences	838	-
<b>Total income taxes</b>	<b>131</b>	<b>1</b>

The weighted average applicable tax rate, considering all profit and loss making entities, was 27% (2016: 28%).

#### Deferred income tax

in thousand EUR	2017	2016
Total deferred tax assets	3 963	3 576
Total deferred tax liabilities	-3 582	-3 576
<b>Net deferred tax assets/(liabilities)</b>	<b>381</b>	<b>-</b>

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

#### Deferred income tax assets

in thousand EUR	2017	2016
Tax loss carry-forwards	3 041	2 491
Financial liabilities	534	677
Other	388	408
<b>Total deferred tax assets</b>	<b>3 963</b>	<b>3 576</b>

## Deferred income tax liabilities

in thousand EUR	2017	2016
Property, plant and equipment	-2 825	-3 007
Intangible assets	-453	-567
Financial assets	-304	-
Financial liabilities	-	-2
<b>Total deferred tax liabilities</b>	<b>-3 582</b>	<b>-3 576</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>381</b>	<b>-</b>
<b>Reported in the balance sheet as follows:</b>		
Deferred tax assets	1 621	-
Deferred tax liabilities	-1 240	-
<b>Net deferred tax assets/(liabilities)</b>	<b>381</b>	<b>-</b>

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

in thousand EUR	2017	2016
At 1 January	-	6
Income statement charge	431	-
Tax charged to other comprehensive income	-54	-161
Translation difference	4	155
<b>At 31 December</b>	<b>381</b>	<b>-</b>

The Group did not recognize deferred income tax assets (2016: EUR 12.5 million) and on unused tax losses of on deductible temporary differences of EUR 11.9 million (2016: EUR 91.7 million (2016: EUR 211.5 million)).

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

in thousand EUR	2017	2016
0–2 years	26 597	110 400
3–4 years	16 809	30 490
5–7 years	27 073	37 884
over 7 years	21 266	32 703
<b>Total tax loss carry-forwards</b>	<b>91 745</b>	<b>211 477</b>

EUR 16.9 million of these loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 20% (2016: EUR 18.1 million with an applicable tax rate of 25%), EUR 15.5 million belong to the Brazilian operations with an applicable tax rate of 34% (2017: EUR 17.0 million with an applicable tax rate of 34%), EUR 5.6 million

belong to the Gabonese operations with an applicable tax rate of 30% (2016: EUR 15.6 million with an applicable tax rate of 30%) and EUR 53.7 million belong to the Swiss operation with an applicable tax rate of 9.6% (2016: EUR 160.7 million with an applicable tax rate of 8.8%).

### 32. Currency translation rates

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

in EUR		2017				2016			
		Year-end rate	in % of previous year	Average rate	in % of previous year	Year-end rate	in % of previous year	Average rate	in % of previous year
Swiss franc	1 CHF	0.8550	91.7%	0.9006	98.2%	0.9328	101.0%	0.9172	97.9%
Euro	1 EUR	1.0000	100.0%	1.0000	100.0%	1.0000	100.0%	1.0000	100.0%
Brazilian real	1 BRL	0.2519	86.3%	0.2779	106.8%	0.2918	126.2%	0.2603	94.9%
US Dollar	1 USD	0.8347	87.8%	0.8870	98.2%	0.9509	103.7%	0.9035	100.3%
CFA-Franc BEAC	1 XAF	0.0015	100.2%	0.0015	99.2%	0.0015	97.6%	0.0015	100.3%

### 33. Divestments and acquisitions

There were no acquisitions in 2016 and 2017. Per 31 December 2017, the inactive subsidiary Geveltim Houtimport B.V., located in Leimuiden, NL, was liquidated.

### 34. Subsequent events

There were no significant events after the reporting period.

### 35. Approval of financial statements and dividends

The financial statements were approved by the Board of Directors on 23 April 2018 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 2017 (2016: no dividend paid).



To the General Meeting of  
Precious Woods Holding AG, Zug

Zurich, 23 April 2018

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



### Opinion

We have audited the consolidated financial statements of Precious Woods Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 40 to 72) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.



### Basis for opinion

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

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

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



### Other information in the annual report

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

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

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



### Responsibility of the Board of Directors for the consolidated financial statements

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

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



#### **Auditor's responsibilities for the audit of the consolidated financial statements**

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

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



#### **Report on other legal and regulatory requirements**

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

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

Ernst & Young Ltd



Kaspar Streiff  
Licensed audit expert  
(Auditor in charge)



Philipp Baumann  
Licensed audit expert









# Precious Woods Holding Ltd financial statements

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## Balance sheets as of 31 December 2017 and 2016

in thousand CHF	Notes	2017	2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1 668	1 009
Trade receivables			
against third parties		4 298	4 943
against Group		818	509
Other short-term receivables			
against third parties		178	42
against Group		7 526	5 603
Inventories		449	423
Prepaid expenses		115	118
<b>Total current assets</b>		<b>15 052</b>	<b>12 647</b>
<b>Non-current assets</b>			
Financial Assets to Group	8	39 338	29 241
Investments	4	53 385	53 386
Property, plant and equipment		9	14
Intangible assets		47	24
Long-term financial assets		30	30
<b>Total non-current assets</b>		<b>92 809</b>	<b>82 695</b>
<b>TOTAL assets</b>		<b>107 861</b>	<b>95 342</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade payables			
against third parties		941	255
against Group		2 866	4 442
against shareholders and governing bodies		0	77
Short-term interest-bearing liabilities against shareholders	5	6 400	6 900
Other short-term liabilities		1 072	835
Accrued expenses and short term provisions		2 967	1 719
<b>Total short-term liabilities</b>		<b>14 246</b>	<b>14 228</b>
<b>Non-current liabilities</b>			
Long-term interest-bearing liabilities against shareholders	6	23 509	18 072
Long-term provisions		51	39
<b>Total long-term liabilities</b>		<b>23 560</b>	<b>18 111</b>
<b>Shareholders' equity</b>			
Share capital	1, 2, 3, 5	7 053	6 903
Legal capital reserves			
Capital contribution reserves	5	88 924	88 593
Legal capital reserves			
General legal retained earnings		4 534	4 534
Voluntary retained earnings			
Accumulated losses		-37 027	-41 400
Net income for the year		6 572	4 372
<b>Total shareholders' equity</b>		<b>70 054</b>	<b>63 002</b>
<b>TOTAL liabilities &amp; equity</b>		<b>107 861</b>	<b>95 342</b>

See notes to Precious Woods Holding Ltd financial statements on pages 80 to 84.



# Statements of income 2017 and 2016

in thousand CHF	Notes	2017	2016
<b>Sales</b>			
Net sales timber products		47 948	44 001
Net sales CO <sub>2</sub> certificates		417	649
General costs of production		-44 184	-41 245
<b>Total operating income</b>		<b>4 181</b>	<b>3 405</b>
Personnel expenses	7	-2 800	-2 485
Administrative expenses		-1 272	-1 042
Audit fees		-156	-169
<b>Earnings before interest, tax, depreciation and amortization (EBITDA)</b>		<b>-47</b>	<b>-291</b>
Depreciation, amortization and impairment	8	6 950	5 452
<b>Earnings before interest &amp; tax (EBIT)</b>		<b>6 903</b>	<b>5 161</b>
Financial income		1 479	1 231
Financial expenses		-1 761	-1 723
Foreign exchange differences		-41	-290
<b>Earnings before tax (EBT)</b>		<b>6 581</b>	<b>4 379</b>
Taxes		-9	-7
<b>Net income for the year</b>		<b>6 572</b>	<b>4 372</b>

See notes to Precious Woods Holding Ltd financial statements on pages 80 to 84.

# Notes to the financial statements of Precious Woods Holding Ltd

## Essential accounting and valuation principles

### a. Principles

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

### b. Inventories

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

### c. Financial assets and investments

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

### d. Interest-bearing financial liabilities

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

### e. Leasing

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

### f. Revenue from sale of goods and services

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

## 1. General

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

The Precious Woods Group is active in the field of sustainable forest management in South America and Africa following the guidelines for sustainable forest management laid out by the Forest Stewardship Council (FSC), and is also active in the trading of timber products as well as the sale of CO<sub>2</sub> 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 2017 was composed of 7 052 745 (2016: 6 902 745) fully paid-in registered shares, each with a nominal value of CHF 1.00.

## 2. Authorized share capital

The authorized share capital, which was renewed at the Annual General Meeting in 2016, expired on 25 May 2017. On 18 May 2017, the Annual General Meeting approved an authorized share capital of CHF 1 000 000 (1 000 000 shares with a nominal value of CHF 1.00 each). The Board of Directors is thus authorized to increase the share capital at any time until 17 May 2019 by a maximum amount of CHF 1 000 000 by way of issuance of no more than 1 000 000

registered shares that are to be fully paid in with a nominal value of CHF 1.00 each. On 31 December 2017, the amount of the authorized capital is thus CHF 1 000 000 in shares (1 000 000 shares with a nominal value of CHF 1.00 each).

The remaining authorized share capital expires on 17 May 2019.

### 3. Conditional share capital

As of 31 December 2017, the company had the following conditional share capital:

- a. As of 31 December 2015 the conditional share capital amounted to CHF 342 475 (342 375 shares with a nominal value of CHF 1.00 each). On 18 February 2016, the right to convert a convertible bond was exercised to purchase shares. The capital increase amounted to CHF 40 540 (40 540 shares with a nominal value of CHF 1.00 each). As of 31 December 2016, the conditional capital thus amounted to CHF 301 935 (301 935 shares with a nominal value of CHF 1.00 each). On 18 May 2017, the Annual General Meeting authorized to increase the conditional share capital from CHF 301 935 to CHF 1 500 000 (1 500 000 shares with a nominal value of CHF 1.00 each) according to Article 3a of the Articles of Association. On 18 May 2017, the right to convert a convertible loan was exercised to purchase shares. The capital increase amounted to CHF 150 000 (150 000 shares with a nominal value of CHF 1.00 each). The exercise price was CHF 3.20 per share. As of 31 December 2017, the conditional share capital amounted to CHF 1 350 000 (1 350 000 shares with a nominal value of CHF 1.00 each).
- b. Additionally, according to Article 3b of the Articles of Association, the share capital of the company may be increased by the maximum amount of CHF 140 488 by the issuance of no more than 140 488 (2015: 140 488) registered shares that are to be fully paid in and have a nominal value of CHF 1.00 each; this increase being the result of the exercise of option rights that can be granted to employees of the company or of affiliated companies. In August 2016, a capital increase was effected by issuing employee shares. The capital increase amounted to CHF 93 850 (93 850 shares with a nominal value of CHF 1.00 each) at the exercise price of CHF 4.00 per share. As of 31 December 2016, the conditional share capital thus amounted to CHF 46 638 (46 638 shares with a nominal value per CHF 1.00 each). In the year 2017 no change took place.



#### 4. Investments in subsidiaries

The company holds the following direct investments:

Company	Currency	31 December 2017		Currency	31 December 2016	
		Nominal share capital	Voting rights and Participation		Nominal share capital	Voting rights and Participation
<b>Precious Woods Management Ltd.</b> British Virgin Islands (sub-holding)	USD	20 000	100.00%	USD	20 000	100.00%
<b>Madeiras Preciosas de Amazonia Manejo Ltda.</b> 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%
<b>MIL Madeiras Preciosas Ltda.</b> 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%
<b>Precious Woods do Pará S.A.</b> Brazil (sub-holding company, land and forest operations)	BRL	1 003	100.00%	BRL	1 003	100.00%
<b>Precious Woods Manejo Florestal Ltda.</b> Brazil (land and forest operations)	BRL	24 429 917	100.00%	BRL	24 429 917	100.00%
<b>Precious Woods Europe B.V.</b> Netherlands (timber trade)	EUR	18 000	100.00%	EUR	18 000	100.00%
<b>Unio S.A.</b> Luxembourg (sub-holding for Gabonese entities)	EUR	1 000 000	100.00%	EUR	1 000 000	100.00%
<b>Lastour &amp; Co. S.A.</b> Luxembourg (sub-holding for Gabonese entities)	EUR	372 575	100.00%	EUR	372 575	100.00%

BRL – Brazilian real  
EUR – European euro  
USD – US dollar

#### 5. Other short-term interest-bearing liabilities

As of 31 December 2017, the short-term liabilities consist of two loans from shareholders in the amount of CHF 6.4 million. The interest rate of the two loans has been agreed on 6% and a term until December 2018. The convertible loan of

CHF 0.5 million from shareholders was converted in May 2017 and entitled them to subscribe shares. The share capital was increased by CHF 150 000 (150 000 shares with a nominal value of CHF 1.00 each).

#### 6. Long-term interest-bearing liabilities

As of 31 December 2017, the long-term liabilities consist of one loan in the amount of CHF 20.0 million and three loans in the amount of EUR 1.0 million each from shareholders. The

loans have an interest at 6%, 4.5% and 4.0% and have terms until December 2022, December 2021, March 2020 and April 2020.

## 7. Board and Executive compensation

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

in thousand CHF	Fix in cash	Fix in shares	Other compensation	Total	Ownership of shares
<b>For the year 2017</b>					
Ernst A. Brugger <sup>1</sup>	70	—	—	<b>70</b>	96 615
Katharina Lehmann	78	—	—	<b>78</b>	91 522
Markus Brüttsch <sup>2</sup>	19	—	—	<b>19</b>	176 308
Jürgen Blaser	30	—	11	<b>41</b>	3 500
Robert Hunink	30	—	25	<b>55</b>	17 500
Kurt Lüscher <sup>3</sup>	19	—	—	<b>19</b>	3 000
<b>Total</b>	<b>246</b>	<b>—</b>	<b>36</b>	<b>282</b>	<b>388 445</b>

in thousand CHF	Fix in cash	Fix in shares	Other compensation	Total	Ownership of shares
<b>For the year 2016</b>					
Ernst A. Brugger	140	—	—	<b>140</b>	96 615
Katharina Lehmann	60	—	—	<b>60</b>	77 522
Jürgen Blaser	30	—	5	<b>35</b>	3 500
Robert Hunink	30	—	9	<b>39</b>	12 500
<b>Total</b>	<b>260</b>	<b>—</b>	<b>14</b>	<b>274</b>	<b>190 137</b>

<sup>1</sup> This Board member's mandate ended in May 2017

<sup>2</sup> This Board member was elected in May 2017

<sup>3</sup> This Board member was elected in May 2017

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

in thousand CHF	Salary Fix in cash	Salary <sup>1</sup> Variable in cash	Employer <sup>2</sup> social contributions	Total	Ownership of shares
<b>For the year 2017</b>					
Markus Brüttsch, CEO / CFO	375	125	77	<b>577</b>	176 308
<b>Group Management Total</b>	<b>700</b>	<b>125</b>	<b>127</b>	<b>952</b>	<b>183 808</b>

in thousand CHF	Salary Fix in cash	Salary <sup>1</sup> Variable in cash	Employer <sup>2</sup> social contributions	Total	Ownership of shares
<b>For the year 2016</b>					
Markus Brüttsch, CEO / CFO	375	50	72	<b>497</b>	133 308
<b>Group Management Total</b>	<b>700</b>	<b>50</b>	<b>114</b>	<b>864</b>	<b>140 808</b>

<sup>1</sup> During 2017 and 2016 no share-based compensation was made to the Group Management.

<sup>2</sup> These amounts comprise payments to pension plans (mandatory and non-mandatory), ESPPs and other social contributions.

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

## 8. Depreciation, amortization and impairment

As of 31 December 2017, in addition to the regular depreciation on property, plant and equipment, there is a reversed

impairment of CHF 7.0 million of financial assets against group companies (previous year: CHF 5.4 million).

## 9. Major shareholders

For the overview of major shareholders as of 31 December 2016 we refer to the note 30 to the consolidated group financial statements.

## 10. Pledged assets / other securities

As of 31 December 2017, Precious Woods Holding Ltd had no pledged assets, but had pledged land securities in Brazil in the amount of CHF 26.0 million in connection with loans.

## 11. Other note / Full time employment

For the full time employment of Holding employees for the years 2017 and 2016, we refer to the social key figures in the sustainability report on page 28.

## 12. Other note / Residual amount of leasing obligations

The following maturity structure shows leasing liabilities which have a residual term of more than twelve months or which cannot be canceled within the next twelve months.

These amounts include payments related to rental / leasing contracts up to the end of their contract period or notice period.

in CHF	2017	2016
< 1 year	88 143	81 723
1 – 5 years	9 160	83 105
<b>Total</b>	<b>97 303</b>	<b>164 828</b>

## 13. Other note / Significant events after the reporting date

For additional information on significant events after reporting date, we refer to the note 34 of the consolidated group financial statements.



To the General Meeting of  
Precious Woods Holding AG, Zug

Zurich, 23 April 2018

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Precious Woods Holding AG, which comprise the balance sheet, income statement and notes (pages 78 to 84), for the year ended 31 December 2017.



### 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 2017 comply with Swiss law and the company's articles of incorporation.



### Report on other legal requirements

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

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

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

Ernst & Young Ltd



Kaspar Streiff  
Licensed audit expert  
(Auditor in charge)



Philipp Baumann  
Licensed audit expert

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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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