# PHAUNOS TIMBER FUND LIMITED

## INTERIM FINANCIAL REPORT

**For the six months ended 30 June 2012 (Unaudited)**

# CONTENTS



Front cover: Eucalyptus seedling, Mata Mineira, Brazil.

Loblolly logs, Aurora Forestal, Uruguay.

# GLOSSARY OF TERMS

**Portfolio investments**

| | |
|---|---|
| Aurora Forestal | Aurora Forestal Limited |
| Caldrey | Caldrey SA |
| Eucateca | Eucateca SA |
| Forest Enterprises | Forest Enterprises doo |
| 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 |

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# INTERIM MANAGEMENT REPORT

Phaunos Timber Fund Limited ("Phaunos" or the "Company") is pleased to present its Interim Financial Report ("interim financial report") for the six months to 30 June 2012 (the "period"). The Company is an Authorised Closed-ended, Guernsey based, investment scheme managed by FourWinds Capital Management (the "Investment Manager") established to invest in timber and timber related assets on a global basis.

## KEY ISSUES AND FINANCIAL RESULTS

| | 30 June 2012 (unaudited) | 31 Dec 2011 (audited) | 30 June 2011 (unaudited) |
|---|---|---|---|
| Net Asset Value ("NAV") | US$519.5 million | US$558.8 million | US$621.6 million |
| NAV per Ordinary Share | US$0.97 | US$1.04 | US$1.16 |
| Profit/(Loss) for the period/year | US$(16.0) million | US$(9.6) million | US$27.7 million |
| Earnings/(Loss) per Ordinary Share | (2.97) cents | (1.78) cents | 5.15 cents |

The Company paid a dividend for the twelve months ended 31 December 2011 of US$0.025 per Ordinary Share (31 December 2010: US$0.02 per Ordinary Share) on 27 July 2012. The dividend was approved by the shareholders of the Company on 21 June 2012; therefore a total dividend of US$13.4 million was accrued at 30 June 2012.

With difficult economic conditions worldwide, timber markets have inevitably been affected. Growth in China has slowed and wood prices are down, with increased competition. The US housing construction sector, which creates ripples through so many tributary markets, seems to have bottomed out and is forecast to improve, but is still operating at very low levels. Economic problems in Europe are dragging all markets down; imports from China are lower, which in turn puts downward pressure on China's domestic markets. This also puts downward pressure on exports of radiata pine from our New Zealand plantations. When pig iron production lags in the US and China, less eucalyptus for charcoal is required from our Minas Gerais plantations and both volumes and prices are depressed.

The consolidated financial statements of the Company reflect unrealised foreign exchange losses of US$8.1 million, which were mainly due to the strengthening of the US Dollar against the Brazilian Real. This continued the foreign exchange trend of the prior year as US$59.0 million of the total decline in NAV of the Company, US$102.1 million since 30 June 2011, relates to unrealised foreign exchange losses.

Net cash outflow from operating activities reduced by US$14.6 million from US$15.6 million for the prior period ended 30 June 2011, to US$1.0 million for the current period. Cash inflows from timber operations increased, while cash outflows from timber operating expenses were reduced considerably.

Loblolly pine, Aurora Forestal, Uruguay.

## FUTURE OUTLOOK

Forestry investments are long term investments. As world markets calm and return to more historic norms the Company's broadly diversified portfolio providing multi-market exposure should be well positioned to benefit from world growth, including a recovery in the US housing market. Appraisers use current prices and volumes as indicators of future market conditions and weak market conditions put downward pressure on appraisals and the current value of our investments. However, longer term trends in land values and timber prices can be expected to reassert themselves.

The Investment Manager is working to increase efficiency across the portfolio. In light of changing markets conditions worldwide, the portfolio is being positioned to strengthen cash flow. The Investment Manager continues to work to develop alternative markets for the operations wherever possible. Selective disposals are being pursued to make the operational footprint more cost efficient and to realise the values that have been created. An example of this is the Company's original strategy of creating new forests through greenfield plantations to sell to other institutional investors. Pradera Roja sold the former greenfield Don Chico plantation during July 2012 for a premium to book value of about 40%.

The Company's Ordinary Shares continue to trade at a substantial discount to the NAV. The Board of Directors is focused on exploring practical solutions to reduce the discount and attract new investors.

## FINANCIAL RESULTS FOR THE PERIOD

The total unaudited NAV of the Company at 30 June 2012 was US$519.5 million (31 December 2011: audited NAV of US$558.8 million). This equates to a NAV of US$0.97 per Ordinary Share (31 December 2011: audited NAV of US$1.04 per Ordinary Share).

The NAV of the Company decreased by US$39.3 million or US$0.073 per Ordinary Share due to the following:

| Category | US$'000 |
|---|---|
| Revaluation of financial assets (excluding foreign currency movements, unrealised) | (9,204) |
| Revaluation of land (wholly-owned subsidiaries, unrealised) | 1,485 |
| Revaluation of biological assets (wholly-owned subsidiaries, unrealised) | (1,032) |
| Unrealised and realised foreign exchange | (8,449) |
| Impairment of assets held for sale (Forest Enterprises) | (1,188) |
| Operating income | 6,672 |
| Operating expenses | (10,903) |
| Other expenses | (3,252) |
| Dividends paid | (13,429) |
| **Total NAV Movement** | **(39,300)** |

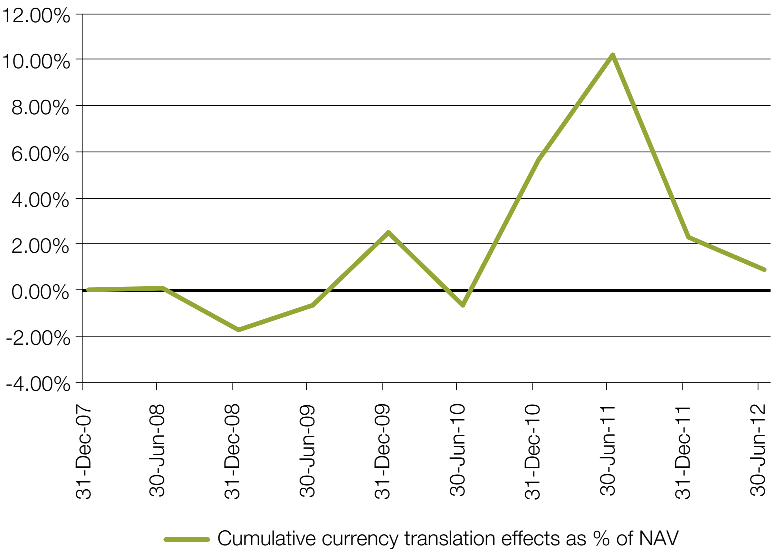
Please refer to Appendix A: Financial Results at 30 June 2012 for a comprehensive analysis of the movement in NAV for the period relevant to each subsidiary.

- Net unrealised losses of US$9.2 million (excluding foreign exchange) for the revaluation of financial assets attributable to Matariki, Green Resources and NTP.
- Net unrealised gains of US$1.5 million for the revaluation of land for wholly-owned subsidiaries, due primarily to appreciating land values at Pradera Roja, and modest gains in land values at Eucateca.
- Net unrealised losses of US$1.0 million for the revaluation of biological assets for wholly-owned subsidiaries, which primarily includes a gain at Eucateca offset by a loss at Mata Mineira.
- Net foreign exchange losses of US$8.4 million, which include total unrealised losses of US$8.1 million due to the US dollar strengthening further against most currencies since the 2011 year-end, particularly the Brazilian Real.
- Revenue from timber operations and other investment income of US$6.7 million for the period, including distributions of US$1.9 million from Matariki and US$395,000 from NTP, as well as revenues from the wholly owned operations.
- Operating expenses of US$10.9 million consisting of both cost of sales/timber operating costs and fund-level expenses. Direct cost of sales and other timber costs incurred by the operating subsidiaries totalled US$5.9 million. Fund-level expenses of US$5.0 million include the Investment Manager's fee of US$3.9 million.
- The Company paid its annual dividend for the twelve months ended 31 December 2011 of US$0.025 gross per ordinary share of the Company ("Ordinary Share") on 27 July 2012. The dividend was approved by shareholders prior to 30 June 2012, therefore a total dividend of US$13.4 million has been accrued at 30 June 2012 in respect of that post period-end payment.

## FOREIGN CURRENCY TRANSLATION EFFECTS

Given the global diversification of the portfolio, unrealised[1] 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 cumulative impact to Phaunos' NAV, from inception to 30 June 2012, was a cumulative gain of US$4.7 million or 0.9% of the total NAV at that date as shown in the following table:

| Reporting Date | Cumulative currency translation effects[2] | Net Asset Value | % of NAV |
|---|---|---|---|
| | US$'000 | US$'000 | |
| 30 June 2012 | 4,652 | 519,478 | 0.9% |
| 31 December 2011 | 12,790 | 558,778 | 2.3% |
| 30 June 2011 | 63,579 | 621,591 | 10.2% |
| 31 December 2010 | 33,527 | 594,923 | 5.6% |
| 30 June 2010 | (3,924) | 560,473 | (0.7%) |
| 31 December 2009 | 14,262 | 575,038 | 2.5% |
| 30 June 2009 | (3,301) | 491,100 | (0.7%) |
| 31 December 2008 | (8,467) | 494,995 | (1.7%) |
| 30 June 2008 | 359 | 479,233 | 0.17% |
| 31 December 2007 | 93 | 478,600 | 0.0% |




[1] Cumulative realised currency losses of US$3.0 million have been excluded from the analysis above.

[2] The "currency translation effects" are comprised of:

a) "Foreign exchange translation differences" for wholly-owned subsidiaries. This is reported as "Exchange differences on translation of subsidiaries' net assets" in the Consolidated Statement of Comprehensive Income.

b) "Unrealised foreign exchange movement on financial assets" for financial assets jointly owned with other investors. This is reported within "Net gain on financial assets designated at fair value through profit or loss" in the Consolidated Statement of Comprehensive Income.

## PORTFOLIO SUMMARY

The Investment Manager, FourWinds Capital Management, provides the following update on activity in the portfolio during the six months ended 30 June 2012.

**Timber Markets**

China imported 15% fewer logs during the first six months of 2012 compared with 2011. Pricing for both domestic and imported softwood logs (e.g. radiata pine from Matariki and pine and Chinese fir from Green China Forestry) were down 10% and 14% respectively[3]. New Zealand wood exporters face increasing competition from North American suppliers to China[4]. Weakening world pulp markets have resulted in lower pulpwood prices in Brazil, but prices have held steady or increased slightly in New Zealand (source: Wood Resources International). Post-30 June economic reports suggest that the first half of 2012 was China's low water mark for wood markets[5].

Current prices and lower volumes are used by appraisers as indicators of future market conditions. The current weak market conditions put downward pressure on appraisals, as evidenced in some of the Company's projects. Where these losses are unrealised, they may over the life of these long term investments, be expected to reverse as longer term trends in land values and timber prices reassert themselves.

Timber market growth is beginning to shift back from China to the Western Hemisphere as China's economic growth rate is slowing from over 10% per annum to a projected 7-8% per annum. Timber consumption will remain high, but is not expected to increase as quickly as it did over the last decade. This is offset to some extent by increasing demand in the US and Brazil. New housing construction, especially of multi-family/apartment units, in the US is increasing (though it is still only at half the long-term average rate) and Brazil is experiencing the beginning of a construction boom as it is preparing to host the World Cup (2014) and the Summer Olympic Games (2016).

**Matariki Forestry Group:** The Company owns a significant minority position in Matariki. The value of the Company's investment in Matariki was up 0.8% or US$1.1 million at 30 June 2012 from the 2011 year-end, including the effect of foreign currency movements. This excludes income distributions of US$1.9 million received by Phaunos from Matariki during the period. While the New Zealand Dollar strengthened against the US Dollar (which had a positive effect on NAV) and harvest volumes were strong, pricing was under pressure in both domestic and export markets. The carbon credit market is depressed, and is forecast to remain so. These operational drivers put downward pressure on appraisals as well. Matariki is now 100% certified to the Principles and Criteria of the Forest Stewardship Council (FSC).

**Mata Mineira Investimentos Florestais Ltda:** The Company owns 100% of Mata Mineira. The value of Mata Mineira was down 13.5% or US$13.4 million at 30 June 2012 from the 2011 year-end, including the effect of foreign currency movements. The Brazilian Real weakened against the US Dollar (which had a negative impact on NAV), and appraisals were negatively impacted by weak timber pricing and lower than expected volumes. These were the result, in part, of reduced pig iron exports to China and the US and the consequential reduction in demand and prices for the charcoal produced from Mata Mineira's wood. However, harvesting operations are on-going for the properties, and although volumes harvested are lower than forecast, they are generating cash flow in excess of operating expenses. Mata Mineira is progressing very well through the process of FSC certification, and we expect the property to be 100% certified by the end of Q3 2012.

[3] Source: Wood Resources International.

[4] Source: New Zealand Ministry of Agriculture and Forestry.

[5] Source: International Wood Markets Group.

## PORTFOLIO SUMMARY CONTINUED

**Green Resources AS:** The Company owns a significant minority investment in Green Resources, which operates in Uganda, Mozambique and Tanzania. Operations consist of mixed age, mixed species plantations with a sawmill and two utility pole plants. The value of the Company's minority investment in Green Resources was down 3.5% or US$3.2 million at 30 June 2012 from the 2011 year-end, including the effect of foreign currency movements. Green Resources conducted a rights offering in February 2012, although the Company did not subscribe to the full amount of shares to which it was entitled. The Company's ownership position was diluted and as a result, the value of the Company's investment in Green Resources decreased. The foreign exchange impact was minimal. Green Resources is in the final stages of negotiating long-term financing. The proceeds from this loan will be used to fund Green Resources' plantation establishment goals as well as fund other management initiatives until the company becomes cash flow positive.

**Eucateca SA:** The Company owns 100% of Eucateca, originally a greenfield eucalyptus and teak project in Mato Grosso, Brazil, but now well-established plantations. Harvesting operations are expected to commence in 2015 on the eucalyptus plantations. Sales of thinnings from the teak plantations are expected next year. Eucateca is moving forward with its environmental plans and is in compliance with the State Environmental Agency's mandates and deadlines. The 2011-2012 rainy season stretched longer than usual and decreased the dangers of the fire season. The property manager continues to negotiate improved supplier contracts to reduce costs. The Brazilian Real weakened against the US Dollar and negatively impacted Eucateca's value, which was down 6.2% or US$4.0 million at 30 June 2012 from the 2011 year-end, despite strong biological growth.

**Aurora Forestal SA:** The Company owns a significant minority investment in Aurora Forestal, which consists of mixed age pine plantations which are 100% FSC certified as well as a sawmill in northern Uruguay. Historically, Aurora Forestal sold primarily into the US housing market, but has diversified its sales into other markets since the economic crisis of 2008. In the first half of 2012, Aurora Forestal experienced increased orders from US clients.

The value of Aurora Forestal was up 0.9% or US$315,000 at 30 June 2012 from the 2011 year-end, which excludes the 2011 dividend paid to the Company during Q2 2012. Harvesting operations are on-going on the properties and generate regular distributions to the Company, typically in the second half of the year. During the period, Aurora Forestal completed the installation of its new co-generation plant, which is fuelled by waste products generated by the sawmill, with the resulting electricity sold into the Uruguayan power grid. With the installation of a new sawdust dryer the cogeneration plant is expected to increase its total capacity by 1.5 megawatts to 6.5 megawatts. Current production is between 3.0-3.5 megawatts, with plans to achieve total capacity over time.

**Pradera Roja SA:** The Company owns 100% of Pradera Roja, which consists of eucalyptus plantations in Southern Uruguay, originally a greenfield project, but now well-established plantations. Pradera Roja completed its planting program in 2009. In May 2012, the Company sold its mature eucalyptus volume to a Uruguayan forest products company. The volume will be harvested over the next two years. In July 2012, Pradera Roja sold its Don Chico plantation for US$5.7 million. This sale represents an approximately 40% premium to the 31 December 2011 allocated value of Don Chico. Since 30 June 2012, the Company has also entered into a binding agreement to sell its Cerro Chato plantation in September 2012 at a premium similar to the Don Chico sale. Pradera Roja is US Dollar denominated and its value was up 4.4% or US$1.4 million at 30 June 2012 from the 2011 year-end.

**Greenwood Tree Farm Fund LP:** The Company owns a significant minority position in GTFF, which consists of mixed age hybrid poplar plantations in the Northwestern US. Harvesting operations are on-going, and the project includes a state of the art sawmill. Market conditions continue to improve, with the sawmill currently producing over 40 million board feet of lumber per year. Monthly revenues and sales volumes set new highs during the period. GTFF continues to expand into new markets for its hybrid poplar products. In June 2012, an agreement was reached between GTFF and Columbia Forest Products ("CFP", North America's largest manufacturer of decorative hardwood plywood and hardwood veneer) to supply hybrid poplar logs to a new veneer lathe to be installed by CFP alongside GTFF's mill in Boardman, Oregon. The poplar veneer will be used for core veneers within CFP's hardwood plywood panels.

In May, GTFF sold 1,352 hectares of non-strategic land and associated water rights in two transactions that generated US$13.5 million in gross proceeds to GTFF. The timber on the 1,352 hectares (with an estimated value of US$1.8 million) was retained by GTFF and will be harvested over the next twelve to eighteen months. The value of this transaction was within 1.0% of the 31 December 2011 appraised value for this acreage. After the sale, GTFF owns 12,893 hectares. During the period, the Company invested an additional US$1.0 million, part of its original commitment to GTFF. Due to the increased investment and a modest increase in the value, the US Dollar value of the Company's investment in GTFF was up 5.0% or US$1.8 million at 30 June 2012 from the 2011 year-end.

**Green China Forestry Company Limited:** The Company owns 100% of Green China, which consists of mixed age slash pine and Chinese fir plantations sold into the domestic markets. Harvesting and resin-tapping operations are on-going on the properties. Both volume and price are currently ahead of budget and are forecast to remain so for timber harvesting. Resin prices have stabilized after falling precipitously during 2011 and are forecast to remain stable. During the period, the Company transferred US$500,000 of working capital from Green China and returned it to Guernsey. The Chinese Renminbi remained flat compared to the 2011 year-end, however, the value of the Company's investment in Green China was up 13.5% or US$2.0 million at 30 June 2012 from the prior year-end due to biological growth. The Investment Manager is working with in-country service providers to restructure and reduce costs. Part of the restructuring is likely to include the divestiture of the Southern Jiangxi assets, a small portion (approximately 10%) of the total China investment. The southern forests are relatively small and scattered, compared with stronger aggregation of the tracts in northern Jiangxi. Selling the southern forests is intended to reduce costs by concentrating the operational footprint.

**National Timber Partners Timber Plus+ Fund 1 LP:** The Company owns a minority position of NTP, which is currently repaying capital as investments are liquidated, consistent with its original plan. During the period, NTP returned US$1.5 million of capital, and US$385,000 in interest. The value of the Company's investment in NTP was down 37.8% or US$4.2 million at 30 June 2012 from the 2011 year-end, due to an unrealised impairment taken in respect of a large portfolio property. Since inception, NTP originated 34 mortgage notes and 21 have been completely repaid.

## INTERIM AND LONG TERM STRATEGY

The Company is working on opportunities to improve operational efficiencies across the portfolio. In light of changing market conditions worldwide, the portfolio is being re-positioned to strengthen cash flow. The Company will consider selling assets selectively when good returns can be realised and in particular the smaller assets acquired during the early part of the Company's life. Part of the Company's original strategy was planting greenfield sites to develop assets which could be sold to other timberland investors. Our successful initial sale of Don Chico from the Pradera Roja project in southern Uruguay is an example of this strategy. The Company continues to seek to provide the long-term benefits of investing in a globally diversified timberland portfolio, with good exposure to both mature and growing markets. The Company fully expects that current depressed marketplace conditions will over time normalise, and the value in the portfolio will be realised as long term trends in land values and timber prices reassert themselves.

## FOREIGN EXCHANGE

The Company's reporting currency is the US Dollar. The non-US currencies in which our largest investments are held are the New Zealand Dollar, the Brazilian Real, and the Norwegian Krone. When the US Dollar strengthens against these currencies, the NAV of the portfolio moves downward as we translate the values of the assets back into the stronger US Dollar. Because of recent turbulence in world capital markets, the US Dollar has strengthened as investors seek safety. During the period unrealised foreign exchange losses reduced the Company's NAV by US$8.4 million; realised foreign exchange losses were US$174,000. Until markets return to more normal conditions, the Company may continue to experience the negative impact of a strong US Dollar on its NAV. Please refer to the foreign currency translation effects on the Company's NAV since inception on page 5.

## CASH FLOW

The cash held at 30 June 2012 was US$22.6 million. Of the cash balance, US$7.0 million is held within operating subsidiaries. A total dividend of US$13.4 million was paid by the Company in July 2012. Net cash outflow from operating activities improved by US$14.6 million compared to the six month period ended 30 June 2011. Expenses have stabilised, and the Company continues to manage cash actively as well as consider the strategic sale of assets. All of the Company's operations are well positioned in their markets so that as markets improve, cash flows should increase.

## ENVIRONMENTAL STEWARDSHIP

The Company is committed to the highest environmental standards. We are systematically pursuing certification under FSC guidelines. Four properties, Aurora Forestal, Matariki, GTFF and Green Resources are 100% certified, and a fifth, Mata Mineira is expected to be by end of Q3 2012. We continue to focus on certifying plantations with standing timber and are rolling out a program with the younger plantations that are projected to achieve certification well before forecasted harvesting.

## EFFECT OF IFRS ON REPORTED RESULTS:

It is important to note that, consistent with International Financial Reporting Standards ("IFRS"), wholly-owned operating company expenses (that is, costs associated with work on the plantations) are included in the Interim Condensed Consolidated Statement of Comprehensive Income, in addition to the Company level expenses. This can be misleading when one tries to compute the total expense ratio of the Company, since those expenses are, in fact, not Company level expenses and should not be included in an analysis of Company level expenses. The expenses have been split into two sections in Note 3 of the Interim Condensed Consolidated Financial Statements in order to provide investors with a more transparent view of actual costs associated with managing the Company, as well as costs associated with operating the wholly-owned investment projects. The Company level expenses are US$5.0 million, or 0.9% of assets under management.

## SHARE CAPITAL

At 30 June 2012, the Company had 537,149,832 issued Ordinary Shares and 4,065,045 Ordinary Shares were held in treasury.

## DIVIDENDS

On 27 July 2012, the Company paid a dividend of US$0.025 gross per Ordinary Share in respect of the twelve months ended 31 December 2011. This dividend payment was pursuant to the resolution approved by the shareholders at the annual general meeting of the Company on 21 June 2012. The ex-dividend date for the dividend was 27 June 2012 and the record date was 29 June 2012. Given the dividend was declared and approved by shareholders prior to 30 June 2012, the Company has accrued dividends of US$13.4 million at that date.

## PERFORMANCE FEES

A performance fee becomes payable to the Investment Manager at the end of the first performance period when the audited NAV of the Company at 31 December, as adjusted for share premiums on Ordinary Share issues and discounts on Ordinary Share buybacks, and dividends paid or accrued, exceeds US$1.08. The adjusted NAV per Ordinary Share for the purpose of calculating the performance fee accrual at 30 June 2012 was US$0.9815. This is below the first performance hurdle and consequently no performance fee is accrued. Please refer to Note 25 in the 2011 Annual Report for the terms and conditions relating to the calculation of the performance fee.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board monitors the risks the Company faces and the actions taken to mitigate those risks. The Group's financial risk management objectives and policies, including a description of the physical, economic, political and legal risks associated with investment in timber are set out in Note 23 of the 2011 Annual Report[6]. 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.

The Group operates in a number of countries, some of which are considered emerging market economies. The Board regularly monitors the political and economic risk of investing in or operating in these countries as well as the risk that trade or other barriers may prevent the sale of timber into our preferred export markets. These risks are mitigated by the broad global diversification of the assets as well as the wide range of markets into which product is sold. The Directors' view is that the profile of the key risks impacting the Group will not significantly change over the next six months.

## GOING CONCERN

The Directors confirm the use of the going concern basis in the preparation of the interim financial report. In this regard there are no new events or circumstances since the 2011 Annual Report.

## RELATED PARTIES

There were no significant related party transactions during the period nor any material change to related party transactions described in the 2011 Annual Report. Please refer to Note 12 on page 28 for details.

[6] The 2011 Annual Report is available on the Company's website at the following link:
http://www.phaunostimber.com/documents/PHAUNOS%20Annual%20Report%20Proof%20-%20FINAL%2020%20April.pdf

## VOTING RIGHTS FOR PORTFOLIO INVESTMENTS

The Investment Manager carefully considers the exercise of voting rights in relation to the Company's portfolio and votes, or refrains from voting, based on a case by case examination, using its best commercial and financial judgment, of the best long-term interests of the Company and its shareholders.

Typically the Investment Manager will, when making voting decisions, examine the strategic focus and operating performance of the relevant portfolio company, its corporate governance and remuneration framework and its communications and reporting structures. Please note that Phaunos does not hold any investments in publicly traded companies.

# RESPONSIBILITY STATEMENT

To the best of the knowledge of the Directors:

The Interim Financial Report for the six months ended 30 June 2012 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.*

The Interim Management Report 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 Burns | Sir Henry Studholme |
| Director | Director |

28 August 2012

Eucalyptus, Mata Mineira, Brazil.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## for the six months ended 30 June 2012

| | Note | 30 June 2012 Unaudited US$'000 | 30 June 2011 Unaudited US$'000 |
|---|---|---|---|
| **Income** | | | |
| Net (loss)/gain on financial assets designated at fair value through profit or loss | 6 | (5,960) | 36,715 |
| Revaluation of biological assets | 4 | (1,032) | 8,028 |
| Impairment of assets held for sale | 9 | (1,188) | – |
| Revenue from timber operations | 2 | 3,716 | 3,570 |
| Other operating income | 2 | 2,956 | 2,722 |
| | | **(1,508)** | **51,035** |
| **Expenses** | | | |
| Depletion of timber | | (1,765) | (1,511) |
| Cost of sales from timber operations | 3 | (1,575) | (1,705) |
| | | **(3,340)** | **(3,216)** |
| Timber operating expenses | 3 | (4,285) | (6,090) |
| Investment operating expenses | 3 | (5,043) | (13,971) |
| | | **(12,668)** | **(23,277)** |
| **Operating (loss)/profit before foreign exchange** | | (14,176) | 27,758 |
| Foreign exchange losses | | (312) | (28) |
| **Operating (loss)/profit before taxation** | | (14,488) | 27,730 |
| Tax charge on ordinary activities | | (550) | (74) |
| **(Loss)/profit for the period from continuing operations** | | **(15,038)** | **27,656** |
| **Discontinued operations** | | | |
| Loss from discontinued operations (net of tax) | 8 | (937) | – |
| **(Loss)/profit for the period** | | **(15,975)** | **27,656** |
| **Other comprehensive (loss)/income** | | | |
| Revaluation of land | 5 | 1,485 | (1,773) |
| Exchange differences on translation of subsidiaries' net assets | | (11,381) | 11,528 |
| | | **(9,896)** | **9,755** |
| **Total comprehensive (loss)/profit for the period** | | **(25,871)** | **37,411** |
| (Deficit)/earnings per Ordinary Share for the period – | | **Cents** | **Cents** |
| Basic and Diluted (in US cents per share) | | (2.97) | 5.15 |

(Based on weighted average number of Ordinary Shares 537,149,832 (2011: 537,149,832))

In arriving at the operating results for the period, all amounts above relate to continuing operations, except those relating to discontinued operations per Note 8.

The notes on pages 21 to 28 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2012

| | Note | 30 June 2012 Unaudited US$'000 | 31 Dec 2011 Audited US$'000 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Financial assets designated at fair value through profit or loss | 6 | 311,310 | 315,521 |
| Biological assets | 4 | 112,349 | 120,392 |
| Land | 5 | 75,125 | 85,758 |
| Other assets | 7 | 6,570 | 5,047 |
| | | **505,354** | **526,718** |
| **Current Assets** | | | |
| Cash and cash equivalents | | 22,533 | 28,332 |
| Receivables | | 5,820 | 6,991 |
| Inventories and work in progress | | 26 | 83 |
| Loans receivable | | – | 2,244 |
| Assets classified as held for sale | 9 | 11,643 | 6,893 |
| | | **40,022** | **44,543** |
| **TOTAL ASSETS** | | **545,376** | **571,261** |
| **Current Liabilities** | | | |
| Dividends payable | | 13,429 | – |
| Payables and provisions | | 10,656 | 11,296 |
| Deferred tax | | 1,067 | 769 |
| Liabilities classified as held for sale | 9 | 746 | 418 |
| **TOTAL LIABILITIES** | | **25,898** | **12,483** |

| | | |
|---|---|---|
| **Equity** | | |
| Share capital | 432,101 | 432,101 |
| (Revenue deficit)/Retained earnings | (19,077) | 10,327 |
| Foreign currency translation reserve | (8,616) | 2,765 |
| Land revaluation reserve | 7,471 | 5,986 |
| Distributable reserves | 110,418 | 110,418 |
| Purchase of own shares (Treasury Shares) | (2,819) | (2,819) |
| **TOTAL EQUITY** | **519,478** | **558,778** |
| **TOTAL EQUITY AND LIABILITIES** | **545,376** | **571,261** |
| Ordinary Shares in Issue | 537,149,832 | 537,149,832 |
| | **US$** | **US$** |
| Net Asset Value per Ordinary Share | 0.97 | 1.04 |

The notes on pages 21 to 28 form an integral part of these interim consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

## for the six months ended 30 June 2012

| | Note | 30 June 2012 Unaudited US$'000 | 30 June 2011 Unaudited US$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Net (loss)/profit for the period attributable to Ordinary Shareholders | | (15,038) | 27,656 |
| Add: Depreciation and amortisation | | 1,943 | 2,208 |
| Impairment of assets held for sale | 9 | 1,188 | – |
| Taxation including accrual | | 550 | 74 |
| Impairment of loans receivable | | – | 442 |
| Movement in accrual for potential performance fee | 12 | – | 8,189 |
| Net loss/(gain) on financial assets designated at fair value through profit or loss | 6 | 9,204 | (36,715) |
| Revaluation of biological assets | 4 | 1,032 | (8,028) |
| Movement in receivables excluding accrued income | | 929 | (5,592) |
| Less: Prepaid land lease (non-current) | 7 | – | (3) |
| Movement in payables | | (312) | (3,576) |
| Movement in inventories | | (134) | (234) |
| Other valuation adjustments | 2 | (160) | – |
| Taxation paid | | (243) | (50) |
| **Net cash outflow from operating activities** | | **(1,041)** | **(15,629)** |
| **Investing activities** | | | |
| Purchase of financial assets | 6 | (3,229) | (818) |
| Disposals of plant and equipment | 7 | 1,002 | 174 |
| Purchase of biological assets | 4 | (2,992) | (6,007) |
| Purchase of land | 5 | – | (60) |
| Purchase of plant and equipment | 7 | (13) | (503) |
| Loans repaid by investees | | 2,456 | 403 |
| **Net cash outflow from investing activities** | | **(2,776)** | **(6,811)** |
| **Decrease in cash and cash equivalents** | | **(3,817)** | **(22,440)** |
| Cash and cash equivalents at beginning of period | | 28,332 | 68,486 |
| Effect of foreign exchange rate changes | | (1,982) | 611 |
| **Cash and cash equivalents at end of period** | | **22,533** | **46,657** |

The notes on pages 21 to 28 form an integral part of these interim consolidated financial statements.


Teak, Eucateca, Brazil.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2012

| | Attributed to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Retained earnings/ (Revenue Deficit) | Foreign currency translation reserve | Land revaluation reserve | Distri-butable reserves | Purchase of own shares (Treasury Shares) | Total Equity |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **As at 1 January 2012** | 432,101 | 10,327 | 2,765 | 5,986 | 110,418 | (2,819) | 558,778 |
| Loss for the period | – | (15,975) | – | – | – | – | (15,975) |
| Other comprehensive income/(loss) | – | – | (11,381) | 1,485 | – | – | (9,896) |
| **Total comprehensive income/(loss) for the period** | **–** | **(15,975)** | **(11,381)** | **1,485** | **–** | **–** | **(25,871)** |
| Dividends (Note 10) | – | (13,429) | – | – | – | – | (13,429) |
| **At 30 June 2012 (unaudited)** | **432,101** | **(19,077)** | **(8,616)** | **7,471** | **110,418** | **(2,819)** | **519,478** |

The notes on pages 21 to 28 form an integral part of these interim consolidated financial statements.

| | Attributed to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Retained earnings | Foreign currency translation reserve | Land revaluation reserve | Distri-butable reserves | Purchase of own shares (Treasury Shares) | Total Equity |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **As at 1 January 2011** | 432,101 | 30,850 | 21,605 | 2,974 | 110,418 | (3,025) | 594,923 |
| Profit for the period | – | 27,656 | – | – | – | – | 27,656 |
| Other comprehensive income/(loss) | – | – | 11,528 | (1,773) | – | – | 9,755 |
| **Total comprehensive income/(loss) for the period** | **–** | **27,656** | **11,528** | **(1,773)** | **–** | **–** | **37,411** |
| Dividends (Note 10) | – | (10,743) | – | – | – | – | (10,743) |
| **At 30 June 2011 (unaudited)** | **432,101** | **47,763** | **33,133** | **1,201** | **110,418** | **(3,025)** | **621,591** |

The notes on pages 21 to 28 form an integral part of these interim consolidated financial statements.

## 1. ACCOUNTING POLICIES

### (a) Basis of Preparation

The unaudited interim condensed consolidated financial statements ("interim consolidated financial statements") 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 2011 ("2011 Annual Report"), which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable Guernsey law.

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 12 of the 2011 Annual Report ("subsidiaries")) (the "Group") operate.

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) Significant Accounting Policies

The same accounting policies, presentation and methods of computation are followed in the interim consolidated financial statements as were followed in the preparation of the 2011 Annual Report.

## 2. INCOME

| | 30 June 2012 Unaudited US$'000 | 30 June 2011 Unaudited US$'000 |
|---|---|---|
| Income from sales and services | 3,716 | 3,570 |
| Investment income | 2,558 | 2,151 |
| Sundry income | 238 | 571 |
| Other valuation adjustments* | 160 | – |
| | **6,672** | **6,292** |

*Other valuation adjustments include an adjustment to prepaid land lease assets (Green China) of US$3.3 million for future replant costs and a land revaluation adjustment (Mata Mineira) of US$(3.1) million for the period.

## 3. EXPENSES

| | 30 June 2012 Unaudited US$'000 | 30 June 2011 Unaudited US$'000 |
|---|---|---|
| **Cost of sales & timber operating costs** | | |
| Cost of sales | 1,575 | 1,705 |
| Direct timber costs | 145 | 1,209 |
| Other timber costs | 4,140 | 4,881 |
| | **5,860** | **7,795** |
| **Investment operating expenses** | | |
| Performance fees | – | 8,189 |
| Investment Manager's fees | 3,915 | 4,759 |
| Other investment operating expenses | 1,128 | 1,023 |
| | **5,043** | **13,971** |
| | **10,903** | **21,766** |

Consistent with IFRS, operating expenses associated with wholly-owned subsidiaries are included in Note 3, along with expenses associated with holding Company activities. Holding Company expenses total US$5.0 million, or 0.9% of assets under management.

## 4. BIOLOGICAL ASSETS

| | 30 June 2012 Unaudited US$'000 | 31 Dec 2011 Audited US$'000 |
|---|---|---|
| **Cost:** | | |
| Opening cost | 106,655 | 102,691 |
| Costs incurred during the period/year: | | |
| Silviculture costs | 2,817 | 7,200 |
| Treatment costs | 161 | 706 |
| Plantations acquired | 19 | – |
| Other costs | 12 | 1,234 |
| Depletion of timber | (1,765) | (4,532) |
| Resin amortisation | (133) | (308) |
| Disposals | (19) | (336) |
| | **1,092** | **3,964** |
| **Closing cost** | **107,747** | **106,655** |
| **Revaluation of plantations:** | | |
| Opening balance | 18,824 | (198) |
| Revaluation for the period/year | (1,032) | 19,022 |
| **Closing balance** | **17,792** | **18,824** |
| **Reclass as Held for Sale** | (810) | – |
| **Exchange differences** | (12,380) | (5,087) |
| **Closing carrying value** | **112,349** | **120,392** |

**Biological assets valuation**

The Investment Manager's valuations at 30 June 2012 for Eucateca, Pradera Roja and Green China are based on the independent external appraisals of the biological assets at 30 September 2011 (for Eucateca and Pradera Roja). These external appraisals have only been updated for the number of hectares for each age class of pre-merchantable timber in existence at 30 June 2012. The unit values in each external appraisal remain unchanged.

The Investment Manager's valuation at 30 June 2012 for Green China is based on the independent external appraisal of the biological assets at 31 December 2011. The external appraisal has been updated for 6 months of biological growth to 30 June 2012.

Biological assets purchased by Mata Mineira are based on a Brazilian Real value determined by an independent external appraisal dated 30 June 2012.

Consistent with IFRS, Note 4 includes only the revaluation of biological assets on wholly owned subsidiaries. Biological asset valuations in minority holdings are included in the Financial Asset calculation as demonstrated in Note 6.

## 5. LAND

| | 30 June 2012 Unaudited US$'000 | 31 Dec 2011 Audited US$'000 |
|---|---|---|
| **Cost** | | |
| Opening cost | 78,903 | 78,845 |
| Additions | 2 | 58 |
| **Closing cost** | **78,905** | **78,903** |
| **Revaluation of land** | | |
| Opening | 5,986 | 2,974 |
| Revaluation for the period/year | 1,485 | 3,012 |
| **Closing** | **7,471** | **5,986** |
| **Impairment** | | |
| Opening impairment | – | – |
| Charge for the period/year | (3,102) | – |
| **Closing impairment** | **(3,102)** | **–** |
| **Reclass as Held for Sale** | (5,011) | (278) |
| **Exchange differences** | (3,138) | 1,147 |
| **Closing carrying value** | **75,125** | **85,758** |

**Land valuation**

The Investment Manager's valuations at 30 June 2012 for Eucateca and Pradera Roja are based on the Brazilian Real per hectare unit values and the US Dollar per hectare unit values respectively from the external appraisal of that land at 30 September 2011 and applied to the updated number of hectares at 30 June 2012.

Land purchased by Mata Mineira is based on a Brazilian Real value determined by an independent external appraisal dated 30 June 2012.

Consistent with IFRS, Note 5 includes only the revaluation of land in wholly-owned subsidiaries. Land valuations in minority holdings are included in the Financial Asset calculation as demonstrated in Note 6.

## 6. INVESTMENTS

| FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS | 30 June 2012 Unaudited US$'000 | 31 Dec 2011 Audited US$'000 |
|---|---|---|
| Opening portfolio cost | 265,981 | 264,253 |
| Net additions at cost: | 3,229 | 1,728 |
| Net disposals at cost: | (1,480) | – |
| **Closing portfolio cost** | **267,730** | **265,981** |
| Unrealised appreciation on valuation brought forward | 38,772 | 46,761 |
| Unrealised appreciation on valuation for the period/year | (9,204) | (7,989) |
| Unrealised foreign exchange movement brought forward | 10,024 | 11,922 |
| Unrealised foreign exchange movement for the period/year | 3,244 | (1,898) |
| Unrealised appreciation and foreign exchange movement on valuation carried forward | 42,836 | 48,796 |
| Exchange differences on translation of foreign subsidiaries | 744 | 744 |
| **Closing valuation** | **311,310** | **315,521** |

The Group's unlisted securities, classified as financial assets designated at fair value through profit or loss and valued at US$311.3 million at 30 June 2012 (31 December 2011: US$315.5 million), were categorised as Level 3[7] in accordance with the fair value hierarchy.

Inputs for the determination of the fair values of financial assets designated as Level 3 include valuations provided by the managers of all the underlying investments at the period end. There were no transfers of financial assets between Levels during the period.

## 7. OTHER ASSETS

| | 30 June 2012 Unaudited US$'000 | 31 Dec 2011 Audited US$'000 |
|---|---|---|
| Prepaid land lease | 5,021 | 1,586 |
| Plant and equipment | 1,549 | 3,461 |
| **Closing cost** | **6,570** | **5,047** |

[7] Please refer to Note 13 in the 2011 Annual Report for further detail on the fair value hierarchy levels.

## 8. DISCONTINUED OPERATIONS

The loss of US$937,000 relates to the results of Caldrey's discontinued operations for the period 31 March 2012 to 30 June 2012.

## 9. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

Forest Enterprises is currently held for sale following the strategic decision in 2010 by the Investment Manager to divest of non-core assets. The value of Caldrey's plant and equipment is classified as held for sale as operations were discontinued effective 31 March 2012. The land and timber value of Pradera Roja's "Don Chico" plantation, sold in July 2012, is also classified as held for sale. On this basis the following balances reported at 30 June 2012 are:

| | 30 June 2012<br>Unaudited<br>US$'000 | 31 Dec 2011<br>Audited<br>US$'000 |
|---|---|---|
| **Assets classified as held for sale** | | |
| Forest Enterprises | 5,565 | 6,893 |
| Caldrey | 535 | – |
| Pradera Roja | 5,543 | – |
| | **11,643** | **6,893** |
| **Liabilities classified as held for sale** | | |
| Forest Enterprises | 746 | 418 |
| | **746** | **418** |

### Forest Enterprises

Forest Enterprises is the wholly-owned subsidiary of Forest Enterprise B.V. ("FE BV"), which in turn is a wholly-owned subsidiary of Phaunos. After Forest Enterprises is sold, FE BV will be liquidated. In November 2010, FE BV hired Citadel Financial Advisory d.o.o, Beograd (the "Financial Advisor") to take all necessary steps to manage and execute the sale of Forest Enterprises. FE BV renewed the contract with the Financial Advisor in 2012. The sale process has been delayed due to adverse economic conditions in Europe. The Financial Advisor issued current data to potential buyers in late 2011. Presently, two companies have signed Non-Disclosure Agreements and are performing their due diligence on Forest Enterprises. The Company is unable to predict the timing of sale, the sale price or fee payable to the Financial Advisor for successful completion of the Forest Enterprises sale transaction.

At 30 June 2012 the fair value less costs to sell of Forest Enterprises' net assets classified as held for sale has been impaired by US$1.2 million from a net book value of US$6.0 million to fair market valuation of US$4.8 million (EUR 3.8 million) estimated by the Financial Advisor. All assets and liabilities of Forest Enterprises are separately presented as 'Assets classified as held for sale' and 'Liabilities classified as held for sale' respectively in the Consolidated Statement of Financial Position as noted above.

## 9. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE CONTINUED

**Caldrey**

As of 31 December 2010 the Investment Manager anticipated the sale of Caldrey as a private transaction and Phaunos was in negotiations with an individual interested in purchasing Caldrey. The potential buyer was unable to obtain financing; therefore the Investment Manager developed plans during Q1 2012 to discontinue Caldrey operations and sell its equipment. Caldrey's remaining contract ended on 31 March 2012, which is when the operations effectively discontinued. The Investment Manager is storing the marketable equipment until it is sold by auction during 2012. As a result, the fair market value less costs to sell of Caldrey's plant and equipment of US$1.0 million is classified as an asset held for sale at 30 June 2012.

**Pradera Roja**

The "Don Chico" plantation was sold in July 2012 for US$5.7 million net of costs to sell, payable in cash in US dollars. The preliminary agreement was executed in May 2012 and the purchase and sale agreement was completed in July 2012. The fair value less costs to sell of the land and timber associated with the Don Chico plantation, US$5.5 million, is classified as assets held for sale at 30 June 2012.

## 10. DIVIDENDS

The dividend for the year ended 31 December 2011 is accrued at 30 June 2012. It was declared by the Company and approved by shareholders during the period and paid after the end of the period. The dividend for the year ended 31 December 2010 was declared and paid during 2011.

| | 30 June 2012 Unaudited US$'000 | 31 Dec 2011 Audited US$'000 |
|---|---|---|
| **Dividend for the period/year:** | | |
| **US$0.025 per Ordinary Share (2011: US$0.02)** | **13,429** | **10,743** |

## 11. CAPITAL COMMITMENTS

At the period end, the Group has outstanding non-contractual commitments of up to US$2.0 million (31 December 2011: US$3.0 million), which are subject to due diligence.

## 12. RELATED PARTIES

Liane Luke is a senior consultant in the Investment Manager's group. Kimberly Tara is a director and shareholder of the Investment Manager. Liane Luke and Kimberly Tara were Directors of the Company for the period 1 January 2012 to 21 June 2012.

US$3.9 million (30 June 2011: US$4.8 million) of costs were incurred by the Company with the Investment Manager in the period, of which US$ Nil (31 December 2011: US$ Nil) was outstanding to this related party as at 30 June 2012. Given management fees are paid in advance on a quarterly basis during the period, the Company had paid net US$2.3 million (31 December 2011: US$2.3 million) to the Investment Manager at 30 June 2012. However, as a result of the prepayments made in respect of the 2012 period, the Investment Manager owed US$587,477 (31 December 2011: US$935,801) to the Company at 30 June 2012. The Board has agreed to pay the Investment Manager US$11,600 in respect of legal services which the Board considered could more appropriately be provided by the Investment Manager than by external lawyers and US$45,900 in respect of financial reporting and consolidation work for the Company.

The Company did not accrue a performance fee for the period ended 30 June 2012 (30 June 2011: US$8.2 million or US$0.0152 per Ordinary Share) as the unaudited adjusted NAV per Ordinary Share at that date did not exceed the hurdle rate of US$1.08. The adjusted NAV per Ordinary Share for the purpose of calculating the performance fee accrual at 30 June 2012 was US$0.9815 (30 June 2011: US$1.1619). The potential performance fee of US$8.2 million at 30 June 2011 was accrued but not paid as the adjusted audited NAV per Ordinary Share of US$1.0297 at 31 December 2011 was below the hurdle rate of US$1.08.

Please refer to Note 25 in the 2011 Annual Report for the terms and conditions relating to the calculation of management fees and performance fees.

## 13. EVENTS AFTER THE BALANCE SHEET DATE

- On 12 July 2012 the Don Chico plantation, part of Phaunos' Pradera Roja investment, was sold for US$5.7 million. The realised gain on disposal of this investment, US$1.7 million will be included in the annual results of the Company for the year ended 31 December 2012.
- On 27 July 2012, Phaunos paid a total dividend of US$13.4 million to the Ordinary Shareholders of the Company.
- As from 29 August 2012 William Vanderfelt and Richard Hills will be appointed as Directors of the Company.

# SCHEDULE OF INVESTMENTS

| Name of investment | Nature of investment | Fair Value US$'000 | 30 June 2012 Unaudited Total Net Assets % | 31 Dec 2011 Audited Total Net Assets % |
|---|---|---|---|---|
| Matariki Forestry Group | Timber operation | 141,665 | 27.37 | 25.16 |
| Green Resources AS | Timber operation | 90,484 | 17.48 | 16.77 |
| Greenwood Tree Farm Fund LP | Timber operation | 38,572 | 7.45 | 6.57 |
| Aurora Forestal Limited | Timber operation | 33,650 | 6.48 | 5.97 |
| NTP Timber Plus+ Fund I, LP | Higher-and-better-use conversion | 6,939 | 1.33 | 2.00 |
| Masarang Foundation Asset Linked Euro Note 09/2012 | Loan | – | – | – |
| **Total financial assets designated at fair value through profit or loss** | | **311,310** | **59.93** | **56.47** |
| Other non-current assets | | 194,044 | 37.35 | 37.80 |
| Other net current liabilities | | (8,409) | (1.62) | 0.66 |
| Cash and cash equivalents | | 22,533 | 4.34 | 5.07 |
| **Total NAV** | | **519,478** | **100.00** | **100.00** |


Teak, Eucateca, Brazil.

# SHAREHOLDER INFORMATION

The Ordinary Shares are traded on the Main Market of the London Stock Exchange and on the Channel Islands Stock Exchange. 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 | SEDOL | LSE mnemonic |
|---|---|---|
| GG00B1G3RS66 | B1G3RS6 | PTF |

## SHAREHOLDER ENQUIRIES

The Company's CREST compliant registrar is, as at the date of publication of these interim consolidated financial statements, Capita Registrars (Guernsey) Limited, who maintains the Company's registers of shareholders. They may be contacted by telephone on +44 (0)1534 847445.

For information about investing in the Company contact **info@fourwindscm.com**.

# DIRECTORS AND SERVICE PROVIDERS

## Registered Office
11 New Street
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GY1 2PF

## Directors
Sir Henry Studholme (Chairman)
Martin Ricketts
Ian Burns
Keith Oates (Resigned 12 April 2012)
Liane Luke (Retired 21 June 2012)
Kimberly Tara (Retired 21 June 2012)

## Investment Manager
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Cayman Islands

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## Sponsor to CISX Listing
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## Registrar
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### Solicitors to the Company

(as to English Law)
Herbert Smith LLP
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Primrose Street
London
England
EC2A 2HS

## APPENDIX A: FINANCIAL RESULTS at 30 June 2012

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

| Company | NAV Ordinary Shares 31 Dec 2011 (audited) US$'000 | Acquisitions/ (Return of funds) US$'000 | Unrealised Gain/(Loss) | | | | Foreign Exchange Translation Differences US$'000 | Realised Foreign Exchange US$'000 | Movement in retained earnings US$'000 | NAV Ordinary Shares 30 Jun 2012 (unaudited) US$'000 | % of NAV 30 Jun 2012 (unaudited) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Land US$'000 | Biological Assets US$'000 | Financial Assets US$'000 | Foreign Exchange US$'000 | | | | | |
| Phaunos[8] | 24,007 | (1,836) | – | – | – | – | 410 | (332) | (16,413) | 5,836 | 1.12 |
| **Total Phaunos Timber Fund Ltd** | **24,007** | | | | | | | | | **5,836** | **1.12** |
| Matariki[9] | 140,562 | – | – | – | (2,306) | 3,409 | – | – | – | 141,665 | 27.27 |
| Green Resources | 93,726 | 2,229 | – | – | (5,306) | (165) | – | – | – | 90,484 | 17.42 |
| GreenWood Tree Farm | 36,734 | 1,000 | – | – | 838 | – | – | – | – | 38,572 | 7.43 |
| Aurora Forestal | 33,335 | – | – | – | 315 | – | – | – | – | 33,650 | 6.48 |
| **Total Minority-owned investments** | **304,357** | | | | | | | | | **304,371** | **58.60** |
| NTP | 11,164 | (1,480) | | | (2,745) | | | | | 6,939 | 1.34 |
| Masarang Foundation[10] | – | – | – | – | – | – | – | – | – | – | – |
| **Total Loans and Deposits** | **11,164** | | | | | | | | | **6,939** | **1.34** |
| Mata Mineira | 99,297 | – | – | (3,274) | – | – | (6,712) | – | (3,377) | 85,934 | 16.54 |
| Eucateca | 64,610 | – | (112) | 2,404 | – | – | (4,764) | – | (1,546) | 60,592 | 11.66 |
| Pradera Roja | 32,175 | 189 | 1,597 | (167) | – | – | – | (28) | (164) | 33,602 | 6.47 |
| Green China | 14,689 | (497) | – | 5 | – | – | (46) | 30 | 2,491 | 16,672 | 3.21 |
| Other operating subsidiaries[11] | 8,479 | 395 | – | – | – | – | (268) | 17 | (3,091) | 5,532 | 1.06 |
| **Total Operating Subsidiaries** | **219,250** | | | | | | | | | **202,332** | **38.94** |
| **NAV of Ordinary Shares** | **558,778** | **–** | **1,485** | **(1,032)** | **(9,204)** | **3,244** | **(11,380)** | **(313)** | **(22,100)** | **519,478** | **100.00** |
| | | | | | | | **Total Foreign Exchange Losses** | **(8,449)** | | | |

[8]Movements in retained earnings for Phaunos includes the dividend payable of US$13.4 million in respect of the year ended 31 December 2011.

[9]The Company received distributions totaling US$1.9 million from Matariki during the period. This is included in Phaunos' movement in retained earnings.

[10]The Board has reviewed the loan to Masarang and concluded it prudent to continue assessing the fair value at nil, given the uncertainty surrounding the ability of Masarang to repay. As a result, the investment in Masarang is valued at nil at 30 June 2012 and 31 December 2011.

[11]Includes the financial results for Caldrey and Forest Enterprises, which are classified as Assets Held for Sale.