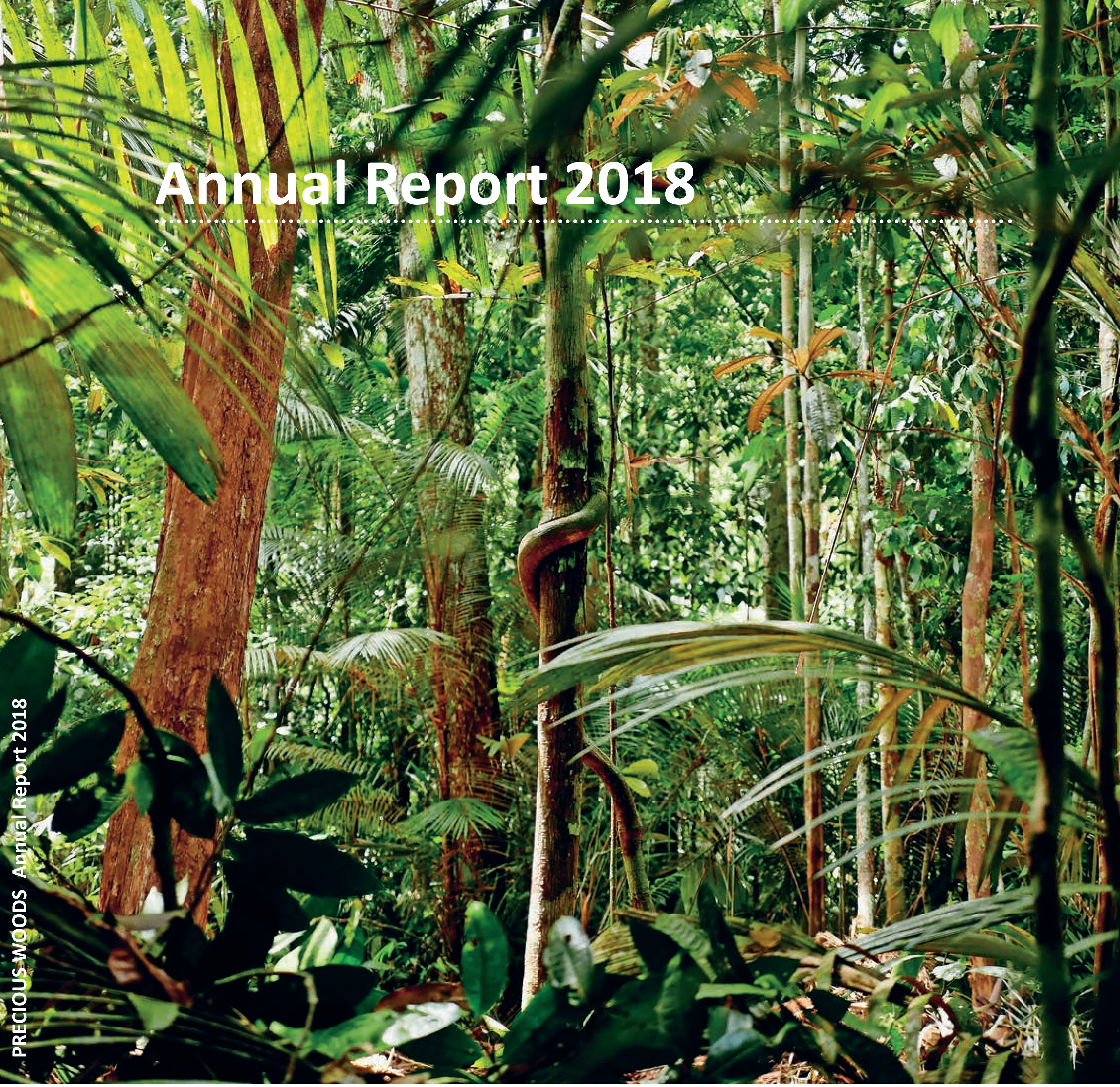
Annual Report 2018



PRECIOUS WOODS

◀ **Cover:**
Forest image of Brazil
Back:
Semi-finished products from Gabon, ready for transport

Precious Woods 2018 – Sales growth

- Affected result due to one-off events
- Significant increase in Brazil
- Sales delays from Gabon

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

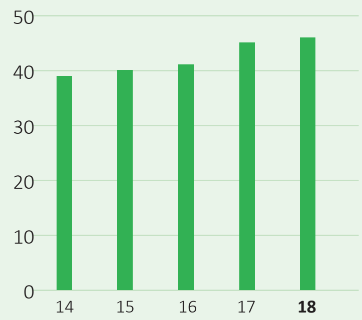
5-year summary of key financial data (in thousand EUR)

	2018	2017	2016	2015[1]	2014[1]
Net revenues	**46 349**	**44 997**	**41 319**	**39 994**	**38 768**
Amortization & Depreciation, Impairments	3 416	4 681	5 277	5 195	6 429
Amortization & Depreciation	3 435	4 699	5 356	5 213	6 414
Impairments	–19	–18	–79	–18	15
EBITDA	**5 111**	**8 210**	**6 889**	**6 060**	**3 056**
in % of net revenues	11.0%	18.2%	16.7%	15.2%	7.9%
EBIT	1 695	3 529	1 612	865	–3 373
in % of net revenues	3.7%	7.8%	3.9%	2.2%	–8.7%
Net result	**–1 717**	**1 643**	**–2 752**	**–4 265**	**–8 383**
in % of net revenues	–3.7%	3.7%	–6.7%	–10.7%	–21.6%
Balance sheet total	73 435	71 405	69 288	65 302	71 906
Shareholders' equity	**15 855**	**20 095**	**19 440**	**11 828**	**16 681**
in % of the balance sheet total	21.6%	28.1%	28.1%	18.1%	23.2%
Net indebtedness	**34 441**	**31 283**	**30 526**	**30 696**	**35 050**
Cash flow from operating activities	**3 307**	**3 351**	**2 229**	**3 972**	**899**
Investments/acquisitions	–3 542	–2 244	–2 320	–1 887	179
Average full-time-equivalent employee	1 408	1 340	1 209	1 209	1 217

[1] Restated due to change of presentation currency

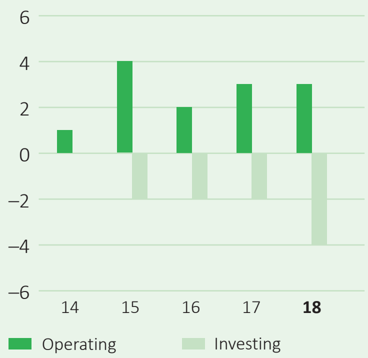
Net revenues*

EUR million



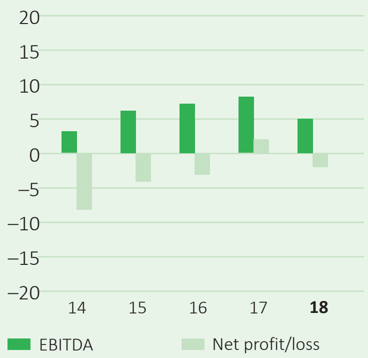
Cash flow from operating and investing activities*

EUR million



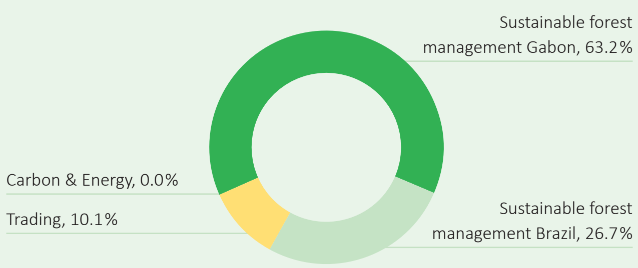
EBITDA and net profit/loss*

EUR million

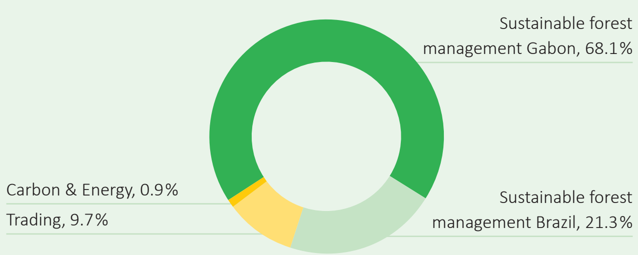


Net revenues by business segment

2018: EUR 46.3 million

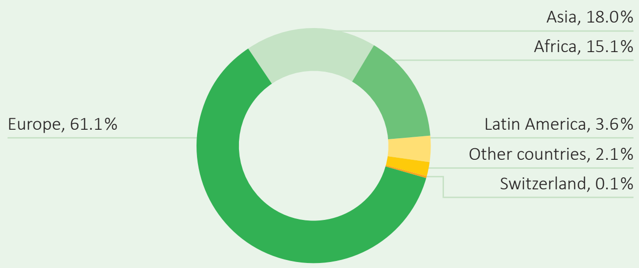


2017: EUR 45.0 million

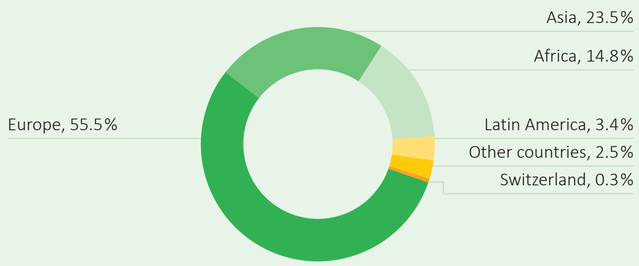


Net revenues by market region

2018: EUR 46.3 million

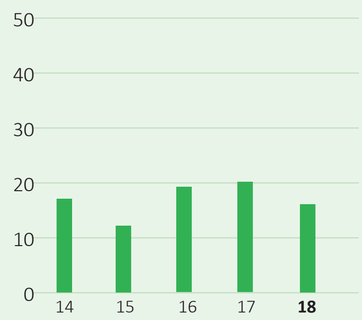


2017: EUR 44.6 million



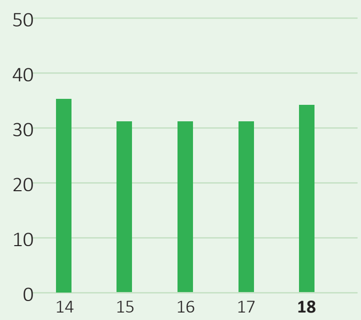
Shareholders' equity*

EUR million



Net indebtedness*

EUR million



Information for investors	**2018**
Share price in CHF	8.00
Stock market capitalization in CHF million	56
Earnings per share in EUR	–0.24

* The years 2015 and 2014 have been restated due to change of presentation currency.

Contents

To our shareholders

Katharina Lehmann
Chairwoman of the BoD

Dear Shareholders

2018 was a demanding year in many ways. Shipping problems, first in Brazil and then in Gabon, put a heavy strain on our liquidity and also led to additional expenses. In addition, various adversities had a negative impact on our infrastructure, hampering logistics and also our production possibilities. Last but not least, we were confronted with legal decisions in cases from the years 2008-2013, which cost us about EUR 1 million. Taking all these special effects into account, I consider the achieved result to be satisfactory. And I can say that Precious Woods has been successful in mastering the challenges of the past months.

Positive developments as well as setbacks

The operating result suffered due to the events mentioned above, and the net result was a loss. Detailed explanations of the special effects can be found in the following segment reports. In summary, I am able to state: If we had been able to conclude the fiscal year without these impediments, the Group would at least have been able to report a net break-even result. Therefore, the figures presented do not adequately reflect the operational progress of the operations in Gabon, Brazil, as well as the sales, trading, and holding activities. Without special effects and currency effects, we would have attained at least the previous year's level.

The development in Brazil is particularly gratifying. The steady improvement of our processes, the increase in the processing volumes, and the increase of the yield led to a positive result. Our trading activities are also making increasing contributions. The result in Gabon was adversely affected by an extraordinary interruption of operations and an unplanned inventory build-up due to shipping delays. The consequence is somewhat lower production volumes and unrealized margins in the reported fiscal year. Both of these factors have a negative impact on our result. Although we know that we still have a lot of potential for improvement, I feel very positive overall about the development of the Group.

More difficult access to financing

The fact that external debt is still too high makes it more difficult and very expensive for us to secure financing for our projects. But we want to expand the activities and impact of the Group and make the necessary investments. Precious Woods still has no access to bank loans or conventional financing options. Even sustainability funds usually expect a double-digit return on their investment, which we are unable to offer in our sector. Increasingly, we are asking ourselves why our exceptional environmental and social performance is not an integral part of a sustainable financial return, or why the so-called return even of sustainability funds cannot be reflected, evaluated, and recognized in a more multidimensional way. It seems that only you as our company shareholders and creditors appreciate our uncompromising commitment to sustainability. For this and for continuing to place your trust in us, we would like to thank you from the bottom of our hearts.

Investments in sustainability, concession areas, service provision, and markets

Precious Woods not only manages about 7% of the world's certified tropical forest area and has been committed in that way to the protection of tropical forests for about 25 years – we also contribute a significant impact to achieving the UN's defined sustainability goals. For example, we contribute to improving the quality of life of residents in and around our cultivated forest areas. Together with our employees and their families, we reach more than 10 000 people who benefit indirectly and directly from our work. We want to strengthen these cycles of impact and at the same time expand our operating activities. This also includes an expansion of our concession areas. In the field of sustainable tropical forestry, there are fewer and fewer companies willing to take on the personnel and financial risks and face the more difficult conditions. Precious Woods intends to assume responsibility in this field, contributing expertise and experience and thus sustainably securing an even larger forest area.

Apart from additional land that we want to cultivate, we are also relying on targeted investments in the provision of services and value creation. In both Brazil and Gabon, projects are planned to strengthen the earning power of the Group and to make further contributions to the social security and safeguarding of our activities in our regions. Last but not least, we will strengthen our market and customer development activities. We trust that with our variety of products and our credibility, we can continue to count on loyal customers and partners.

Outlook and thanks

Despite the negative result for 2018, we are confident for fiscal year 2019. We intend to increase processing volumes and yield at both production sites and in that way achieve a marked increase in profitability. In addition, we are making targeted investments to further increase our productivity. We are convinced that the planned measures will lay the foundations for a successful fiscal year. The new sawmill for hardwood in Gabon will be completed by the end of 2019, and production will start in 2020. We anticipate that this investment will enable us to sustainably produce and process additional volumes of hardwood timber in the future.

Precious Woods can count on highly motivated and committed employees who have worked at our three locations in Brazil, Gabon, and Switzerland for many years. They are the most important components and at the same time the guarantors of our success. Because without the enormous dedication of the entire team, including all the experts and managers, we would not be able to handle the demanding task of our company. On behalf of the Board of Directors, I would therefore like to thank all of our 1 400 employees and the Group Management in sales, staff units, and operations for their great commitment to the benefit of our Group.

Special thanks to our CEO, CFO, and at the same time Delegate of the Board of Directors, Markus Brütsch. Not only does he work tirelessly for our local companies and in Switzerland – he directs, guides, develops, and shapes our company, and we are very grateful to be able to continue to count on his dedication. I would also like to thank my other colleagues on the Board of Directors, Jürgen Blaser and Robert Hunink. I am very grateful for all the valuable, knowledgeable, critical, and constructive contributions that not only I appreciate, but also the Group Management. All of us, as well as our employees in Gabon and Brazil, benefit from your expertise, your active support, and your dedication.

My greatest thanks go to our shareholders. Precious Woods and I personally would like to thank you from the bottom of our hearts for your loyalty, for your support, and for your goodwill in promoting our multidimensional activities. Without you, the present and future of our mission and operation would not be possible. And we trust that you will continue to accompany us on our path as a pioneering company that is able to set standards in terms of sustainability – both economically as well as environmentally and socially.

Yours faithfully,

Katharina Lehmann
Chairwoman of the Board of Directors

Buffalo of Gabon

Precious Woods – a sustainable, tropical 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 of waste wood from production. The aim of all activities is highest customer value while preventing deforestation of tropical forests through sustainable forest management 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 1 400 people in Brazil, Gabon and Switzerland in 2018.

Vision

As an economically successful company, Precious Woods creates jobs and supports local communities and contributes to the long-term preservation of tropical forests and their positive impact on sustainability goals such as 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 multidimensional 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 of more than 50 tree species. 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 and the reliability 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.

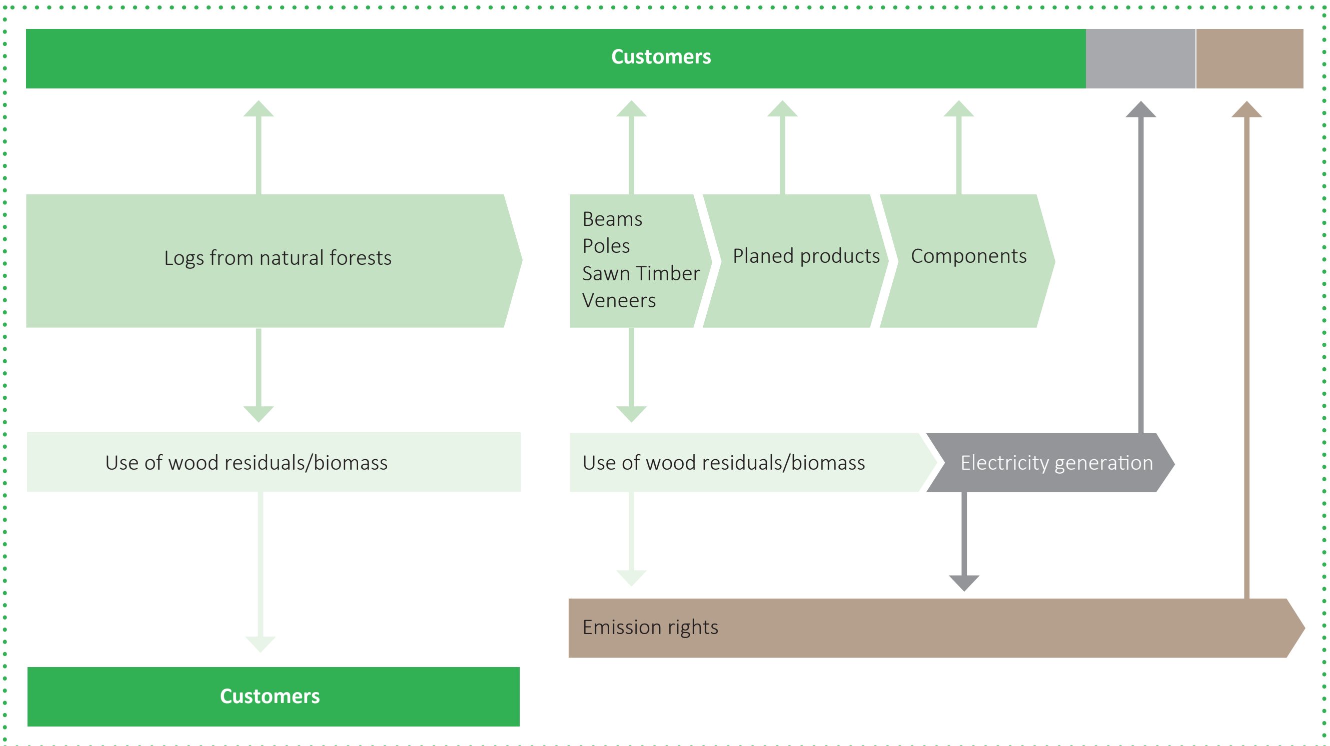
A pioneering role – more than just certified sustainable management

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 checked and audited 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 remote sensing and forest inventory 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 and processing companies that are also certified. Unknown new species of wood (called lesser-known species) 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 furthermore 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. These divisions, their activities and results are documented in detail in this annual report.

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 sucessfully. 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).

2018 The construction of an additional hardwood sawmill begins in Bambidie. Launch of the sawmill takes place in 2020.

Sales increase – but extraordinary events and charges in 2018

Precious Woods achieved consolidated net sales of EUR 46.3 million in fiscal year 2018. This was 3.0 % higher than in the previous year (EUR 45.0 million). Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 5.1 million (previous year: EUR 8.2 million). Earnings before interest and taxes (EBIT) amounted to EUR 1.7 million (previous year: EUR 3.5 million). The net result amounted to EUR -1.7 million (previous year EUR 1.6 million). Earnings were affected by one-off expenses of about EUR 1.0 million and a margin of around EUR 3.0 million will only be realized in 2019.

Income statement

Total income

The net sales in 2018 amounted to EUR 46.3 million, which is 3.0% higher than the previous year's sales of EUR 45.0 million. Currency effects amounted to -1.0%, volumes increased by 2.9%, and shifts in the price/product mix contributed 2.0% to sales. Emission certificates were not settled in the reporting year.

Starting September 2018, regular shipments from the port of Gabon were no longer possible. On the one hand, there was a lack of containers; on the other hand, the ships could not dock due to damage in the port's infrastructure. In addition, there were transport problems by rail, due to a lack of railcars, and the road network was interrupted for a long period of time. Inventories not delivered at the end of the year amounted to about EUR 3 million, which represents an increased capital commitment but also a lack of margins. The delivery situation in Brazil improved over the course of the first quarter of 2018, and Precious Woods was subsequently able to ship again normally.

Due to delivery delays, we recorded a decline in sales from Gabon of about EUR 1.4 million. In contrast, sales from Brazil rose by EUR 3.1 million. Trading sales in logs and sawn timber from Europe increased by 5.6% over the previous year.

Emission certificates were not settled in 2018; the proceeds from our activities will accrue in 2019 (previous year: EUR 0.4 million). The prices of the certificates are about 60% lower due to overcapacities on the market. The calculation basis also changed, and about 30% fewer certificates were projected.

Operational development: Costs and market

The production volume of sawn timber in Brazil was 14.4% higher than in the previous year, and yield was increased by 2.4 percentage points. Sales increased by 31.9% as a result of the additional reduction in inventory of finished goods. The disproportionately low development of local costs and a positive exchange rate effect of about 12% led to a significant improvement in earnings. However, the result was negatively impacted by one-off legal charges of about EUR 1 million. These legal cases originated in the years 2008-2013.

In the sawmills in Gabon, 0.8% fewer logs were processed, and a total of 6.7% less sawn timber was produced. The reason for this was an unscheduled three-week production interruption in November/December because two storms affected our infrastructure in Bambidie.

In the veneer plant in Gabon, production volume fell by 5.0%, and sales were 4.5% lower than in the previous year.

The investment volume amounted to EUR 3.5 million (previous year: EUR 2.2 million). The focus was on the new sawmill in Gabon, which will be productive in 2020. Replacement investments were also made in machinery and vehicles, renovation projects in road construction and the expansion of seasoning capacities for sawn timber. These targeted investments will improve the Group's earning power. Maintenance work at all plants was carried out on schedule.

The average prices for sawn timber across the Group were above the previous year's level. This was despite the fact that the market was very volatile; in Asia in general and China in particular. New markets had to be found for the main timber species from Gabon (Okoumé), given that demand in Asia declined abruptly. The tightening of import regulations in individual countries is having a positive effect for us. Proof of legality and, to an increasing extent, of sustainability is becoming increasingly important. With our dual certification and credibility, we have a head start here. However, the challenge remains to establish even small quantities of lesser-known species on the markets and with customers. Europe continues to be our main sales market with a share of about 61%, followed by Asia with 18%, Africa with 15%, and other countries with 6%. The share in Europe fell by 5.6 percentage points in favor of the Asian market.

Operational contribution

Production costs increased by 21.6%, and the operational contribution decreased by 6.6% or EUR 1.9 million compared with the previous year. This must be interpreted in the context of unrealized sales, the interruption of operations, and the high one-off charges. Given that the margins not realized in 2018 will accrue in 2019, the result in 2019 will be correspondingly better.

Operating result (EBITDA)
Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 5.1 million, which was EUR 3.1 million or 37.7% lower than in the previous year (EUR 8.2 million). This corresponds to an EBITDA margin of 11.0% (previous year: 18.2%).

Due to higher sales and the positive currency effect, PW Amazon's EBITDA margin increased to 12.4% or EUR 1.6 million (previous year: 1.2%). Without one-off charges, it would even be 20.1%. At PW Gabon, the EBITDA margin fell to 18.9% (previous year 32.4%). Without the special effects as already reported, operating revenue would have been at the previous year's level. Consolidated depreciation was EUR 3.4 million, 27% lower than in the previous year. This is due to the fact, that some assets are fully depreciated. Investments totaled EUR 2.2 million. At Group level, earnings before interest and taxes (EBIT) reached EUR 1.7 million (previous year: EUR 3.5 million). This corresponds to a margin of 3.7% (previous year: 7.8%).

Financial result
At EUR -2.8 million, the financial result was significantly below the previous year's figure of EUR -1.8 million. New loans had to be taken up to finance investments but also working capital. However, the greatest impact on the result came from exchange rates. In 2017 we recorded a positive currency effect of EUR 0.9 million, while in 2018 the account was affected by a negative impact of EUR -0.3 million. This represents a change of EUR -1.1 million. Net debt was EUR 3.2 million higher than in the previous year and amounted to EUR 34.4 million. Loans increased by EUR 0.9 million due to exchange rates.

Net result
The net loss amounted to EUR 1.7 million, compared with the previous year's profit of EUR 1.6 million.

Outlook
Production capacity in Brazil was expanded, which will lead to higher processing volumes and higher yields. The total harvest volume will increase slightly and the sawmill for hardwood in Gabon will be completed by the end of the year. The production volume will increase in 2019 mainly by improving yield. The net sales increase will be between 3% and 7%; the costs will not develop linearly, resulting in a strong improvement of the operating result. The investment volume will reach about EUR 5 million. The steady improvements in the production workflow and procedures enable us to process higher volumes and strengthen the operating result. Given this background, we are seeking additional concession areas. In the future, an additional harvest quantity could be processed in the existing sawmills.

Balance sheet
Total assets amounted to EUR 73.4 million, EUR 2.0 million higher than in the previous year.

Shareholders' capital amounted to EUR 15.9 million (previous year: EUR 20.1 million). The equity ratio as of the balance sheet date was 21.6% (previous year: 28.1%). The higher total assets due to investments and increased working capital as well as the net loss led to a lower equity ratio.

Cash flow from operating activities reduced by EUR -0.1 million to EUR 3.3 million. The change in working capital was EUR -1.9 million. Investments in tangible fixed assets amounted to EUR 3.5 million. Cash flow from financing activities was EUR 0.9 million. Overall, the Group's financial situation strengthened.

Precious Woods Amazon – increased productivity and profitability

PW Amazon's net sales amounted to EUR 13.0 million, 31.9 % above the previous year's figure of EUR 9.9 million. Export sales increased by 35.4 %, and deliveries of biomass for the energy plant were 17.6 % lower than in the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 1.6 million (previous year: EUR 0.1 million), which corresponds to a margin of 12.4 %. Earnings before interest and taxes (EBIT) amounted to EUR 1.2 million (previous year: EUR -0.3 million). This corresponds to an increase of EUR 1.5 million over the previous year's period. Without one-off charges, which arose from the years 2008-2013 but had to be posted in the reporting year, the results would be EUR 1 million higher.

Higher harvest volume – increased production volumes with higher yield

The harvest volume was 154 400 m^3, 19.1% more than in the previous year. The sawmill processed 121 900 m^3 of logs, 1.3% more than in the previous year. The yield was increased by 2.3 percentage points. This resulted in a 14.4% increase in sawn timber production, namely 25 820 m^3 (previous year: 22 620 m^3). The production year began in mid-January and all maintenance work was carried out in December. This means that there was no production in December at either PWA or BK Energia.

Due to the actions taken by the Federal Police of Brazil against the illegal timber trade in the Amazon, the export of containers at the port of Manaus was severely impeded until February 2018. After that it was possible to export again regularly. In February 2019, all of our blocked containers were finally released; none of the 64 retained containers gave rise to complaints. The additional costs resulting from this delay amounted to approximately EUR 0.9 million. Precious Woods is demanding reimbursement of these expenses from the government. Harvesting activity, which started in June 2018 and ended in December 2018, took place in two areas. The ministry responsible for forestry introduced new software to monitor the traceability of the flow of goods. This system is designed for small businesses and our extensive data could not be reconciled with it. This led to an unnecessary interruption of harvesting activity for one month in the second area. As a result, additional teams had to be recruited to make up for this backlog, resulting in additional costs of about EUR 0.3 million.

The investment volume amounted to about EUR 1.0 million. Half of this was for the expansion of the forest road network, and the remaining was used for machinery for forest and sawn timber production. Financing was secured partly in cooperation with local banks.

The local currency (BRL) fell by about 12% against the euro. 85% of sales are made in EUR, 10% in USD, and 5% in BRL, while nearly 100% of costs are in BRL. This had a positive impact on the income statement.

Legal rules and our commitment to the sustainable use of tropical forests require our company in Brazil to harvest many different species of timber. This constitutes a great task and also entails greater complexity for our operational activity. Our ongoing challenge is to establish and promote lesser-known and lesser-used timber species, for export markets, to examine their areas of application and to increase their familiarity. On the local market, prices are very low, and transport costs to the populated areas in the south of the country are high. For that reason – and because we compete on the home market with illegally harvested timber, as well as cheaper sawn timber – our competitiveness on the local sales market is limited. We are therefore grateful that we are regularly able to gain new customers in Europe, the United States and Asia for the use of lesser-known timber species in the international market. Our experience has shown that we can convince the markets of the specific qualities of those species, which allows us to enter into promising partnerships.

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. We are also trying to replace land areas located in protected areas (around 66 000 ha) with productive, usable areas. Negotiations are underway with the government on this issue.

There was no change in the situation in 2018 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.

Forest machine, Brazil

Precious Woods Amazon in brief

Precious Woods has been operating in the state of Amazonas, Brazil, since 1996. PW Amazon runs sustainable forestry operations on 506 699 hectares of its own land and concessions (as of the end of 2018) near Itacoatiara, 170 kilometers east of Manaus. PW Amazon has been certified according to FSC criteria since 1997. In December 2017, PW Amazon was additionally certified according to PEFC guidelines. 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 in 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 being sold on the local market.

Social and environmental sustainability

Precious Woods Amazon passed the recertification audits for FSC and PEFC with excellent results, credibly documenting that we set standards in regard to the sustainable use of our forest areas. We also passed the annual audit of the ministry responsible for forestry, IBAMA, without reservations. We are still 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 for the local population, work security, but also support for local small businesses through several development projects.

We also engaged in the following activities in the reporting year:

- In 2018, the company initiated and renewed partnership programs that directly and indirectly benefited more than 1 000 inhabitants. For example, the Amazon Honey program seeks new sources of income in rural areas by providing technical and structural subsidies for the training of new beekeepers.
- Together with the military police of Itacoatiara, investigations of poaching and illegal woodcutting were conducted in the region. The 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. In 2018, 80 permanent monitoring areas were reviewed.
- More than 20 different research projects on the environment and sustainability are currently underway in collaboration with INPA (research institute), UFAM (Federal University of Amazonas), EMBRAPA (Brazilian Agricultural Research Corporation), UEA (Amazonas State University), and HAFL (Bern University of Applied Sciences).
- We continue to strive to promote products from the agricultural production of the communities, such as cassava flour, fruit pulp, rambutain (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 program 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 2019

Numerous improvement measures to increase production capacity and yield were realized in 2018. For example, we expect harvest, production and sales volumes to be about 10% higher. Thanks to investment loans from a local bank, we will again invest in road construction, forestry machinery and make some investments in the sawmill. All these measures are intended to increase our productivity and to achieve a positive business result.

Our ambition continues to gain a foothold in the local Brazilian market with sustainably produced sawn wood 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, North American and increasingly also Asian markets.

Key figures for Precious Woods Amazon

		2018	2017	Change
Economic				
Sales sawn and industrialized wood	in m^3	27 400	22 300	22.9%
whereof export	in m^3	22 200	17 700	25.4%
Sales logs and piles	in m^3	400	–	
Sales biomass	in m^3	91 600	81 700	12.1%
Harvest volume	in m^3	154 400	129 600	19.1%
Net sales	in EUR million	13.0	9.9	31.3%
Operating result	in EUR million	1.6	0.1	1500.0%
Environmental				
Energy consumption	in GJ	48 100	43 000	11.9%
Direct CO_2 emissions	in t	2 400	2 000	20.0%
FSC share of timber production sold	in %	100	100	–
Social indicators				
Employees (yearly average)		524	499	5.0%
Women	in %	12.5	12.0	4.2%
Accidents at work		24	19	26.3%
Days lost per accident		6.7	8.3	–19.3%


AZOBE
LOPHIRA ALATA
TOTAL GABON

Precious Woods Gabon – consolidation in a difficult environment

PW Gabon generated net sales of EUR 29.3 million (previous year: EUR 30.7 million), 4.6 % lower than in the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) reached EUR 5.5 million (previous year: EUR 9.9 million). The EBITDA margin was 18.9 %, considerably lower than the previous year's level of 32.4 %. Earnings before interest and taxes (EBIT) amounted to EUR 2.5 million (previous year: EUR 5.7 million) and were thus at the 2016 level. Overall, this corresponds to a margin of 8.6 % (previous year: 18.6 %). The most significant negative impact on these figures was the lack of sales in the amount of about EUR 3 million due to delays in delivery and the associated unrealized margin. Since these were only delays, this will have a positive impact on the fiscal year 2019.

Productivity and profitability have suffered

The harvest volume in 2019 was 243 500 m^3, an increase of 2.1% over the previous year (previous year: 238 600 m^3). In the sawmills in Bambidie, 125 000 m^3 and thus 0.8% fewer logs were processed. The sawn timber production amounted to 41 750 m^3 (previous year: 44 700 m^3). Sales would have been about EUR 3 million higher if it had been possible to keep deliveries steady at the turn of the year. Interruptions in handling at the port of Libreville as well as more difficult access to the port and a shortage of containers have hampered deliveries since September 2018. This continued through the end of the year. The maintenance work in the sawmills was carried out as scheduled. However, two storm damage events in November led to a three-week interruption of operations in the Okoumé sawmill. Due to this shutdown, a total of 6.7% less sawn timber was produced.

The veneer plant (TGI) processed 54 600 m^3 (previous year: 55 200 m^3) with slightly reduced yield. Overall, the production volume of veneer decreased by 5.0% in 2018. The market environment has changed considerably. Numerous sawn timber and veneer producers have settled in the newly formed industrial zone in Gabon and are increasingly seeking and finding access to the European market. Even if they are not yet FSC or PEFC certified, this increases the pressure on our production and sales opportunities.

PW Gabon's total investments in the amount of EUR 4.03.8 million were used for forest machinery (EUR 1.1 million), homes for employees and their families in Bambidie (EUR 0.3 million), and sawmill machinery (EUR 2.4 million). The new sawmill for Azobé timber will be completed by the end of 2019 and will start production in 2020. From that time on, we will have substantial volumes of hardwood that we would not have been able to process without this investment.

The staffing situation remained stable and the fluctuation among the foreign managers was also in line with the usual pattern. The forestry team was supplemented by two Swiss experts.

The input tax credit with the Gabonese government increased to EUR 4.7 million (previous year: EUR 3.7 million). In combination with the delivery and sales delays mentioned above and the necessary investments, this led to a critical liquidity situation. Inventories increased by about EUR 0.9 million. We assume that the situation will improve because financing of the investments will be taken care of by the end of April 2019 and shipments are now possible again on a continuous basis. During fiscal year 2018, in addition to the challenges at the port, the transport routes to Libreville were also impaired, both by road and by rail. There were too few railcars available and the road network was interrupted for a long period of time. Even today, certain roads can only be used by making major detours.

Setbacks can be overcome

All the situations explained above resulted in delays and dilution of the financial result. Infrastructure problems are part of our daily business, but the accumulation of events in 2018 resulted in these setbacks. The fact that this nevertheless resulted in an EBIT margin of 8.6% shows that we know how to deal with such situations.

Working capital increased by EUR 1.0 million, of which EUR 0.9 million are related to the inventory build-up. This means our tied-up capital now amounts to 36.9% of net sales (previous year: 31.8%). The stated goal is to reduce this to a reasonable level of about 25%. Net debt at PW Gabon increased by EUR 1.0 million over the previous year.

Report on further progress in social and environmental sustainability

At both sites – Bambidie and Owendo – complete FSC recertification audits were carried out in 2018. These take place every 5 years. Once again, these audits concluded very successfully. The high level of our work over many years was once again confirmed by independent third parties. In addition, the PAFC audit of forestry management and the CoC certification of CEB and TGI according to the PAFC guidelines were carried out. This means that full dual certification of the Group has been successfully completed.

Hardwood "Azobé" from Gabon

We are also working on the following projects:

- Activities in the newly opened “Maison de la Culture” in Bambidie were financially supported by CEB and PWH.
- Numerous training sessions took place for our logging teams. The goal is to improve knowledge and skills in the area of reduced impact logging and to secure the processes.
- Training sessions for employees in the new central saw sharpening plant were held. First aid classes were also held in cooperation with the Red Cross, and advanced training of the company fire brigade in cooperation with governmental organizations was carried out.
- A project against poaching was organized in cooperation with the ministry responsible for forestry, the Gabon National Park Agency, and NGOs. This project is supported by the German environmental project PPECF.
- Cooperation with the Research Institute in Tropical Ecology (IRET) for research on and further development of non-timber products was continued.
- The Dynafor project was also continued with P3FAC. The goal of this project is to study the dynamics and enrichment of the forest and to project future forest management and harvesting.
- 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 the future. A new employee was hired for this project in 2018.

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 872 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 2019

Further improvements in production workflows will take place in 2019. Investments in the new sawmill are expected to be completed by the end of 2019. The yield is to be increased for the same harvest volume, leading to further sales growth. In the veneer plant, we expect an increase of 3% in production, which can be achieved with the improvement in yield. Sales growth in 2019 will be between 5% and 7%. Margins will improve significantly again if no unexpected events lead to setbacks or delivery delays.

At the beginning of 2018, we carried out preparatory work to advance the project of a biomass power plant in Bambidie. However, as the new forestry law has not yet been adopted, we will leave it at preparatory work for now and only invest in it once there is legal clarity. In parallel, we are currently evaluating possibilities to make better use of restwood given that not the entire volume of biomass should be expected to be useable for electricity production.

We are also investigating additional concession areas with the intention of managing them sustainably and supplying the logs to the market. The demand for logs in the domestic market has risen massively because a number of companies have settled in a specially established industrial zone in Libreville for the first transformation (processing stage).

Key figures for Precious Woods Gabon

		2018	2017	Change
Economic				
Sales sawn and industrialized wood	in m^3	37 300	36 700	1.6%
Sales logs	in m^3	53 300	55 400	–3.8%
Sales rotary veneer	in m^3	25 100	26 000	–3.5%
Sales sliced veneer	in m^2	–	57 400	–100.0%
Harvest volume	in m^3	243 500	238 600	2.1%
Net sales	in EUR million	29.3	30.7	–4.6%
Operating result	in EUR million	5.6	9.9	–43.4%
Environmental				
Energy consumption	in GJ	165 400	162 000	2.1%
CO_2 emissions	in t	15 400	14 500	6.2%
FSC share of timber production sold	in %	100	100	–
Social indicators				
Employees (yearly average)		872	830	5.1%
Women	in %	9.1	9.3	–2.2%
Accidents at work		88	77	14.3%
Days lost per accident		8.3	10.9	–23.9%

Precious Woods Trading – sales in logs and sawn timber from Europe increased by about 6 %

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.

Net sales from the trading business in the 2018 reporting year amounted to EUR 4.7 million, corresponding to an increase of 5.6% over the previous year (2017: EUR 4.4 million).

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 0.4 million. The EBITDA margin was 9.3% (previous year: 11.3%).

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 in production. The challenge will be to apply the insights specifically to our operations in Africa and Brazil and to use them for the benefit of our customers. In future, the range of products will be supplemented by the sale of tropical timber from other FSC-certified operations in Central and South America. Some of these projects are carried out by local communities, in which cooperation with the environmental organization Rainforest Alliance is sought or already in the implementation phase.

Precious Woods Trading in brief

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

Furthermore, in 2014 activities were expanded and the trading of certified European logs and sawn timber was taken up. This now complements our extensive range of products.

Key figures for Precious Woods Trading

		2018	2017	Change
Economic				
Sales logs and sawn wood	in m^3	18 700	19 300	–3.1%
Net sales	in EUR million	4.7	4.4	6.8%
Operating result	in EUR million	0.4	0.5	–20.0%
Environmental				
CO_2 emissions	in t	0.3	0.3	
PEFC share of timber sold	in %	100	100	–

Forest image of France

Carbon & Energy – trading in CER emission certificates

No emission certificates were sold in 2018 because the settlement cycle was postponed (previous year: EUR 0.4 million). The proceeds will be received in the first half of 2019.

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. The prices for emission certificates have fallen massively and the basis for calculating compensation has also been changed. Major sales will no longer be possible.

CERs from Brazilian biomass

BK Energia's 9-megawatt power plant in Brazil supplies the households of the neighbouring city of Itacoatiara with electricity. The production site of Precious Woods Amazon also requires around 2 MW. All of the power plant's electricity (head for wood drying and electrical energy) is generated from the restwood of the PW Amazon sawmill, i.e., renewable biomass.

In 2018, BK Energia not only produced electricity and steam or heat. Our activities resulted in a total of 54 664 tons of CO_2 equivalents (an increase of 5.9% over the previous year), which can be counted towards CO_2 reduction and thus contribute to global climate protection. However, the amount that can be offset will not be reflected in the figures until 2019, given that the proceeds will be received later.

The biomass power plant in Itacoatiara remains very important for Precious Woods: firstly from an operational perspective (inexpensive electricity and heat supply); secondly due to the opportunity to sell restwood from timber harvesting and sawmill; and thirdly because complete utilization of the harvested wood makes an important contribution to avoiding CO_2 emissions and can therefore replace heat and power generation using fossil fuels.

Emission trading together with myclimate

This small-scale project was the first worldwide that generated emission certificates on the basis of sustainably harvested biomass from forestry activities certified by the FSC. The woodchip power plant with 9 MW of electric output is located on the site of the sawmill of Precious Woods in Itacoatiara. Precious Woods now owns 40% of the shares.

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 neighbouring city's approximately 100 000 inhabitants with climate-friendly power. Thanks to the power plant, the local population benefits from lower energy prices and stable energy supply (fewer outages and transport losses). The waste heat generated during electricity production is used for the sawmill's 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 restwood 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 restwood was rotting in large piles on the property or in the forests. The sustainable use of the waste reduces the emission of the greenhouse gases CO_2 and methane.

Precious Woods Carbon & Energy

The Precious Woods business segment Carbon & Energy comprises trade in CERs and shares of a power plant fuelled with restwood. Starting in 2005, Precious Woods operated a biomass power plant in Itacoatiara, Brazil, that had been in operation since 2002. Effective 1 April 2012, Precious Woods sold 40% of its shares in the biomass plant and consequently reduced its stake from 80% to 40%. The sawmill of PW Amazon is still the sole biomass supplier of the plant. The plant is listed as a climate change relevant project replacing diesel with biomass and thus renewable energy. The project complies with the Clean Development Mechanism (CDM) of the Kyoto Protocol. The resulting CERs have been traded since 2011 by the myclimate foundation[1] on behalf of Precious Woods.

[1] myclimate is a Switzerland-based organization set up in 2002 to provide environmentally responsible solutions to individuals and companies. www.myclimate.org

Burning kiln of BK Energia, Brazil

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. Since 2017, the entire Group has also been certified according to the PEFC/PAFC standard. These standards define all essential criteria for sustainability in forestry. The certification schemes cover forestry processes as well as operational timber production, trading, and the handling of social and environmental demands in the context of tropical forest management. 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 activities 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 forestry and timber industry in the tropics and beyond.

Selective wood utilization is not synonymous with sustainable forestry

Selective logging is not at all equivalent to sustainable forestry. 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 diversity of tree species, the tree and carbon stocks, or the regenerative capacity of the forests overall. 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 each year and documented by scientific studies. In this way, we can demonstrate that timber can be harvested in tropical forests without negatively affecting the ecosystem. Thanks to this insight, it is possible to secure employment 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 improving local earning opportunities, basic and continuing training, social stability, cultural heritage 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 on sustainability

		Brazil	Gabon
Forest area	in ha	506 699	596 800
Net forest area	in %	78	92
Employees		524	872
Communities		9	44
Harvest volume per year	in m^3	140 000	240 000
Harvested area per year	in ha	11 700	22 000
Harvest volume per ha	in m^3	12	12
Harvest cycle	in years	35	25

Wooden hut from Gabon

Sustainability goals of the UN

In 2015, the United Nations published the 2030 Agenda for Sustainable Development with the 17 Sustainable Development Goals (SDGs) as its central element. The SDGs cover a wide range of social, economic and environmental development issues. Within the SDGs, protecting biodiversity and securing the livelihood of the local population are listed as priorities and objectives up to the year 2030. Through its certified and sustainable activities in the Congo Basin and the Amazon rainforest, Precious Woods makes an important contribution to these Sustainable Development Goals.

Beyond this, the UN Framework Convention on Climate Change (UNFCCC) emphasizes in its 2015 Paris Agreement that sustainable forest management is important to mitigate climate change and its impacts.

Our contribution to permanent forest protection

4 : 1

- 20 years of measurement data on forest growth in permanent sample plots
- Annual growth of up to 4 m^3/ha in sustainably managed forests compared with less than 1 m^3/ha in protected zones

330 000 000 tC

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

Fauna / Flora

- Large elephant and gorilla population within the concession area (Gabon)
- Most effective protection of biodiversity through gentle management (reduced impact logging, RIL, protected zones)

Precious Woods Amazon closely connected with the local population

In 1997, PW Amazon was the first FSC-certified company in Brazil. 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 local inhabitants of Itacoatiara and the surrounding communities.

Precious Woods attaches great importance to a close relationship with the local population: in 2016, PW Amazon began a socioeconomic survey of the local communities, which is repeated every year. 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 2018, Precious Woods initiated capacity building courses and projects for the benefit of the local communities. These are described in more detail in the segment reports.

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 that 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.

Precious Woods in Gabon – gentle use and wildlife protection

As a company, PW Gabon goes far beyond the sustainability standard required by FSC and PEFC certification, for example in our monitoring and inspection of concession areas, the analysis of timber harvest and usage areas, as well as the professional and environmentally sound 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 about 14 m^3/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 a study of 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 since early 2000, 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 and forest degradation, 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 Program 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.

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 weak governmental 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.

Carbon footprint

The CO_2 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 26 721 metric tons of CO_2 equivalents, 15.8% more than in the previous year.

Precious Woods footprint	**Category 1**	**Category 2**	**Category 3**		**Total**
	Direct emissions from fuel consumption	Indirect emissions from electricity consumption	Flights	Transportation	
In metric tons of CO_2	**13 341**	**4 422**	**768**	**8 191**	**26 721**
Share per category	49.9%	16.5%	2.9%	30.7%	100%

Opportunities for FSC-certified timber

Both certification standards go far beyond the minimum requirements of legality, setting out more extensive demands in regard to environmental and social sustainability in forestry as well as an uninterrupted chain of custody. The tightening legal situation in importing countries will benefit trade in sustainably certified timber in the medium term. The total forest area under FSC certification was 195 million hectares at the end of 2018, 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 7% of the total FSC-certified tropical and subtropical forest area.

Environmental and social indicators

		2018	2017	2016
Environmental indicators				
Forest management				
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
Energy consumption and emissions				
Reduction of CO_2 emissions	in t	54 664	51 596	53 540
CO_2 emissions	in t CO_2-equivalents	17 800	16 400	16 100
Electricity consumption	in GJ	35 900	31 800	29 500
Fossil fuel consumption	in GJ	179 400	175 100	169 900
Social indicators				
Employees				
Number of employees (yearly average)		1 408	1 340	1 291
Brazil		524	499	480
Gabon		872	830	800
Europe		1	1	1
Corporate		11	10	10
Women	in %	10.7	10.6	10.1
Rate of employee turnover	in %	2.3	2.5	2.9
Health and safety				
Accidents at work		112	96	198
Accidents per 1000 employees		80	72	153
Days lost per accident		9.2	12.3	8.7
Fatal accidents at work		–	–	–
Training				
Training hours		1 895	970	848
Training hours per employee		1.3	0.7	0.7

The role of forestry in the climate change debate

Over the past decades, large forest areas have been deforested or degraded, especially in moist tropical forest areas. The causes lie in the continuing demand for areas to convert into commercial agricultural land, slash-and-burn subsistence farming, the exploitation of mineral resources, illegal logging for firewood and sawn timber, and non-sustainable forestry. Deforestation has been a cause for great concern in recent years. This is mainly due to its negative impact on global warming and regional rainfall patterns. Today, deforestation in the tropics and non-sustainable forestry contribute about 11% to greenhouse gas emissions. After the adoption of the Paris Agreement in December 2015, the REDD+ concept (reducing emissions from deforestation and forest degradation, sustainable management of forests and enhancement of forest carbon stocks) has become a key component of CO_2 compensation schemes for preserving forests in developing countries. Many countries with tropical forest areas, international organizations, NGOs and companies are currently engaged in creating methods and capacities for such compensation schemes and projects. Sustainable forestry as applied and advocated by Precious Woods will play an important role in this regard. We will continue to pursue the development of REDD+ activities and carefully review our eligibility for participating 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.

Corporate Governance

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

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

BoD = Board of Directors
GM = Group Management

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 28 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 2018 stood at CHF 7 052 745 (7 052 745 registered shares at 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 2018, the conditional capital amounts to CHF 1 396 638 (1 396 638 shares with a nominal value of CHF 1.00 each).

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 and 2018, no capital increase from authorized share capital was executed. On 31 December 2018, 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 15 of the Consolidated Group Financial Statements.

On August 2018, a loan of CHF 1.5 million with maturity until September 2019 was obtained. On November 2018, an additional loan of CHF 1.2 million with maturity until April 2019 was obtained.

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.

Hanging bridge in the forests of Gabon

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 2018, Kurt Lüscher was retired as member of the BoD. The re-elections of Katharina Lehmann, Markus Brütsch, Jürgen Blaser and Robert Hunink lined up. They were elected for a year on a proposal from BoD. The composition of the BoD is as follows on 31 December 2018: Katharina Lehmann (Chairwoman), Markus Brütsch (Delegate), Jürgen Blaser (Member), and Robert Hunink (Member).

Members of the Board of Directors

The Precious Woods BoD has four 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 2018.

Katharina Lehmann (lic. oec. HSG), Swiss citizen, born in 1972, Chairwoman since 18 May 2017, BoD member since 2008, mandate ends in 2019. 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 Holz (SSH)

Markus Brütsch, Swiss citizen, born in 1960, BoD member (Delegate) since 2017, mandate ends in 2019. 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 2019. 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 2019. Other activities and interests:

- President of ATIBT (Association Technique Internationale des Bois Tropicaux)
- Advisor for Olam International, Singapore, 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 budgets, 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 eight times during 2018. 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 and Delegate of the board/CEO/CFO realized 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 organization, 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 Brütsch, 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 vice-president 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 16 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 2018, 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 8 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 17 May 2018, 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 defense 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 194 575 in 2018. Ernst & Young also received an additional EUR 11 321 in non-audit services in 2018. 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), which is updated on a regular basis.

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

Shareholder information

Share capital

On 31 December 2018, 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 1 to 3 to the 2018 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 (2017: 71 844 square metres) in the Amazon and 84 620 square metres of forests (2017: 84 620 square metres) in Gabon in 2018.

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 as of 1 January 2019

(Entries, transfers, changes of address, etc.)
ShareCommService AG
Europastrasse 29
CH-8152 Glattbrugg
Phone +41 44 809 58 58
Fax +41 44 809 58 59
preciouswoods@sharecomm.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 2018, the share price was trading at CHF 6.45 on the OTC ZKB platform; on 30 June 2018, the price was higher at CHF 7.55. The closing price of the shares was at CHF 8.00 on 31 December 2018.

Information for investors

		2018	2017	2016	2015	2014
Share price per 31.12.	in CHF	8.00	6.50	6.00	3.85	2.46
Stock market capitalization	in CHF million	56	46	41	19	9
Basic earnings per share	in EUR	–0.24	0.23	–0.43	–1.13	–2.25
Equity (book value) per share	in EUR	2.25	2.85	2.82	2.37	4.43
Assets per share						
Primary forest in Brazil (ownership and concession)	in m^2	718	718	734	1 017	1 345
Primary forest in Gabon (concession)	in m^2	846	846	865	1 197	1 736

Caterpillar family, Gabon


BDL 168620
PCS 250
ANVE
PED 45089
BDL 168561
PCS 250
ANVE
PED 45089
BDL 168560
PCS 250
ANVE
PED 45089

Precious Woods Group financial statements

Semi-finished products from Brazil

Consolidated statement of financial position

in thousand EUR	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents		2 798	2 136
Trade and other receivables	3	11 584	10 483
Inventories	4	14 917	14 642
Prepayments	5	861	719
Total current assets		**30 160**	**27 980**
Non-current assets			
Property, plant and equipment	6, 7	35 217	34 351
Intangible assets	8	4 005	4 737
Investments in associates	9	799	765
Non-current financial assets	10	466	449
Other non-current assets		1 168	1 502
Deferred tax assets	29	1 620	1 621
Total non-current assets		**43 275**	**43 425**
TOTAL		**73 435**	**71 405**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	11	13 983	12 009
Current income tax liabilities		108	270
Current financial liabilities	12	12 316	9 699
Current provisions	13	156	176
Total current liabilities		**26 563**	**22 154**
Non-current liabilities			
Non-current financial liabilities	12	24 924	23 720
Deferred tax liabilities	29	1 571	1 240
Non-current provisions	13	4 522	4 196
Total non-current liabilities		**31 017**	**29 156**
Equity			
Share capital	15	5 731	5 731
Additional paid-in capital		64 938	64 938
Foreign currency translation reserve		5 334	7 822
Retained earnings		–60 273	–58 522
Equity attributable to owners of Precious Woods Holding Ltd		**15 730**	**19 969**
Non-controlling interests		**125**	**126**
Total shareholders' equity		**15 855**	**20 095**
TOTAL		**73 435**	**71 405**

Consolidated statement of profit or loss

in thousand EUR	Notes	2018	2017
Net revenues	18	**46 349**	**44 997**
Changes in inventories of finished goods and work in progress		489	2 032
Raw materials and consumables used		–3 844	–3 911
Other production costs	19	–15 358	–13 516
Operational contribution		**27 636**	**29 602**
Direct and indirect labour costs	21	–19 351	–19 076
Other operating expenses	22	–3 949	–3 457
Other operating income	22	505	1 095
Share of profits/(losses) of associates	9	270	46
Earnings before interest, tax, depreciation and amortization (EBITDA)		**5 111**	**8 210**
Depreciation, amortization and impairment	20	–3 416	–4 681
Earnings before interest and tax (EBIT)		**1 695**	**3 529**
Financial income	23	295	1 173
Financial expenses	23	–3 046	–2 928
Earnings before tax (EBT)		**–1 056**	**1 774**
Income tax (expenses)/income	29	–661	–131
Net profit/(loss) for the period		**–1 717**	**1 643**
Allocation of net (loss)/profit:			
Equity owners of Precious Woods Holding Ltd		–1 716	1 631
Non-controlling interests		–1	12
Basic earnings per share	25	**–0.24**	0.23
Diluted earnings per share	25	**–0.24**	0.23

Consolidated statement of comprehensive income

in thousand EUR	2018	2017
Net profit/(loss) for the period	**–1 717**	**1 643**
Actuarial gains and losses	–38	20
Tax effect on actuarial gains and losses	3	–0
Net gain/(loss) on equity instruments designated at FV through OCI	0	[1]
Items that will not be reclassified to profit or loss, net of tax	**–35**	**20**
Unrealised gains and losses financial assets available for sale		–1 [1]
Currency translation effects	–2 488	–1 440
Items that may be reclassified subsequently to profit or loss, net of tax	**–2 488**	**–1 441**
Total other comprehensive income/(loss) for the period	**–2 523**	**–1 421**
Total comprehensive income/(loss) for the period	**–4 240**	**222**
Allocation of total comprehensive income/(loss):		
Equity owners of Precious Woods Holding Ltd	–4 239	210
Non-controlling interests	–1	12

[1] In 2018 changed according to IFRS 9

Consolidated statement of changes in equity

		Attributable to equity holders of Precious Woods Ltd						
in thousand EUR	Notes	Share capital	Additional paid-in capital	Currency translation effects	Retained earnings	**Total**	Non-controlling interests	**Total equity**
Balance 1 January 2017		**5 595**	**64 641**	**9 263**	**–60 173**	**19 326**	**114**	**19 440**
Net profit/(loss) for the period		–	–	–	1 631	**1 631**	12	**1 643**
Other comprehensive income/(loss) for the period		–	–	–1 441	20	**–1 421**	0	**–1 420**
Total comprehensive income/(loss) for the period		**–**	**–**	**–1 441**	**1 651**	**210**	**12**	**222**
Proceeds from issue of shares		136	297	–	–	**433**	–	**433**
Balance 31 December 2017		**5 731**	**64 938**	**7 822**	**–58 522**	**19 969**	**126**	**20 095**
Net profit/(loss) for the period		–	–	–	–1 716	**–1 716**	–1	**–1 717**
Other comprehensive income/(loss) for the period		–	–	–2 488	–35	**–2 523**	–	**–2 523**
Total comprehensive income/(loss) for the period		**–**	**–**	**–2 488**	**–1 751**	**–4 239**	**–1**	**–4 240**
Proceeds from issue of shares		–	–	–	–	**–**	–	**–**
Balance 31 December 2018		**5 731**	**64 938**	**5 334**	**–60 273**	**15 730**	**125**	**15 855**

Consolidated statement of cash flows

in thousand EUR	Notes	2018	2017
Net cash flow from operating activities			
Profit/(loss) for the period		–1 717	1 643
Income taxes (income)/expenses	29	661	131
Interest income	23	–0	–0
Interest expenses	23	2 185	2 162
Dividend income	9, 23	–175	–309
Profit/(loss) for the period before interest and tax		**954**	**3 627**
Depreciation and amortization	20	3 435	4 699
Reversal of impairment of non-current assets	20	–19	–18
(Profit)/loss on sale of non-current assets and liabilities	22	–24	–8
Share of profits/(losses) of associates	9	–270	–151
Changes in provisions		356	–555
Allowances on inventories		260	99
Other non-cash items		476	–770
Operating cash flow before working capital changes		**5 167**	**6 923**
Decrease/(increase) in trade and other receivables		–1 021	–1 814
Decrease/(increase) in inventories	4	–978	–3 153
Decrease/(increase) in prepayments		–196	211
Increase/(decrease) in trade payables and other liabilities		796	1 203
Income tax (paid)/received		–460	–19
Net cash flow operating activities		**3 307**	**3 351**
Cash flow from investing activities			
Purchase of intangible assets	8	–5	–30
Proceeds from sale of property, plant and equipment		25	34
Purchase of property, plant and equipment	6	–3 935	–2 752
Proceeds from disposal of subsidiaries, net of cash disposed		–	210
Proceeds from disposal of financial assets		314	12
Purchase of financial assets		–116	–27
Dividends received		175	309
Interests received		0	0
Net cash flow investing activities		**–3 542**	**–2 244**
Cash flow from financing activities			
Proceeds from borrowings		4 676	4 485
Repayment of borrowings		–2 677	–3 486
Repayment of convertible loans		–	–18
Interests paid		–1 121	–1 204
Net cash flow financing activities		**878**	**–223**
Increase/(decrease) in cash and cash equivalents		**642**	**884**
Translation effect on cash		**20**	**–118**
Cash and cash equivalents, at the beginning of the year		**2 136**	**1 370**
Total Cash and cash equivalents, at the end of the year		**2 798**	**2 136**

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 29),
- 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. The relevant ones for the Group are,

effective on or after 1 January 2018:

- *IFRS 9 Financial Instruments: Classification and Measurement, Impairment and Hedge Accounting* – The new standard replaces IAS 39 and changes the classification and measurement requirements of financial assets, financial liabilities and the rules for hedge accounting. The classification depends on the business model that the financial assets are managed in and their contractual terms of the cash flows. IFRS 9 defined the following three categories: measured at amortized cost, measured at fair value through other comprehensive income, measured at fair value through profit or loss. Basically no financial assets were reclassified to another category. However, as IFRS 9 eliminated the category available for sale, some financial assets, held in this category under IAS 39, were assigned to the category measured at fair value through other comprehensive income. The effects of this change were immaterial. For trade receivables the Group uses the expected loss model and applied the simplified approach, which did not lead to any material effects. As the Group does not have financial liabilities that are designated at fair value through profit or loss, the accounting treatment of financial liabilities was not affected.

- *IFRS 15 Revenue from Contracts with Customers* – The standard replaces IAS 18 and IAS 11 and related interpretations. It establishes a five-step model to account for revenue arising from contracts with customers. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized as follows: over time or at a point in time. The Group recognizes its revenue from the sale of timber and from the trading business at a point in time and thus no material effects were identified from the adoption of IFRS 15. This standard has been applied with the modified retrospective approach.
- *IFRIC 22 Foreign currency transactions and advance consideration* – The amendment addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. This amendment had no impact on the consolidated financial statements.

effective for annual periods beginning 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. Exceptions apply to low-value assets and short-term leases with terms of less than twelve months. Lease payments for these types of contracts will continue to be recognized as operating expenses. Precious Woods is not a lessor and also subleases do not occur within the Group. The payments of lease liabilities will be presented as financing cash outflows. The Group will apply the modified retrospective method, which involves the recognition of the cumulative effect of initially applying IFRS 16 as at 1 January 2019 in retained earnings with no restatement of prior years. In large part, the existing finance lease contracts will represent the future lease commitments of Precious Woods.
- IAS 12 Income Taxes (amendments, annual improvement cycle 2015-2017) – effective on or after 1 January 2019
- IAS 19 Employee Benefits (amendments) – effective on or after 1 January 2019
- IAS 23 Borrowing Costs (amendments, annual improvement cycle 2015-2017) – effective on or after 1 January 2019
- IAS 28 Investments in Associates and Joint Ventures (amendments) – effective on or after 1 January 2019
- IFRIC 23 Uncertainty over income tax treatments (amendments) – 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 **2018**	Ownership **2017**
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%
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%

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. The allowances base on the simplified approach of full lifetime expected credit losses as defined by the impairment model of IFRS 9. To calculate these allowances the trade accounts receivable are clustered into ageing buckets and each of these buckets weighted with a certain percentage. Doubtful accounts are assessed individually to analyze if a significant increase in credit risk occurred and an individual impairment is needed. Indications for such impairments are substantial financial problems on the part of the customer, a declaration of bankruptcy, or a significant delay in payment occurring.

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 expected 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. Financial assets at fair value through OCI are subsequently measured at fair value, with changes in fair value recorded in other comprehensive income.

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. 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.

l. Revenue recognition
Net revenues are determined by deducting transportation costs, value added taxes, discounts and returns from gross sales. Net revenues – the so called revenue from contracts with customers according to IFRS 15 – is recognized when the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold at an amount that reflects the expected consideration for these goods. For information on revenue from emission reduction activities, please refer to chapter r on certified emission reductions.

m. 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 30.

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.

n. 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.

o. 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.

p. 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 15).

q. 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.

r. 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_2 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 2017 as well as on 31 December 2018.

Foreign currency risk

Precious Woods operates internationally and is exposed to foreign currency 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 currency 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 currency 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:

	31.12.18	**31.12.18**	**31.12.18**	**31.12.17**	**31.12.17**	**31.12.17**
in thousand EUR	Reasonable shift	"Impact" on profit or loss before tax	"Impact" on equity	Reasonable shift	"Impact" on profit or loss before tax	"Impact" on equity
EUR/CHF	+/–10%	+/–278	+/–2 153	+/–10%	+/–82	+/–2 149
USD/CHF	+/–10%	+/–39	+/–971	+/–10%	+/–9	+/–928
USD/BRL	+/–15%	+/–5	+/–1 206	+/–15%	+/–3	+/–1 332
CHF/BRL	+/–15%	+/–0	+/–6 798	+/–15%	+/–0	+/–6 323
XAF/CHF	+/–10%	+/–0	+/–1 486	+/–10%	+/–0	+/–755

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 measured at fair value 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**
31 December 2018				
Trade and other payables	13 983	–	–	13 983
Financial liabilities	12 316	3 430	21 494	37 240
Non-derivative financial liabilities	**26 299**	**3 430**	**21 494**	**51 223**

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

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) or L/C (Letter of Credit) 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 collective 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. Collective loss allowances are 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 (2017: EUR 3.5 million), Precious Woods Compagnie Equatoriale des Bois has pledged machinery and equipment in the amount of EUR 1.1 million (2017: EUR 1.1 million) and leased property and plants by EUR 3.7 million (2017: EUR 3.4 million). Mil Madeiras Preciosas has pledged vehicles in the amount of EUR 0.4 million (2017: EUR 0.0 million). Precious Woods Holding has no pledged assets, but used land in Brazil in the amount of EUR 23.1 million in connection with loans (2017: EUR 22.2 million).

3. Trade and other receivables

in thousand EUR	2018	2017
Trade receivables, third parties	6 663	5 872
Trade receivables, associates	5	48
Loss allowances for trade receivables	–914	–899
Total trade receivables net	**5 754**	**5 021**
Other short-term receivables	5 830	5 462
Total	**11 584**	**10 483**

The carrying amounts of the receivables approximate to their fair values. Other receivables mainly contain credit balances from governments.

Loss allowances for trade receivables

in thousand EUR	2018	2017
At 1 January	899	1 039
Addition in loss allowances	112	–
Release of loss allowances	–6	–
Currency effects	–91	–140
At 31 December	**914**	**899**

The impairment for expected credit losses under IFRS 9 on trade receivables contains collectively assessed positions (Lifetime ECL) by using the simplified approach as well as individually assessed positions (12 month ECL). In 2017, the loss allowances on trade receivables were compiled in accordance with IAS 39.

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

in thousand EUR	Expected credit loss default rate	2018	2017
Not overdue	0.5–0.6%	1 172	5 326
Less than 30 days overdue	0.5–0.6%	3 430	520
31 to 60 days overdue	1.7–2.0%	1 507	95
61 to 180 days overdue	10.0%	317	82
More than 180 days overdue	15.0%	242	–103
Total trade receivables gross		**6 668**	**5 920**
Loss allowances for trade receivables		–914	–899
Total trade receivables net		**5 754**	**5 021**

The standard payment terms for trade receivables are in most instances Cash Against Documents (CAD) or Letter of Credit (L/C). The Group considers trade receivables to be credit impaired when internal or external information give cause for serious concern to receive the outstanding amount. The credit ratings for the lifetime ECL base on the aging buckets of the trade receivables.

Trade receivables net include amounts denominated in the following currencies:

in thousand EUR	2018	2017
EUR	4 508	3 563
USD	519	199
BRL	81	118
XAF	646	1 141
Total trade receivables net	**5 754**	**5 021**

4. Inventories

in thousand EUR	2018	2017
Logs	3 756	3 554
Sawn timber	3 114	4 674
Veneers	1 087	726
Industrialized products	1 060	1 071
Certified Emission Reductions (CERs)	224	117
Export products in transit	2 622	2 071
Spare parts and other	3 582	3 061
Obsolescence reserve	–528	–632
Total inventories	**14 917**	**14 642**

Obsolescence reserve

in thousand EUR	2018	2017
At 1 January	632	614
Increase	260	99
Decrease	–358	–68
Currency effects	–6	–13
At 31 December	**528**	**632**

5. Prepayments

in thousand EUR	2018	2017
Prepaid expenses, prospecting	140	484
Prepaid expenses, other	721	235
Total other current assets	**861**	**719**

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 improve-ments	Machinery and vehicles	Leased machinery and vehicles	Furniture and fixtures	Construction in progress	Advanced payments for PPE	**Total**
Cost									
At 1 January 2017	**15 653**	**12 084**	**20 691**	**27 710**	**3 231**	**2 184**	**551**	**3 346**	**85 451**
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	–	–
Currency effects	–860	–662	–301	–966	6	–51	–18	–457	–3 309
At 31 December 2017	**14 790**	**11 421**	**20 536**	**29 883**	**3 591**	**2 254**	**390**	**2 889**	**85 755**
Additions	–	374	275	1 272	1 082	182	1 833	–	5 018
Disposals	–	–	–	–1 010	–	–218	–	–	–1 228
Reclassifications	4	124	405	247	105	–	–881	–4	–
Currency effects	–590	–471	–230	–709	–	–26	–12	–307	–2 345
At 31 December 2018	**14 204**	**11 448**	**20 986**	**29 683**	**4 778**	**2 192**	**1 330**	**2 578**	**87 199**
Accumulated depreciation									
At 1 January 2017	**–**	**5 623**	**13 701**	**25 358**	**1 451**	**1 616**	**–**	**1 386**	**49 135**
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	–	–	–
Currency effects	–	–273	–185	–844	3	–45	–	–190	–1 534
At 31 December 2017	**–**	**5 694**	**14 888**	**26 301**	**1 618**	**1 707**	**–**	**1 196**	**51 404**
Charge for the year	–	311	715	1 138	584	172	–	–	2 920
Reversal of impairment	–	–15	–	–	–	–	–	–4	–19
Elimination on disposals	–	–	–	–1 010	–	–218	–	–	–1 228
Reclassifications	–	–	–	–17	17	–	–	–	–
Currency effects	–	–199	–146	–601	–	–23	–	–126	–1 095
At 31 December 2018	**–**	**5 791**	**15 457**	**25 811**	**2 219**	**1 638**	**–**	**1 066**	**51 982**
Carrying amount									
At 31 December 2017	**14 790**	**5 727**	**5 648**	**3 582**	**1 973**	**547**	**390**	**1 693**	**34 351**
At 31 December 2018	**14 204**	**5 657**	**5 529**	**3 872**	**2 559**	**554**	**1 330**	**1 511**	**35 217**

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.

Based on the continued efforts to clean the land titles from legal issues, Precious Woods was able to reclassify in 2018 advanced payments for property, plant and equipment to land in the amount of EUR 3 535 (2017: EUR 0).

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**
Cost			
At 1 January 2017	**12 301**	**8 466**	**20 767**
Additions	–	30	30
Disposals	–	–	–
Currency effects	18	–365	–347
At 31 December 2017	**12 319**	**8 131**	**20 450**
Additions	–	5	5
Disposals	–	–	–
Currency effects	–	–215	–215
At 31 December 2018	**12 319**	**7 921**	**20 240**
Accumulated amortization and impairment			
At 1 January 2017	**9 876**	**5 315**	**15 191**
Charge for the year	387	152	540
Disposals	–	–	–
Currency effects	14	–31	–17
At 31 December 2017	**10 277**	**5 436**	**15 713**
Charge for the year	282	234	515
Disposals	–	–	–
Currency effects	–	7	7
At 31 December 2018	**10 558**	**5 677**	**16 235**
Carrying amount			
At 31 December 2017	**2 042**	**2 695**	**4 737**
At 31 December 2018	**1 761**	**2 244**	**4 005**

Other intangible assets mainly include forest concessions and software.

9. Investment in associates

in thousand EUR	2018	2017
At 1 January	765	1 143
Share of profit of associates including impairment	270	151
Dividends earned	–140	–379
Currency effects	–96	–150
At 31 December	**799**	**765**

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

in thousand EUR (representing 100%)	Assets	Liabilities	Revenues	Profit
Key figures 2017	2 606	428	5 092	378
Key figures 2018	2 639	377	4 455	676

10. Non-current financial assets

in thousand EUR	2018	2017
NST	442	426
NIBO	24	23
At 31 December	**466**	**449**

The non-current financial assets contain an investment of EUR 0.4 million (2017: EUR 0.4 million) in Norsudtimber Company (NST) in Vaduz and an investment of EUR 23 857 (2017: EUR 22 793) 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 with a value of USD 27 306.

11. Trade and other payables

in thousand EUR	2018	2017
Trade payables, third parties	4 278	4 059
Trade payables, related parties	–	0
Total trade payables	**4 278**	**4 059**
Other current liabilities, third parties	5 341	4 403
Other current liabilities, associates	224	117
Other accrued liabilities	4 140	3 430
Total other payables	**9 705**	**7 950**
At 31 December	**13 983**	**12 009**

12. Financial liabilities

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

Net book value of financial liabilities

in thousand EUR	2018	2017
Financial liabilities from borrowings	35 340	31 381
Financial liabilities finance-lease	1 900	2 038
Total financial liabilities	**37 240**	**33 419**
Total current financial liabilities	12 316	9 699
Non-current financial liabilities, third parties	24 891	23 613
Non-current financial liabilities, associates	33	107
Total financial liabilities	**37 240**	**33 419**

Interest expenditure from finance-lease liabilities amounted to EUR 0.1 million (2017: 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	2018	2017
Currencies financial liabilities/borrowings denominated in:		
EUR	3 000	3 000
XAF	6 343	6 266
CHF	25 870	22 649
BRL	2 027	1 504
Total financial liabilities	**37 240**	**33 419**

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

	2018	2017
EUR	4.2%	4.2%
XAF	8.5–11.0%	8.5–11.0%
CHF	6.0%	6.0%
BRL	6.5%	7.2%

The changes in liabilities from financing activities are detailed below in cash and non-cash items:

in thousand EUR	Non-current financial liabilities	Current financial liabilities	Short-term convertible loans	**Total**
At 1 January 2017	**19 895**	**11 544**	**457**	**31 896**
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 long-term finance lease liabilities	1 198			1 198
Accrued interests	1 847	–	9	1 856
Currency effects	–1 532	–599	–16	–2 146
At 31 December 2017	**23 720**	**9 699**	**–**	**33 419**
Cashflows				
Cash inflow	1 686	2 990	–	4 676
Cash outflow	–876	–1 801	–	–2 677
Non-cash changes				
Reclassifications	–1 229	1 229	–	–
Increase in finance lease liabilities	1 082			1 082
Accrued interests	–	–	–	–
Currency effects	541	199	–	740
At 31 December 2018	**24 924**	**12 316**	**–**	**37 240**

13. Provisions

in thousand EUR	Legal claims	Others	**2018 Total**	**2017** Total
Short-term provisions	–	156	156	176
Long-term provisions	409	4 113	4 522	4 196
Total	**409**	**4 269**	**4 678**	**4 372**
At 1 January	472	3 899	4 372	5 290
Additions	133	1 263	1 396	970
Unused amounts reversed	–22	–734	–757	–916
Used during the year	–135	–111	–246	–619
Currency effects	–39	–48	–87	–353
At 31 December	**409**	**4 269**	**4 678**	**4 372**

Legal claims

The amount of EUR 0.4 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 2018.

Others

The total amount of EUR 4.3 million for other short- and long-term provisions includes provisions for contributions to employee contribution plans (EUR 1.3 million), for contributions to employee benefit plans (EUR 1.5 million), for social security (EUR 63 075), for tax fees (EUR 0.9 million) and other provisions (EUR 0.6 million).

14. Financial instruments by category

in thousand EUR	at amortized costs	at fair value through profit and loss	at fair value through OCI	**Total**
31 December 2018				
Assets				
Cash and cash equivalents	2 798	–	–	2 798
Trade and other receivables	7 511	–	–	7 511
Non-current financial assets	–	–	466	466
Total	**10 309**	**–**	**466**	**10 775**

in thousand EUR	at fair value through profit and loss	at amortized costs	**Total**
31 December 2018			
Liabilities			
Trade and other payables	–	9 448	9 448
Financial liabilities	–	37 240	37 240
Total	**–**	**46 688**	**46 688**

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

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

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 2018**	Level 1	Level 2	Level 3
Non-current financial assets	466	–	–	466
Total	**466**	**–**	**–**	**466**

in thousand EUR	**31 December 2017**	Level 1	Level 2	Level 3
Non-current financial assets	449	–	–	449
Total	**449**	**–**	**–**	**449**

Reconciliation of fair value measurement of level 3 financial assets

in thousand EUR	**2018**	**2017**
At 1 January	449	491
Currency effects	17	–42
At 31 December	**466**	**449**

15. 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
	2018	**2017**
Issued and fully paid-in capital beginning of year	**7 052 745**	**6 902 745**
Increase of issued and fully-paid capital	–	150 000
Issued and fully paid-in capital end of year	**7 052 745**	**7 052 745**
New authorized share capital – authorized during the year	–	1 000 000
Authorized share capital – expired during the year	–	–2 173 980
Authorized share capital at the end of the year	**1 000 000**	**1 000 000**
Conditional share capital – authorized during year	–	1 198 065
Conditional share capital – used during year	–	–150 000
Conditional share capital at end of the year	**1 396 638**	**1 396 638**

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.

Ordinary share capital

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

Authorized share capital

On 18 May 2017, authorized capital in the amount of CHF 1 000 000 was adopted by the general meeting. It will expire in May 2019.

Conditional share capital

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.

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, a conversion right from a convertible loan for CHF 150 000 was exercised, at a price of CHF 3.20 per share. The conditional share capital decreased to CHF 1 396 638.

16. 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 28.

a. Balances and transactions

The balances with related parties, as of 31 December 2018 and 2017, are detailed below:

in thousand EUR	2018	2017
Trade receivables and other current receivables from associates	5	48
Trade and other current liabilities from related parties	–	0
Trade and other current liabilities from associates	224	117
Current loans from shareholders with significant influence	6 747	5 472
Non-current loans from shareholders with significant influence	19 754	19 100
Purchase CERs from related parties	–	151
Interest expenses to shareholders with significant influcence	420	517

b. Compensation

During the ordinary course of business in 2018 and 2017, the Group granted compensation to related parties as follows:

in thousand EUR	2018	2017
Group Management		
Short-term employee benefits	715	743
Post-employment employee benefits	110	115
Total Group Management	**825**	**858**
Board of Directors		
Short-term employee benefits	271	281
Post-employment employee benefits	11	12
Total remuneration and fees Board of Directors	**282**	**292**
Operating management		
Short-term employee benefits	684	606
Post-employment employee benefits	56	55
Total operating management	**740**	**662**
Total compensation to key management personnel	**1 847**	**1 812**

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

17. Employee benefits

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

The Group's contribution to defined contribution plans amounted to EUR 0.6 million in 2018 (2017: decrease of EUR 69 648).

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	2018	2017
Defined benefit obligation at 1 January	2 983	2 908
Current service costs	277	284
Interest costs	22	20
Contribution by plan participants	90	84
Actuarial losses/(gains)	53	–60
Benefits paid/transferred	244	6
Currency effects	132	–259
31 December	**3 801**	**2 983**
Plans wholly or partly funded	3 801	2 983
Plans wholly unfunded	–	–

Movement in the fair value of the plan assets

in thousand EUR	2018	2017
Opening fair value of plan assets	1 772	1 715
Interest income	14	12
Return on plan assets excluding interest income	15	–40
Contributions by the employers	163	148
Contributions by plan participants	90	84
Benefits paid/transferred	244	6
Currency effects	82	–153
31 December	**2 380**	**1 772**

in thousand EUR	2018	2017
Present value of obligations	3 801	2 983
Fair value of plan assets	2 380	1 772
Net liability	**1 421**	**1 211**

Changes in net liability

in thousand EUR	2018	2017
Opening net liability	1 211	1 193
Pension cost recognized in profit or loss	285	292
Pension cost recognized in other comprehensive income	38	–20
Employer contributions	–163	–148
Currency effects	50	–106
Recognized in profit or loss	**1 421**	**1 211**

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

in thousand EUR	2018	2017
Current service costs	277	284
Net interest costs	8	8
Recognized in profit or loss	**285**	**292**

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

in thousand EUR	2018	2017
Return of plan assets excluding interest income	15	–40
Changes in demographic assumptions	–	–
Changes in financial assumptions	146	–
Experience adjustments	–199	60
Recognized in other comprehensive income	**–38**	**20**

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

	2018	2017
Expected employer contributions	164 521	150 400
Discount rates	0.90%	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
Actuarial assumption 31 December 2018	3 801	
Discount rate +0.5%	3 459	–9.50%
Discount rate –0.5%	4 194	11.00%
Salary increase rate +0.5%	3 839	1.30%
Salary increase rate –0.5%	3 765	–1.30%

18. Net revenues from contracts with customers

in thousand EUR	2018	2017
Revenues from sales of timber and roundwood	58 302	56 094
Sales deductions	–11 953	–11 490
Revenue from sales of certified emission reductions (CERs)	–	393
Net revenues	**46 349**	**44 997**

The renewable-power-generation plant BK Energia – an associate of Precious Woods – generates CERs (Certified Emission Reductions) 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.

In 2017, 51 596 tons of CO_2 equivalents were produced. Their verification is still outstanding. In 2018, 54 664 tons of CO_2 equivalents were produced and their verification is planned for autumn 2019.

19. Other production costs

in thousand EUR	2018	2017
Logistics, transportation costs and freight	1 203	1 612
Fuel, oil and lubricants	4 683	3 869
Energy – third parties	597	579
Forest taxes & expenses	1 848	1 478
Maintenance and spare parts	5 228	4 436
Insurances (production)	268	258
Rent and lease (production)	39	335
Capitalized own production	–262	–241
Miscellaneous production costs	1 754	1 190
Total	**15 358**	**13 516**

20. Depreciation, amortization and impairment

in thousand EUR	2018	2017
Depreciation and amortization	3 435	4 699
Reversal of impairment of property, plant and equipment	–19	–18
Total	**3 416**	**4 681**

Details about the reversal of impairment of EUR 18 573 (2017: EUR 17 907) are given in Note 6.

21. Direct and indirect labour costs

in thousand EUR	2018	2017
Wages and salaries	13 731	14 019
Social security costs	2 172	2 357
Pension costs – defined contribution plans	650	–70
Pension costs – defined benefit plans	285	292
Other employment benefits	2 513	2 478
Total	**19 351**	**19 076**

in thousand EUR	2018	2017
Forest and processing costs	14 536	14 343
Administration and other labour costs	4 815	4 733
Total	**19 351**	**19 076**

22. Other operating income and expenses

in thousand EUR	2018	2017
Other income		
Gain on disposal of fixed assets	24	33
Gain on deconsolidation of subsidiaries	–	740
Other income	481	322
Total other operating income	**505**	**1 095**
Other expenses		
Audit fees	195	208
Legal and tax	238	356
Other consulting fees	176	241
Travel	563	579
IT expenses	158	170
Insurances (non-production)	150	180
Loss on disposal of fixed assets	0	–
Loss on deconsolidation of subsidiaries	–	709
Other administrative expenses	2 469	1 014
Total other operating expenses	**3 949**	**3 457**

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

23. Financial income and expenses

in thousand EUR	2018	2017
Financial income		
Interest income and dividends	35	35
Foreign-exchange gains	221	1 103
Other financial income	39	35
Total financial income	**295**	**1 173**
Financial expenses		
Interest expenses	2 185	2 162
Foreign-exchange losses	471	250
Other financial expenses	390	516
Total financial expenses	**3 046**	**2 928**

24. 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	2018	2017
Within one year	162	78
Within two to five years	65	8
Total lease payments	**227**	**86**

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	2018	2017
Within one year	1 200	1 217
Within two to five years	886	1 049
Total lease payments	**2 086**	**2 266**
Less interest expense component	–186	–228
Total lease payments	**1 900**	**2 038**

25. Earnings per share

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

In EUR	2018	2017
Net income/(loss) attributable to Group equity holders	–1 715 727	1 630 534
Weighted average number of shares	7 052 656	6 995 564
Basic earnings/loss per share	**–0.24**	**0.23**
Weighted average number of shares for diluted earnings per share	7 052 656	6 995 564
Diluted earnings per share	**–0.24**	**0.23**

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.

26. 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 5.5 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 2018 (31 December 2017: 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.

27. 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 2018

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other [1]	**Total 31.12.2018**
Net revenues						
Third parties	11 631	29 293	4 664	–	–	45 588
Intersegment	602	–	–	–	–602	–
Associated and related parties	761	–	–	–	–	761
Total net revenues	**12 994**	**29 293**	**4 664**	**–**	**–602**	**46 349**
Profit/(loss) on sale of fixed assets and affiliates	23	–	–	–	1	24
Share of profit of associates	270	–	–	–	–	270
EBITDA	**1 608**	**5 526**	**433**	**–0**	**–2 456**	**5 111**
Depreciation and amortization	–417	–3 000	–	–	–18	–3 435
Impairment charges/reversals	19	–	–	–	–	19
Profit/(loss) from operating activities (EBIT)	**1 209**	**2 526**	**433**	**–0**	**–2 473**	**1 695**
Financial income and expenses	–901	–1 670	272	–	–452	–2 751
Earnings before tax					**–**	**–1 056**
Income taxes	–310	–332	–50	–	31	–661
Segment assets	**21 736**	**48 052**	**2 887**	**479**	**281**	**73 434**
Investments in associates	799	–	–	–	–	799
Capital expenditures	980	4 019	–	–	18	5 017
Segment liabilities	**51 664**	**37 515**	**1 282**	**224**	**–33 105**	**57 580**

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

Operating segments – 31 December 2017

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

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

Geographic information

in thousand EUR	2018		2017	
Net revenues				
Switzerland	67	0.1%	126	0.3%
European Union	28 318	61.1%	24 765	55.5%
Latin America	1 666	3.6%	1 510	3.4%
Africa	6 970	15.0%	6 602	14.8%
Asia	8 352	18.0%	10 475	23.5%
Other countries	976	2.1%	1 126	2.5%
Total	**46 349**	**100.0 %**	**44 604**	**100.0 %**
Location of non-current assets				
Switzerland	543	1.3%	522	1.2%
European Union	3	0.0%	3	0.0%
Latin America	14 598	33.8%	15 787	37.8%
Africa	27 985	64.9%	25 492	61.0%
Total	**43 129**	**100.0 %**	**41 804**	**100.0 %**

Reconciliation of reportable segment profit or loss

in thousand EUR	2018	2017
Total EBITDA for reportable segments	7 297	10 617
EBITDA Other	–2 456	–2 452
Share of profit of associates	270	46
EBITDA	**5 111**	**8 211**
Depreciation, amortization and impairment	–3 416	–4 681
EBIT	**1 695**	**3 530**
Financial income and expenses	–2 751	–1 756
Earnings before tax	**–1 056**	**1 774**

28. Major shareholders

On 31 December 2018, the major shareholders holding 3% (rounded) or more of Precious Woods Holding outstanding shares were as follows:

	Number of shares 2018		Number of shares 2017	
Fleischmann Werner	1 170 616	16.6%	1 049 352	14.9%
Aires International Investment Inc.	800 000	11.3%	800 000	11.3%
Campdem Development SA	652 130	9.2%	644 500	9.1%
Aage V. Jensen Charity Foundation	455 704	6.5%	455 704	6.5%
Basler Insurances	333 053	4.7%	333 053	4.7%
von Braun	324 324	4.6%	324 324	4.6%
BoD / Management Precious Woods	296 330	4.2%	395 945	5.6%
Vasalli Christian	236 000	3.3%	235 000	3.3%
Total number of outstanding shares	**7 052 745**	**100.0 %**	**7 052 745**	**100.0 %**

29. Income taxes

Major components of tax expenses/(income)

in thousand EUR	2018	2017
Current tax expenses/(income)	322	561
Deferred tax expenses/(income) relating to temporary differences	339	–431
Total	**661**	**131**

Reconciliation of tax expenses/(income)

in thousand EUR	2018	2017
Earnings before tax	**–1 056**	**1 774**
Expected tax expenses/(income) based on a weighted average	–281	488
Tax adjustments related to prior years	321	831
Effect of revaluation of DTA and unrecognized tax losses	260	–2 026
Change in permanent differences	65	838
Non-deductible expense	296	–
Total income taxes	**661**	**131**

The weighted average applicable tax rate, considering all profit and loss making entities, was 27% (2017: 27%).

Deferred income tax

in thousand EUR	2018	2017
Total deferred tax assets	3 064	3 963
Total deferred tax liabilities	–3 015	–3 582
Net deferred tax assets/(liabilities)	**49**	**381**

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	2018	2017
Property, plant and equipment	1 090	–
Tax loss carry-forwards	1 011	3 041
Financial liabilities	484	534
Other	479	388
Total deferred tax assets	**3 064**	**3 963**

Deferred income tax liabilities

in thousand EUR	2018	2017
Property, plant and equipment	–2 490	–2 825
Intangible assets	–368	–453
Financial assets	–25	–304
Other	–132	–
Total deferred tax liabilities	**–3 015**	**–3 582**

Net deferred tax assets/(liabilities)	**49**	**381**
Reported in the balance sheet as follows:		
Deferred tax assets	1 620	1 621
Deferred tax liabilities	–1 571	–1 240
Net deferred tax assets/(liabilities)	**49**	**381**

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

in thousand EUR	2018	2017
At 1 January	381	–
Income statement charge	–339	431
Tax charged to other comprehensive income	3	–54
Currency effects	3	4
At 31 December	**49**	**381**

The Group did not recognize deferred income tax assets on deductible temporary differences of EUR 15.9 million (2017: EUR 11.9 million) and on unused tax losses of EUR 88.7 million (2017: EUR 91.7 million).

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

in thousand EUR	2018	2017
0–2 years	28 895	26 597
3–4 years	35 538	16 809
5–7 years	954	27 073
over 7 years	23 284	21 266
Total tax loss carry-forwards	**88 671**	**91 745**

EUR 11.7 million of these loss carry-forwards belong to the Dutch operations of Precious Woods with an applicable tax rate of 25% (2017: EUR 16.9 million with an applicable tax rate of 20%), EUR 12.7 million belong to the Brazilian operations with an applicable tax rate of 34% (2017: EUR 15.5 million with an applicable tax rate of 34%), EUR 10.3 million belong to the Gabonese operations with an applicable tax rate of 30% (2017: EUR 5.6 million with an applicable tax rate of 30%) and EUR 53.9 million belong to the Swiss operation with an applicable tax rate of 9.6% (2017: EUR 53.7 million with an applicable tax rate of 9.6%).

30. Currency translation rates

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

					2018				2017
in EUR		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	0.8877	103.8%	0.8659	96.1%	0.8550	91.7%	0.9006	98.2%
Euro	1 EUR	1.0000	100.0%	1.0000	100.0%	1.0000	100.0%	1.0000	100.0%
Brazilian real	1 BRL	0.2251	89.4%	0.2330	83.8%	0.2519	86.3%	0.2779	106.8%
US Dollar	1 USD	0.8737	104.7%	0.8472	95.5%	0.8347	87.8%	0.8870	98.2%
CFA-Franc BEAC	1 XAF	0.0015	100.0%	0.0015	100.0%	0.0015	100.2%	0.0015	99.2%

31. Divestments and acquisitions

There were no acquisitions in 2017 and 2018. Per 31 December 2017, the inactive subsidiary Geveltim Houtimport B.V., located in Leimuiden, NL, was liquidated.

32. Subsequent events

There were no significant events after the reporting period.

33. Approval of financial statements and dividends

The financial statements were approved by the Board of Directors on 12 April 2019 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 2018 (2017: no dividend paid).

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

To the General Meeting of
Precious Woods Holding AG, Zug

Zurich, 12 April 2019

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 2018 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 2018, 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	Philipp Baumann
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Precious Woods Holding Ltd financial statements

Hanging bridge in the forests of Gabon

Balance sheets as of 31 December 2018 and 2017

in thousand CHF	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents		2 433	1 668
Trade receivables			
against third parties		5 557	4 298
against Group		1 403	818
Other short-term receivables			
against third parties		84	178
against Group	5, 9	2 166	7 526
Inventories		738	449
Prepaid expenses		81	115
Total current assets		**12 462**	**15 052**
Non-current assets			
Financial Assets to Group	5	48 276	39 338
Investments	4	53 385	53 385
Property, plant and equipment		25	9
Intangible assets		33	47
Long-term financial assets		30	30
Total non-current assets		**101 749**	**92 809**
TOTAL assets		**114 210**	**107 861**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables			
against third parties		819	941
against Group		4 260	2 866
against shareholders and governing bodies		–	0
Short-term interest-bearing liabilities against shareholders	6	9 100	6 400
Other short-term liabilities		774	1 072
Accrued expenses and short term provisions		2 443	2 967
Total short-term liabilities		**17 396**	**14 246**
Non-current liabilities			
Long-term interest-bearing liabilities against shareholders	7	23 226	23 509
Long-term provisions		58	51
Total long-term liabilities		**23 284**	**23 560**
Shareholders' equity			
Share capital	1, 2, 3	7 053	7 053
Legal capital reserves			
Capital contribution reserves		88 924	88 924
Legal retained earnings			
General legal retained earnings		4 534	4 534
Voluntary retained earings			
Accumulated losses		–30 455	–37 027
Net income for the year		3 475	6 572
Total shareholders' equity		**73 530**	**70 054**
TOTAL liabilities & equity		**114 210**	**107 861**

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

Statements of income 2018 and 2017

in thousand CHF	Notes	2018	2017
Sales			
Net sales timber products		52 934	48 056
Net sales CO_2 certificates		–	436
Changes in inventories of finished goods		6	–108
Changes in inventories of CO_2 certificates		123	–19
General costs of production		–48 842	–44 184
Total operating income		**4 221**	**4 181**
Personnel expenses	8	–2 641	–2 800
Administrative expenses		–1 389	–1 272
Audit fees		–139	–156
Earnings before interest, tax, depreciation and amortization (EBITDA)		**52**	**–47**
Depreciation, amortization and impairment	9	3 542	6 950
Earnings before interest & tax (EBIT)		**3 594**	**6 903**
Financial income		1 748	1 479
Financial expenses		–1 875	–1 761
Foreign exchange differences		18	–41
Earnings before tax (EBT)		**3 485**	**6 581**
Taxes		–10	–9
Net income for the year		**3 475**	**6 572**

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 (32nd 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 the Programme for the Endorsement of Forest Certification (PEFC). And is also active in the trading of timber products as well as the sale of CO_2 emission rights.

The company was founded on 17 December 1990 as Precious Wood Ltd, duly registered in Tortola, British Virgin Islands.

On 23 March 1992 the company was renamed Precious Woods Ltd.

On 25 June 2001, the Board of Directors and the 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 2018 was composed of 7 052 745 (2017: 6 902 745) fully paid-in registered shares, each with a nominal value of CHF 1.00.

2. Authorized share capital

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. In 2017 and 2018, no capital increases were carried out from authorized share capital. On 31 December 2018, 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 2018, the company had the following conditional share capital:

a. 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. There was no change in 2018. As of 31 December 2018, 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 46 638 by the issuance of no more than 46 638 (2017: 46 638) 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 As of 31 December 2018, the conditional share capital thus amounted to CHF 46 638 (46 638 shares with a nominal value per CHF 1.00 each).

4. Investments in subsidiaries

The company holds the following direct investments:

Company	Currency	Nominal share capital	Voting rights and Participation	Currency	Nominal share capital	Voting rights and Participation
			31 December 2018			31 December 2017
Precious Woods Management Ltd. British Virgin Islands (sub-holding)	USD	20 000	100.00%	USD	20 000	100.00%
Madeiras Preciosas de Amazonia Manejo Ltda. Brazil (sub-holding company) 0.02% of the shares are held by Precious Woods Management Ltd., B.V.I.	BRL	4 400 000	99.98%	BRL	4 400 000	99.98%
MIL Madeiras Preciosas Ltda. Brazil (land and forest operations) 2.7% of the shares are held by Madeiras Preciosas de Amazonia Manejo Ltda., Brazil	BRL	68 074 251	97.30%	BRL	68 074 251	97.30%
Precious Woods do Pará S.A. Brazil (sub-holding company, land and forest operations)	BRL	1 003	100.00%	BRL	1 003	100.00%
Precious Woods Manejo Florestal Ltda. Brazil (land and forest operations)	BRL	24 429 917	100.00%	BRL	24 429 917	100.00%
Precious Woods Europe B.V. Netherlands (timber trade)	EUR	18 000	100.00%	EUR	18 000	100.00%
Unio S.A. Luxembourg (sub-holding for Gabonese entities)	EUR	1 000 000	100.00%	EUR	1 000 000	100.00%
Lastour & Co. S.A. Luxembourg (sub-holding for Gabonese entities)	EUR	372 575	100.00%	EUR	372 575	100.00%

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

5. Other short-term receivables against group

As at 31 December 2018, in addition to the reversed impairment (see note 9), a reclassification of CHF 8.8 million from short-term receivables to financial assets against Group was made at the same time.

6. Other short-term interest-bearing liabilities

As of 31 December 2018, the short-term liabilities consist of four loans from shareholders in the amount of CHF 9.1 million. The loans have an interest of 6% and 3%. The maturities are agreed from March 2019 to April 2019 and December 2019.

7. Long-term interest-bearing liabilities

As of 31 December 2018, 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.

8. 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
For the year 2018					
Katharina Lehmann	90	–	–	**90**	91 522
Markus Brütsch	30	–	–	**30**	176 308
Jürgen Blaser	30	–	3	**33**	3 500
Robert Hunink	30	–	23	**53**	17 500
Kurt Lüscher [3]	11	–	–	**11**	3 000
Total	**191**	**–**	**26**	**217**	**291 830**

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

[1] This Board menber's mandate ended in May 2017

[2] This Board member was elected in May 2017

[3] This Board member was elected in May 2017 and ended in May 2018

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 [1] Variable in cash	Employer [2] social contributions	Total	Ownership of shares
For the year 2018					
Markus Brütsch, CEO / CFO	375	130	78	**583**	176 308
Group Management Total	**700**	**130**	**129**	**959**	**183 808**

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

[1] During 2018 and 2017 no share-based compensation was made to the Group Management.

[2] These amounts comprise payments to pension plans (mandatory and non-mandatory), ESPPs and other social contributions.

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.

9. Depreciation, amortization and impairment

As of 31 December 2018, in addition to the regular depreciation on property, plant and equipment, there is a reversed impairment of CHF 3.6 million of financial assets against group companies (previous year: CHF 7.0 million).

10. Major shareholders

For the overview of major shareholders as of 31 December 2018 we refer to the note 30 to the consolidated group financial statements.

11. Pledged assets / other securities

As of 31 December 2018, Precious Woods Holding Ltd had no pledged assets, but the liabilities include CHF 26.0 million (see notes 6 and 7) land securities in Brazil.

12. Other note / Full time employment

For the full time employment of Holding employees for the years 2018 and 2017, we refer to the social key figures in the sustainability report on page 28.

13. 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	2018	2017
< 1 year	8 931	88 143
1 – 5 years	–	9 160
Total	**8 931**	**97 303**

14. 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.

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

To the General Meeting of
Precious Woods Holding AG, Zug

Zurich, 12 April 2019

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 2018.

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 2018 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

Contact addresses

Precious Woods in Europe

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

Precious Woods in Brazil

MIL Madeiras Preciosas Ltda.
(Precious Woods Amazon)
Rodovia AM363, KM 1.5, Área Rural
Zip Code – 69109-899
Itacoatiara – Amazonas
Brazil
Phone +55 92 3521 3331
Fax +55 92 3521 3329
pwa@preciouswoods.com.br

BK Energia Itacoatiara Ltda.
(Precious Woods Energy)
Rodovia AM363, Km 1, Área Rural
Zip Code – 69109-899
Itacoatiara – Amazonas
Brazil
Phone +55 92 3521 3331
Fax +55 92 3521 3329

Precious Woods in Central Africa

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

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

Editorship
Jacqueline Martinoli
Precious Woods Holding Ltd
Design
Management Digital Data AG
Photography
Precious Woods Holding Ltd
Metamorphoto, Michael Bosshard
Jean-Louis Doucet
Christian Küchli
Image processing
cube media AG
Production
Management Digital Data AG
Precious Woods Holding Ltd
Print
cube media AG

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

Precious Woods Holding Ltd
Untermüli 6
6300 Zug
Switzerland

PRECIOUS WOODS