

# Regulatory Story

[Go to market news section](#)



**Company** [Phaunos Timber Fund Limited](#)  
**TIDM** PTF  
**Headline** Half Yearly Report  
**Released** 09:00 22-Aug-2014  
**Number** 7872P09

RNS Number : 7872P

Phaunos Timber Fund Limited  
22 August 2014

## PHAUNOS TIMBER FUND LIMITED

### UNAUDITED RESULTS FOR THE SIX MONTHS TO 30 JUNE 2014

22 August 2014

*For immediate release*

Phaunos Timber Fund ("**Phaunos**" or the "**Company**"), the authorised closed-ended investment scheme, managed by Stafford Timberland Limited (the "**Manager**" or "**Stafford**"), today issues its unaudited results for the six months ended 30 June 2014.

#### Key Developments and Financial Results

	<b>6 months to 30 June 2014 (unaudited)</b>	<b>12 months to 31 Dec 2013 (audited)</b>	<b>6 months to 30 June 2013 (unaudited)</b>
Net Asset Value (" <b>NAV</b> ")	US\$433.2 million	US\$419.0 million	US\$458.1 million
NAV per Ordinary Share	US\$0.81	US\$0.78	US\$0.85
Profit/(loss) for the period/year	US\$6.9 million	US\$(55.4) million	US\$(19.3) million
Earnings/(loss) per Ordinary Share	1.28 cents	(10.32) cents	(3.60) cents

#### Executive Summary:

- ~~€€€~~ Unrealised foreign exchange gains totaling US\$15.4 million, which include net gains of US\$8.0 million (against the New Zealand dollar and Norwegian Krone) relating to associates; and net gains of US\$7.4 million (mainly against the Brazilian Real) relating to the translation of wholly-owned subsidiaries.

- Unrealised net valuation gains on biological assets and land owned by wholly-owned subsidiaries, associates and financial assets totaling US\$2.0 million, excluding foreign exchange (see Appendix A for further details).
- Net operating losses of US\$3.3 million includes revenue from timber operations and other operating income totaling US\$3.4 million, less expenses totaling US\$6.7 million (see Appendix A for further details).
- Matariki's revenue has been affected by volatility in the New Zealand log export market with near record prices in the period January to March 2014 followed by a 20-30% drop in log prices in the period April to June 2014. For Matariki the decline in export prices will negatively impact final year EBITDA, and will be a consideration for the Matariki Board when assessing dividend payments for the remainder of the year.
- Company level expenses for the period were US\$3.0 million or 1.34% annualised (30 June 2013: US\$5.2 million or 2.24% annualised) of the NAV at 30 June 2014.
- At 30 June 2014, cash and cash equivalents held by the Group amounted to US\$4.9 million, a decrease of US\$3.6 million during the period.
- As announced on 5 August 2014 the Board, as advised by Stafford, identified a material uncertainty over the immediate liquidity requirements of the Company and its cash position, a consequence of a number of changed circumstances.

### **Equity Fund Raising:**

- Subsequent to the period end the Company announced proposals to raise approximately US\$10 million through an equity fund raising on a non-pre-emptive basis to address its immediate liquidity requirements.
- Proceeds from the proposed equity injection are intended to provide the Company with a cash balance equivalent to approximately two years' operating costs, in line with the policy adopted by the Board and the Manager, following the Manager's strategic review into the Company's portfolio of investments.
- It is anticipated that the equity injection, when coupled with the ongoing cost reduction programme, should be sufficient to enable the Company to move to a cash flow positive position.
- A circular containing details of the proposed equity fund raising, together with a notice of an Extraordinary General Meeting of the Company to be held at 2 p.m. on 15 September 2014, is being sent to shareholders today, 22 August 2014.

Sir Henry Studholme, Chairman of Phaunos Timber Fund, commented on the results:

"The results cover a period in which the Company was self-managed and during which we took the opportunity to look at our management and asset base. Having appointed Stafford as Manager we are currently focused on the near-term and cash. Stafford are putting a great deal of energy and resource into building or reviewing detailed operating plans with each of the managers on the ground. We will report on these plans to you as they develop. It is essential that these near-term actions take place in the context of a longer term vision and the Board believes that the current changes take the Company significantly towards our objective of building a London listed timber investment company that provides reliably-based long term returns to shareholders."

### **Enquiries:**

#### **Winterflood Investment Trusts (Corporate Broker)**

Joe Winkley

020 3100 0301

#### **Citigate Dewe Rogerson (PR Advisor)**

Kevin Smith / Georgia Colkin

020 7638 9571

#### **Legis Fund Services Limited (Administrator)**

Patricia White

01481 726034

### **Notes to Editors**

The Company is a Guernsey-domiciled closed-ended investment company authorised by the GFSC. Its ordinary shares are listed on the Main Market of the London Stock Exchange. Its investment objective is to provide shareholders with attractive long term total returns, expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments. The Company is managed by Stafford Timberland Limited.

The Company's portfolio consists of timberland and timber-related investments across 5 continents. As at 31 December 2013, the Company's audited NAV was US\$419.0 million (being US\$0.78 per ordinary share).

The Company intends to seek investments that meet or exceed the guidelines set out in the Sustainable Forestry Initiative and, wherever possible and practicable, to certify the lands under the Forest Stewardship Council guidelines.

The Company's ticker is PTF.

## **Glossary of Terms**

### **Portfolio investments**

Aurora Forestal	Aurora Forestal Limited
Eucateca	Eucateca SA
Green China	Green China Forestry Company Ltd
Green Resources	Green Resources AS
GTFF	GreenWood Tree Farm Fund LP
Masarang	Masarang Foundation
Mata Mineira	Mata Mineira Investimentos Florestais Ltd

Matariki	Matariki Forestry Group
NTP	NTP Timber Plus+ Fund I, LP
Pradera Roja	Pradera Roja SA

## Currencies

US\$	US Dollar
€	Euro
£	British Pound Sterling
NZ\$	New Zealand Dollar
NOK	Norwegian Krone
R\$	Brazilian Real
RMB	Chinese Renminbi

## Interim Business & Operations Review

### Chairman's Statement

This Interim Report covers the period after the termination of the Company's relationship with FourWinds Capital Management ("FourWinds") on 1 December 2013 and before the appointment of Stafford Timberland ("Stafford"), as the Company's managers, effective from 1 July 2014. This was a period in which Phaunos was self-managed by the previous portfolio management team from FourWinds. This team is no longer with the Company but I am extremely grateful for their hard work during this period of transition and would like to thank them on behalf of the Company. In addition, significant extra responsibility was taken on by my fellow Board members and I would like to thank them as well for their commitment on behalf of shareholders. Over this time, we took the opportunity to look at our management and our asset base. One major conclusion was that, having investigated the benefits and risks of self-management and other alternative management solutions, we appoint a new, London based, manager for the Company. In Stafford, we have chosen a manager with a strong track record in timber investing and have agreed on a management fee based on share price performance, with significant cost savings over the FourWinds contract.

As you may have read in the Placing Circular, at the same time as Stafford begins to take control of the portfolio, we are approaching shareholders for a capital injection. This is needed to provide funding for expenses, including allowance for inherent volatility in timber income, as we move the Company to profitability and realign the portfolio. Without the placing there is a high risk that that the Company would not be in a position to pay its liabilities as they fall due over the next three to six months. We believe that it is desirable for the Company to aim to maintain cash reserves of two years' operating costs. The issue of our exposure to dividend volatility was covered in my last statement and it is a disappointment that this crystallised at a time when we do not have adequate cash in reserve. We believe that the funding sought will be sufficient to move the Company to operating profitability, based on the current revenue levels, within the next 18 months.

Stafford was initially employed by the Company to carry out a thorough investigation of the Company's assets, which was completed in the first half of 2014, and our subsequent actions have been driven by the conclusions of their report. While we view the sale of one or more of the higher risk assets, as identified in the Stafford report, as desirable, we do not wish to be reliant on the sale of any assets at this point. While the Company's shares

continue to trade at a substantial discount to net asset value, proceeds from any property sale, beyond the maintenance of cash reserves as set out above and the requirements of the existing portfolio, will be returned to shareholders.

We are continuing to pursue a cost reduction programme both in timber operating costs and in overheads and management costs. To achieve this cost reduction, we have looked closely at all expenditure lines. We are very appreciative of the suppliers and advisers that are reducing their costs or undertaking more limited roles. In some cases, this comes at a time when more work is actually being undertaken. Some of the services of previous advisers and staff have needed to be terminated. None of these decisions have been easy but are a reflection on the current position of the Company. Their hard work and advice is appreciated and I want publicly to thank the current and former employees of, and advisers to, the Company who have worked incredibly hard on behalf of shareholders.

### **Results for the six months ended 30 June 2014**

The NAV of the Company has moved to US\$433.2 million or US\$0.81 per Ordinary Share at 30 June 2014, from US\$419.0 million or US\$0.78 per Ordinary Share at 31 December 2013. This represents a gain of US\$14.2 million for the period. The increase is largely currency related, as unrealised currency gains were US\$15.4 million.

The property valuations are all derived from appraisals undertaken at the 2013 year end. In particular the impact of the recent purchase, by our African investment, Green Resources, of the Global Solidarity Forest Fund ("GSFF"), is not reflected in a change in its carrying valuation. While a positive development, we believe that an appraiser will need time to assess the impact and Green Resources will be independently valued for the 2014 year-end. Additionally, on the advice of Stafford, we are no longer adjusting the half-year property valuations to reflect biological growth in the wholly owned subsidiaries and Aurora Forestal. The approach is more conservative and in line with the valuation approach commonly adopted in the timberland sector.

Some of the recurring savings from the termination of the FourWinds contract have begun to flow through in this period with Investment Operating Expenses falling to under US\$3 million for the period from US\$5.2 million in the corresponding period in the prior year. These costs will continue to reduce. Details of the performance of individual investments are covered in the manager's report.

### **Board Developments**

Richard Hills resigned as a Director of the Company on 15 May 2014. On behalf of the Board I would like to thank Richard for his tremendous contribution over the past two years. During recent corporate developments his wealth of experience advising investment companies has proved invaluable. Richard was the Board's Senior Independent Director and William Vanderfelt has assumed that role on Richard's departure. The Board is not appointing an additional Director at this stage.

### **Future Outlook**

At this juncture, we are focused on the near-term and, in particular, cash. Stafford has taken on their new role with professionalism and are putting a great deal of energy and resource into building or reviewing detailed operating plans with each of the managers on the ground. We will report on these plans as they develop. However, within this it is essential that these near term actions take place in the context of a longer term vision and the Board believes that the current changes take the Company significantly towards our objective of building a London listed timber investment company that provides reliably-based long term returns to shareholders.

Having overseen the transfer of management to Stafford I will, from 30 September 2014, be returning to a non-executive chairman's role. This will enable me to concentrate more closely on the fundamental role of a chairman, including maintaining relationships with shareholders, representing their interests. I will work closely with the new managers and believe that the changes to the Company since December 2013, while disruptive, have been essential and, although not yet reflected in the share price, create a platform from which we can build a successful future for Phaunos.

Sir Henry Studholme Bt  
Chairman

21 August 2014

## **Manager's Interim Operational Report**

For the six months ended 30 June 2014

This is the first interim report written by Stafford as your newly-appointed Manager. Our appointment in fact, post-dates this report's date and was effective as of 1 July 2014. We are conscious that our appointment comes at a challenging point for the Company. Recently, the Board, on our advice, has considered it necessary to make an announcement about the solvency of the Company and we are now in the process of arranging an equity placing, representing a further issue of around 5% of the equity of the Company in order to stabilise its cash position.

It will take us a further few months to get fully up to speed with all aspects of the portfolio of assets and to make detailed recommendations on improvements. However, our immediate priorities are, firstly, to bring greater efficiency and cost savings to all aspects of the Company in order to bring it to a cash flow positive position as soon as practicably possible. Secondly, to develop close and effective relationships with the groups managing your assets on the ground and developing detailed operating plans for each property in conjunction with them.

While the Company itself has no borrowings, a number of the underlying investment vehicles are themselves geared. We are in the process of establishing the exact level of indebtedness but believe the Company's share to be approximately US\$85 million. A major portion of this lies in Matariki and has been part of the financial structure of that company for many years.

With regard to the cash flow position, there are a number of assumptions of which shareholders need to be aware. Even reasonably reliable revenues for timberland can sometimes dry up or significantly decline. This can be for good, positive reasons and the implications need to be considered in each case. What this means is that our base line projected income still relies on harvesting contracts in Mata Mineira and net revenue from the processing of pine in Aurora Forestal. We had already identified that the dividend from Matariki could be volatile and is dependent on the broader market pricing of log exports to China. As recent prices have declined, the dividend has indeed ceased for the time being. It is for these reasons, that we recommend that two years' gross expenditure is covered by cash, as a buffer against natural volatility in the current portfolio and we will seek to protect as much of the proceeds from the Placing as we can in order to start the creation of this cash buffer.

On the costs side, the total costs incurred in the half year were US\$5.6 million (30 June 2013: US\$8.3 million). This is split between cost of sales & timber operating costs and investment operating expenses (also referred to as "Company Level" expenses). The process of deciding what is really needed and how to provide it as efficiently as possible is

the key. Company level expenses were US\$3.0 million during the period, reduced from US\$5.2 million in the first half of 2013. However, further reductions are still needed for costs to be below base line revenues and these are in hand. We find it very hard to justify the past levels of costs given the size of the Company and we aim to maintain a more budget conscious operation going forward.

Of the timber operating costs of US\$2.7 million (30 June 2013: US\$3.1 million) the greenfield investments (those which are recently planted and on their first timber rotation) are very costly to manage. Some of these costs have been offset by one-off harvesting operations of mature timber that happened to be acquired as part of the original acquisition. The actual ongoing expenditure for these greenfield investments is around US\$4 million annually and this needs significant trimming. We will be exploring options including joint ventures; possible profit sharing initiatives and divestment to take the strain off the Company's limited net income, though this will take time to evaluate and negotiate.

Within our strategic review, we identified several assets that are considered to be higher risk timberland investments. This includes a number of greenfield assets that are not yet contributing to net income. We need to weigh up carefully to what extent their future potential justifies holding them despite some inherent risks and the fact that they will not be cash flow positive for a number of years. The key point, though, is that the Company is carrying too many of these investments and they represent too high a proportion of the total portfolio value. At least one disposal is desirable and this will be actively pursued, but only at a reasonable price.

Finally, over the past 2 months we have met with a number of shareholders and we will continue to do so over the coming months. At this stage, these introductions have been focussed on immediate issues and we are looking forward to the time when we can start to provide you with cash flow projections, operational plans and more detail about the critical timber markets that will have the greatest impact on the portfolio.

**Matariki** (US\$156.7 million, representing 36.2% of the portfolio)

The Company continues to hold 35% of Matariki located in New Zealand. Matariki manages over 184,000 total hectares, of which approximately 126,000 hectares are in mixed aged pine plantations. The value of the Company's minority investment in Matariki increased by 8.2% or US\$11.9 million to US\$156.7 million at 30 June 2014, including the effect of foreign currency movements. Cash distributions received from Matariki during the period totalled US\$1.9 million.

Matariki is the largest single investment within the Phaunos portfolio, representing 36.2% of the total NAV. Matariki is a high quality softwood plantation estate that services both domestic and export markets. Physical risk is generally low although, like most New Zealand softwood estates, log prices are subject to export price fluctuations.

Over the first half of 2014 the volatility of log export prices has been evident with near record prices in the period January to March 2014 followed by a 20-30% drop in log prices in the period April to June 2014; the range is due to different markets reacting differently. This type of variation has been observed before and principally reflects log inventory levels in Chinese ports. Low prices particularly impact higher cost and / or smaller log suppliers who tend to rapidly remove volume from the market, which in turn allows log inventories to rebalance. Current prices are considered to have stabilised, with small increases forecast for the second half of 2014.

Despite ongoing strong domestic lumber demand, domestic log prices are also strongly influenced by export log prices and while domestic prices are not as volatile as export prices, a decline in domestic sawlog prices has also been observed.

For Matariki this combined drop in export and domestic log prices will negatively impact final year EBITDA, and will be a consideration for the Matariki Board when assessing dividend payments for the remainder of the year.

**Mata Mineira** (US\$62.8, representing 14.5% of the portfolio)

The Company's wholly owned Mata Mineira investment, in the State of Minas Gerais, Brazil, holds over 19,000 total hectares which includes approximately 9,600 hectares of planted eucalyptus forest and 382 ha of bare land available for planting. The remaining unplanted areas consist mainly of cerrado set aside to protect and enhance the ecosystem and to meet Brazilian environmental regulations. The value of Mata Mineira increased by 6.8%, or US\$4.0 million, to US\$62.8 million at 30 June 2014. This movement partly reflects a 6.5% appreciation in the Brazilian Real that resulted in an unrealised currency gain of US\$4.1 million.

The principle market for Mata Mineira's eucalyptus logs is the Brazilian charcoal market which in turn is used for the production of pig iron. Pig iron produced from charcoal has declined by approximately 33% since 2007, due in part to decreasing US demand and unfavourable exchange rates. US pig iron demand is largely driven by the automobile sector and, while this has rebounded since 2009, Brazil's market share of US pig iron imports is yet to recover. Industry analysts suggest an improved, sustained, favourable exchange rate should assist future export demand.

The drop in demand for charcoal has led to an oversupplied eucalyptus market that has resulted in flat charcoal prices and limited market access. Limited market access has particularly affected Mata Mineira with first half (2014) harvest revenues of US\$1.2 million, well below budget forecasts of US\$3.1 million. The revenues are also well below the US\$5.2 million reported for the first half of 2013, which were assisted by an opportunistic sale of pulp logs to a pulp mill located in a neighbouring wood supply region.

Stafford is working closely with the local manager to improve market access and at the same time reduce operational costs.

**Eucateca:** (US\$55.2 million, representing 12.8% of the portfolio)

The Company's wholly owned Eucateca investment in Brazil comprises over 16,000 total hectares, of which approximately 7,500 hectares are eucalyptus plantations and an additional 2,100 hectares are teak plantations. The unplanted areas consist mainly of native vegetation reserves to protect and enhance the ecosystem and to meet Brazilian environmental regulation. The value of the Company's investment in Eucateca increased by 6.5%, or US\$3.4 million, to US\$55.2 million at 30 June 2014. This movement also largely reflects unrealised currency gains of US\$3.6 million due to a 6.6% appreciation of the Brazilian Real during the period.

Relative to the other states of Brazil, the state of Mato Grosso has a relatively small number of eucalyptus plantations, with no established pulpwood or charcoal markets. The Eucateca eucalyptus plantations were established on the market thesis that increasing volumes of biomass will be needed as fuel to dry expanding production from Mato Grosso's soya bean estate. Within this market, eucalyptus needs to compete with agricultural biomass on both price and access, and consequently market demand can vary considerably year on year, and month by month.

Harvesting commenced in Eucateca in December 2013 with a 25,000 m<sup>3</sup> contract to supply eucalyptus biomass although this contract was subsequently reduced to 8,000 m<sup>3</sup> due to price pressure within the biomass market. The local manager continues to pursue other market options, of which the most promising include development of dedicated cogeneration



plants for bioenergy production or opportunistic sales of pulpwood to pulp mills located in the adjacent state of Mato Grosso do Sul. The former opportunity is subject to market electricity prices and will require a commitment to new infrastructure while the latter option represents a very high delivered cost for the buyer or a very low margin for the seller, or both.

With most of the Eucateca plantations established in 2009, the plantations are yet to reach their optimum harvest age and markets for the products will need to materialise within the next 2-4 years.

As part of a programme to divest non-strategic assets, Eucateca marketed its teak plantations in late 2013 and early 2014. Interest from timberland managers was limited due to the relatively small size of the estate, its young age and the poor survival and quality of parts of the plantations. Some low value interest was presented from neighbouring farmers, particularly for the two smaller plantations where survival has been poor and parts of the property remain undeveloped. Interest from timberland managers may increase over time as the estate matures and markets develop for older teak plantations in the region. The reduced income from the cessation of harvesting operations is likely to impact the end of year budget results and Stafford is working with the manager to reduce services to only those silvicultural operations that are considered essential for the maintenance of long term value, such as thinning, pruning and firebreak maintenance.

**Green Resources** (US\$49.1 million, representing 11.3% of the portfolio)

The Company owns a minority investment of 18.9% in Green Resources, which is established in Norway and has operations in Uganda, Tanzania and Mozambique. On a combined basis the estate totals approximately 40,000 hectares of plantations and runs two sawmilling operations, in Tanzania (Sao Hill) and Uganda. Green Resources has the right to plant more than 200,000 additional hectares in East Africa. The value of the Company's minority investment in Green Resources decreased by 1.2%, or US\$0.6 million, to US\$49.1 million as at 30 June 2014.

The Green Resources investment is principally a growth asset with no immediate dividend expected in the near to medium term. Green Resources has continued to expand the estate through on-going plantation development and the acquisition of the GSFF asset in Mozambique. This transaction provided some indicative transactional evidence of the value of the Green Resources estate, which will be considered as part of a third party independent valuation, scheduled for later this year.

Within the institutional timberland investment sector, greenfield plantation development programs, particularly those in emerging markets, carry considerable cash flow and market risk. Arguably this risk is partially offset within the Green Resources portfolio through the holdings of semi-mature plantations and processing facilities that have the capacity to realise profits in the near and medium term. Looking forward, an important focus will be on realising profits from these operations with the intent of further improving the net asset value, the company cash position and reducing exposure to various debt facilities that have been largely used to finance new plantation development.

**GTFF** (US\$34.8, representing 8.0% of the portfolio)

The Company continues to own a significant minority position in GTFF, which consists of over 14,000 total hectares of which approximately 12,900 hectares are mixed age poplar plantations, and a fully integrated sawmill in the Pacific Northwest US. The value of the Company's investment in GTFF decreased by 3.9%, or US\$1.4 million, to US\$34.8 million at 30 June 2014.

The GTFF operation is unique in its use of poplar for sawlog production and it is one of only a handful of timber plantation estates that are fully irrigated. The investment returns are largely driven by the profitability of the sawmilling operation which includes state-of-the-art

equipment specifically designed for the production of poplar lumber. This level of specialisation incorporates more operational risk than a conventional timberland investment. The irrigated nature of the plantations requires a high level of management input and the production and marketing of poplar lumber has required ongoing diligence from the management team to improve lumber recovery rates and average lumber prices.

GTFF is yet to return an annual profit and provide dividends to investors. Over the first half of 2014, sales revenues and average lumber realization rates have increased, with the fund reporting its first monthly profit in April 2014. Further improvements in these key parameters are needed in order to provide returns to investors.

No dividends from the investment are forecast in the 2014 budget and, while operations are improving, this situation is not expected to change. The Phaunos investment into the GTFF fund is currently 97% called, and a further call on all or part of the outstanding funds of US\$1.2 million committed by Phaunos, remains a possibility in the second half of 2014 or 2015.

**Aurora Forestal:** (US\$31.3 million, representing 7.2% of the portfolio)

The Company continues to own its minority investment in Aurora Forestal, consisting of over 19,000 hectares of mixed aged pine plantations and a fully integrated sawmill and co-generation plant. At 30 June 2014 the value of the Company's investment in Aurora Forestal remained unchanged at US\$31.3 million.

Aurora Forestal is one of the oldest plantation estates in Uruguay and one of the few local assets with its own dedicated sawmill and cogeneration plant. The company has benefitted from the slowly recovering US housing market with sales currently constrained by production capacity. Within its 5-year plan Aurora intends to increase production by up to 75% to capitalise further on forecast improvements in the US and market and expansion opportunities in Asia.

**Pradera Roja:** (US\$29.0 million, representing 6.7% of the portfolio)

Pradera Roja is the Company's wholly owned subsidiary in southeast Uruguay, totalling over 9,200 hectares of which approximately 4,200 hectares are planted with eucalyptus. The remaining areas are either largely unplanted or set aside for environmental purposes. The value of the Company's investment in Pradera Roja decreased by 1.0% or US\$0.3 million to US\$29.0 million at 30 June 2014, due principally to the forward sale of a 50 hectare mature eucalyptus stand that was established by a previous land owner.

The Pradera plantations were largely established for the production of eucalyptus sawlogs. This market is relatively immature, although eucalyptus sawlogs are being successfully exported to Asia as well as being processed for domestic plywood production. Small areas within each plantation have been grown for eucalyptus pulpwood production and these volumes will be supplemented by thinning volumes from sawlog stands as those stands mature. Pruning operations are also being undertaken to improve the quality of the final sawlog crop.

Market conditions continue to improve in Uruguay's eucalyptus pulpwood sector. Construction of Montes del Plata's pulp mill, with an expected capacity of 1,000,000 tons has been completed and started production in late June. This is Uruguay's second pulp mill. The market for thinned wood is expected to grow once the mill ramps up to full production. In addition, there has been increasing interest from Brazilian bio-energy

companies in response to Uruguayan Government initiatives to promote development in the energy sector.

Phaunos has previously sold individual properties within the Pradera Roja estate on an opportunistic basis with values above NAV realised due largely to strong rural property markets. These opportunities are very property specific, with those properties located nearer major population centres or incorporating better quality agricultural land most likely to sell. Consideration of sales opportunities will continue, although as the trees mature interest from non-timberland buyers is expected to decline.

**Green China:** (US\$9.1 million, representing 2.1% of the portfolio)

The Company owns 100% of Green China, consisting of 4,800 total hectares of mixed age pine and firs in Jiangxi, China. The US Dollar value of the Company's investment in Green China decreased by 15.7% or US\$1.7 million to US\$9.1 million at 30 June 2014. The decrease also reflects US\$1.2 million that Green China repatriated to Phaunos in April 2014.

The strategy for Green China is to continue to seek buyers for the existing estate and fully dispose of all of the assets. The sale of one property in southern Jiangxi was completed and the sale of a larger second property is likely to be finalised in the second half of 2014. The sale of the third and smallest property is still in progress.

A sale process for the northern Jiangxi assets was also recently initiated and, once accomplished in combination with asset sales in the south, would lead to an orderly wind up of various holding structures and management contracts.

At the same time, timber and resin sales continue and Stafford is working with the manager to move to a position where local revenue meets or exceeds direct and indirect operating costs.

**NTP:** (US\$1.7 million, representing 0.4% of the portfolio)

The Company continues to own a minority position in NTP; a fund that purchased forest lands close to urban areas with a strategy to re-sell them for residential or recreational uses. The NAV at 30 June 2014 was US\$1.7 million, compared with US\$2.1 million at 31 December 2013. The decrease of US\$0.4 million was a result of 2014 capital distributions year-to-date of US\$0.3 million. NTP is in final liquidation, consistent with its original plan.

## **Operations & Risk**

### **Foreign Exchange**

Given the Company is US Dollar denominated and its Portfolio is globally diversified, unrealised currency gains and losses on translation of the Group's investments and non-US Dollar denominated subsidiaries has impacted the Company's NAV since its inception. The currencies in which our largest investments are held are the New Zealand Dollar, the Brazilian Real, and the Norwegian Krone. The Brazilian Real and New Zealand Dollar strengthened against the US Dollar over the period, however the Norwegian Krone weakened. As a result the NAV was impacted by unrealised foreign exchange gains totalling US\$15.4 million relating to the revaluation of financial assets, land and biological assets. The cumulative impact to Phaunos' NAV, from inception to 30 June 2014, is a cumulative gain of US\$3.8 million or 0.89% of the total NAV at that date. Please refer to the Foreign Currency Translation Effects section on page 7 of the Company's 2013 Annual Report for the historical translation gains and losses since the Company's inception.

### **Cash Flow**

The total cash held at 30 June 2014 was US\$4.9 million (31 Dec 2013: US\$8.5 million), of which US\$2.3 million was held within operating subsidiaries. During 2014, the cash generated by operating activities from timber operations and investment income was US\$2.8 million (30 June 2013: US\$5.6 million). Cash outflows from operating activities for the period of US\$5.3 million (30 June 2013: cash outflows of US\$5.2 million), included the payment of management fees, silviculture, and general operating expenses.

The Company has adopted the policy to maintain, circumstances permitting, cash reserves equivalent to two years' operating costs. The Board is seeking to raise approximately US\$10 million through a placing of approximately 5% of the Company's ordinary share capital, to bring the Company's cash reserves back to this level.

### **Going Concern**

The Interim Condensed Consolidated Statement of Cash Flows discloses a net cash outflow of US\$3.6 million and cash and cash equivalents at the period end of US\$4.9 million. The Directors together with the Audit Committee focus closely on cash flow forecasts, which are prepared at a Company and Group level. Cash flow projections have uncertainty over the size and timing of future cash flows which are especially critical when the Company does not have a significant cash reserve.

As a consequence of a number of changed circumstances, including a possible final capital call from Greenwood Tree Farm, a possible temporary suspension of dividends from Matariki, and the result of reduced timber prices in China, there is material uncertainty over the immediate liquidity requirements of the Company and its cash position. The Board believes that, without action, the Company may be unable to pay its liabilities as they fall due within the next three to six months.

As stated above, the Board intends to seek an equity injection by a share placing within the next few weeks. The Board and the Manager intend to participate in any placing of shares. Having held informal discussions with a number of shareholders, the Directors believe that the raising of funds by way of an issue of equity will be successful and it is the opinion of the Directors that the Company will remain a going concern following a successful equity raise.

It is anticipated that the equity injection, when coupled with the ongoing cost reduction programme, should be sufficient to enable the Company to move to a cash flow positive position. Based on the Manager's estimate that current conservative forecasts of revenue are likely to be maintained, the Board believes that this capital raise will be a one-off event.

In addition, the Company is engaged in advanced discussions with potential debt providers. These discussions will continue in order to ensure that alternatives are available in the event that the proposed equity fund-raising does not proceed. A sale of an underlying property will also be targeted, which would further strengthen the cash position of the Company and may enable surplus cash to be returned to shareholders. However, any possible asset sale is not being relied upon for the Company to become cash flow positive.

### **Principal Risks and Uncertainties**

The Board monitors the risks the Company faces and the actions taken to mitigate those risks. The principal risks that have been identified and steps taken by the Board to mitigate these risks are located in the Principal Risks & Uncertainties section and Note 19, both of which are located in the 2013 Annual Report<sup>(1)</sup>. In addition, new risks have been identified during the period as discussed below. The Board believes that a high quality portfolio diversified in geography, species, age class and market exposure with strong local management is the most effective and appropriate policy to minimise the risks faced in the current economic climate.

- (1) The 2013 Annual Report is available on the Company's website:  
<http://www.phaunostimber.com>

### *Going Concern*

There is material uncertainty over the immediate liquidity requirements of the Company and its cash position. On 22 August 2014 the Company issued a Placing Circular seeking approximately US\$10 million from a placing of new ordinary shares to resolve the Company's liquidity position.

### *Manager*

The Company has a key dependency on its Manager and certain key personnel. The Directors monitor and manage this risk through regular contact with the Manager.

### *Compliance with the Alternative Investment Fund Managers Directive*

In July 2014, the Company entered into arrangements necessary to ensure compliance with the Alternative Investment Fund Managers Directive ("AIFMD"). The Board approved the appointment of its existing manager, Stafford Timberland Limited, as the Company's Alternative Investment Fund Manager (the "AIFM"), providing portfolio management services on the terms of and subject to the conditions of the portfolio management agreement between the Company and the AIFM.

Stafford is operating under a transitional provision, with its application under review by the Financial Conduct Authority, to allow it to act as an AIFM. Stafford also complies with the requirements relating to professional liability risk through the use of professional indemnity insurance. Legis Depository Services Limited (the "Depository") was appointed to act as the Company's depository (as required by the AIFMD) on the terms of and subject to the conditions of a depository agreement between the Company, the AIFM and the Depository. The Depository will carry out the duties of cash flow monitoring, safekeeping of assets and oversight in respect of the Company, the Alternative Investment Fund.

## **Statement of Directors' Responsibilities**

To the best of the knowledge of the Directors:

The Condensed Interim Financial Report and Consolidated Financial Statements for the six months ended 30 June 2014 gives a true and fair view of the assets, liabilities, financial position and loss of the Company and has been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting as adopted by the European Union*.

The Interim Business & Operations Review includes a fair review of the information required by:

- a) DTR 4.2.7 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- b) DTR 4.2.8 of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board by:

Ian M Burns  
Director

Sir Henry Studholme Bt  
Director

21 August 2014

## Financial Statements

### Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

		<b>30 June 2014 Unaudited US\$'000</b>	<b>30 June 2013 Unaudited US\$'000</b>
<b>Income</b>	<b>Note</b>		
Net gains/(losses) on associates	2(b)	11,908	(14,763)
Net losses on financial assets designated at fair value through profit or loss	2(b)	(1,535)	(834)
Revaluation of biological assets	2(c)	(435)	3,560 (422)
Realised loss on disposal of assets	3	(1)	)
Revenue from timber operations	3	1,490	5,405
Other operating income	3	1,945	207
		<hr/> 13,372	<hr/> (6,847)
<b>Expenses</b>			
Depletion of timber	2(b)	(948)	(4,095)
Cost of sales from timber operations	4(a)	(58)	(20)
		<hr/> (1,006)	<hr/> (4,115)
	4(a) 9b		
Timber operating expenses	4	(2,675)	(3,070)
Investment operating expenses	4(b)	(2,953)	(5,235)
		<hr/> (6,634)	<hr/> (12,420)
Non-recurring items	4(c)	163	48
<b>Operating profit/(loss) before foreign exchange and associates</b>		6,901	(19,219)
Foreign exchange gains		44	11
		<hr/> 44	<hr/> 11
<b>Operating profit/(loss) before taxation</b>		6,945	(19,208)
Taxation charge on ordinary activities		(81)	(104)
		<hr/> (81)	<hr/> (104)
<b>Profit/(loss) for the period from continuing operations</b>		<hr/> <hr/> 6,864	<hr/> <hr/> (19,312)
<b>Other comprehensive income/(loss)</b>			

*Other comprehensive income to be reclassified to profit or loss in subsequent periods*

Exchange differences on translation of operating subsidiaries' net assets		7,385	(11,113)
---	--	-------	----------

*Items not to be reclassified to profit or loss in subsequent periods*

Revaluation of land	2(c)	-	159
		<u>7,385</u>	<u>(10,954)</u>

**Total comprehensive income/(loss) for the period**

	<u>14,249</u>	<u>(30,266)</u>
--	---------------	-----------------

Earnings/(loss) per Ordinary Share for the period - Basic and Diluted	<b>Cents</b> 1.28	<b>Cents</b> (3.60)
---	----------------------	------------------------

(Based on weighted average number of Ordinary Shares for 2014 and 2013: 537,149,832)

In arriving at the operating results for the period, all amounts above relate to continuing operations.

## **Explanatory Notes to the Interim Condensed Consolidated Statement of Comprehensive Income**

For the six months ended 30 June 2014

### **Income**

- The net gains on associates of US\$11.9 million includes unrealised foreign exchange gains of US\$8.0 million due to the weakening of the US Dollar against the New Zealand Dollar during the period, and net valuation losses of US\$4.0 million relating to Matariki.
- Net losses on financial assets designated at fair value through profit or loss of US\$1.5 million relates to valuation losses of US\$1.4 million from GTFF, of which US\$0.8 million relates to a prior period loss adjustment.
- Additionally, on the recommendation of Stafford, we are no longer adjusting the half-year property valuations to reflect biological growth. The approach is more conservative and in line with the valuation approach commonly adopted in the timberland sector. As a result there were no revaluation gains or losses for land, however biological assets incurred net losses of US\$0.4 million due to minor cost adjustments for the period. Valuations of land and biological assets were also affected by the weakening of the US Dollar against the Brazilian Real during the period. This resulted in total unrealised foreign exchange gains of US\$7.5 million, which is included in the Other Comprehensive Income of US\$7.4 million.
- Timber revenue decreased by 73% to US\$1.4 million for the period from US\$5.2 million for the comparative half yearly period. This can be attributed to a reduction in harvest levels in Mata Mineira that followed the completion of a one-off contract in 2013. This opportunistic supply agreement resulted from a short term log deficit in a distant wood supply region.

- Dividend and investment income received during the period totaled US\$1.3 million which includes Matariki's distribution of US\$1.2 million.

## Interim Condensed Consolidated Statement of Financial Position

at 30 June 2014

	Note	30 June 2014 Unaudited US\$'000	31 Dec 2013 Audited US\$'000
<b>Non-Current Assets</b>			
Investment in Associates	2(b)	237,156	225,815
Financial assets designated at fair value through profit or loss	2(b)	36,536	38,361
Biological assets	2(b)	88,831	84,238
Land	2(b)	68,021	65,033
Deferred tax asset		138	129
Other assets		2,141	2,161
		<u>432,823</u>	<u>415,737</u>
<b>Current Assets</b>			
Cash and cash equivalents		4,896	8,468
Receivables		4,172	3,839
		<u>9,068</u>	<u>12,307</u>
<b>TOTAL ASSETS</b>		<u>441,891</u>	<u>428,044</u>
<b>Non-Current Liabilities</b>			
Payables and provisions		<u>2,318</u>	<u>2,342</u>
		2,318	2,342
<b>Current Liabilities</b>			
Payables and provisions		<u>6,329</u>	<u>6,707</u>
		6,329	6,707
<b>TOTAL LIABILITIES</b>		<u>8,647</u>	<u>9,049</u>
<b>Equity</b>			
Share capital		432,101	432,101
Retained earnings		(94,597)	(101,461)
Foreign currency translation reserve		(20,723)	(28,108)
Land revaluation reserve		8,864	8,864
Distributable reserves		110,418	110,418
Purchase of own shares (Treasury Shares)		(2,819)	(2,819)
<b>TOTAL EQUITY</b>		<u>433,244</u>	<u>418,995</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>441,891</u>	<u>428,044</u>
Ordinary Shares in Issue		537,149,832	537,149,832
		<b>US\$</b>	<b>US\$</b>
Net Asset Value Per Ordinary Share		0.81	0.78



## Explanatory Notes to the Interim Condensed Consolidated Statement of Financial Position

at 30 June 2014

### Assets

- Investments in associates increased by 5.0% or US\$11.3 million. In addition to the fair market value movements discussed above, Matariki redeemed preference shares to the value of US\$0.6 million.
- Financial assets designated at fair value through profit or loss decreased by 4.8% or US\$1.8 million, which relates to the revaluation losses discussed above.
- Biological assets increased by 5.5% or US\$4.6 million, which included capitalised silviculture costs of US\$1.8 million, which were offset by non-cash depletion of US\$1.1 million relating to the carried cost of harvested timber. The biological asset value was also impacted by the sale of one southern China property in Green China, where the biological asset was sold for US\$0.9 million.
- Land values increased by 4.6% or US\$3.0 million which all relate to unrealised currency gains due to the appreciation of the Brazilian Real during the period.
- Cash decreased by 42.2% or US\$3.6 million. Net cash outflows from operating activities totaled US\$5.3 million which primarily include cash generated from timber operations and investment income of US\$2.8 million, offset by payments for silviculture and operating subsidiary expenses of approximately US\$4.3 million. Net cash inflows from investing activities of US\$1.7 million include the proceeds received from the sale of a non-strategic asset in Green China of US\$0.9 million, plus the return of redeemable shares and capital from Matariki and NTP of US\$0.8 million. Please refer to the Cash Flow section under Operations and Risk for the Company's future outlook and assumptions relating to cash generation for the remainder of 2014.

## Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Note	30 June 2014 Unaudited US\$'000	30 June 2013 Unaudited US\$'000
<b>Operating activities</b>			
Net profit/(loss) from continuing operations		6,864	(19,312)
Adjustments for non-cash items*	(next pg)	(8,821)	16,411
		(1,957)	(2,901)
<u>Other adjustments:</u>			
Movement in receivables and payables		(1,594)	2,218
Realised loss on disposal of assets		1	-

Taxation including accrual		14	(117)
Silviculture and other biological asset costs	2(c)	(1,785)	(4,404)
		<u>(3,364)</u>	<u>(2,303)</u>
<b>Net cash outflow from operating activities</b>		<u>(5,321)</u>	<u>(5,204)</u>
<b>Investing activities*</b>			
<b>Net cash inflow from investing activities</b>	(next pg)	<u>1,747</u>	<u>655</u>
<b>Decrease in cash and cash equivalents</b>		(3,574)	(4,549)
Cash and cash equivalents at beginning of period		8,468	15,135
Effect of foreign exchange rate changes		2	19
<b>Cash and cash equivalents at end of period</b>		<u>4,896</u>	<u>10,605</u>

\*Please refer to the Explanatory Notes to the Consolidated Statement of Cash Flows below for details on cash flows relating to operating and investing activities.

## Explanatory Notes to the Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

The following details all non-cash items for operating activities and net cash inflows for investing activities as summarised in the Interim Condensed Consolidated Statement of Cash Flows:

	Note	30 June 2014 Unaudited US\$'000	30 June 2013 Unaudited US\$'000
<b>Non-cash items</b>			
Depletion	2(c)	949	4,095
Depreciation and amortisation	2(c)	259	279
Effect of foreign exchange rate changes on associates and financial assets at fair value through profit or loss		(7,957)	18,718
Effect of foreign exchange rate changes on other non-cash financial assets and liabilities		(156)	(2,135)
Net gains on associates	2(b)	(3,951)	(1,820)
Less: Net losses on financial assets designated at fair value through profit or loss	2(b)	1,535	834
Revaluation of biological assets	2(b)	435	(3,560)
Other adjustments		<u>65</u>	<u>-</u>
<b>Adjustments for non-cash items</b>		<u>(8,821)</u>	<u>16,411</u>

## Investing activities

*Return of capital and disposal of assets:*

Return of capital from associates	2(b)	567	-
Return of capital from financial assets	2(b)	290	809
Disposal of biological assets	2(b)	938	-
Disposal of plant and equipment		137	540
Disposal of subsidiary		-	1,574
		<u>1,932</u>	<u>2,923</u>

*Purchase of assets:*

Purchase of associates	2(b)	-	(1,445)
Purchase of financial assets	2(b)	-	(817)
Purchase of plant and equipment		(185)	(6)
		<u>(185)</u>	<u>(2,268)</u>

<b>Net cash inflow from investing activities</b>		<u>1,747</u>	<u>655</u>
--	--	--------------	------------

## Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014

	<b>Attributed to equity holders of the parent</b>						
	Share capital	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Distributable reserves	Purchase of own shares (Treasury Shares)	Total Equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>At 1 January 2014</b>	432,101	(101,461)	(28,108)	8,864	110,418	(2,819)	418,995
Profit for the period	-	6,864	-	-	-	-	6,864
Other comprehensive income	-	-	7,385	-	-	-	7,385
<b>Total comprehensive income for the year</b>	-	<b>6,864</b>	<b>7,385</b>	-	-	-	<b>14,249</b>
<b>At 30 June 2014 (unaudited)</b>	<u>432,101</u>	<u>(94,597)</u>	<u>(20,723)</u>	<u>8,864</u>	<u>110,418</u>	<u>(2,819)</u>	<u>433,244</u>

	<b>Attributed to equity holders of the parent</b>						
	Share capital	Retained earnings	Foreign currency translation reserve	Land revaluation reserve	Distributable reserves	Purchase of own shares (Treasury Shares)	Total Equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>At 1 January 2013</b>	432,101	(46,025)	(11,229)	5,961	110,418	(2,819)	488,407
Loss for the period	-	(19,312)	-	-	-	-	(19,312)
Other comprehensive income	-	-	(11,113)	159	-	-	(10,954)

(loss)/income

Total  
comprehensive  
(loss)/income  
for the  
period

At 30 June  
2013  
(unaudited)

-	(19,312)	(11,113)	159	-	-	(30,266)
432,101	(65,337)	(22,342)	6,120	110,418	(2,819)	458,141

## Notes to the Interim Condensed Consolidated Financial Statements

### 1. ACCOUNTING POLICIES

#### (a) Basis of Preparation and statement of compliance

The unaudited interim condensed consolidated financial statements ("interim consolidated financial statements") for the six months ended 30 June 2014, of Phaunos Timber Fund Limited (the "Company" or "Phaunos") have been prepared in accordance with International Accounting Standard ("IAS") 34: *Interim Financial Reporting*. The interim consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's Annual Report and Consolidated Financial Statements for the year ended 31 December 2013 ("2013 Annual Report"<sup>(2)</sup>), which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable Guernsey law.

(2) The 2013 Annual Report is available on the Company's website: <http://www.phaunostimber.com>

The interim consolidated financial statements are presented in US Dollars, being the currency of the primary economic environment in which the Company and entities controlled by the Company (its subsidiaries as listed in Note 23 of the 2013 Annual Report ("subsidiaries")) (the "Group") operate. There has been no change to the Company's subsidiaries during the period. The interim consolidated financial statements are rounded to the nearest thousand US Dollars (US\$'000) except where otherwise indicated.

The interim consolidated financial statements have not been audited or reviewed by the auditors in accordance with the Auditing Practices Board guidance on Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

#### (b) Going Concern

There is material uncertainty over the immediate liquidity requirements of the Company and its cash position. On 5 August 2014 the Company announced that it intends to seek an equity injection by a placing of approximately 5 per cent. of the Company's issued share capital (excluding treasury shares), within the next few weeks. Having held informal discussions with a number of shareholders, the Directors believe that the raising of funds by way of an

issue of equity will be successful and it is the opinion of the Directors that the Company will remain a going concern following a successful equity raise. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements of the Company. Further details are included in the Operations & Risk section regarding Cash Flow and Going Concern.

### (c) New and amended standards and interpretations

The same accounting policies, presentation and methods of computation are followed in the interim condensed consolidated financial statements as were followed in the preparation of the 2013 Annual Report, except for the adoption of new standards and interpretations effective as of 1 January 2014 as listed below:

- ~~IFRS~~ **IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements**

IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IAS 27 outlines the accounting and disclosure requirements for 'separate financial statements' prepared by the parent company. Based on the application of IFRS 10, the Group consolidates the financial results of its wholly-owned subsidiaries. Non-controlling interests, such as the Group's minority-owned investments have been recognised as a financial asset at fair value through profit or loss in accordance with IFRS 13 Fair Value Measurement. The application of IFRS 10 to the Group is consistent with prior years, therefore there is no effect on the consolidated financial statements of the Company this period.

- ~~IFRS~~ **IFRS 10 Consolidated Financial Statements exemption: Investment Entities**

IFRS 10 provides an exemption from consolidation of subsidiaries for entities that meet the definition of an 'investment entity' ('the investment entity exemption'). A detailed review was undertaken during 2013 given the potentially material impact the IFRS 10 exemption could have on the Company's annual reported results last year. This review concluded that the Company is not characterised as an investment entity under the amendment to IFRS 10. As a result there was no effect on the consolidated financial statements of the Company for the year ended 31 December 2013 and the 30 June 2014 interim results.

- ~~IFRS~~ **IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities**

IFRS 11 outlines the accounting by entities that jointly control an arrangement. An assessment of the application of IFRS 11 was undertaken during the period to identify if the Company has joint control of its minority-owned investments. This assessment concluded that the Company has significant influence in certain minority investments, which are being accounted for as an *associate* using the fair value method in accordance with IAS 28 Investments in

Associates and Joint Ventures. The effect of this classification has been incorporated throughout Note 2.

## 2. ASSETS & LIABILITIES MEASURED AT FAIR VALUE

### 2(a) Fair Value Hierarchy

Associates, financial assets designated at fair value through profit or loss ("financial assets"), biological assets and land recorded at fair value are analysed by using a fair value hierarchy that reflects the significance of inputs. The fair value hierarchy has the following levels:

- Level 1: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Level 3 inputs are unobservable inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The Group held the following assets at fair value, which are all categorised as Level 3 in accordance with the fair value hierarchy in IFRS 13:

	<b>30 June 2014</b>	<b>31 Dec 2013</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Associates	237,156	225,815
Financial assets	36,536	38,361
Biological assets	88,831	84,238
Land	68,021	65,033
Fair Value at end of period/year	430,544	413,447

Inputs for the determination of the fair values of associates and financial assets designated as Level 3 are derived by critical estimates and judgements explained in Note 2(a) of the 2013 Annual Report. The same applies for land and biological assets as described in Note 2(b) of the same report.

For assets that are recognised in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period. There were no transfers of associates or financial assets between Levels during the period. The table below reflects the movements in assets designated as Level 3 during the course of the period.

### 2(b) Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy

The following is a reconciliation of the beginning and ending balances for any recurring fair value measurements of assets and liabilities that utilise significant unobservable inputs (Level 3) at the reporting period and prior year-ends.

<b>At 30 June 2014</b>	<b>Associates</b>	<b>Financial</b>	<b>Biological</b>	<b>Land</b>	<b>Total</b>
	<b>US\$'000</b>	<b>assets</b>	<b>assets</b>	<b>US\$'000</b>	<b>US\$'000</b>
		<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>Opening fair value</b>	<b>225,815</b>	<b>38,361</b>	<b>84,238</b>	<b>65,033</b>	<b>413,447</b>
Total gains or losses for the period:					
Unrealised gain/(loss) included in:					
Profit or loss	3,951	(1,535)	(435)	-	1,981

Unrealised foreign exchange difference included in:					
Profit or loss	7,957	-	-	-	7,957
Other comprehensive income	-	-	4,550	2,988	7,538
Purchases, issues, sales and other movements:					
Purchases and other costs	-	-	1,785	-	1,785
Depletion and resin amortisation	-	-	(1,085)	-	(1,085)
Disposals*	-	-	(222)	-	(222)
Return of capital	(567)	(290)	-	-	(857)
<b>Closing fair value</b>	<b>237,156</b>	<b>36,536</b>	<b>88,831</b>	<b>68,021</b>	<b>430,544</b>

### \*Disposal of biological assets

During the period Green China sold one of their plantations in southern China for US\$0.9 million or RMB 5.8 million, which broke even.

At 31 Dec 2013	Associates US\$'000	Financial assets US\$'000	Biological assets US\$'000	Land US\$'000	Total US\$'000
<b>Opening fair value</b>	<b>254,770</b>	<b>37,932</b>	<b>102,759</b>	<b>71,322</b>	<b>466,783</b>
Total gains or losses for the period:					
Unrealised gain/(loss) included in:					
Profit or loss	(21,829)	609	(6,867)	(673)	(28,760)
Other comprehensive income	-	-	-	2,903	2,903
Unrealised foreign exchange difference included in:					
Profit or loss	(8,571)	-	-	-	(8,571)
Other comprehensive income	-	-	(10,766)	(7,934)	(18,700)
Purchases, issues, sales and other movements:					
Purchases and other costs	1,445	818	6,101	-	8,364
Depletion and resin amortisation	-	-	(6,497)	-	(6,497)
Disposals**	-	-	(492)	(863)	(1,355)
Return of capital	-	(998)	-	-	(998)
Reclassification from asset held for sale	-	-	-	278	278
<b>Closing fair value</b>	<b>225,815</b>	<b>38,361</b>	<b>84,238</b>	<b>65,033</b>	<b>413,447</b>

### \*\*Disposal of land and biological assets

During 2013 Pradera Roja sold the Tupambae II plantation in July for US\$1.1 million. The sale proceeds are split between and land US\$0.5 million and biological assets US\$0.6 million. This resulted in a total realised gain on disposal of biological assets of US\$39,564. There was no realised gain or loss on disposal of the land.

### 2(c) Reconciliation of cost to fair value

The following is an additional reconciliation from the total cost of each asset class to the closing fair values as reported in the table above at the reporting period and prior year-end:

<b>At 30 June 2014</b>	<b>Associates US\$'000</b>	<b>Financial assets US\$'000</b>	<b>Biological assets US\$'000</b>	<b>Land US\$'000</b>	<b>Total US\$'000</b>
<b>Cost:</b>					
Opening cost	220,292	44,821	108,531	69,030	442,674
Additions to cost	-	-	1,785	-	1,785
Depletion and resin amortisation	-	-	(1,085)	-	(1,085)
Disposals	-	-	(222)	-	(222)
Return of capital	(567)	(290)	-	-	(857)
Closing cost	219,725	44,531	109,009	69,030	442,295
<b>Unrealised revaluation gain/(loss) on assets:</b>					
Opening balance	(11,566)	(5,974)	(4)	8,864	(8,680)
Unrealised gain/(loss) for the period	3,951	(1,535)	(435)	-	1,981
Closing balance	(7,615)	(7,509)	(439)	8,864	(6,699)
<b>Impairment on revaluation:</b>					
Opening balance	-	-	-	(673)	(673)
Unrealised loss for the year	-	-	-	-	-
Closing balance	-	-	-	(673)	(673)
<b>Unrealised foreign exchange gain/(loss) on assets:</b>					
Opening balance	17,089	(486)	(24,289)	(12,188)	(19,874)
Unrealised gain for the period	7,957	-	4,550	2,988	15,495
Closing balance	25,046	(486)	(19,739)	(9,200)	(4,379)
<b>Closing fair value</b>	<b>237,156</b>	<b>36,536</b>	<b>88,831</b>	<b>68,021</b>	<b>430,544</b>

<b>At 31 Dec 2013</b>	<b>Associates US\$'000</b>	<b>Financial assets US\$'000</b>	<b>Biological assets US\$'000</b>	<b>Land US\$'000</b>	<b>Total US\$'000</b>
<b>Cost:</b>					
Opening cost	-	263,848	109,419	69,893	443,160
Reclassification of cumulative cost of an associate	218,847	(218,847)	-	-	-
Additions to cost	1,445	818	6,101	-	8,364
Depletion and resin amortisation	-	-	(6,497)	-	(6,497)
Disposals	-	-	(492)	(863)	(1,355)
Return of capital	-	(998)	-	-	(998)
Closing cost	220,292	44,821	108,531	69,030	442,674
<b>Unrealised revaluation gain/(loss) on assets:</b>					
Opening balance	-	3,680	6,863	5,961	16,504
Reclassify prior year unrealised revaluation loss of an associate	10,263	(10,263)	-	-	-
Unrealised gain/(loss) for the year	(21,829)	609	(6,867)	2,903	(25,184)
Closing balance	(11,566)	(5,974)	(4)	8,864	(8,680)
<b>Impairment on revaluation:</b>					
Opening balance	-	-	-	-	-
Unrealised loss for the year	-	-	-	(673)	(673)
Closing balance	-	-	-	(673)	(673)
<b>Unrealised foreign exchange</b>					



<b>gain/(loss) on assets:</b>					
Opening balance	-	25,174	(13,523)	(4,254)	7,397
Reclassify prior year unrealised foreign exchange gain of an associate	25,660	(25,660)	-	-	-
Unrealised loss for the year	(8,571)	-	(10,766)	(7,934)	(27,271)
Closing balance	17,089	(486)	(24,289)	(12,188)	(19,874)
<b>Closing fair value</b>	<b>225,815</b>	<b>38,361</b>	<b>84,238</b>	<b>65,033</b>	<b>413,447</b>

## 2(d) Valuation process

Land and biological assets held by operating subsidiaries are carried at fair value at 31 December and 30 June. The value of both land and biological assets at 31 December is determined by independent external appraisers using valuation methods as described in Note 2(b) of the 2013 Annual Report (the "annual appraisal"). The valuation method described details three approaches commonly used including the "income approach", the "cost approach" and the "market approach" or "sales comparison" approach. Often the defined value is a blend of values derived from each methodology depending upon the type of asset and the available information.

Each methodology has a number of key inputs. The "income approach" for example takes into account, the productive area, current log prices, forecast log prices, current costs, forecast costs, market constraints, harvesting constraints, growth rates and standing timber volumes as derived from detailed timber inventories. While growth can be used as a measure for the change in value at 30 June it is but one of a number of key inputs into one of the three methodologies often used to define value. Indeed growth increases can often be offset by changes in log prices, let alone changes to discount rates or operational costs.

Due to the number of detailed inputs used within biological valuations many managers prefer to rely upon annual valuations rather than make adjustments for individual valuation inputs that may or may not be representative of a change in value. For these reasons the Manager has recommended to the Board not to adopt the previous practice used for Phaunos' Interim Reports of adjusting the 31 December for growth (alone), but rather, to rely upon the more detailed annual valuation determined at 31 December as a more appropriate representation of fair value.

In respect of the annual appraisal, typically, valuations are performed annually by the same appraiser over a three year period. The first valuation is based on a full appraisal which requires a property visit and inspection. It is Company policy that the appraiser inspects the asset with the property manager, and in the case of timberland, the appraiser is required to visit multiple tracts on the property. In the two subsequent years, the same appraiser performs an update appraisal which replicates the full appraisal process, but without a property inspection. For the next three year cycle, Phaunos will look to rotate to a new appraisal company. While rotation is not obligatory, any variation from this policy will require approval by the Valuation Committee of the Board (see below).

Annual appraisals are undertaken by third-party firms with significant experience in the appraisal of timberland and timber-related assets. The Company requires its appraisers to meet certain key criteria including matters such as qualifications, experience in the asset class and membership of an appraisal industry organization. The Company requires its appraisals to meet the Uniform Standards of Professional Appraisal Practice ("USPAP") of the Appraisal Institute or similar standards established by equivalent institutions. Major departures from USPAP (or similar standards) are agreed to and approved by the Valuation Committee of the Board.

The Company works with local property managers to develop and implement approved timber inventory systems on a property specific basis. This inventory data may be relied upon by the appraiser and not verified. However the Company's management team independently tracks inventory and property area using an internal forestry management information system to verify data quality.

Independent external appraisals are also arranged each year by the underlying investment manager for the Company's financial assets and associates (except for Green Resources, see Note 2(a) and Note 3(e) of the 2013 Annual Report), except for the first year after acquisition, when they are initially carried at acquisition cost providing there are no indicators of material value change.

The Valuation Committee comprises all four Directors of the Company. The purpose of the Committee is to review the valuation policies and procedures of the Company. In addition, the manager of valuations within the Company briefs the Valuation Committee on material changes to valuations and the valuation methodology used for the reporting period. The Committee also meets appraisers engaged by the Company to discuss their findings. The Committee has been assisted by an independent timberland appraisal consultant reporting directly to the Committee. Phaunos' management separately reviews and approves all independent external valuations arranged by Phaunos as well as those arranged by the underlying investment manager for certain associates and financial assets as mentioned above. Subsequent to the preparation of the Interim Report, and in order to reflect the close connection of the valuations and preparation of the consolidated financial statements, the role and responsibilities of the Valuation Committee will be included in the Terms of Reference of the Audit Committee.

### 2(e) Significant unobservable inputs (Level 3)

IFRS 13 requires quantitative information be provided about significant unobservable inputs used in the fair value measurement for each class of Level 3 asset and liabilities. The following summarises the valuation methods and information about fair value measurements and related significant unobservable inputs (Level 3), where if changed, could significantly increase or decrease the valuation of an asset (e.g. NAV per share, timber prices, discount rates). Given there is no discount or premium to the NAV per share used to measure associates or financial assets, there are no ranges applicable for these assets. All discount rates shown in the table are real rates as opposed to nominal rates. All timber and land price ranges are those used by the appraiser in determining the biological assets and land valuations at 31 December 2013.

Assets at 30 June 2014	Fair Value US\$'000	Valuation method	Valuation source at 30 June 2014	Significant Unobservable inputs	Range
<b>Associates</b>					
Matariki	156,742	NAV at Fair Value	Underlying Manager of Matariki	NAV	N/A
Green Resources	49,143	Income method: Discounted cash flow	Company DCF reviewed by independent consulting firm for 31 Dec 2013	Discount rate	11.8%
Aurora Forestal	31,271	Adjusted NAV at Fair Value	Independent Appraisal @ 31 Dec 2013	NAV	N/A
	<b>237,156</b>				
<b>Financial assets</b>					
GreenWood Tree Farm	34,833	NAV at Fair Value	Underlying Manager of GTFP	NAV	N/A
NTP	1,703	NAV at Fair Value	Underlying Manager of NTP	NAV	N/A
	<b>36,536</b>				
<b>Biological assets</b>					
Mata Mineira	42,411	Income Capitalisation	Independent Appraisal @ 31 Dec 2013	Timber prices per m <sup>3</sup>	Eucalyptus R\$44-54

Assets at 30 June 2014	Fair Value US\$'000	Valuation method	Valuation source at 30 June 2014	Significant Unobservable inputs	Range
			Adjusted costs to 30 June 2014	Discount rate	9.0%
Eucateca	31,127	Cost and Income Capitalisation	Independent Appraisal @ 31 Dec 2013 Adjusted costs to 30 June 2014	Timber prices per m <sup>3</sup>	Eucalyptus R\$41-51 Teak R\$430-R\$525
				Discount rate	10.8%
Pradera Roja	6,843	Cost, Income Capitalisation and Market	Independent Appraisal @ 31 Dec 2013 Adjusted costs to 30 June 2014	Timber prices per m <sup>3</sup>	Eucalyptus US\$17-\$21
				Discount rate	9.3%
Green China	8,450	Income Capitalisation	Independent Appraisal @ 31 Dec 2013 Adjusted costs to 30 June 2014	Timber prices per m <sup>3</sup>	Pine RMB 135-165
				Discount rate	13.0%
	<b>88,831</b>				
<b>Land</b>					
Mata Mineira	20,717	Income Capitalisation	Independent Appraisal @ 31 Dec 2013 Adjusted costs to 30 June 2014	Land prices per hectare	R\$2,160-R\$2,640
				Discount rate	9.0%
Eucateca	25,447	Cost and Income Capitalisation	Independent Appraisal @ 31 Dec 2013 Adjusted costs to 30 June 2014	Land prices per hectare	R\$3,080-R\$3,770
				Discount rate	10.8%
Pradera Roja	21,857	Cost, Income Capitalisation and Market	Independent Appraisal @ 31 Dec 2013 Adjusted costs to 30 June 2014	Land prices per hectare	US\$2,115-US\$2,585
				Discount rate	9.3%
	<b>68,021</b>				

Assets at 31 Dec 2013	Fair Value US\$'000	Valuation method	Valuation source at 31 Dec 2013	Significant Unobservable inputs	Range
<b>Associates</b>					
Matariki	144,830	NAV at Fair Value	Underlying Manager of Matariki	NAV	N/A
Green Resources	49,714	Income method: Discounted cash flow	Company DCF reviewed by independent consulting firm	Discount rate	11.8%
Aurora Forestal	31,271	Adjusted NAV at Fair Value	Independent Appraisal	NAV	N/A
	<b>225,815</b>				
<b>Financial assets</b>					
GreenWood Tree Farm	36,225	NAV at Fair Value	Underlying Manager of GTFF	NAV	N/A
NTP	2,136	NAV at Fair Value	Underlying Manager of NTP	NAV	N/A
	<b>38,361</b>				
<b>Biological assets</b>					

Assets at 31 Dec 2013	Fair Value US\$'000	Valuation method	Valuation source at 31 Dec 2013	Significant Unobservable inputs	Range
Mata Mineira	39,666	Income Capitalisation	Independent Appraisal	Timber prices per m <sup>3</sup>	Eucalyptus R\$44-54
				Discount rate	9.0%
Eucateca	29,112	Cost and Income Capitalisation	Independent Appraisal	Timber prices per m <sup>3</sup>	Eucalyptus R\$41-51 Teak R\$430-R\$525
				Discount rate	10.8%
Pradera Roja	6,857	Cost, Income Capitalisation and Market	Independent Appraisal	Timber prices per m <sup>3</sup>	Eucalyptus US\$17-\$21
				Discount rate	9.3%
Green China	8,603	Income Capitalisation	Independent Appraisal	Timber prices per m <sup>3</sup>	Pine RMB 135-165
				Discount rate	13.0%
	<b>84,238</b>				
<b>Land</b>					
Mata Mineira	19,376	Income Capitalisation	Independent Appraisal	Land prices per hectare	R\$2,160-R\$2,640
				Discount rate	9.0%
Eucateca	23,800	Cost and Income Capitalisation	Independent Appraisal	Land prices per hectare	R\$3,080-R\$3,770
				Discount rate	10.8%
Pradera Roja	21,857	Cost, Income Capitalisation and Market	Independent appraisal	Land prices per hectare	US\$2,115-US\$2,585
				Discount rate	9.3%
	<b>65,033</b>				

## 2(f) Sensitivity analysis

### Associates and financial assets

The sensitivity rate for associates and financial assets at fair value through profit or loss is 9.6% (31 Dec 2013: 8.2%) being the weighted average of the rate for each financial investment. This rate was applied to the total fair value of all financial assets and associates. Each associate and financial asset was given a sensitivity rate for the sensitivity analysis based on internal and third party opinions that relate to the relative volatility of the each investment. By considering each investment's particulars and its weight to the portfolio, the Group arrives at a result that better represents the Portfolio's sensitivity to volatility.

### Land and biological assets

The sensitivity dollar values listed for biological assets and land held by wholly-owned subsidiaries, are derived by flexing key inputs in the discounted cash flow ("DCF") models that were created as part of the third party valuation process. As part of the valuation process, key inputs are tested to ascertain how sensitive the value is to changes in input assumptions. The extent to which each assumption is tested or "flexed" is based on third party and internal analysis that best reflects the volatility of the assumptions for a given investment.

In addition, due to the long-lived nature of timber investments, the biological assets and the land are usually modelled as one entity, typically, with the biological asset representing the current rotation of trees (i.e. current crop) and the land representing the value of the next rotations cash flows. Taking this into consideration, the Group has assumed that the change produced from the sensitivity analysis for the DCF can be allocated to land or biological assets based on their respective contributions to the DCF.

The following table details the sensitivity of the fair values of the financial assets, biological assets and land to the significant unobservable input related to each asset as described above.

Significant Unobservable Input	30 June 2014			31 December 2013		
	Sensitivity rate	Increase in NAV	Decrease in NAV	Sensitivity rate	Increase in NAV	Decrease in NAV
		US\$'000	US\$'000		US\$'000	US\$'000
<b>Associates and Financial assets at fair value through profit or loss</b>						
Net Asset Value	9.6%	21,989	(21,989)	8.2%	21,662	(21,662)
		21,989	(21,989)		21,662	(21,662)
<b>Biological assets</b>						
Discount rate	100 bps	10,510	(8,573)	100 bps	10,510	(8,573)
Timber prices	10.0%	11,969	(11,969)	10.0%	11,969	(11,969)
		22,479	(20,542)		22,479	(20,542)
<b>Land</b>						
Discount rate	100 bps	5,478	(4,487)	100 bps	5,478	(4,487)
Timber prices	10.0%	5,911	(5,911)	10.0%	5,911	(5,911)
		11,389	(10,398)		11,389	(10,398)

### 3. INCOME

	30 June 2014 Unaudited US\$'000	30 June 2013 Unaudited US\$'000
Realised loss on disposal of assets	(1)	(422)
Income from sales and services	1,490	5,405
Investment income	1,343	173
Sundry income	602	34
	<u>3,434</u>	<u>5,190</u>

### 4. EXPENSES

	30 June 2014 Unaudited US\$'000	30 June 2013 Unaudited US\$'000
<b>a) Cost of sales &amp; timber operating costs</b>		
Cost of sales	58	20
Direct timber costs	204	222
Other timber costs	2,471	2,848
	<u>2,733</u>	<u>3,090</u>
<b>b) Investment operating expenses</b>		
Investment Manager's fees	-	3,433
Employee compensation and benefits	1,247	-
Other investment operating expenses	1,706	1,802
	<u>2,953</u>	<u>5,235</u>
	<u>5,686</u>	<u>8,325</u>

The Investment Management Agreement with the previous manager, FourWinds Capital Management, terminated on 1 December 2013. Other investment operating expenses in 2014, include an amount of US\$370,000, which in the previous period were covered by the Investment Manager's fees.

Consistent with IFRS, operating expenses associated with wholly-owned subsidiaries are included in Note 5, along with expenses associated with holding Company activities. Holding Company expenses total US\$3.0 million, or 1.34% annualised (30 June 2013: 2.24% annualised) of assets under management.

	<b>30 June 2014</b> <b>Unaudited</b> <b>US\$'000</b>	<b>30 June 2013</b> <b>Unaudited</b> <b>US\$'000</b>
<b>c) Non-recurring items</b>		
Investment Manager termination and restructure costs	163	-
Other impairments	-	48
	<u>163</u>	<u>48</u>

## 5. RELATED PARTIES

During the current period no costs were incurred by the Company with respect to related parties as the Investment Management Agreement with FourWinds Capital Management (the former "Investment Manager") terminated on 1 December 2013. However, the following related party costs were incurred by the Company with the former Investment Manager in respect of the prior period ending 30 June 2013:

- (a) Management fees which were prepaid on a quarterly basis. The management fee expense in respect of the prior period was US\$3.4 million, with fees due to the Company totalling US\$2.1 million.
- (b) Legal services provided by the former Investment Manager, which the Board considered more appropriately be provided by the Investment Manager than external lawyers (but which fell outside the scope of its investment manager services under the Investment Management Agreement). The legal costs incurred in respect of the prior period were US\$9,000, with costs payable by the Company of US\$5,000.
- (c) Accounting services in respect of financial reporting and consolidation work for the Company, which also fell outside the scope of services under the Investment Management Agreement. The accounting costs incurred in respect of the prior period were US\$43,000, with costs payable by the Company of US\$6,000.

## 6. CAPITAL COMMITMENTS

At the period end, the Group has outstanding contractual commitments of up to US\$1.2 million (31 Dec 2013: US\$1.2 million) in relation to outstanding working capital commitments for GTFF.

## 7. EVENTS AFTER THE BALANCE SHEET DATE

- ~~€€€€~~ The Company cancelled its secondary listing from the Channel Islands Securities Exchange on 31 July 2014.
- ~~€€€€~~ The Directors issued a Share Placing Circular for the Company on 22 August 2014, which is subject to final approval by shareholders at an Extraordinary General Meeting on 15 September 2014.
- ~~€€€€~~ On 1 July 2014 the Company entered into a management agreement with Stafford Timberland. The principle terms of which include an annual management fee of 0.35% of the average share price during the period

and an incentive issue of warrants for 10 million shares to be issued each year for the next three years. Further details are included in the Placing Circular issued to shareholders on 22 August 2014 and are subject to approval by shareholders at an Extraordinary General Meeting on 15 September 2014.

## Other Information

### Shareholder Information

The Ordinary Shares are traded on the Main Market of the LSE. The Ordinary Shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. The buying and selling of Ordinary Shares may be settled through CREST.

The ISIN, SEDOL and the LSE mnemonic of the Ordinary Shares are:

ISIN  
GG00B1G3RS66

SEDOL  
B1G3RS6

LSE mnemonic  
PTF

### Shareholder Enquiries

The Company's CREST compliant registrar is, as at the date of publication of these financial statements, Capita Registrars (Guernsey) Limited, who maintains the Company's registers of shareholders. They may be contacted by telephone on +44 (0)1534 847 445.

For information about investing in the Company contact [info@phaunostimber.com](mailto:info@phaunostimber.com)

## Directors and Service Providers

---

### Registered Office

11 New Street  
St Peter Port  
Guernsey  
GY1 2PF

### Portfolio Manager

Stafford Timberland Limited  
4<sup>th</sup> Floor, 24 Old Bond Street  
London  
W1S 4AW  
England

---

### Directors

Sir Henry Studholme Bt  
Ian Burns  
Martin Ricketts  
William Vanderfelt  
Richard Hills (resigned 15 May 2014)

### Auditors

Ernst & Young LLP  
PO Box 9  
Royal Chambers  
St Julian's Avenue  
St Peter Port  
Guernsey  
GY1 4AF

---

### Administrator, Company Secretary

Legis Fund Services Limited  
11 New Street  
St Peter Port

### Depository

Legis Depository Services Limited  
11 New Street  
St Peter Port

---

Guernsey  
GY1 2PF

---

**Registrar**

Capita Registrars (Guernsey) Ltd  
Longue Hougue House  
St Sampson  
Guernsey  
GY2 4JN

Guernsey  
GY1 2PF

---

**UK Transfer Agent**

Capita Registrars Ltd  
The Registry  
34 Beckenham Road  
Beckenham  
Kent, England  
BR3 4TU

---

**Joint Corporate Broker**

Winterflood Investment Trusts  
The Atrium Building  
Cannon Bridge House  
25 Dowgate Hill  
London  
EC4R 2GA  
England

---

**Joint Corporate Broker**

VSA Capital Limited  
New Liverpool House  
15-17 Eldon Street  
London  
EC2M 7LD  
England

---

**Advocates to the Company  
(as to Guernsey Law)**

Mourant Ozannes  
PO Box 186  
1 Le Marchant Street  
St Peter Port  
Guernsey  
GY1 4HP

**Solicitors to the Company  
(as to English Law)**

Herbert Smith LLP  
Exchange House  
Primrose Street  
London  
EC2A 2HS  
England

---



## Appendix A: Movement in NAV

For the six months ended 30 June 2014

The total audited NAV of the Company at 30 June 2014 was US\$433.2 million (31 Dec 2013: US\$419.0 million). This equates to a NAV per Ordinary Share of US\$0.81 (31 Dec 2013: US\$0.78). The main drivers in the movement in the Company's NAV for the six months ended 30 June 2014 and comparative periods were as follows(3):

Category	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
	US\$ million	US\$ million
<b>Opening NAV (audited)</b>	<b>419.0</b>	<b>488.4</b>
<b>Opening NAV per Ordinary Share</b>	<b>0.78</b>	<b>0.91</b>
Movement in NAV:		
<b>Unrealised gain/(loss) on revaluation of assets</b>		
Revaluation of associates (excluding foreign currency movements)	3.9	1.8
Revaluation of financial assets (excluding foreign currency movements)	(1.5)	(0.8)
Revaluation of land and biological assets (wholly-owned subsidiaries)	(0.4)	3.7
Impairment of land revaluation (wholly-owned subsidiaries)	-	-
	2.0	4.7
<b>Realised loss on assets</b>		
Realised loss on disposal of assets	-	(0.4)
<b>Operating income/(expenses)</b>		
Revenue from timber operations	1.5	5.4
Other operating income	1.9	0.2
	3.4	5.6
Depletion	(1.0)	(4.1)
Cost of sales and timber costs	(2.7)	(3.1)
Investment operating expenses	(3.0)	(5.1)
	(6.7)	(12.3)
	(3.3)	(6.7)
<b>Other income/(expenses)</b>		
Non-recurring items	0.2	(0.1)
Taxation	(0.1)	(0.1)
	0.1	(0.2)
<b>Net loss excluding foreign exchange gains/(losses)</b>	<b>(1.2)</b>	<b>(2.6)</b>
Unrealised and realised foreign exchange (see summary below)	15.4	(27.7)
Dividends paid	-	-
Net expenses relating to assets/liabilities held for sale	-	-
<b>Total Movement in NAV</b>	<b>14.2</b>	<b>(30.3)</b>
<b>Closing NAV (unaudited)</b>	<b>433.2</b>	<b>458.1</b>
<b>Closing NAV per Ordinary Share</b>	<b>0.81</b>	<b>0.85</b>
<b>Summary of foreign exchange:</b>		
Gain/(loss) within net gains/(losses) on associates (unrealised)	8.0	(16.6)
Gain/(loss) on translation of wholly-owned subsidiaries net assets (unrealised)	7.4	(11.1)
<b>Total foreign exchange</b>	<b>15.4</b>	<b>(27.7)</b>

- (3) Please refer to Appendix B: Financial Summary at 30 June 2014 for a comprehensive analysis of the movement in NAV for the current period relevant to each investment and operating subsidiary.

Please refer to the Explanatory Notes for the Condensed Statement of Comprehensive Income relating to the movement in NAV.

## Appendix B: Financial Summary

For the six months ended 30 June 2014

The following table presents a summary of the movement in NAV during the period:

	Associates				Financial Assets		Operating Subsidiaries				Consolidated Total US\$'000
	Phaunos Timber(4) US\$'000	Matariki US\$'000	Green Resources US\$'000	Aurora Forestal US\$'000	GTFF US\$'000	NTP US\$'000	Mata Mineira US\$'000	Eucateca US\$'000	Pradera Roja US\$'000	Green China US\$'000	
<b>Opening NAV at 31 Dec 2013 (audited)</b>	<b>4,049</b>	<b>144,830</b>	<b>49,714</b>	<b>31,271</b>	<b>36,225</b>	<b>2,136</b>	<b>58,793</b>	<b>51,828</b>	<b>29,321</b>	<b>10,828</b>	<b>418,995</b>
<b>Capital inflow/(outflow)</b>											
Investment in portfolio	(1,148)	-	-	-	-	-	8	1,055	85	-	-
Return of funds from portfolio	2,057	(567)	-	-	-	(290)	-	-	-	(1,200)	-
Inter-company dividends received/(paid)	-	-	-	-	-	-	-	-	-	-	-
	909	(567)	-	-	-	(290)	8	1,055	85	(1,200)	-
<b>Unrealised gains/(losses)</b>											
Revaluation of associates - valuation	-	3,951	-	-	-	-	-	-	-	-	3,951
Revaluation of associates - FX	-	8,528	(571)	-	-	-	-	-	-	-	7,957
Revaluation of financial assets - valuation	-	-	-	-	(1,392)	(143)	-	-	-	-	(1,535)
Foreign Exchange translation differences	(38)	-	-	-	-	-	4,068	3,581	-	(226)	7,385
Revaluation of biological assets	-	-	-	-	-	-	113	(536)	(242)	230	(435)
Revaluation of land	-	-	-	-	-	-	-	-	-	-	-
Impairments on land revaluation	-	-	-	-	-	-	-	-	-	-	-
Non-recurring items	163	-	-	-	-	-	-	-	-	-	163
	125	12,479	(571)	-	(1,392)	(143)	4,181	3,045	(242)	4	17,486
<b>Realised gains/(losses)</b>											
Realised gain/(loss) on disposal of assets	-	-	-	-	-	-	-	-	-	(1)	(1)
Revenue from timber operations	-	-	-	-	-	-	1,205	-	-	285	1,490
Other operating income	1,313	-	-	-	-	-	23	16	14	579	1,945
Operating expenses	(3,053)	-	-	-	-	-	(528)	(765)	(148)	(1,192)	(5,686)
Depletion(5)	-	-	-	-	-	-	(826)	-	-	(122)	(948)
Realised Foreign Exchange	111	-	-	-	-	-	-	-	(19)	(48)	44
Taxation	-	-	-	-	-	-	(81)	-	-	-	(81)
	(1,629)	-	-	-	-	-	(207)	(749)	(153)	(499)	(3,237)
<b>Closing NAV at 30 June 2014 (unaudited)</b>	<b>3,454</b>	<b>156,742</b>	<b>49,143</b>	<b>31,271</b>	<b>34,833</b>	<b>1,703</b>	<b>62,775</b>	<b>55,179</b>	<b>29,011</b>	<b>9,133</b>	<b>433,244</b>
<b>% of NAV at 30 June 2014 (unaudited)</b>	<b>0.8</b>	<b>36.2</b>	<b>11.3</b>	<b>7.2</b>	<b>8.0</b>	<b>0.4</b>	<b>14.5</b>	<b>12.8</b>	<b>6.7</b>	<b>2.1</b>	<b>100.00</b>

(4) Includes the financial results for Phaunos Boston

(5) Depletion represents the cost value of timber harvested, thereby it is removed from the carried cost of biological assets

This information is provided by RNS  
The company news service from the London Stock Exchange

END

IR PGUGCRUPCGQG