

**CONSOLIDATED FINANCIAL STATEMENTS**  
AS OF SEPTEMBER 30, 2010, OF  
**TEAK HOLZ INTERNATIONAL AG, LINZ**



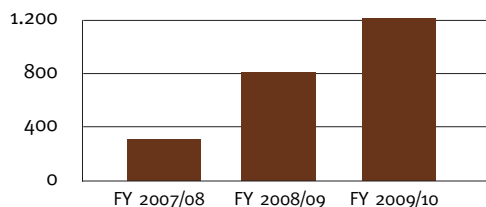


- ... is **growing** to become one of the major producers of certified teak wood and is aiming to expand the plantation areas step-by-step
- ... is **supplying** the markets of Asia, Europe and America with premium quality teak logs.
- ... is **focusing** on social principles, ecological standards are in harmony with economic demands to guarantee sustained success.

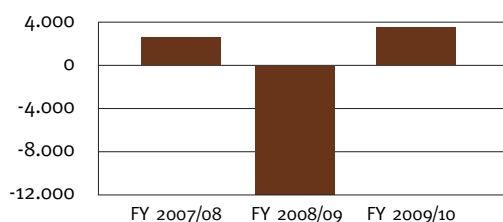
## FINANCIAL FIGURES OF THI-GROUP

Key figures of consolidated statement of comprehensive income		FY 2009/10	FY 2008/09	FY 2007/08
Revenue	TEUR	1,217	816	311
Change in value of biological assets (teak trees)	TEUR	8,049	-4,271	6,549
EBIT (operating result)	TEUR	3,501	-11,820	2,632
EBT (earnings before taxes)	TEUR	2,180	-10,930	2,174
Consolidated profit/loss for the year	TEUR	3,711	-10,113	2,680
Earnings per share	EUR	0.59	-1.62	0.43
<b>Cash flow key figures</b>				
Net cash flow from operating activities	TEUR	-3,991	-3,512	-3,839
Net cash flow from investing activities	TEUR	110	1,672	-405
Net cash flow from financing activities	TEUR	11,947	1,919	-958
<b>Key figures of consolidated balance sheet</b>				
Balance sheet total	TEUR	143,472	125,723	135,218
Biological assets (teak trees in plantations)	TEUR	117,637	109,665	117,787
Share capital	TEUR	31,205	31,205	31,205
Equity	TEUR	108,555	102,019	112,132
Equity ratio	%	75.66	81.15	82.93
Return on equity	%	2.01	-10.71	2.35
Cash and cash equivalents	TEUR	8,965	899	819
<b>Key figures of personnel</b>				
Total personnel (on average)	Persons	115	121	106
Thereof personnel in Austria	Persons	22	22	23
Thereof personnel in Costa Rica	Persons	93	99	83

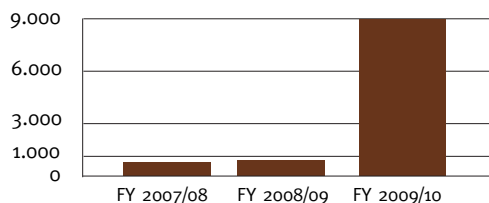
### Net Revenue in TEUR



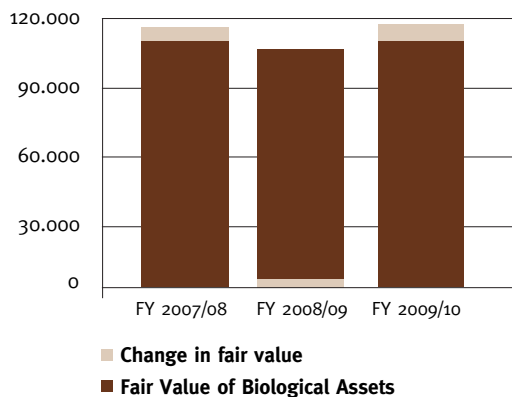
### EBIT in TEUR



### Cash and Cash Equivalents in TEUR



### Biological Assets (Teak trees) in TEUR



## SUMMARY OF MATERIAL EVENTS

### 1st quarter from October to December 2009

- With the beginning of the fiscal year, the new structure of the organization takes effect, the Group is now structured in business units.
- The Company managed to achieve the turnaround and was again able to report a positive EBIT for the 1st quarter.

### 2nd quarter from January to March 2010

- First positive signs on the global timber market emerged, prices stabilized and demand rose.
- At the 3rd extraordinary general meeting of THI AG, all resolutions were adopted by the shareholders with a large majority. Dr. Manfred Luger was unanimously elected as additional member to the supervisory board.
- By the middle of the fiscal year, EBIT improved further. THI AG reported a strong increase in the value of biological assets (the teak trees in the plantations).

### 3rd quarter from April to June 2010

- As of the beginning of April 2010, Dr. Markus Baumgartner was appointed CEO of THI AG.
- The TEAK share continues to be included in the index composition of the VÖNIX Sustainability Index.
- At the extraordinary general meeting on June 23, 2010, the management board was authorized by the shareholders to issue a convertible bond. Dr. Karl Arco was unanimously elected as member of the supervisory board.

### 4th quarter from July to September 2010

- In order to increase international teak log sales, the position of Chief Sales Officer was created and filled Mr. Pavel Brenner as of July 1, 2010.
- At the end of August 2010, the resolution was passed to issue a 5-year convertible bond with a fixed interest rate of 5 %. Upon expiration of the subscription period on August 31, 2010, the total nominal amount was determined at EUR 10 million.
- Annual sales of the distribution subsidiary rose by 50 %. The consolidated profit for the year amounts to EUR 3.7 million.
- By the balance sheet date (September 30, 2010), the TEAK share had increased by 7 %, the market capitalization rose by 26 % in the calendar year 2010.

TEAK HOLZ  
 INTERNATIONAL  
 AG, LINZ

## CHAIRMAN'S FORWARD

Dear Shareholders,

The growth of a tree throughout a year becomes apparent by annual rings. Due to width and structure of the additional ring you can clearly determine the influences (e.g. climatic) the tree was exposed to. If the conditions weren't as great, the ring will have remained thin. With appropriate cultivation and best basic conditions, the annual ring will have grown and gained width.

This picture can be easily transferred to the economy or a fiscal year. There are good years, not as good years and also very good years.



Dr. Markus Baumgartner  
CEO

After a very thin annual ring of THI-fiscal year 2008/09, we are now proud and happy to present the consolidated financial statements of the fiscal year 2009/10. For THI AG this completed fiscal year will remain documented as a great annual ring.

### **„Turnaround“: Consolidated Profit for the year EUR 3.7 million**

Already in the first quarter the company once more reached a positive EBIT. After the difficult previous fiscal year 2008/09, a turnaround could be achieved. At the end of the fiscal year 2009/10 the group reports a positive EBIT of EUR 3.5 million (previous year: EUR -11.8 million). The Group's consolidated profit is EUR 3.711 million (previous year: EUR -10.1 million).

### **Value of Biological Assets: EUR 117.6 million**

Since the beginning of the fiscal year of October 1, 2009 the value of the biological assets (growing teak trees in our plantations) increased by EUR 8 million (previous year: EUR -4.2 million). The total value of the stock of trees in the plantations to balance sheet date amounts EUR 117.6 million.

### **Increase in Revenues: +50 % to EUR 1.2 million**

During the reporting period the result of net revenues was EUR 1.217 million. Compared with the previous year, this is an absolute increase of EUR 0.4 million or rather a plus of approx. 50 %. The international sales volume of the timber trade amounts EUR 0.7 million, the domestic sales volume EUR 0.5 million.

### **Cash flow of Business Activity negative, but as scheduled**

As indicated in the reports during the fiscal year, corresponding to the budget planning, a negative outcome of the operative Cash flow at the end of the fiscal year was foreseen. The EUR -3.9 million net Cash flow of the current business activity



continues to be negative, but as scheduled. The reason is the fact that the current expenses are not yet covered by enough revenues from the timber trade or rather equity-incomes. The current demands for liquidity during the reporting period were ensured by existing and sufficient credit lines at all times.

#### **Loan increases Liquidity and allows Expansion and Timber Trade**

At the end of August 2010 a convertible bond of EUR 10 million was issued successfully. The loan on the one hand is important for an additional guarantee of the operative cash flow; on the other hand, the company has capital at their disposal, which helps to implement further plans of expansion. In addition, this cash flow will be used for the intensification of the international trade of round timber which, in turn, will represent an economic benefit for the company, until the own forestry shows corresponding revenues. The company foresees a promising development on the international timber market and is confident about the fiscal year 2010/11.

#### **Risk Situation of the Group: clear and persistent Improvement**

The overall risk situation clearly got better in comparison to the previous year. Due to the convertible bond the group the liquidity risk was considerably reduced. The noticeable improvement of the basic market conditions contributes to a future decrease of market risk. Continuous positive increase of timber trade volume, the risk situation should improve and stabilize on a long-term basis.

Ladies and Gentlemen, I would like to invite you to take a retrospective view on the successful fiscal year 2009/10 and to read all details in this „annual ring“- report.

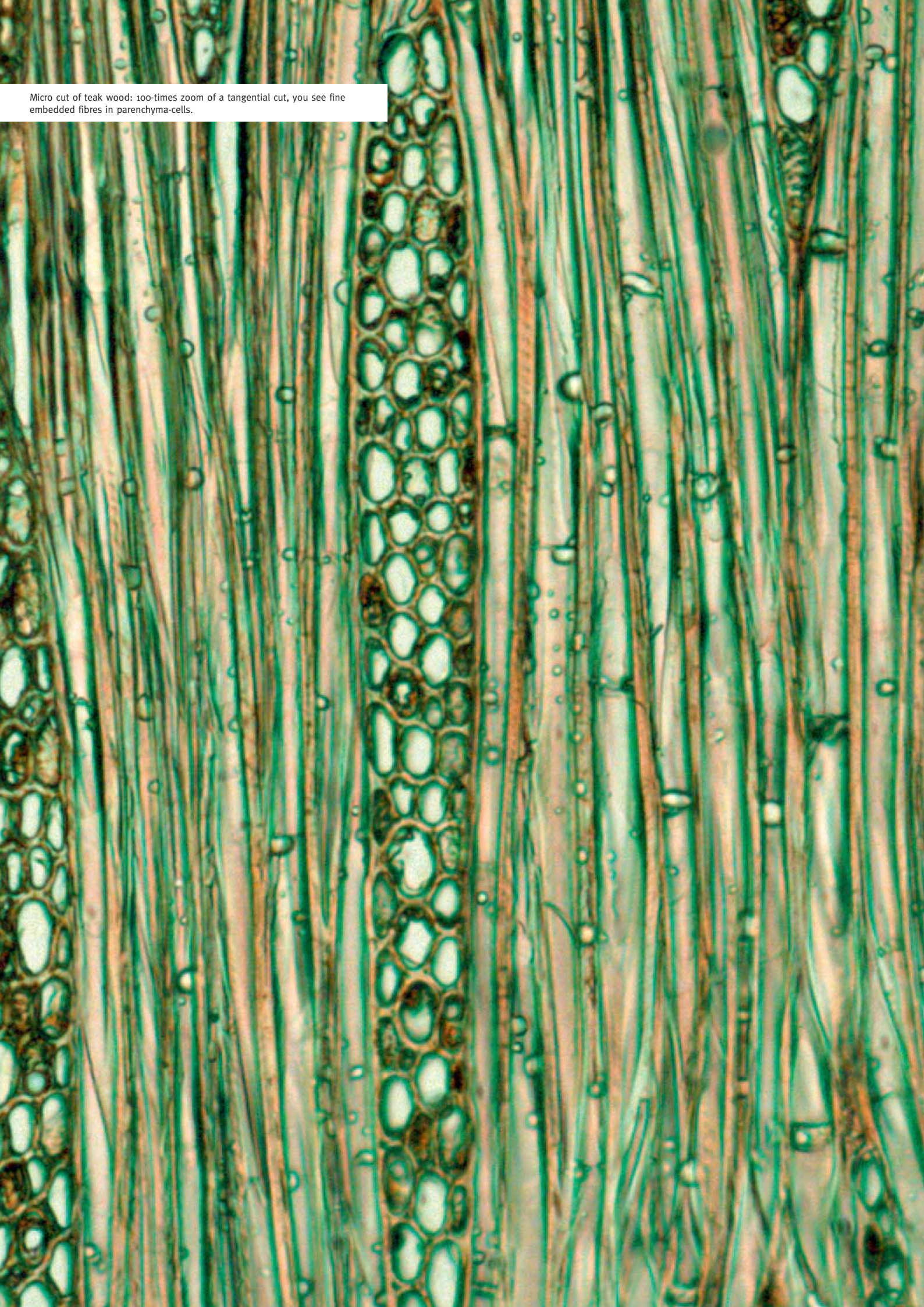
For the current fiscal year 2010/11 we would like to ask you to continue your support for the growth of the THI group. The management board and staff members will contribute everything possible for the growth of a massive annual ring the next fiscal year.

Linz, January 27, 2011



Dr. Markus Baumgartner  
CEO / Chairman of the Management Board

Micro cut of teak wood: 100-times zoom of a tangential cut, you see fine embedded fibres in parenchyma-cells.



We draw attention to the fact that the English translation of these consolidated financial statements is presented for the convenience of the reader only and that the German wording is the only legally binding version.

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## GENERAL INFORMATION

Teak Holz International AG (THI AG, the Company) domiciled in Linz, and its subsidiaries (“THI Group“), is a company specialized in sustainable teak forest investments, international trade in and processing of teak wood, which is listed on the Vienna Stock Exchange. On March 28, 2007, Teak Holz International AG made an initial public offering at the Vienna Stock Exchange. The shares have been traded on the Vienna Stock Exchange in the standard market continuous segment since March 29, 2007, ISIN: AT0TEAKHOLZ8, Ticker symbol: TEAK. Since June 2009, the TEAK share has been part of the VÖNIX Sustainability Index.

The plantations at the Costa Rican Pacific coast currently cover an area of approx. 1,934 hectares with approx. 2 million individually cared for teak trees growing on them. A gradual expansion of the plantation area is planned. Since mid-November 2008, four plantations covering a total area of 850 ha have been certified in accordance with the forest management principles of the FSC® (Forest Stewardship Council®). In April 2009, the scope of the certificate was extended from forest management to forest management and product chain (“chain of custody”), certificate No.: SW-FM/COC-003610.

Teak Holz Handels- und Verarbeitungs GmbH (brand: “TEAK-austria”) is a wholly owned subsidiary of THI AG. It trades in the precious raw material teak worldwide and processes the wood in its own plant in Schöndorf near Freistadt (Upper Austria) to semi-finished products (sawn timber, planed wood) and to products according to individual customer specifications, primarily wood products for outdoor use. Since August 2008, TEAK-austria has held an FSC certificate with the No. SW-COC-003355 and thus is authorized to trade in and process FSC® wood across the complete product chain (“chain of custody”), as well as mark these products with the FSC® logo.

## CONSOLIDATED GROUP

As of the balance sheet date September 30, 2009, THI Group, in addition to Teak Holz International AG, includes eight subsidiaries (one of them domiciled in Austria and seven domiciled in Costa Rica). All subsidiaries were fully consolidated.

**As of September 30, 2009, the consolidated group is as follows:**

	COMPANY NAME	COUNTRY	CORPORATE DOMICILE	SHARE 2009/10
1	Plantacion Austriaca Teca, S.A.	Costa Rica	San Jose Province, County 04 Puriscal	100%
2	Finca De Los Austriacos, S.A.	Costa Rica	San Jose Province, County 04 Puriscal	83.70%
3	Finca De Los Austriacos Numero Dos, S.A.	Costa Rica	San Jose Province, County 04 Puriscal	100%
4	Finca De Los Austriacos Teca Tres, S.A.	Costa Rica	Province of Puntarenas, County 09, Parrita	100%
5	Finca De La Teca, S.A.	Costa Rica	Province of Puntarenas, County 01, Parrita	100%
6	Segunda Plantacion Austriaca Teca, S.A.	Costa Rica	San Jose Province	100%
7	Servicios Austriacos Uno, S.A.	Costa Rica	Alajuela-Alajuela, La Garita	100%
8	Teak Holz Handels- und Verarbeitungs GmbH	Austria	Linz	100%
9	The Teak Trade Company Corp.*	Panama	Panama City	100%
10	Teak Trade International (Panama) Inc.*	Panama	Panama City	100%

Minority interests are reported as a separate item in equity.

\* These companies were established in Panama City in the past fiscal year to carry out future projects, no projects have been realized so far. Accordingly, the companies did not conduct business operations, and no revenue has been generated.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from October 1, 2009 to September 30, 2010 (Prior year for comparison)

in Euro	NOTES*	2009/10	2008/09 TEUR
Revenue	14	1,217,468	816
Gains/losses arising from changes in fair value less point-of-sale costs of biological assets	3	8,049,244	-4,271
Changes in inventory		5,842	17
Cost of materials and purchased services and write-downs of timber inventories	15	-1,462,369	-4,967
Personnel expenses	16	-2,008,478	-1,947
Depreciation and amortization		-644,792	-146
Other operating income	17	224,593	541
Other operating expenses	18	-1,880,110	-1,864
<b>Earnings before interest and taxes (EBIT)</b>		<b>3,501,399</b>	<b>-11,820</b>
Financial income	19	55,405	1,298
Financial expenses	19	-1,377,172	-408
<b>Financial result</b>		<b>-1,321,767</b>	<b>890</b>
<b>Earnings before taxes (EBT)</b>		<b>2,179,631</b>	<b>-10,930</b>
Taxes on income	20	1,530,907	817
<b>Consolidated profit/loss for the year</b>		<b>3,710,539</b>	<b>-10,113</b>
<b>thereof attributable to:</b>			
Equityholders of the parent company		3,710,539	-10,113
Minority shareholders		0	0
<b>Earnings per share (EUR) attributable to the equityholders of the parent company</b>			
- basic earnings per share	21	0.59	-1.62
- diluted earnings per share	21	0.59	-1.62

\* NOTES: find comments on the consolidated financial statements, beginning page 27

## CONSOLIDATED BALANCE SHEET

as of September 30, 2010 (Prior year for comparison)

in Euro	NOTES	30.09.2010	30.09.2009 TEUR
<b>ASSETS</b>			
Intangible assets		10,150	14
Property, plant and equipment	2	11,250,084	11,518
Biological assets	3	117,637,374	109,665
Trade receivables and other non-current assets		211	0
Deferred tax assets	10	4,842,381	2,680
<b>Non-current assets</b>		<b>133,740,199</b>	<b>123,877</b>
Inventories	4	313,410	155
Financial assets (restricted cash)	5	0	500
Trade receivables	6	331,919	148
Other receivables and current assets		121,527	144
Cash and cash equivalents	7	8,964,801	899
<b>Current assets</b>		<b>9,731,656</b>	<b>1,846</b>
<b>Total assets</b>		<b>143,471,856</b>	<b>125,723</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	8		
Share capital		31,205,160	31,205
Other reserves		52,985,836	57,466
Earnings reserves		24,363,581	13,348
<b>Equity attributable to equityholders of the parent company</b>		<b>108,554,577</b>	<b>102,018</b>
Minority interests		324	0
<b>Total equity</b>		<b>108,554,901</b>	<b>102,019</b>
<b>Liabilities</b>			
Non-current financial liabilities	9	23,731,981	14,802
Employee benefits	13	158,265	145
Other non-current debt		4,969	6
Deferred tax liabilities	10	7,870,968	7,243
<b>Non-current liabilities</b>		<b>31,766,182</b>	<b>22,197</b>
Current financial liabilities	9	1,346,327	261
Trade payables	11	787,990	213
Employee benefits	13	132,624	117
Other current payables and accrued liabilities	12	883,831	916
<b>Current liabilities</b>		<b>3,150,772</b>	<b>1,508</b>
<b>Total liabilities</b>		<b>34,916,955</b>	<b>23,704</b>
<b>Total equity and liabilities</b>		<b>143,471,856</b>	<b>125,723</b>

## CONSOLIDATED CASH FLOW STATEMENT

for the period from October 1, 2009 to September 30, 2010 (Prior year for comparison)

in Euro	NOTES	2009/10	2008/09 TEUR
<b>Cash flow from operating activities</b>			
Consolidated profit/loss for the year		3,710,539	-10,113
Adjustments for:			
Depreciation/amortization of non-current assets		644,792	146
Depreciation/amortization of current assets		288,861	3,847
Gains / losses from the disposal of property, plant and equipment and intangible assets		4,201	5
Change in value of biological assets	3	-8,049,244	4,271
Change in employee benefits		12,982	14
Interest expenses / income	19	1,321,767	-890
Other non-cash income / expenses		-42,291	174
Income taxes	20	-1,530,907	-817
		<b>-3,639,300</b>	<b>-3,363</b>
Change in trade receivables and other assets		-161,525	30
Change in inventories		-447,093	6
Change in trade payables, other debt and accrued liabilities		557,284	9
<b>Changes in working capital</b>		<b>-51,335</b>	<b>46</b>
Interest paid		-302,533	-341
Interest received		5,259	154
Income taxes paid		-3,486	-6
<b>Net cash flow from operating activities</b>		<b>-3,991,395</b>	<b>-3,512</b>
<b>Cash flow from investing activities</b>			
Investments in property, plant and equipment and intangible assets		-392,361	-328
Proceeds from the disposal of property, plant and equipment and intangible assets		2,380	0
Proceeds from financial investments (restricted cash)		500,000	2,000
<b>Net cash flow from investing activities</b>		<b>110,019</b>	<b>1,672</b>
<b>Cash flow from financing activities</b>			
Repayment of borrowings		-104,604	-4,404
Payments from borrowings		2,500,141	6,324
Payments from convertible bond less borrowings costs		9,551,403	0
<b>Net cash flow from financing activities</b>		<b>11,946,941</b>	<b>1,919</b>
<b>Change in cash and cash equivalents</b>		<b>8,065,565</b>	<b>80</b>
Cash and cash equivalents as of October 1	7	899,236	819
<b>Cash and cash equivalents as of September 30</b>	<b>7</b>	<b>8,964,801</b>	<b>899</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from October 1, 2009 to September 30, 2010 (Prior year for comparison)

### INTEREST OF SHAREHOLDERS IN TEAK HOLZ INTERNATIONAL AG

in Euro	NOTES	Share capital	Capital reserves	Retained earnings and earnings reserves	Minority interests	Total equity
<b>Balance as of October 1, 2008</b>		31,205,160	59,535,605	21,390,959	324	112,132,048
Consolidated profit/loss for the year		0	0	-10,113,325	0	-10,113,325
<b>Total net income</b>		<b>31,205,160</b>	<b>59,535,605</b>	<b>11,277,634</b>	<b>324</b>	<b>102,018,724</b>
Reclassifications		0	-2,069,909	2,069,909	0	0
<b>Balance as of September 30, 2009</b>		<b>31,205,160</b>	<b>57,465,696</b>	<b>13,347,543</b>	<b>324</b>	<b>102,018,724</b>
<b>Balance as of October 1, 2009</b>		31,205,160	57,465,696	13,347,543	324	102,018,724
Consolidated profit/loss for the year		0	0	3,710,539	0	3,710,539
<b>Total net income</b>		<b>31,205,160</b>	<b>57,465,696</b>	<b>17,058,082</b>	<b>324</b>	<b>105,729,262</b>
Issuance convertible bond less issuance costs		0	2,825,639	0	0	2,825,639
Reclassifications		0	-7,305,499	7,305,499	0	0
<b>Balance as of September 30, 2010</b>	<b>8</b>	<b>31,205,160</b>	<b>52,985,836</b>	<b>24,363,581</b>	<b>324</b>	<b>108,554,901</b>



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented.

### 1. Basis of preparation

The consolidated financial statements as of September 30, 2010 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the provisions of the Austrian Commercial Code to be complied with pursuant to Section 245a UGB.

The consolidated financial statements have been prepared under the historical cost convention, except for biological assets (teak trees), which at the balance sheet date are stated at their fair value less estimated selling costs.

The preparation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 21.

Those IFRS which are already mandatory for accounting periods ending September 30, 2010 are applied to all periods presented in these consolidated financial statements.

For the purpose of clarity, amounts are rounded and – unless otherwise stated – reported in euros. However, the exact amounts, including the digits not displayed, are used for calculations so that arithmetic differences may arise as a result.

The consolidated financial statements were prepared by the management and authorized for issue as of the date of signature. The separate financial statements of the parent company, which were included in the consolidated financial statements after transition to the applicable accounting standards, have not yet been adopted by the supervisory board. The supervisory board and the shareholders can change the separate financial statements in a way which might also affect the presentation of the consolidated financial statements.

#### **a. New and amended standards and interpretations that have been adopted by the European Union and applied for the first time in the fiscal year**

IFRS 8, "Operating segments", (mandatory for accounting periods beginning on or after January 1, 2009). The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The application of the new standard results in a change in the business segments under segment reporting.

All other new regulations (amendments to standards, new and amended interpretations) that were mandatory for the first time in the fiscal year had no or no material impact on the consolidated financial statements.

#### **b. Standards, interpretations and amendments to regulations that have not yet been applied**

A number of amendments to standards and interpretations and a new interpretation and a new standard have already been published, but not yet adopted by the European Union or are not yet mandatory. The impact of these regulations on the consolidated financial statements of the Company is not material or cannot be estimated reliably and, therefore, is not presented in detail.

## 2. Consolidation

The financial statements of companies included in the consolidated financial statements were prepared according to uniform accounting and measurement principles. To that end, the financial statements drawn up in accordance with country-specific or international regulations are adjusted to the uniform group accounting and measurement principles.

IFRS require the mandatory application of IFRS 3 for business combinations. The Costa Rican subsidiaries are pure property companies that do not constitute businesses as defined by IFRS 3. When an entity acquires a group of assets or net assets that does not constitute a business, it shall allocate the cost of the group between the individual identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition (IFRS 3.4). Accordingly, a deferred tax liability is not recognized in this case, either (see IAS 12.15b).

All inter-company receivables and liabilities, sales, interest expenses and income and other income and expenses of the consolidated group were eliminated. Inter-company results are also eliminated, unless they are immaterial.

Minority interests are accounted for as separate items within equity.

## 3. Segment reporting

### Reporting by business segment

#### a. General

A segment is a distinguishable component of an entity that is engaged in providing products or services (business segment), or engaged in providing products or services within a particular economic environment (geographical segment) and that is subject to risks and returns that are different from those of other segments.

#### b. Segment reporting of THI Group

With the beginning of the fiscal year 2009/10, as of October 1, 2009, the organization of the THI Group was structured in business units. The four segments are: BU "Teak Service", BU "Teak Sales", BU "Teak Production" and BU "Teak Plantations". This segmentation is in line with the group-wide budgeting and controlling structure, other organizational procedures, e.g. decision-making processes, risk management, reporting and the like are based on it.

Segment results and assets comprise amounts that are directly attributable to a segment, or that can be allocated on a reliable basis to a segment.

Segment reporting is based on the data of the Group's internal information and reporting system. Inter-segment services are charged at arm's length prices.

### Description of the individual business segments:

#### Segment Teak Service:

In this business segment, no revenue is generated from operations. This segment serves as the corporate umbrella and performs all group-wide management functions and services for all other business segments.

#### Segment Teak Sales:

Those revenues are attributed to this segment which are generated from the trade in and distribution of the raw material teak as unprocessed log wood worldwide. Target markets are Europe and Southeast Asia, most notably India, which is considered the largest consumer market for teak wood.

**Segment Teak Production:**

Revenues attributed to this business segment originate from wood which has undergone at least one processing or refinement step. The wood is either sold as sawn timber (planks) or planed wood (standardized boards planed all sides) for further processing e.g. to carpenter's workshops or merchants or processed in the Company's own plant into individually designed products (mainly products for outside use, e.g. terraces) and marketed.

**Segment Teak Plantations:**

In this segment, all plantation-specific functions are performed for the six plantation holding companies. The biological assets (this are the reforested teak plants and trees in the plantations) and their changes in value are allocated to this segment.

**4. Foreign currencies**

**a. Functional currency and reporting currency**

The consolidated financial statements are prepared in euro, which is the functional currency and the reporting currency of Teak Holz International AG, Linz. Functional currency of the Costa Rican subsidiaries is also the euro due to the activity as pure property company and financial structure in accordance with IAS 21.

**b. Transactions and balances**

Transactions in foreign currencies are measured at the foreign exchange rate prevailing at the date of the transaction. Monetary balance sheet items that are stated in foreign currencies at the balance sheet date are translated into the functional currency at the foreign exchange rate prevailing at the balance sheet date. Currency translation differences arising from the translation are recognized in the consolidated statement of comprehensive income. Non-monetary balance sheet items in foreign currencies which are measured at their fair value are translated into the functional currency at the foreign exchange rates prevailing at the time the financial statements are prepared.

The exchange rates used are as follows:

in EUR	PERIOD-END RATE 30.09.2010	PERIOD-END RATE 30.09.2009	AVERAGE RATE 2009/2010	AVERAGE RATE 2008/2009
TCRC*	0.70208	0.86458	0.74584	0.78172
USD	1.36119	1.45920	1.35730	1.35475

\* Thousand Costa Rican Colónes

## 5. Property, plant and equipment

Property, plant and equipment is stated at acquisition cost less systematic depreciation. Acquisition costs include the purchase price plus directly attributable incidental acquisition costs. Depreciation is charged on a straight-line basis over the expected useful lives of the assets and recognized directly in the consolidated statement of comprehensive income. Land is not subject to depreciation. The following useful lives are applied:

	YEARS
Leasehold improvements	10 - 33.3
IT equipment (hardware)	3 - 5
Machinery and technical equipment	4 - 5
Automobiles	5
Factory and office equipment	5 - 10

In accordance with IAS 36, impairment is charged if the recoverable amount of an asset is less than its carrying amount. The recoverable amount represents the higher of fair value less cost to sell or value in use of an asset.

The difference between the proceeds from the sale of property, plant and equipment and the carrying amount at the time of disposal is recognized as gain or loss in the operating result.

## 6. Biological assets

The Group is engaged almost exclusively in forestry. In accordance with IAS 41 "Agriculture", agricultural activity is defined as the management by an entity of the biological transformation of biological assets for sale into agricultural produce, or into additional biological assets.

The Company is specialist in sustained teak forest investments in Costa Rica. It is focused on the search for and afforestation of land suitable for the production of teak wood (plantation development), the care and intensive raising of teak plantations (operation), as well as the distribution of the valuable teak wood. Biological assets with a life cycle of many years shall be measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs.

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in profit or loss for the period in which it arises.

## 7. Intangible assets

Intangible assets are stated at acquisition cost less systematic amortization. Acquisition costs include the purchase price plus directly attributable incidental acquisition costs. Amortization is charged on a straight-line basis over the expected useful lives of the assets, as of the date of first use, and recognized in the consolidated statement of comprehensive income. The following useful lives are applied: Software: 5 years



In accordance with IAS 36, impairment is charged if the recoverable amount of an intangible asset is less than its carrying amount. The recoverable amount represents the higher of fair value less cost to sell or value in use of an asset. The difference between the proceeds from the sale of intangible assets and the carrying amount at the time of disposal is recognized as gain or loss in the operating result.

## 8. Financial instruments

Original financial instruments recognized in the consolidated balance sheet mainly comprise cash and cash equivalents, trade receivables, other assets, restricted cash at banks, trade payables, loan liabilities and other long-term debt. The accounting and measurement policies stated under the respective balance sheet item apply to these financial instruments. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Accounts payable are recognized at amortized cost. Foreign currency payables are measured at the exchange rate prevailing at the balance sheet date. Interest-bearing financial liabilities are initially recognized at fair value less transaction costs incurred; subsequently, they are measured at amortized cost using the effective interest method. Borrowing costs are recognized as expense in the consolidated statement of comprehensive income in the period in which they occur. In the reporting year and in the prior fiscal year, the Company had no derivative financial instruments.

### Usufruct rights

In accordance with IAS 32.16.a) (i), the usufruct rights granted by “Finca De Los Austriacos Numero Dos S.A.” are classified as other financial liabilities and recognized and measured pursuant to IAS 39. The liability is paid after the harvest of the teak wood (less a lump sum payment for selling expenses, harvest costs and administrative expenses) depending on the value of the teak wood and the quantity of solid cubic meters produced. Hence, this constitutes a non-financial, company-specific parameter so that no embedded derivative can be separated.

The usufruct rights are subsequently measured at amortized cost for the entire financial instrument. To this end, the cash outflows over the contractual period (based on the respective market price at the balance sheet date for different qualities of solid cubic meters of teak wood expected to be produced) discounted to the respective balance sheet date, and the time and probability of their occurrence are estimated and adjusted through profit or loss.

### Financial liabilities to shareholders

In addition to the equity component (nominal amount EUR 324) recognized under the item “minority interests”, the minority shareholders of “Finca De Los Austriacos S.A.”, according to a contractual arrangement, are entitled to the payment of a share in the proceeds from sales. This is carried out after the harvest of the teak trees (selling, care, harvest costs) and dependent on the value of the teak wood and solid cubic meters produced. The Group holds a purchase option for the minority interests after the final harvest and use of the teaks grown on this plantation in the amount of the paid-up nominal.

The Group accounts for and measures the contractual arrangement as a compound financial instrument and identifies an equity and liability component in accordance with IAS 32.28. From an economic perspective, the design of the payment claim of minority shareholders from the liability component is no different than the cash flows associated with the usufruct rights. In accordance with IAS 32.31 in conjunction with IAS 32.32, the financial liability on initial recognition shall be measured first, and only the residual amount (of the consideration received) shall be accounted for as equity component and measured. This amount equals the paid-up nominal (EUR 324). A subsequent measurement of the equity component is not made, whereas other financial liabilities are accounted for and measured in accordance with the above-mentioned accounting principles on usufruct rights.

### **Convertible bond**

On September 1, 2010, the Company issued a convertible bond bearing an interest rate of 5% with a nominal value of TEUR 10,000. The term of the convertible bond with a nominal value of TEUR 10,000 is 5 years as of the time of the initial issuance. Each holder has the right to convert the whole, but not part, of the bond with the respective nominal amount of TEUR 50 at the conversion price of EUR 5 per no-par value share.

The conversion agent determines the number of no-par value shares to be delivered in a conversion by dividing the total nominal amount of the notes submitted for conversion by a holder by the conversion price ruling at the conversion date, rounded down to the next whole share.

The conversion right may be exercised by a holder during the entire term (September 1, 2010 to August 31, 2015) in the months of April, July and October and in the period from December 1 to December 15 of each calendar year, and in the period from August 1, 2015 to August 21, 2015 at 16:00 hours (CET) at the latest.

The fair value of the debt component, which is reported in long-term liabilities, was calculated using market interest rates for similar, non-convertible bonds. At the date of the issuance, the fair value of the debt component of the bond was TEUR 7,040, of which pro rata issuance costs of TEUR 320 were deducted. The other financial liability is measured at amortized cost using the effective interest method.

The residual value (difference between proceeds from issuance and fair value of the debt component), representing the value of the equity conversion component, is recognized in equity under capital reserves in the amount of TEUR 2,826 (after deduction of pro rata issuance costs in the amount of TEUR 134).

To secure the claims of bondholders, THI AG granted liens on the shares in the Costa Rican subsidiaries of THI AG to Semper Constantia Privatbank AG (domiciled in Vienna).

## **9. Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## **10. Trade receivables and other assets**

Trade receivables and other assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognized in the consolidated statement of comprehensive income. When a trade receivable is uncollectible, it is written off.

## **11. Cash and cash equivalents**

Cash and cash equivalents include cash in hand and bank deposits. Current assets due within three months, which are subject to only minor fluctuations in value, are included as cash equivalents. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

## 12. Deferred taxes

Deferred tax assets/liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax assets/liabilities are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets/liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Temporary differences mainly arise from the differences in measurement of biological assets and tax loss carryforwards.

Deferred tax assets/liabilities are provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 13. Employee benefits

The employee benefit obligations relate exclusively to contractual termination benefits payable to managing directors of Teak Holz International AG. These are recognized at the amount of future obligations, discounted by 4% (prior year: 4%).

## 14. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## 15. Other provisions and contingent liabilities

Provisions are set up when THI Group has a present legal or constructive obligation to third parties as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. The provisions are recognized at the amount that represents the best estimate of expenses required to settle the obligation.

Provisions are measured at the present value of expected expenditure, with a pre-tax interest rate taking into account the current market expectations regarding the interest effect and the risks associated with the obligation. Increases in the provisions resulting from the mere compounding of interest are recognized as interest expenses in the consolidated statement of comprehensive income.

## 16. Revenue recognition

### a. Sales revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue from the sale of goods is recognized in the income statement when significant risks and rewards of ownership have been transferred to the buyer and when the amount of the revenue can be measured reliably.

### b. Interest income

Interest income is recognized pro rata temporis using the effective interest method.

## 17. Government grants

Government grants are presented in the balance sheet as deferred income at the date of origin, if there is reasonable assurance that the grants will be received and the Group will comply with the conditions attaching to them. Government grants received by the Group as compensation for expenses incurred are recognized in the consolidated statement of comprehensive income in the periods in which the expenses were incurred. Such grants received by the Group as compensation for the costs of an asset are recognized systematically in the consolidated statement of comprehensive income as other operating income over the useful life of the asset. Government grants, if any, are recognized as deferred income under non-current liabilities.

## 18. Leases

Leases in which all risks and rewards incidental to ownership are retained by the lessor are classified as operating leases at the lessee. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease. In case a lease is terminated early, possible contract penalties or charges incurred are immediately recognized in the consolidated statement of comprehensive income in the period of contract termination.

## 19. Research and development

Expenses for research activities are expensed as incurred in the consolidated statement of comprehensive income (2009/10: TEUR 82, 2008/09: TEUR 88). In the past fiscal year, no development activities have taken place.

## 20. Risk management

### a. The risk management system of the THI Group

As an internationally operating group of companies, THI Group, in its business activities, is exposed to operating risks which are monitored and assessed in a responsible manner by management and which are countered directly by appropriate preventive measures. According to the objective, risk management is designed in a way that the system helps to safeguard the going concern of the Group in the long term. Negative deviations and changes in the risk situation are identified by

the system immediately and preventive measures are taken in order to proactively prevent any damages from occurring or minimize their extent.

Since October 1, 2009, the beginning of the fiscal year 2009/10, the organization of the risk management system has been adjusted to the business unit structure of the Group. The breakdown into the four segments BU "Teak Plantations", BU "Teak Sales", BU "Teak Production" and BU "Teak Service" is in line with the budgeting and controlling structure, other organizational procedures, e.g. decision-making processes, segment reporting and the like are based on it. The risk management structure and the risk management processes have been incorporated accordingly. The heads of these segments are members of the risk management core team. The core team, together with the superior risk management control panel, forms the structure of the risk management system, which is managed and accounted for by the management board as a whole.

Under the scheduled monthly management reporting, the core team deals with the risk situation, the related findings subsequently flow into the semi-annual "risk inventory". In addition to the regular reporting intervals, if major changes in the risk situation occur, mutual reporting is required anytime and directly between the panel and the core team. In this reporting, the risk interdependencies of the departments and the effects on the Group's overall position are always evaluated. As a consequence, adequate control measures are assessed and implemented.

#### **b. Description of the main risks**

The Group's international activities expose it to a variety of financial risks, most notably the liquidity risk, foreign exchange risk, interest rate risk and credit risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. In the Group's internal risk analysis, the following significant risk groups were defined and are described below:

##### **Liquidity risk**

Securing a sound financial basis and maintaining liquidity are the focus of the corporate strategy. Particularly in times of the global financial and economic crisis, the financial power of the Group is of crucial importance. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. The business model of the company in the growth stage focuses on the long term, so that naturally the break-even point is expected in later years. Up to the time when the investments and preproduction costs that have already been required and the current operating expenses can be covered by the sale of teak wood from own forestry activities, ensuring the medium-term liquidity is still one of the major corporate risk.

As has been the case up to now – according to the risk management preventive measures – the comprehensive cost prevention and cost cutting program is consistently continued in the fiscal year 2009/10. In addition to cost cutting measures, measures on the income side were taken in order to increase the revenue from the international log wood trade and from the sale of teak wood products.

Liquidity was maintained throughout the fiscal year through existing credit lines. To further secure current liquidity needs, management implemented measures to raise additional capital. At the extraordinary general meeting in June 2010, management was authorized to issue convertible bonds. Already in August 2010, the resolution was passed to issue a five-year convertible bond with a fixed interest rate of 5.0%. After expiration of the subscription period on August 31, 2010, the total nominal value was set at TEUR 10,000 (200 bonds with a face value of TEUR 50 each).

By successfully placing the convertible bond, the Company was able to considerably reduce the liquidity risk. In addition to securing medium-term to long-term liquidity, the Company now has capital for implementing further expansion measures and intensifying teak log trade. If the timber trade volumes continue to rise, the liquidity risk is expected to diminish further and not to be material in the medium term.

### **Market risk**

Under its risk management strategy, the Group intends to strongly promote international teak log trade. The reorganization of the sales department and the creation of the position of Chief Sales Officer show the high priority of sales activities in the future. This increased importance of the sales department is a prerequisite for quickly achieving the set sales targets and related revenues.

The sales price of teak wood is one of the most important parameters for the result of the Company. A direct and significant influence of the market price for teak wood on the Group's comprehensive income results from the measurement of biological assets at fair value (see also Note 3 on the consolidated financial statements) and the measurement of financial liabilities from usufruct rights and minority interests (see also Note 8 on accounting and measurement principles). Since there is no comparable market price for plantation teak wood, the price is fixed for each contract, depending on several factors. In the reporting year, the demand from customers in Asia and Europe for high-quality teak wood increased. The sales department reported stable prices for all wood qualities. Thus, in the medium and long term, management expects a positive development of market prices.

If an assumed sales price of USD 600 per m<sup>3</sup> was used in the fair value measurement of the biological assets (instead of the USD 800 per m<sup>3</sup> actually used in the measurement model) for timber from final cuttings, a hypothetical book value of TEUR 100,779 would result as of September 30, 2010 (instead of the actually reported value of TEUR 117,637, based on USD 800 per m<sup>3</sup>), i.e. a reduction of the sales price for the harvest by 25% results in a decrease of the biological assets by TEUR 16,858. On the other hand, in this scenario, pre-tax profits would have been TEUR 994 (prior year: TEUR 926) higher due to changes in the value of financial liabilities, provided all other variables had remained constant.

As hedging measures against the market risk, the Company focuses on market diversification, adjustment of distribution channels and regional segmentation, as well as on fixing prices with customers for the medium term. The Group will continue to hedge against the market risk through the conclusion of supply contracts with its customers. It is planned to provide for adequate price and quality ranges under the supply contracts in order to counter the market and market price risk as far as possible.

The noticeable improvement in the general market conditions contributes to the future reduction in the market risk. The broadened customer base reduced the dependence on a few customers and thus contributed to minimizing the market risk.

### **Credit risk**

The best possible way to minimize credit risk is to agree on special payment terms for commercial transactions. In the international business with traders, wholesalers and major processors advance payments (cash in advance, cash by wire) for placing orders and letters of credit for providing payment guarantees have been established and enforced. Financial transactions are transacted only with financial institutions of high credit standing. Based on past experience, the risk of a payment default can be considered low.

### **Foreign exchange risk**

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and CR colon. Foreign exchange risks arise from expected future transactions, recognized assets and liabilities and net investments in foreign operations. To hedge against these risks, it is planned to agree on the euro as transaction currency whenever possible. However, due to the international character of the wood trade and the target markets in Southeast Asia, the US dollar is the dominant trading currency. Thus, attempts are made to limit the currency circulation to the US dollar in trading transactions. For business transactions denominated in a foreign currency, it is planned to hedge against the foreign exchange risk through derivative financial instruments, transacted by the finance department of the Group's parent company.

If the exchange rate of the US dollar as of September 30, 2010 (September 30, 2009) had changed by the percentage specified below ("volatility"), the pre-tax profits, due to changes in the value of financial liabilities from usufruct rights and minority interests, provided all other variables had remained constant, would have been higher or lower by the following amounts:

Currency	Volatility	Hypothetical impact on result in TEUR	
		September 30, 2010	September 30, 2009
USD	+10% (USD stronger)	-975	-286
USD	-10% (USD weaker)	795	0

If the USD/EUR exchange rate (currently 1.36095) changed by 10% (i.e. 1.225 or 1.497) at the balance sheet date, the biological asset, provided all other variables remained constant, would have to be reported TEUR 12,363 higher or TEUR 7,864 lower.

#### Cash flow and interest rate risk

Interest rate risk is the risk arising from fluctuations in the value of financial instruments, other balance sheet items and/or cash flows due to fluctuations in the market interest rates. For fixed-interest balance sheet items, the risk comprises the present value risk. In case the market rate for the financial instrument fluctuates, either a profit or a loss may result if the financial instrument is sold prior to maturity.

For variable-interest balance sheet items, the risk relates to the cash flow. With variable-interest financial instruments, adjustments in the interest rates may result from changes in the market rates. Such changes would entail changes in interest payments. Variable-interest (both short-term and long-term) financial liabilities account for the major part of financial interest balance sheet items. An interest rate risk, i.e. possible fluctuations in the value of financial instruments due to changes in market interest rates, arises particularly with medium and long-term fixed interest receivables and payables.

Changes in market interest rates of fixed-interest original financial instruments only have an impact on the result, if these are measured at fair value. Consequently, all fixed-interest financial instruments measured at amortized cost are not subject to interest rate risks in terms of IFRS 7. Changes in market interest rates affect the interest result of variable-interest original financial instruments whose interest payments are not designated as underlyings under cash flow hedges against interest rate risks, and therefore are included in the calculation of the result sensitivities. If the market interest rate had been 100 basis points higher (lower), the earnings before taxes as of September 30, 2010 would have been lower (higher) by TEUR 7 (September 30, 2009: TEUR 63). Due to the short maturity, the carrying amounts of trade receivables and other receivables and payables, as well as cash recognized in the balance sheet approximate the fair values.

If the discount rate (currently 12.75%) changed by 10% (i.e. 11.475% or 14.025%), the biological asset, provided all other variables remained constant, would have to be reported TEUR 11,420 higher or TEUR 7,244 lower.

#### Capital risk management

The objectives of the Group with regard to capital risk management are to ensure the Company's ability to continue as a going concern and to maintain an optimal capital structure. Up to the first major thinning revenues generated by the Group, the Company will be debt financed. The Group undertakes various measures to obtain borrowings at optimal conditions.

In order to monitor the capital structure, the Group calculates the gearing ratio from the proportion of net debt to total capital. Net debt consists of financial liabilities according to the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as equity according to the consolidated balance sheet plus net debt.

Another objective of capital risk management is to generate a suitable leverage effect. In this context, the management seeks to achieve a gearing ratio of a maximum of 25%. This is designed to ensure that in the future (even in case the planned parameters for the thinning and cutting measures fall short of expectations) the financing in any case will primarily be equity based.

<b>in TEUR</b>	<b>2009/10</b>	<b>2008/09</b>
Non-current financial liabilities	23,732	14,802
Current financial liabilities	1,346	261
Cash and cash equivalents	-8,965	-899
Net debt	16,113	14,164
Equity	108,555	102,019
Total capital	124,668	116,183
Gearing ratio	12.92%	12.19%

In this fiscal year, the characteristic of financial liabilities has not changed in the proportion between long-term and short-term, but only in the amount. As a result of the issue of the convertible bond, long-term financial liabilities, cash and equity increased. The rise in short-term financial liabilities is due to the use of overdrafts. For these reasons, the debt ratio changed only insignificantly.

Based on the currently available information and the measures taken - despite the identified risks - at the present time management assumes that the Company will be able to continue as a going concern and does not see any going concern risks for the fiscal year 2010/11.

## **21. Critical accounting estimates and assumptions**

The preparation of the consolidated financial statements in accordance with IFRS requires management to make assessments, estimates and judgments which have an impact on the application of the guidelines and carrying amounts of assets and liabilities, income and expenses. The estimates and respective assumptions are based on historical experience and on other factors that are believed to be reasonable under the circumstances. The result forms the basis for carrying amounts that cannot be derived from other sources. Actual results may differ from these estimates.

Estimates and respective assumptions are reviewed periodically. Changes in estimates are considered in the period in which the estimate was reviewed, if the review relates only to this period, or in the review period and future periods, if the review relates to both current and future periods. Furthermore, there are insignificant uncertainties regarding the recoverability of the deferred tax assets recognized on tax loss carryforwards.

The area in which such estimates and assumptions have a significant impact on the consolidated financial statements relates primarily to the measurement of biological assets (taking into account the resulting effects in the determination of deferred income taxes and the financial liabilities for usufruct rights and minority interests that are dependent on the value of the biological assets). The measurement of the biological assets is explained in detail in Note 3 in the notes to the consolidated financial statements. For a sensitivity analysis of the parameter "sales price teak wood", which is crucial in the measurement, reference is made to the comments on the market price risk.

Estimates and assumptions are also required for other balance sheet items. In case estimates and assumptions change, this would not have material effects on the Group's financial position and financial performance.



## COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

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## COMMENTS TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Segment reporting

in Euro	Teak Service	Teak Sales	Teak Production	Teak Plantations	Total Segments	Con-solidation	THI Group IFRS
<b>Revenue operating</b>	<b>0</b>	<b>701,599</b>	<b>515,869</b>	<b>0</b>	<b>1,217,468</b>	<b>0</b>	<b>1,217,468</b>
Third country revenue external	0	701,599	0	0	701,599	0	701,599
Domestic revenue external	0	0	515,869	0	515,869	0	515,869
Losses/gains arising from changes in fair value less point-of-sale costs of biological assets	0	0	0	8,049,244	8,049,244	0	8,049,244
Depreciation and amortization	-159,954	0	-484,721	-117	-644,792	0	-644,792
thereof impairment charge	0	0	-479,884	0	-479,884	0	-479,884
Other expenses and income	-1,986,017	-811,496	-975,457	-1,405,602	-5,178,571	58,047	-5,120,524
<b>EBIT (segment result)</b>	<b>-2,145,971</b>	<b>-109,897</b>	<b>-944,309</b>	<b>6,643,525</b>	<b>3,443,349</b>	<b>58,047</b>	<b>3,501,399</b>
Financial result							-1,321,767
Taxes							1,530,907
<b>CONSOLIDATED PROFIT/LOSS FOR THE YEAR</b>							<b>3,710,539</b>

The revenues reported in these consolidated financial statements of Teak Holz International AG for the fiscal year from October 1, 2009 to September 30, 2010 were generated in Austria, Germany, Denmark, India and Singapore. Third-country revenues of the Teak Sales segment include revenue shares of customers which each amount to more than 10% of total revenue (TEUR 379, TEUR 143). The Teak Production segment includes revenue shares of a customer which amount to more than 10% of total revenue (TEUR 126).

Due to the implementation of the new business unit structure (segments) at the beginning of the fiscal year 2009/10, there are no comparative prior year figures available.

## COMMENTS TO THE CONSOLIDATED BALANCE SHEET

### 2. Property, plant and equipment

in Euro	LAND BUILDINGS	FACTORY AND OFFICE EQUIPMENT, VEHICLE FLEET	TECHNICAL EQUIPMENT AND MACHINERY	TOTAL
<b>Acquisition cost</b>				
October 1, 2009	10,891,545	531,480	396,964	11,819,989
Retransfers	30,867	-52,456	35,025	13,436
Additions	0	70,889	314,555	385,444
Disposals	0	-23,376	-4,670	-28,046
<b>September 30, 2010</b>	<b>10,922,412</b>	<b>526,537</b>	<b>741,874</b>	<b>12,190,823</b>
<b>Depreciation</b>				
October 1, 2009	76,599	173,399	60,131	310,129
Retransfers	0	-42,916	50,062	7,146
Depreciation of the fiscal year	257,157	87,366	289,644	634,167
Disposals	0	-6,775	-3,926	-10,701
<b>September 30, 2010</b>	<b>333,756</b>	<b>211,074</b>	<b>395,911</b>	<b>940,741</b>
<b>Carrying amount</b>				
<b>October 1, 2009</b>	<b>10,814,946</b>	<b>365,825</b>	<b>336,833</b>	<b>11,517,604</b>
<b>September 30, 2010</b>	<b>10,588,656</b>	<b>315,463</b>	<b>345,965</b>	<b>11,250,084</b>

Each item of the depreciation of the fiscal year includes a write-down to the lower realizable value of property, plant and equipment of the carpenter's workshop Schöndorf (Teak Production segment) (see Note 28 - Events after the balance sheet). The total amount is EUR 479,884 (prior year: EUR 0).

in Euro	LAND BUILDINGS	FACTORY AND OFFICE EQUIPMENT, VEHICLE FLEET	TECHNICAL EQUIPMENT AND MACHINERY	TOTAL
<b>Acquisition cost</b>				
October 1, 2008	10,891,545	470,915	186,124	11,548,584
Additions	0	84,228	216,232	300,460
Disposals	0	-23,663	-5,392	-29,055
<b>September 30, 2009</b>	<b>10,891,545</b>	<b>531,480</b>	<b>396,964</b>	<b>11,819,989</b>
<b>Depreciation</b>				
October 1, 2008	45,953	112,335	24,957	183,245
Depreciation of the fiscal year	30,646	45,961	34,658	111,265
Disposals	0	7,359	516	7,875
<b>September 30, 2009</b>	<b>76,599</b>	<b>165,655</b>	<b>60,131</b>	<b>302,386</b>
<b>Carrying amount</b>				
<b>October 1, 2008</b>	<b>10,845,592</b>	<b>358,580</b>	<b>161,167</b>	<b>11,365,339</b>
<b>September 30, 2009</b>	<b>10,814,946</b>	<b>365,825</b>	<b>336,833</b>	<b>11,517,604</b>

In the fiscal year 2009/10, rental and leasing expenses in the amount of TEUR 73 (prior year: TEUR 58) arose in the reporting period from the use of property, plant and equipment not recognized in the balance sheet. The recognized expenses do not include any conditional rent payments or payments from subleases. Based on leasing and rental agreements, the obligations for the coming years are as follows:

Obligations to third parties from operating leases:

in TEUR	2009/10	2008/09
Within the following year	17	35
Between one and five years	17	43
<b>Total</b>	<b>34</b>	<b>78</b>

The long-term loan in connection with the acquisition of the corporate property Schöndorf was secured by mortgage (TEUR 520).

### 3. Biological assets in Costa Rica

#### Fundamental measurement principles in accordance with IAS 41

Biological assets with a lifecycle of many years shall be measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs. A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in profit or loss for the period in which it arises. In the case of THI Group, biological assets exclusively include the teak plants and trees (the teak plantations) grown in Costa Rica.

The measurement of biological assets is based on estimates by experts of the THI Group (as of September 30, 2008, based on independent expert estimates) and is adjusted annually. In this connection, reference is made to the fact that a transparent market for "in-growth teak wood plantations" does not exist. Therefore the value is determined using the discounted cash flow method. The discounted proceeds to be expected for the harvests less discounted costs necessary for the efficient establishment and care of a plantation and sale are calculated. The parameters used are the values of physical inventory-taking (number of trees per hectare), assumptions on the wood mass per tree and the number of trees to be cut in thinnings and final cutting, financial data at the balance sheet date (USD exchange rate, yield 10Y treasury note + interest spreads customary in the market) and assumptions on future teak wood prices.

As non-financial measures, the qualities of the inventory and the plantation areas are assessed by internal forestry experts. In case of a deterioration of current qualities, this could well lead to a downward revision of growth forecasts, quantities to be expected, prices and proceeds.

The first interference (thinning, reduction of the number of trees) is scheduled to take place in the dry period of the 7th or 8th year of the plantation's existence as carefully as possible to prevent damage to the remaining trees. That is why these interferences are performed and supervised by the Company's own staff. At the end of the forest rotation period, the butt logs, provided that systematic fertilization prevents a lack of nutrients in the soil, have reached their target diameter and can be cleared.

Biological assets generated by the Group itself (planting of teak seedlings on own land by THI Group), from the beginning, are measured at fair value less costs for care and forestation, taking into account an adequate growth allowance. In doing so, as of September 30, 2010 the following growth categories and allowances are used:

<b>1<sup>st</sup> growth category</b>	<b>Planting (year 0) to year 4</b>	<b>Allowance</b>	<b>40%</b>
<b>2<sup>nd</sup> growth category</b>	<b>Year 5 to year 9</b>	<b>Allowance</b>	<b>20%</b>
<b>3<sup>rd</sup> growth category</b>	<b>Year 10 to final cutting</b>	<b>Allowance</b>	<b>0%</b>

Biological assets that are first recognized upon acquisitions or contributions of already seeded plantation areas are initially measured at acquisition cost. In the subsequent measurement, the fair value less point-of-sale costs is recognized on the basis of the measurement principles presented above. Gains arise only when the fair value, determined using the discounted cash flow method, less estimated point-of-sale costs of biological assets, taking into account growth allowances, exceeds the acquisition costs (or adjusted acquisition costs due to thinnings). Diminutions in value, by contrast, are recognized already in the period in which they arise.

**The carrying amounts of biological assets (teak plantations) in Costa Rica are as follows:**

in Euro	
Carrying amount as of October 1, 2009	109,664,514
Change in fair value	8,049,244
Harvest	-76,384
<b>Carrying amount as of September 30, 2010</b>	<b>117,637,374</b>
Prior year:	
Carrying amount as of October 1, 2008	117,786,916
Change in fair value	-4,270,654
Harvest	-3,851,748
<b>Carrying amount as of September 30, 2009</b>	<b>109,664,514</b>

**Details of change in fair value of biological assets**

The change in fair value of biological assets can be summarized as follows:

in Euro	<b>2009/10</b>	<b>2008/09</b>
Change in value of existing plantings	8,049,244	-4,270,654
New planting in current year	0	0
<b>Increase/decrease in fair value of biological assets</b>	<b>8,049,244</b>	<b>-4,270,654</b>

**Thinning/harvest**

As harvests in the meaning of IAS 41, which reduce the amount of biological assets, the Group regards the thinning and the final cutting. In the fiscal year 2009/10, a thinning was carried out only in Plantacion Austriaca Teca, S.A. No further reductions in the number of trees and thinnings were carried out.

**Disclosure on assumptions relating to the future and uncertainties in estimates regarding biological assets**

THI Group considers the measurement of teak plantations by internal experts (based on the independent expert opinion as of September 30, 2008) well founded and conservative. Crucial for the measurement of future proceeds are the increase in volume and the prices to be fetched in the future.

- Increase in volume: Regarding the first interference (exception: necessary sanitary thinnings) - referred to as thinning after 8 years in the respective tables - it was assumed that 500 trees or approx. 100 solid cubic meters of teak wood per hectare are taken from the forest. With regard to the expected quantities from the final cuttings - after 15 years - it was assumed that 600 trees or 450 solid cubic meters of teak wood per hectare are harvested.

- b. The estimated proceeds, which were adjusted in the prior year due to the market situation, of USD 190 per m<sup>3</sup> for the timber harvested in the thinnings scheduled for the 8th year of the plantation's existence were maintained. The estimated proceeds of 800 USD per m<sup>3</sup> for the wood generated in the clearance after 15 years are based on all price notifications and quotations received and also on wood prices taken from wood offerings that were plausible and reasonable. Further proof of the price estimates is derived from the sales transacted so far, in which a price of USD 850 was fetched for wood of 115-119 cm in diameter. These sales related to purchased, not certified wood. Due to the constantly rising demand for certified wood, it can be assumed that the estimated price for own certified wood of USD 800 was set quite conservatively. Both figures represent an average assortment or an assortment average, as can be generated from the standing tree from thinning wood on the one hand, and from clearance wood on the other hand.
- c. In order to further reduce any remaining risk of excessive measurement, THI Group does not account for inflation or real price increase in the calculation of the market value of the plantations.

In case the estimates are changed in the next period, the fair value of the biological assets might change significantly (for details see Note 20 Market risk).

#### **Discount rate**

The discount rate used is 12.75% (prior year: 12.75%).

#### **Securing the harvest**

The value of tree plantations can only be maintained, if the Group can secure and provide the financial means necessary for the care of the plantations up to the point of harvest.

#### **Dealing with biological risks (fire, storm, flooding, lightning stroke)**

The fire risk for young tree plantations is significant, up to now, however, no such incidences occurred. The Group reduces this biological risk as far as possible through adequate preventive measures (e.g. cutting the weeds before the dry season, creating forest aisles and permanent monitoring). Once teak trees are more than 4 to 6 meters in height, they are no longer damaged by fire.

Tropical cyclones can result in direct windfall and in huge floodings. The plantations are protected against such storms from the Caribbean Sea by the Cordilleras with an altitude of more than 3,000 meters. According to all reports so far, no storms are known to have come from the Pacific side that would have damaged plantations. Even that side of Costa Rica open to the Pacific Ocean was spared by the cyclones affecting the Caribbean according to current reports. No insurance was taken out for any events described, since the premium, compared to the amounts of loss to be expected, would be unreasonably high.

## **4. Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average price method. The cost of the harvested teak trees results from the fair value less point-of-sale costs. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). The lower net realizable value results from the estimated selling price realizable in the ordinary course of business, less any selling expenses incurred.

<b>Inventories:</b>	<b>30.09.2010</b>	<b>30.09.2009</b>
Teak stock	502,406	36,455
Larch stock	17,765	2,730
Prepayments on inventories	21,288	71,829
Finished goods	42,094	36,252
Other inventory	18,718	7,912
Allowance Teak Production	-288,861	0
<b>Net carrying amount</b>	<b>313,410</b>	<b>155.178</b>

The allowance Teak Production results from a write-down of inventories.

## 5. Current financial assets (restricted cash)

Current financial assets included restricted cash deposited with banks in the amount of EUR 0 (prior year: EUR 500,000).

## 6. Trade receivables

Trade receivables amount to EUR 331,919 in the past fiscal year (prior year: EUR 148,003). They include receivables from related parties in the amount of EUR 65,827 (see Note 26 - Related party transactions).

## 7. Cash and cash equivalents

in Euro	<b>30.09.2010</b>	<b>30.09.2009</b>
Cash and cash equivalents	8,964,801	899,236
<b>Cash and cash equivalents in cash flow</b>	<b>8,964,801</b>	<b>899,236</b>

All cash and cash equivalents have a remaining maturity of less than 3 months.

## 8. Equity

### Share capital

The share capital of Teak Holz International AG, Linz, amounts to EUR 31,205,160 and is fully paid in. As of September 30, 2010, the number of (no-par value) ordinary shares was 6,241,032. Bearers of ordinary shares are entitled to dividends and have one vote per share at the annual general meeting.

### Minority interests

Minority interests are shares held by minority shareholders in the Group's total equity, which are explained in detail in the consolidated notes to the financial statements under Note 8 "Accounting and measurement principles".

### Authorized capital

At the 2nd ordinary general meeting on February 20, 2009, the management board, subject to the approval of the supervisory board, was authorized to increase the share capital of the Company, possibly in several tranches, against cash contribution or contribution in kind by up to EUR 15,602,580 through the issue of up to 3,120,516 new bearer shares against cash contributi-

on or contribution in kind to up to EUR 46,807,740 within 5 years as of the date the amendment to the articles of association is registered in the commercial register, and to set the issue price and conditions in consultation with the supervisory board (authorized capital). In addition, the management board is authorized, subject to the approval of the supervisory board, to exclude the subscription right of existing shareholders. The supervisory board is authorized to resolve on amendments to the articles of association resulting from the issue of shares from the authorized capital.

#### **Conditional capital**

At the extraordinary general meeting on June 23, 2010, the management board, subject to the approval of the supervisory board, was authorized to issue convertible bonds within five years as of the date this resolution was passed, containing a subscription and/or conversion right for the purchase of a total of up to 3,120,516 registered no-par value shares of the Company with a prorated amount in the share capital of up to EUR 15,602,580. In addition, the management board is authorized, subject to the approval of the supervisory board, to exclude the subscription right of existing shareholders.

#### **Capital reserve**

The release of capital reserves in the amount of EUR 7,305,499 (prior year: EUR 2,069,909) equals the net loss for the year reported in the financial statements of Teak Holz International AG, Linz, which was offset by the release of reserves. Due to the issuance of the convertible bond on September 1, 2010 in the amount of EUR 10,000,000, an equity share of EUR 2,960,000, less proportional transaction costs of EUR 134,361, results from splitting the proceeds from issuance ("split accounting", see also Note No. 8 on accounting and measurement principles). The netted amount of EUR 2,825,639 is reported under capital reserves.

## **9. Financial liabilities**

### **Non-current financial liabilities**

in Euro	<b>30.09.2010</b>	<b>30.09.2009</b>
Secured loans from banks	6,131,129	4,843,060
Unsecured loans from banks	13,124	27,441
Convertible bond	6,725,764	0
Shareholder loan	2,130,000	2,130,000
Loan from Austrian Research Promotion Agency	273,100	236,200
Usufruct rights	1,949,411	1,779,811
Liabilities to minority shareholders	6,509,453	5,785,629
	<b>23,731,981</b>	<b>14,802,141</b>

The collateral for the bank loans includes a cover bill, a mortgage on the premises and production facilities in Schöndorf in the amount of EUR 520,000, and a mortgage on the forest property of Gotthard Count Pilati (member of the supervisory board) in the amount of EUR 5,625,000.

Non-current financial liabilities include liabilities to minority shareholders, 65 ha (prior year: 66 ha) in Finca de los Austriacos, S.A., Costa Rica, and holders of usufruct rights (26 ha in Finca de los Austriacos Numero Dos, S.A., Costa Rica), the majority of which will fall due after planned harvests in 6 or 8 years. 1 minority interest = 1 ha in Finca De Los Austriacos, S.A., Costa Rica, was acquired by Teak Holz Handels- und Verarbeitings GmbH in the reporting period. As the subsidiary Teak Holz Handels- und Verarbeitings GmbH is fully consolidated, the Group now retains 65 shares = 65 ha minority interests.



The shareholder loan (see Note 26 - Related party transactions) bears interest of the 3M EURIBOR plus a spread of 3% p.a. for the year 2009, 4% p.a. for the year 2010, and 5% p.a. for the year 2011. At the balance sheet date, the interest rate for the shareholder loan was 4.73%. The shareholder loan in the amount of EUR 2,130,000 was repaid early on October 29, 2010.

Non-current financial liabilities also include the debt share less proportional transaction costs of the convertible bond issued on September 1, 2010 in the nominal amount of EUR 10,000,000. This bond is secured by liens on the shares in the Costa Rican subsidiaries of THI AG. The nominal interest rate of the convertible bond is 5% p.a. The effective interest rate (market interest rate of a comparable bond without conversion right) is 13.5% p.a.

#### **Maturities of non-current liabilities and loans:**

in Euro	Carrying amounts		Cash flows	
	30.09.2010	30.09.2009	30.09.2010	30.09.2009
Less than 1 year	308,671	91,100	912,670	319,133
Between 1 and 5 years	11,165,323	3,278,048	13,620,417	3,999,065
More than 5 years	12,257,987	11,432,993	27,561,565	26,174,337
<b>Total</b>	<b>23,731,981</b>	<b>14,802,141</b>	<b>42,094,652</b>	<b>30,492,535</b>

The fair values approximate the carrying amounts of the liabilities.

#### **Current financial liabilities**

in Euro	30.09.2010	30.09.2009
Liabilities to banks (overdrafts)	1,346,327	261,440

Liabilities to banks in the amount of EUR 429,431 are not secured at the balance sheet date. The fair values approximate the carrying amounts of the liabilities. The average interest rate of the liabilities to banks ranges between 1.75 and 2.65%. The interest rate for FFG loans is 2%.

## 9. Additional disclosures on financial instruments

	MEASUREMENT CATEGORY PURSUANT TO IAS 39	CARRYING AMOUNT 30.09.2010	AMOUNT RECOGNISED IN BALANCE SHEET PURSUANT TO IAS 39	FAIR VALUE 30.09.2010
in Euro				
			Amortized acquisition cost	
<b>ASSETS</b>				
Trade receivables	LaR	33,919	331,919	331,919
Financial assets (restricted cash)	LaR	0	0	0
Other receivables and current assets	LaR/n.a.	61,564	61,564	61,564
Cash and cash equivalents	LaR	8,964,801	8,964,801	8,964,801
<b>EQUITY AND LIABILITIES</b>				
Non-current financial liabilities				
Usufruct rights	FLAC	1,949,411	1,949,411	1,949,411
Liabilities to minority shareholders	FLAC	6,509,453	6,509,453	6,509,453
Liabilities to shareholders	FLAC	2,130,000	2,130,000	2,130,000
Convertible bond	FLAC	6,725,764	6,725,764	6,725,764
Bank loans	FLAC	6,417,352	6,417,352	6,417,352
Trade payables	FLAC	787,990	787,990	787,990
Other liabilities	FLAC	527,864	527,864	527,864
Current financial liabilities	FLAC	1,346,327	1,346,327	1,346,327
Of which accumulated according to measurement category pursuant to IAS 39:				
Loans and receivables (LaR)		9,358,495	9,358,495	9,358,495
Financial liabilities measured at amortized cost (FLAC)		26,394,162	26,394,162	26,394,162



MEASUREMENT CATEGORY PURSUANT TO IAS 39	CARRYING AMOUNT 30.09.2009	AMOUNT RECOGNISED IN BALANCE SHEET PURSUANT TO IAS 39	FAIR VALUE 30.09.2009
		Amortized acquisition cost	
LaR	148,003	148,003	148,003
LaR	500,000	500,000	500,000
LaR/n.a.	52,240	52,240	52,240
LaR	899,236	899,236	899,236
FLAC	1,779,811	1,779,811	1,779,811
FLAC	5,785,629	5,785,629	5,785,629
FLAC	2,130,000	2,130,000	2,130,000
FLAC	0	0	0
FLAC	5,106,701	5,106,701	5,106,701
FLAC	213,016	213,016	213,016
FLAC	586,884	586,884	586,884
FLAC	261,440	261,440	261,440
	1,599,676	1,599,676	1,599,676
	15,863,481	15,863,481	15,863,481

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## 10. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

in Euro	ASSETS		LIABILITIES		NET	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
Property, plant and equipment	0	354	-3,735	-4,141	-3,735	-3,788
Biological assets	0	0	-7,789,487	-7,240,389	-7,789,487	-7,240,474
Issuance costs convertible bond	0	0	-78,559	0	-78,559	0
Tax advantage due to tax loss carryforwards	4,843,194	2,681,196	0	0	4,843,194	2,681,196
<b>Gross amount deferred tax assets/liabilities</b>	<b>4,843,194</b>	<b>2,681,550</b>	<b>-7,871,78</b>	<b>-7,244,530</b>	<b>-3,028,587</b>	<b>-4,563,066</b>
Netting	-813	-1,218	813	1,218	0	0
<b>Net amount deferred tax assets/liabilities</b>	<b>4,842,381</b>	<b>2,680,332</b>	<b>-7,870,968</b>	<b>-7,243,312</b>	<b>-3,028,587</b>	<b>-4,563,066</b>

### Tax loss carryforwards

As of September 30, 2010, THI Group has loss carryforward in the amount of EUR 25,484,272 (prior year: EUR 15,091,911), which will expire in the next years as follows:

in Euro	2009/10	2008/09
2011/12	2,038,930	2,038,930
2012/13	1,146,087	1,146,087
2013/14	1,258,447	1,258,447
2014/15	1,744,371	0
Unlimited	19,296,437	10,648,447
Total	25,484,272	15,091,911
Recognized as deferred tax asset	-19,360,052	-10,712,062
<b>Unrecognized tax loss carryforwards</b>	<b>6,124,220</b>	<b>4,379,849</b>

The tax loss carryforwards expire in different years. Deferred tax assets have not been recognized when it is not likely that future taxable profits will be available against which they can be utilized.

### Changes in temporary differences during the year

in Euro	BALANCE 01.10.2009	CHANGE THROUGH PROFIT OR LOSS	BALANCE 30.09.2010
Property, plant and equipment	-3,788	52	-3,736
Biological assets	-7,240,474	-549,013	-7,789,487
Convertible bond	0	-78,559	-78,559
Tax advantage due to tax loss carryforwards	2,681,196	2,161,997	4,843,193
<b>Total</b>	<b>-4,563,066</b>	<b>1,534,477</b>	<b>-3,028,587</b>

Prior year:

in Euro	<b>BALANCE 01.10.2008</b>	<b>CHANGE THROUGH PROFIT OR LOSS</b>	<b>BALANCE 30.09.2009</b>
Property, plant and equipment	-7,740	3,952	-3,788
Biological assets	-7,378,474	138,000	-7,240,474
Inventories	-55,313	55,313	0
Tax advantage due to tax loss carryforwards	2,055,454	625,742	2,681,196
<b>Total</b>	<b>-5,386,073</b>	<b>823,007</b>	<b>-4,563,066</b>

## 11. Trade payables

Trade payables amount to EUR 787,990 in the past fiscal year (prior year: EUR 213,016). They include payables to related parties in the amount of EUR 298,024.

## 12. Other current payables and accrued liabilities

in Euro	<b>30.09.2010</b>	<b>30.09.2009</b>
Legal and consulting costs	98,500	120,729
Liabilities to shareholders	468,259	468,259
Deferred income	30,532	0
Other	286,540	326,875
<b>Total</b>	<b>883,831</b>	<b>915,863</b>

## 13. Employee benefits

### Termination benefits (long-term benefits)

in Euro	<b>2009/10</b>	<b>2008/09</b>
Net liability on October 1	145,283	131,188
Allocation	61,096	79,689
Reversal	-48,114	-65,594
<b>Net liability on September 30</b>	<b>158,265</b>	<b>145,283</b>

Short-term employee benefits include accrued expenses for unused vacation in the amount of EUR 96,878 (prior year: EUR 71,429) and vacation pay and Christmas bonus in the amount of EUR 35,746 (prior year: EUR 45,801).

## COMMENTS TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The consolidated statement of comprehensive income has been prepared using the total expenditure format.

### 14. Revenue

in Euro	2009/10	2008/09
Third country revenue	702,756	244,775
Domestic revenue	514,712	571,508
<b>Total</b>	<b>1,217,468</b>	<b>816,283</b>

### 15. Cost of materials, cost of sales, other purchased services and write-downs on timber inventories

in Euro	2009/10	2008/09
Cost of sales teak log wood	349,073	226,411
Cost of sales teak/larch	35,684	280,288
Purchase of materials and goods	110,122	194,635
Cost of purchased services	667,435	407,658
Write-down of harvested teak trees	0	3,846,589
Write-down of timber inventory	288,861	0
Consumables	11,194	10,993
<b>Total</b>	<b>1,462,369</b>	<b>4,966,574</b>

### 16. Personnel expenses

in Euro	2009/10	2008/09
Wages/salaries	1,581,822	1,505,090
Expenses for termination benefits	33,169	98,870
Statutory social security contributions	357,153	320,856
Other personnel expenses	36,334	22,018
<b>Total</b>	<b>2,008,478</b>	<b>1,946,834</b>

Expenses for termination benefits include the contractual termination benefits of managing directors. Personnel expenses include contributions to staff provision funds in the amount of EUR 18,095.

## 17. Other operating income

in Euro	2009/10	2008/09
Income from reimbursement of expenses	30,844	103,188
Grants received	162,483	212,204
Insurance compensations	1,932	150,000
Other	29,334	75,646
<b>Total</b>	<b>224,593</b>	<b>541,038</b>

## 18. Other operating expenses

in Euro	2009/10	2008/09
Legal, audit and consulting fees	312,333	504,312
Other services, charges	89,580	97,425
Advertising and marketing	48,880	68,384
General administration	393,970	286,104
Automobile expenses	296,608	273,358
Research expenditure	81,682	87,717
Transport and travel expenses, further training	86,754	123,576
Other	570,303	423,451
<b>Total</b>	<b>1,880,110</b>	<b>1,864,327</b>

## 19. Financial result

in Euro	2009/10	2008/09
<b>Financial income</b>		
Interest income from bank deposits	55,405	153,500
Adjustment liabilities from minority interests and usufruct rights	0	1,112,319
<b>Financial expenses</b>		
Exchange rate differences	-81,070	-34,645
Interest expenses from bank liabilities / loans	-302,532	-341,318
Adjustment liabilities from minority interests and usufruct rights	-993,570	0
<b>Financial result - net</b>	<b>-1,321,767</b>	<b>889,856</b>

The expense from financial liabilities to minority shareholders and holders of usufruct rights mainly results from adding accrued interest to the discounted debt (interest rate: 12.75%, prior year: 12.75%).

## 20. Taxes on income

in Euro	2009/10	2008/09
<b>Tax recognized in the statement of comprehensive income</b>		
Current tax of the fiscal year	-3,486	-6,047
<b>Deferred taxes</b>		
Allocation and reversal of temporary differences	-627,604	197,351
Income from recognized tax loss carryforwards	2,161,997	625,742
<b>Total income taxes in the statement of comprehensive income</b>	<b>1,530,907</b>	<b>817,046</b>

The tax burden of the Group differs from the theoretical tax burden based on the tax rate applicable in Austria, the corporate domicile of the parent company, as follows:

in Euro	2009/10	2008/09
<b>Taxable income</b>	<b>2,179,631</b>	<b>-10,930,371</b>
Tax at the applicable tax rate (25%)	-916,881	2,732,593
Effect of permanently non-deductible expenses	1,780,706	5,013
Effect of non-taxable income	-13,988	-14,534
Effect from tax loss carryforwards not accounted for/recognized	-436,093	-314,612
Effect from tax loss carryforwards from prior years	-75,077	0
Effect from differences from biological assets not recognized as deferred tax assets	1,444,117	-1,892,515
Other	-251,877	301,101
<b>Total income taxes in the statement of comprehensive income</b>	<b>1,530,907</b>	<b>817,046</b>

In the past fiscal year, a transfer pricing model was developed under tax planning, according to which the future income from the sale of wood in Austria is subject to an income tax rate of 25%. The income tax rate in Costa Rica, by contrast, amounts to 30%.

## 21. Earnings per share

### a. Basic earnings per share

The calculation of basic earnings per share as of September 30, 2010 was based on the profit share attributable to the ordinary shareholders in the amount of EUR 0.59 (prior year: EUR -1.62) and the average/mixed number of ordinary shares outstanding during the fiscal year 2009/10 in the amount of 6,241,032 (prior year: 6,241,032).

### b. Diluted earnings per share

Diluted earnings per share are calculated by increasing the average number of shares in circulation by all conversion rights. It is assumed that the convertible bonds are converted into shares and the net profit is adjusted for interest expense and tax effect. The number of shares calculated in this way is 6,405,416 (prior year: 6,241,032) and diluted earnings per share EUR 0.59 (prior year: EUR -1.62).

## 22. Acquisitions of Costa Rican property companies

In the fiscal year 2009/10, no property companies were acquired.

## 23. Business combinations

In the fiscal year 2009/10, no business combinations were formed.



## OTHER DISCLOSURES

### 24. Number of employees

The average number of employees was:

	2009/10	2008/09
Austria	22	22
Costa Rica	93	99
<b>THI-Gruppe</b>	<b>115</b>	<b>121</b>

### 25. Contingent liabilities

As of the balance sheet date, the Company has no contingent liabilities to external third parties.

### 26. Related party transactions

#### Identification of related parties:

THI Group has a close relationship with its management and supervisory board members, and with the shareholders.

#### In the fiscal year 2009/10, the following persons served on the management board:

Klaus Hennerbichler (COO)  
 Mag. Dr. Martin Pree (CEO), until March 31, 2010  
 Dr. Markus Baumgartner (CEO), since April 1, 2010  
 Pavel Brenner (Chief Sales Officer), since July 1, 2010

#### In the fiscal year 2009/10, the following persons served on the supervisory board:

Mag.iur. Alexander Hüttner, LL.M.(NYU) (chairman of the supervisory board)  
 Erwin Hörmann (deputy chairman of the supervisory board)  
 Gotthard Count Pilati von Thassul zu Daxberg (member of supervisory board)  
 Dr. Manfred Luger (member of supervisory board), since February 18, 2010  
 Dr. Karl Arco (member of supervisory board), since June 23, 2010

#### Remunerations/emoluments of the management and supervisory board

in EUR	MANAGEMENT BOARD REMUNERATIONS/ SUPERVISORY BOARD EMOLUMENTS	
	2009/10	2008/09
Management board	428,162	403,189
Supervisory board	32,000	56,000
	<b>460,162</b>	<b>459,189</b>

As of the balance sheet date, no loans and advances have been granted to members of the management or supervisory board of the THI Group. Stock option plans or similar share-based payment systems do not exist.

#### Transactions with related parties:

Through the legal representation/consulting of Teak Holz International AG, Linz, by Saxinger, Chalupsky & Partner Rechtsanwälte GmbH, Linz (Mag.iur. Alexander Hüttner, LL.M. (NYU), chairman of the supervisory board), current fees in the amount of TEUR 81 (prior year: TEUR 117) were incurred.

As of the balance sheet date, liabilities exist to Klaus Hennerbichler in the amount of TEUR 191 (prior year: TEUR 159), resulting from the acquisitions of subsidiaries (Segunda Plantacion Austriaca Teca, S.A, Costa Rica, Servicios Austriacos Uno, S.A., Costa Rica, and Teak Holz Handels- und Verarbeitings GmbH, Linz) and from salary deferrals. Liabilities exist to Erwin Hörmann in the amount of TEUR 159 (prior year: TEUR 159), resulting from the acquisitions of subsidiaries (Segunda Plantacion Austriaca Teca, S.A, Costa Rica, Servicios Austriacos Uno, S.A., Costa Rica, and Teak Holz Handels- und Verarbeitings GmbH, Linz).

In current business transactions (incl. offsetting) with Hennerbichler GmbH & Co KG (Klaus Hennerbichler, management board member of THI AG) income of TEUR 46 was generated for the THI Group. For details on the sale of the production site "Schöndorf", see Note 28. As of September 30, 2010, the offsetting balance is TEUR 49 in favor of THI Group.

Furthermore, financial liabilities exist to Erwin Hörmann (TEUR 149, prior year: TEUR 149) and Klaus Hennerbichler (TEUR 2, prior year: TEUR 2) in connection with the current business operations of Teak Holz Handels- und Verarbeitings GmbH, Linz. In addition, financial liabilities exist (TEUR 2,130, prior year: TEUR 2,130) from a loan granted by Erwin Hörmann. The resulting interest expense amounted to TEUR 95 (prior year: TEUR 82) in the fiscal year 2009/10. With regard to terms and conditions of the loan, reference is made to Note 8.

As collateralization of a bank loan, a mortgage in the amount of TEUR 4,000 was granted on a forest property of supervisory board member Gotthard Count Pilati von Thassul zu Daxberg. Furthermore, collateral has been provided by supervisory board member Pilati for current bank liabilities in the amount of TEUR 1,575. To that end, a provision for liability commissions was established in the amount of TEUR 70.

Mrs. Doris Baumgartner (wife of Dr. Markus Baumgartner, CEO) works in accounting and received a market-level salary. In addition, there is a business relationship with the company Teak Service s.r.o. (Pavel Brenner, Chief Sales Officer). In the past fiscal year, expenses have been incurred in the amount of TEUR 12. This business relationship includes the supply of various wood processing machines.

## 27. Expenses for the auditor

Expenses for the auditor amount to EUR 57,300 (prior year: TEUR 55) and are broken down as follows:

in EUR	2009/10	2008/09 TEUR
Audit of the consolidated financial statements	23,000	22
Other assurance services	28,800	24
Other services	5,500	9
<b>Total</b>	<b>57,300</b>	<b>55</b>

## 28. Events after the balance sheet date

Sale of the production site "Schöndorf" as of December 31, 2010

THI AG sells the production site in Schöndorf as of December 31, 2010 to the management board member Mr. Klaus Hennerbichler. By doing so, THI AG consistently continues its course of being successful in its core business in the long term.

The core business – the international log wood trade in the valuable teak wood – will be even more in focus in the future, therefore management decided to outsource the “Teak Production” business segment. Teak Holz Handels- und Verarbeitungs GmbH remains a fully consolidated subsidiary of THI AG, it will, however, confine its business activities exclusively to international log trade in the future. The former “Teak Production” segment will trade under the name THP GmbH as of January 1, 2011, and will no longer be included in the Group. The Schöndorf production site (Teak Production business segment) first and foremost served research and development purposes in the area of plantation teak. The willingness to pioneer and innovate is reflected in the qualitatively excellent plantation growth (Teak Plantations segment). The research work has meanwhile been completed and the related findings have been incorporated in the daily work in the plantations.

Klaus Hennerbichler will increasingly contribute his extensive and long-time experience to Teak Holz Produkte GmbH, and existing as well as new customers will benefit accordingly from the synergies with Hennerbichler GmbH & Co KG (garden design).

This decision was taken unanimously by the supervisory board and by the management of THI AG and offers an optimal and sustainable solution for customers as well as employees. THI AG (parent company) itself, with its very slim company structure in Austria, will focus exclusively on the core business and be economically successful with an accountable management.

No further material events occurred after September 30, 2010.

These consolidated financial statements were prepared by the Company's management and authorized for publication on January 14, 2011.

Linz, January 14, 2011

The Management Board



Klaus Hennerbichler  
Member (COO)



Dr. Markus Baumgartner  
Member (CEO)



Pavel Brenner  
Member (Sales)

## GROUP MANAGEMENT REPORT FOR THE FISCAL YEAR 2009/10

### I. REPORT ON THE COURSE OF BUSINESS AND ECONOMIC SITUATION

#### 1.1. Summary of material events

##### 1st quarter from October to December 2009

- With the beginning of the fiscal year, the new structure of the organization takes effect, the Group is now structured in business units.
- The Company managed to achieve the turnaround and was again able to report a positive EBIT for the 1st quarter.

##### 2nd quarter from January to March 2010

- First positive signs on the global timber market emerged, prices stabilized and demand rose.
- At the 3rd extraordinary general meeting of THI AG, all resolutions were adopted by the shareholders with a large majority. Dr. Manfred Luger was unanimously elected as additional member to the supervisory board.
- By the middle of the fiscal year, EBIT improved further. THI AG reported a strong increase in the value of biological assets (the teak trees in the plantations).

##### 3rd quarter from April to June 2010

- As of the beginning of April 2010, Dr. Markus Baumgartner was appointed CEO of THI AG.
- The TEAK share continues to be included in the index composition of the VÖNIX Sustainability Index.
- At the extraordinary general meeting on June 23, 2010, the management board was authorized by the shareholders to issue a convertible bond. Dr. Karl Arco was unanimously elected as member of the supervisory board.

##### 4th quarter from July to September 2010

- In order to increase international teak log sales, the position of Chief Sales Officer was created and filled Mr. Pavel Brenner as of July 1, 2010.
- At the end of August 2010, the resolution was passed to issue a 5-year convertible bond with a fixed interest rate of 5 %. Upon expiration of the subscription period on August 31, 2010, the total nominal amount was determined at EUR 10 million.
- Annual sales of the distribution subsidiary rose by 50 %. The consolidated profit for the year amounts to EUR 3.7 million.
- By the balance sheet date (September 30, 2010), the TEAK share had increased by 7 %, the market capitalization rose by 26 % in the calendar year 2010.

#### Business development in the individual business units

Since the beginning of the fiscal year 2009/10, the organization of the THI Group has been structured in business units. The four segments are: BU "Teak Service", BU "Teak Sales", BU "Teak Production" and BU "Teak Plantations". This segmentation is in line with the group-wide budgeting, controlling and reporting structure. The individual business units can be briefly described as follows:

**BU Teak Service:** This business unit, which serves as the corporate umbrella, performs all group-wide management functions and services for the other three business units. In this business segment, no revenue is generated from operations.

**BU Teak Sales:** This business unit is responsible for the trade in and distribution of teak as log wood worldwide. Target markets are Europe and Southeast Asia, most notably India, which is considered the largest consumer market for teak wood.

**BU Teak Production:** This business unit imports the teak raw material from Central America to Austria. The wood is sold either as sawn timber (roughly sawn planks) or as processed planed wood (standardized boards) to merchants and carpenter's workshops. In the Schöndorf plant, the wood is processed into individual products for outside use, e.g. terraces, privacy screens etc., and marketed.

**BU Teak Plantations:** In this business unit, all plantation-specific functions are performed for the six plantation holding companies. The biological assets (this are the reforested teak plants and trees in the plantations) and their changes in value are allocated to this unit.

## 1.2. Business development in the "Teak Service" unit

Already in the interim report on the first quarter, THI AG was able to report on the planned and anticipated positive EBIT. After a difficult prior fiscal year 2008/09, the turnaround could be achieved. The positive trend continued, and a positive EBIT could also be announced in the reports on the mid-year and third quarter.

On September 30, 2010, at the end of the fiscal year 2009/2010, the Group reported a positive EBIT of TEUR 3,501 (prior year: TEUR -11,820). The consolidated profit/loss for the year is TEUR 3,711 (prior year: TEUR -10,113). The value of the biological assets, i.e. the teak plants and trees, has increased since the beginning of the fiscal year on October 1, 2009 by TEUR 8,049 (prior year: TEUR -4,271). The total value of the trees in the plantations amounts to EUR 117.6 million at the balance sheet date (prior year: EUR 109.7 million). In the reporting period, a net revenue of TEUR 1,217 was generated. Compared to the prior year (TEUR 816), this is an increase in absolute terms of TEUR 401, or a plus of approx. 49%. Sales in the international teak trade of the "Teak Sales" segment reached TEUR 702, domestic sales in the "Teak Production" segment TEUR 515.

As already referred to in the quarterly reports and in the half-year financial report during the fiscal year, according to the budgeting it had to be assumed that the operating cash flow would be negative by the end of the fiscal year. The net cash flow from operating activities at TEUR -3,991 (prior year: TEUR -3,512) remains negative, this is however according to plan. The reason for this is the fact that current expenses are not yet covered by sufficient income from the sale of teak wood or income from participating interests. Current liquidity needs were always met in the reporting period through existing and sufficient credit lines.

The successful issue of a bond in the amount of EUR 10 million, on the one hand, also serves to secure the operating cash flow, on the other hand, it provides the Company with capital to implement further expansion steps. This cash flow is also used to intensify the international teak log trade. The Company plans to reduce the still negative cash flow in the future by significantly increasing the revenue from teak log trade. The intensification of log trade provides the Company with further marketing opportunities at the international level, primarily on the Asian markets. This might provide the Company with income until it is able to generate sufficient revenue from its forestry activities. The Company anticipates a promising development in this regard on the international timber market and is optimistic for the fiscal year 2010/11.

**Changes in the management board of THI AG:** Dr. Martin Pree resigned as CEO from the management board of THI AG as of March 31, 2010. As of April 1, 2010, Dr. Markus Baumgartner assumed his responsibilities as CEO. Effective as of July 1, 2010, THI AG created the position of Chief Sales Officer and appointed Mr. Pavel Brenner to this position. As a result of this reorganization of the management board, THI AG expects that it will be better able to intensify global timber sales activities and to quickly achieve the set sales targets.

**Ordinary general meeting:** On February 18, 2010, the 3rd ordinary general meeting of THI AG was held in Linz, at which the new regulations of the Stock Corporation Amendment Act (Aktienrechts-Änderungsgesetz) were applied. Since the fiscal year

differs from the calendar year, THI AG was one of the first Austrian public limited companies that held the general meeting in the required new organizational and legal form. As a result of amendments to the law, formal changes were made, among others, in the Company's articles of association, on which resolutions were passed at the general meeting. All resolutions on the seven agenda items were adopted by the shareholders with a large majority. Dr. Manfred Luger, who had been proposed for election to the supervisory board and who as an attorney for forestry companies has a thorough knowledge of the timber industry, was elected as additional member to the supervisory board of THI AG.

**Extraordinary general meeting:** THI AG invited the shareholders to an extraordinary general meeting held in Linz on June 23, 2010 to vote on the authorization of the management board to issue convertible bonds. The votes produced clear results for all four resolutions. The proposed resolution for the first agenda item "Authorization of the management board to issue a convertible bond, excluding the subscription right of existing shareholders" was adopted by the shareholders or their representatives entitled to vote with a majority of 99.99% of the votes cast. Thus, the management board was authorized, subject to the approval of the supervisory board, to issue convertible bonds within five years and establish the terms of the bond issue. The respective subscription right of the shareholders was excluded. Incidentally, the general meeting unanimously passed additional resolutions required to issue convertible bonds (conditional capital and the required amendment of the articles of association). The other three resolutions of the four agenda items were unanimously adopted by the shareholders or their representatives entitled to vote, including the election of Dr. Karl Arco as new member to the supervisory board. Dr. Arco boasts approximately 25 years of experience in executive positions and management functions in the banking sector. For around two decades, he has been dealing intensively with investments in the area of agriculture and forestry, in Austria as well as internationally. All detailed voting results of the two general meetings were published on the very day of the general meeting and made available online.

**Convertible bond:** The authorization granted by the shareholders at the extraordinary meeting on June 23, 2010 to issue convertible bonds was used by the management board with the approval of the supervisory board in August 2010. The resolution to issue a 5-year convertible bond with a fixed interest rate of 5.0% and a face value of TEUR 50 each was passed on August 24, 2010. After expiration of the subscription period on August 31, 2010, the total nominal value was set at TEUR 10,000 (200 bonds with a face value of TEUR 50 each). Semper Constantia Privatbank AG, Vienna, acts as the payment and conversion bank.

**TEAK share:** As of the balance sheet date September 30, 2010, the TEAK share (ISIN: AT0TEAKHOLZ8) closed at EUR 3.899 and has increased over the beginning of the fiscal year (closing price on October 1, 2009: EUR 3.640) by plus EUR 0.259 in absolute terms, or by plus 7.1% in relative terms. The development of the TEAK share in the reporting year was approx. 10% above the leading index ATX of the Vienna Stock Exchange. During the year, the price came under pressure and, in the second half of March, the price hit a year-low at EUR 2.980. In April the price rose rapidly and, after a brief dip in May, increased continuously throughout the summer. At the end of August 2010, close to the announcement of the convertible bond issue, the TEAK share reached an all year high of EUR 4.240. The market capitalization rose from EUR 22,717,356 (on October 1, 2009) by plus EUR 1,616,428 to EUR 24,333,784 (on September 30, 2010). The daily volume traded was around 2,600 shares on an annual average, on some days 15,000 to 25,000 shares were purchased. In the ranking of the securities traded on the Vienna Stock Exchange, the TEAK share ranks in the middle, as regards total volumes, which is quite remarkable for a small cap company. In the stock exchange statistics for the period from January 2010 until and including September 2010, the TEAK shares were ranked 59 out of the 104 issuers listed on the Vienna Stock Exchange. In addition to the Vienna Stock Exchange, the TEAK shares are also traded on the stock exchanges in Frankfurt, Munich, Stuttgart and Berlin. After negative earnings per share of EUR -1.62 in the prior year, in the past fiscal year the Company managed to generate positive earnings per share as of the balance sheet date: basic earnings per share: EUR 0.59 and diluted earnings per share: EUR 0.57.

At the end of June 2010, THI AG was informed that the TEAK share would continue to be included in the updated index composition of VÖNIX (VBV Austrian Sustainability Index, ISIN: AT0000496906) also in the period until June 2011. The share

has already been included in the Index in the period from June 2009 until June 2010. VÖNIX is a share index consisting of those Austrian companies on the Vienna Stock Exchange which consider ecological and social objectives in particular in their business activities. Once a year, the sustainability analyses are updated, which decide on inclusion in VÖNIX. More than 60 Austrian public limited companies were assessed on the basis of approx. 100 different environmental and social criteria. THI AG and another 21 companies meet the strict criteria and are currently listed in the Index.

In the reporting period, consolidated and individual financial statements of THI AG were prepared for the fiscal year from October 1, 2008 to September 30, 2009, and the annual financial report was published on time on January 28, 2010. All other required documents on the preceding fiscal year 2008/09 were also published, as were the interim reports for the fiscal year 2009/10 under regular reporting.

### 1.3. Business development in the “Teak Sales” unit

This business unit is responsible for the trade in teak as log wood worldwide. Target markets are Europe and Southeast Asia, most notably India, which is considered the largest consumer market for teak wood.

Sales in the international teak trade of the “Teak Sales” segment reached TEUR 702, which corresponds to around 58% of the Group’s total revenue. Since the new business structure (segments) was implemented as of the beginning of the reporting period, the prior year figures are not broken down by segment.

As in the prior years, teak logs were sold to India and Singapore also in the fiscal year 2009/10. Demand from customers in Asia for highquality teak wood increased again. Indian customers have meanwhile become important business partners. In their feed-back, they appreciate the professional market appearance, the reliability, Western harvesting technology, and, needless to say, the quality of the teak supplied. In the reporting period, the Company managed to broaden its customer portfolio and thus reduce the dependence on a few customers. The sales division is able to negotiate with several interested parties. In India, the market picked up again, demand and prices stabilized. Contracts on large timber volumes were concluded in the third quarter, which has to be fulfilled in the fourth quarter. The positive market development in the Asian target markets continued throughout the entire fiscal year.

In Southeast Asia, where the precious teak wood has been known and used for a long time, there is always a general basic demand for teak wood. In these countries, the Company has already established close customer relationships, which are being strengthened further. Adjustments regarding the main target markets are not intended from today’s perspective. In addition to Asia, the marketing of log wood shall be promoted also in the European market, as the excellent characteristics of teak wood are also increasingly known in Europe, resulting in an increased demand for certified teak wood from accountable forestry. The Company intends to utilize marketing opportunities for log wood.

Since the beginning of the fourth quarter on July 1, 2010, Mr. Pavel Brenner has been responsible for sales activities as Chief Sales Officer. This management function was established to promote international timber trade. Mr. Brenner, who boasts many years of successful entrepreneurial activities in the timber industry, had worked as a consultant for THI AG prior to his appointment to the management board. He contributes his sales knowledge gained in international export and his experience in wood engineering to the THI Group. Through optimization, the wood logistics in Costa Rica was adjusted to the increasing distribution requirements. This includes, for example, the establishment of logistically optimally located wood storage areas for intermediate storage and loading the containers for the subsequent transport to the ports. The logistics infrastructure is one of the technical prerequisites for the trade operations, access to the market, however, is essential. Many Costa Rican forest owners often have no relations with potential international buyers, whereas THI is able to utilize the distribution network established in the previous years. Both – logistics and market access – are used increasingly.

**Trends in the international timber industry:** As a result of the rapid population growth, especially in Africa and Asia, demand for wood is expected to increase worldwide. Futurologists predict a significant rise in demand for raw wood and wood products up to the year 2030. This goes for domestic wood species as well as for precious woods, such as teak. The excellent properties of the versatile teak wood are appreciated particularly in Asia. Due to the rising economic power of China and India, wood experts predict that demand will rise even further. Teak wood is also gaining in popularity in America and Europe. The capacities of wood from accountable forestry will have to be increased considerably worldwide in order to be able to meet the demand and to protect, or even save, the primeval forests. Against the background of the global climate problem, a growing critical environmental awareness in consumer behavior can be noticed with regard to rejection of primeval forest clearings. By now, the responsible consumer knows that when he decides on a tropical precious wood, under no circumstances should it originate from primeval forests. Many buyers already consider it good etiquette to use only wood from sustainably managed plantations. Those who demonstrably guarantee this to their customers, for instance through an FSC® certification, will be able to increase their presence in this market segment in the future.

The increasing individual buyer sensitivity is also accompanied by a growing awareness of society, which ultimately results in statutory provisions. Studies show that the majority of EU citizens are in favor of a uniform EU legislation that makes sure that wood and wood products in the EU are of legal origin. In 2010, the EU regulation “FLEGT” (Forest Law Enforcement, Governance and Trade) entered into force. This new regulation can be considered a milestone in banning timber of illegal origin. This will further increase the importance and market opportunities of wood from sustainable plantations – including teak wood – in the future.

#### **1.4. Business development in the “Teak Production” unit**

This business unit imports the teak raw material from Central America to Austria. The wood is sold either as sawn timber (roughly sawn planks) or as processed planed wood (standardized boards) to merchants and carpenter’s workshops. In the Schöndorf plant, the wood is processed into individual products for outside use, e.g. terraces, privacy screens etc., and marketed. The main market is Austria and the near EU countries.

Net revenue from sawn timber, planed wood and processed wood products of the “Teak Production” segment amounted to TEUR 515, which corresponds to around 42% of the Group’s total revenue. Since the new business structure (segments) was implemented as of the beginning of the reporting period, the prior year figures are not broken down by segment.

The crisis in the European timber industry of the calendar year 2009 continued to have effects in the year 2010. Despite the market environment and the initial wait-and-see attitude of some merchants, segment sales could be increased in Austria and the EU area. It could be noted that in the fiscal year 2009/10 the issue of sustainability, i.e. demand for wood from accountable forestry, gained further importance in Europe. Merchants, wood processing plants and customers increasingly demanded FSC® certified timber. In the second half of the fiscal year, the “Teak Production” unit purchased additional FSC® certified teak wood. The consumer trend to invest in beautiful and highquality garden designs resulted in a good order situation and capacity utilization in spring and summer. The processed orders resulted in an increase in revenue.

In the plant in Schöndorf near Freistadt (Upper Austria) teak wood, as well as larch wood, are processed into individually designed products (mainly terrace deckings for outdoor use) and marketed primarily in the Austrian domestic market. The products are sold to private persons and public purchasers. The wood is dried in the plant, planed and processed into semi-finished products in standard sizes. The products are made to order and are usually custom-made.



Event after the balance sheet date: Effective December 31, 2010, the business segment “Teak Production” was spun off from the THI Group. As reason, management stated that it intends to focus more on THI’s core business (responsible teak forest investments and international teak log trade) in the future. Relevant additional disclosures are presented under item 1.8. of the group management report and in the notes to the consolidated financial statements, Note 28.

### 1.5. Business development in the “Teak Plantations” unit

In this business unit, all plantation-specific functions are performed for the six plantation holding companies. This unit allocates the biological assets (this are the reforested teak plants and trees in the plantations) and their changes in value. With regard to the measurement assumptions and the determination of value, reference is made to the detailed comments under Note 3 “Biological assets in Costa Rica” in the notes to the consolidated financial statements.

The biological assets have the greatest impact on the respective profit/loss for the year. That is why the development of the plantations and the related forestry functions are given very high priority. All forestry measures to be implemented are designed to secure the raw material resources and ultimately pursue the goal of achieving the best possible wood quality at an adequate timber volume at the time of the harvest. During the fiscal year, the teak plants and teak trees developed ideally in the 1,934 hectare plantations. The approx. two million teak trees in the eight fincas have grown as planned due to the ideal tree care measures and the favorable climate conditions. The regular wood measurements on the “permanent measurement areas” show that the tree care measures implemented so far have proven very successful and contribute to the increasing growth in the value of the biological assets.

In general, after the selection and purchase of adequate areas, the following forestry functions have to be implemented over the years: soil analysis and fertilization, soil conservation, opening, creation and maintenance of infrastructure, selection of high-quality seeds, raising of plants, planting, constant individual breeding and care of the trees, pruning, grass cut, terracing, mulching, liming, cutting of individual trees for plantation maintenance, final harvest, preparation and planting of the next generation of trees.

As there were no new plantings in the reporting period, the main functions in the teak forests were focused on the consistent maintenance of the fincas. Under routine checks, soil samples were again taken in the plantations by our forest engineers. The taking of soil and the subsequent analysis are the basis for determining the correct amount of lime to be applied. Based on the individual test results, lime was applied in some plantation sectors and soil softening measures implemented. The reason for the necessity of these regular soil analyses dates back many decades. The pastures then compacted by many years of livestock breeding today are still overacidified at some spots. Lime is a proven and effective agent to neutralize the pH value. Lime revitalizes the soils, has a fertilizing effect and is positive for the trunk formation. Only in very few cases is it necessary to use fertilizers, since the soil of volcanic origin itself is very fertile.

The fertile soils and the former livestock breeding are also the reason for the at times dense grass growth. The removal of the scrub around the teak saplings, especially in the first years, enhances their growth. The supply with nutrients and water can also be improved through the so-called “terracing”. Using this method – particularly in steep areas – shallow pits are dug around the trunks and the grass is removed. These are examples for the annual maintenance activities in the fincas to optimize tree growth. In the fiscal year 2009/10, trees were cut in the plantations only in a very limited extent. This cutting of individual trees has the purpose of maintaining the plantations and allowing for the healthy growth of the forest, and is not to be interpreted as harvest.

The investments made so far in forestry and logistics infrastructure, along with the European forestry know-how, have developed favorably and proven successful in business operations. The Company has tractors, forwarders, a stanchion

truck with crane, shovel excavators and various small machinery that are best suited for use in Costa Rican plantations. This technical machinery and the – from a logistics perspective – ideally located wood storage areas for container loading are already used by the Company for log wood trade, since many farmers and landowners have planted teak trees in the past decades, which are in very good condition. The forest owners, however, most often lack the forestry and logistics infrastructure. The Company can assist them in this regard and ideally use the Austrian forestry know-how in timber trade activities.

The media occasionally reports on the impacts of storms, severe weather, landslides and other natural disasters in Central and South America. Earthquakes are also common in the region. Since tectonic faults run through Central America and numerous volcanoes are active, Costa Rica regularly experiences earthquakes of various magnitudes. In the THI plantations located in the south of the country, quakes are most often felt only slightly and so far have not caused any damages. Erosion may occur in connection with the frequent heavy rainfalls, so far, however, washouts have occurred only in a very limited extent in the THI plantations. The reasons for this are the generally optimal selection of the plantation areas and the permanently implemented preventive measures. The infrastructure creation or maintenance measures that are regularly performed by THI plantation workers, e.g. regulation of watercourses, construction and cleaning of water drains on roads etc., prevent or mitigate the consequences of heavy downpours. The pavement of tracks and roads, the maintenance of bridges and the partial regulation of watercourses also serve to protect the landscape. This is also one of the requirements in connection with the FSC® certification. Such maintenance work is usually performed preventively in the dry period from December to April.

<b>Development of personnel (on average)</b>	<b>2009/10</b>	<b>2008/09</b>
Austria	22	22
Costa Rica	93	99
<b>Total</b>	<b>115</b>	<b>121</b>

The number of Costa Rican plantation workers depends on the routine care measures to be performed and the project-related work. Whereas in the previous year, the number of staff increased slightly, it declined marginally in the reporting period. In the comparative period of the prior year, an average of just under 100 persons worked in Costa Rica, in the reporting period this number averaged 93 persons.

### **1.6. Report on branch offices**

At the balance sheet date, THI AG has no branch offices.

## 1.7 Financial and non-financial performance indicators

<b>Financial performance indicators</b>	<b>2009/10</b>	<b>2008/09</b>	<b>+/- %</b>
<b>Key figures in TEUR</b>			
<b>Teak Holz International AG, consolidated financial statements</b>			
Fully consolidated companies	10	8	25
Domestic	1	1	0
Foreign	9	7	29
Revenue	1,217	816	49
Change in value of biological assets	8,049	-4,271	288
Consolidated profit/loss for the year	3,711	-10,113	137
Personnel expenses	2,008	1,947	3
Property, plant and equipment	11,250	11,518	-2
Biological assets	117,637	109,665	7
Balance sheet total	143,472	125,723	14
Equity	108,555	102,019	6
Cash and cash equivalents	8,965	899	897
<b>Profitability ratios:</b>			
Operating result (EBIT)	3,501	-11,820	130
Return on equity *	2.01%	-10.71%	
<b>Financial ratios:</b>			
Net debt *	16,272	14,310	14
Equity ratio *	75.66%	81.15%	
Net gearing *	14.99%	14.03%	
<b>Cash flow ratios:</b>			
Net cash flow from operating activities	-3,991	-3,512	-14
Net cash flow from investing activities	110	1,672	-93
Net cash flow from financing activities	11,947	1,919	523

\* The calculation is made pursuant to KFS/BW 3 "Empfehlung zur Ausgestaltung finanzieller Leistungsindikatoren im Lagebericht bzw. Konzernlagebericht" (Recommendation on the disclosure of financial performance indicators in the management report or group management report).

### Non-financial performance indicators: sustainability and CSR

In addition to a company's financial figures and data, other aspects are gaining importance that so far cannot or not sufficiently be measured in monetary terms. This includes social and ecological standards that are increasingly demanded of a company by shareholders and stakeholders. These approaches have been discussed for quite some time in politics, science and the general public under the terms "corporate social re-sponsibility" and "sustainability". The media omnipresence of the noun and the adjective "sustainable", which is used in all likely and unlikely contexts, nevertheless contributes to the raising of awareness. The term sustainability originates from forestry and was used for the first time almost 300 years ago.

The business model of THI AG – investment in responsibly managed teak plantations – has a longstanding tradition and is modern and forward-looking at the same time. Even though the overall sustainability issue temporarily lost some attention in the economic and financial crisis, financial experts predict that the importance of this issue will increase even further in the long term. Sustainability is sometimes even called a "mega-trend". Responsible ethical investing is a trend that will gain momentum in the future. According to a survey published in June 2010, 40% of Austrians are interested in sustainable investments.

The TEAK share of THI AG meets those sustainability criteria that are gaining importance for investors. The fulfillment of those social and ecological requirements that are demanded of eco-investments was confirmed for the TEAK share by external experts in June 2010. The TEAK share continues to be included in the VÖNIX Sustainability Index, along with 21 other Austrian public limited companies. For THI AG, the extension is yet another assurance for the business model focused on long-term sustainability and the corporate social responsibility activities. As example for the social commitment of THI AG, the first-aid program for all approx. 100 workers in the plantations can be mentioned, which was established in accordance with Red Cross standards. Training measures of this kind are very rarely implemented by employers in Costa Rica and may be considered a real social achievement of THI AG. Compliance with social and ecological standards is reviewed annually also in accordance with the criteria of the “Forest Stewardship Council®” (FSC®). The NGO “Rainforest Alliance (SmartWood-Program)” regularly audits the certified THI plantations (certificate No.: SW-FM/COC-003610). For years, THI AG has voluntarily complied with the GLOBAL COMPACT principles of the United Nations and is member in the Global Compact Network Austria.

With the reforestations in the responsibly managed plantations, THI AG also contributes to the absorption of CO<sub>2</sub>. UNEP, the environmental program of the United Nations, has been calling on the global community of states for years to invest more money in forests and soils. As a result of the global discussion about the effects of climate change, the importance of the raw material wood will increase further, and therefore investments in the asset class wood are promoted. This shall further raise the attractiveness of the investment in the “green TEAK share” with its long-term focus.

#### **1.8. Material events after the balance sheet date**

As the THI core business – responsible teak forest investments and international teak log trade – will be even more in the spotlight in the future, management decided to spin off the “Teak Production” segment. THI AG therefore sells the production site in Schöndorf, effective December 31, 2010, to the managing director Klaus Hennerbichler. The decision was adopted unanimously by the supervisory board and management of THI AG.

Teak Holz Handels- und Verarbeitungs GmbH remains a fully consolidated subsidiary of THI AG, it will, however, confine its business activities exclusively to international log trade in the future. The former “Teak Production” segment will trade under the name THP GmbH as of January 1, 2011, and will no longer be included in the Group. Henceforth, THI AG as group parent will focus primarily on the core business.

Apart from that, no material events occurred after September 30, 2010.

## II. REPORT ON THE EXPECTED DEVELOPMENT AND RISK OF THE GROUP

### 2.1. Expected development of the Group

To consolidate the operating cash flow, timber trade is expanded massively. The expansion of trade in log wood provides the Company with further marketing opportunities at the international level, primarily in the Asian markets. The emerging markets in Southeast Asia, most notably the People's Republic of China, Singapore and India, have always been major teak buyers. India – the country is considered the most important teak consumer market – is the main target market for the Company's sales activities. The Company has already established close customer relationships in India, which are being strengthened further. The log wood trade can provide the Company with higher income until it is able to generate sufficient revenue from its forestry activities.

For the fiscal year 2010/11, the Company has ambitious plans regarding sales increases in international teak log trade and, as a result, a significant increase in revenue in the "Teak Sales" segment. By this, management intends to significantly strengthen the operating cash flow. The signs of a general stabilization and improvement of the global market environment give rise to optimism in the Company for the fiscal year 2010/11. The business relationships initiated in the reporting period are expected to provide higher income in the coming quarters. The current market development raises hopes for a further improvement and provides the Company with grounds for optimism for the new fiscal year.

### 2.2. Material risks and uncertainties

As of the beginning of the fiscal year 2009/10, the organization of the risk management system was adjusted to the Group's business unit structure. The breakdown into the four segments BU "Teak Service", BU "Teak Sales", BU "Teak Production" and BU "Teak Plantations" is in line with the Group's segment and process organization, the risk management structure has been integrated into the group structure.

The heads of the business units are members of the risk management core team. The core team, together with the superior risk management control panel, forms the structure of the risk management system, which is managed and accounted for by the management board as a whole. Under the scheduled monthly management reporting, the core team deals with the risk situation, the related findings subsequently flow into the semi-annual "risk inventory". In addition to the regular reporting intervals, if major changes in the risk situation occur, mutual reporting is required anytime and directly between the panel and the core team. In this reporting, the risk interdependencies of the departments and the effects on the Group's overall position are always evaluated. As a consequence, adequate control measures are assessed and implemented.

#### **Development of the risk situation in the period from October 1, 2009 to September 30, 2010**

In the reporting year, the Group was faced with risks typical of a company in the development stage. The liquidity risk, which was affected by the negative operating cash flow, constituted the main business risk during the reporting period, but was always covered by existing and sufficient credit lines. The cost cutting program, which had been started early, showed effects and was consistently continued. In the Group's internal risk analysis, the main risk groups were defined and described. The comments on liquidity risk, market risk, credit risk, currency risk, cash flow risk and interest rate risk, as well as on capital risk management are presented in detail in the notes to the consolidated financial statements, Note 20 "Risk management".

### **Overall risk situation as of the balance sheet date September 30, 2010 and outlook**

The overall risk position of the Group has significantly improved year-on-year. By successfully placing a convertible bond, the Group was able to considerably reduce the liquidity risk. In addition to securing medium-term to long-term liquidity, the Company now has capital for implementing further expansion measures and intensifying teak log trade. The revenue in timber trade, which had grown by the balance sheet date, strengthened business operations. The noticeable improvement in the general market conditions contributes to the future reduction in the market risk. The broadened customer base reduced the dependence on a few customers and thus contributed to minimizing the market risk. If the timber trade volumes continue to rise, the liquidity risk is expected to diminish further and not to be material in the medium term.

Due to the lower risk level in the Group and the implemented measures, management, from today's perspective, does not see any going concern risks for the fiscal year 2010/11.

## **III. REPORT ON RESEARCH AND DEVELOPMENT**

The research and development activities of THI are conducted through the subsidiary Teak Holz Handels- und Verarbeitungs GmbH. Even though the budget requirements were tight and the premise of general cost savings prevalent, started projects were continued as scheduled. In the fiscal year 2009/10, the operating research expenses in the amount of TEUR 82 could be held at approximately the same budgetary level as in the prior year (TEUR 88).

In the prior fiscal year, an extension application could be filed with the Austrian Research Promotion Agency, which – despite strict award criteria – was approved. The majority of projects were completed in the reporting period. The focus of research activities was on wood-specific basic research in the reporting period. For example, chemical and mechanical properties of teak and their implications for durability were examined and tests for the optimization of wood drying processes, for the adhesive bonding of teak wood, long-term weathering tests and the like were carried out. The project objectives were such that the related results and findings can be incorporated directly in business operations. In these projects, the Company cooperated with several departments of the University of Natural Resources and Applied Life Sciences (BOKU) in Vienna and WoodKplus (Institute for Wood Research). The year covered by research grants from the promotion agency runs until the end of the calendar year 2010, by then the ongoing projects will be completed.

## **IV. Reporting on material characteristics of the internal control and risk management system relating to the accounting process (disclosures pursuant to Section 243a (2) UGB)**

The THI management board is aware of its responsibility for creating and designing an internal control system and risk management system with regard to the accounting process and compliance with statutory regulations. The internal control system is designed in a way that the required assurance on the reliability of financial reporting and externally published financial statements is provided on time.

Organization and procedures of the internal control system of THI AG take into account the clear structure characteristic of small companies. The Company pursues a simply structured business model, the number of business segments and products

is low, as is the number of employees with executive and administrative functions. The control system is based on the structure of the business segments. In their current activities and reporting, the decision-makers responsible for the segments are in close and direct contact with the group accounting department and the entire management board. The group-wide requirements on accounting and measurement meet International Financial Reporting Standards (IFRS) and are in accordance with the provisions of the Commercial Code to be applied pursuant to Section 245a UGB.

Due to the Company's size, no separate "internal audit" unit was established. There is, however, an internal control and reporting system in place that is suitable to ensure a timely and adequate internal monitoring of the accounting process. It enables the management to identify the material risks of the core business and swiftly react to them. The harmonized group-wide requirements, on the one hand, ensure uniformity of accounting in the THI Group and, on the other hand, these requirements are assessed continuously by the established control and risk management system.

The process of accounting and reporting is supported by established and effective information and communication systems (IT). Due to the international activities of the Group, data security and data backup are crucial. The IT backup system is state of the art and, needless to say, also part of the continuous risk assessment. Due to the abovementioned clear corporate structure and the relatively low data volume, accounting and regular reporting are always secured – even in case of a short interruption of data availability.

The monthly prepared financial data and the quarterly figures of the Group are the basis of the regular reporting by management to the supervisory board. Subsequently, under regular reporting, specified company data is made accessible to shareholders and the public according to the financial calendar. All prepared and implemented measures of the internal control system ultimately serve the purpose of providing continuous information and open communication to the various target and interest groups.

The effectiveness and appropriateness of the design of the internal control system and the risk management system are evaluated annually, adjusted to the changed general conditions and gradually refined.

## V. DISCLOSURES ON CAPITAL, SHARE, VOTING AND CONTROL RIGHTS AND RELATED OBLIGATIONS

The share capital of Teak Holz International AG amounts to EUR 31,205,160, is fully paid in, and is divided into 6,241,032 no-par value bearer shares (ordinary shares with voting right) as of September 30, 2010. Holders of ordinary shares have a right to a dividend and one vote per share at the general meeting. No shareholder has special control rights. The regulations regarding the appointment and recall of members of the management board and supervisory board are derived exclusively from the relevant provisions of the Austrian Stock Corporation Act 1965 (AktG) as amended.

At the balance sheet date September 30, 2010, the management board was aware of two shareholdings of at least 5%: Hörmann-Privatstiftung (private foundation) held 33.9%, and Mr. Klaus Hennerbichler 25.5% of the voting rights in the Company. Apart from that, the management board is not aware of any shareholdings of at least 5%. Shares in free float amount to 30.4%. Since no reportable changes in voting rights were reported to the Company by the shareholders, the identity of the remaining 10.2% of the voting rights is currently not known.

At the 2nd ordinary general meeting on February 20, 2009, the management board, subject to the approval of the supervisory board, was authorized to increase the share capital of the Company, if need be in several tranches, against cash contribution or contribution in kind by up to EUR 15,602,580 through the issue of up to 3,120,516 new bearer shares against cash

contribution or contribution in kind to up to EUR 46,807,740 within five years as of the date the amendment to the articles of association is registered in the commercial register, and to set the issue price and conditions in consultation with the supervisory board (authorized capital). In addition, the management board was authorized, subject to the approval of the supervisory board, to exclude the subscription right of existing shareholders. The supervisory board is authorized to resolve on amendments to the articles of association resulting from the issue of shares from the authorized capital.

At the extraordinary general meeting on June 23, 2010, the management board, subject to the approval of the supervisory board, was authorized to issue convertible bonds within five years as of the date this resolution was passed, containing a subscription and/or conversion right for the purchase of a total of up to 3,120,516 registered no-par value shares of the Company with a prorated amount in the share capital of up to EUR 15,602,580. In August 2010, the resolution to issue a five-year convertible bond with a fixed interest rate of 5.0% was passed. Upon expiration of the subscription period on August 31, 2010, the total nominal amount was determined at TEUR 10,000 (200 notes at TEUR 50 each).

Linz, January 14, 2011

The Management Board



Klaus Hennerbichler  
Member (COO)



Dr. Markus Baumgartner  
Member (COO)



Pavel Brenner  
Member (Sales)



**Financial calendar for the fiscal year 2010/11:**

- 27.01.2011 (Thur): Publication annual financial report for the period from October 1, 2009 to September 30, 2010
- 09.02.2011 (Wed): Publication of Q1 quarterly report for the period from October 1, 2010 to December 31, 2010
- 24.02.2011 (Thur): 4<sup>th</sup> ordinary general meeting in Linz, Old City Hall, Hauptplatz 1
- 26.05.2011 (Thur): Publication semi-annual financial report for the period from October 1, 2010 to March 31, 2011
- 04.08.2011 (Thur): Publication of Q3 quarterly report for the period from October 1, 2010 to June 30, 2011





**CORPORATE GOVERNANCE REPORT**  
FISCAL YEAR 2009/10  
**TEAK HOLZ INTERNATIONAL AG, LINZ**



## CORPORATE GOVERNANCE REPORT

Teak Holz International AG (THI AG), domiciled in Linz, and its subsidiaries (THI Group), are a company specialized in responsible teak forest investments and international teak log trade. On March 28, 2007, THI AG made an initial public offering on the Vienna Stock Exchange (ISIN: AT0TEAKHOLZ8). With the initial listing of the TEAK share, the Company has undertaken to voluntarily comply with the Austrian Corporate Governance Code as amended. Furthermore, THI AG is also committed to follow the guidelines of the “United Nations Global Compact”, a voluntary initiative to promote responsible global business ethics. Corporate Governance stands for responsible corporate management and control geared to long-term value creation. Efficient cooperation between management and supervisory board, respect for shareholders’ interests, openness and transparency of corporate communications are key aspects of good corporate governance. It is intended to strengthen the trust of all stakeholders, in particular international investors, in the company and its management and in Austria as a financial center. The Austrian Corporate Governance Code sets out standards of good governance for those companies that comply with it on the basis of voluntary self-commitment.

### Commitment to the Austrian Corporate Governance Code

Since the initial public offering in March 2007, THI AG has voluntarily complied with the Austrian Corporate Governance Code as amended, current version January 2010. The complete text of the Code is available under [www.corporate-governance.at](http://www.corporate-governance.at). The commitment to compliance with the Code, deviations from individual rules and the Annual Corporate Governance Report are publicly accessible on the websites of THI AG at [www.teak-ag.com](http://www.teak-ag.com) under Investor Relations.

### Corporate Governance rules and deviations

The rules of the Corporate Governance Code may be subdivided into three categories: **L-Rules** (“legal requirement”) describe mandatory regulations that apply to Austrian listed public limited companies in general, and irrespective of a commitment to a Corporate Governance Code. **C-Rules** (“comply or explain”) are to be complied with, any non-compliance or deviations have to be justified. **R-Rules** (“recommendation”) are recommendations, non-compliance does not have to be disclosed and explained.

#### THI AG draws attention to the following exceptions and deviations:

Rule C-18: Due to the small size and clear organizational structure, a separate staff unit “Internal Audit” has not been established for now. If a certain company size is reached, the appropriateness of the establishment will be reviewed.

Rule C-39, C-41 and C-43: Apart from the audit committee, no further committees are in place. Neither a nomination committee nor a compensation committee has been established. Instead, all related functions are performed by the supervisory board. If a certain company size is reached, the appropriateness of the establishment of further committees will be reviewed.

Rule C-49: The Company and its subsidiaries are advised in legal matters by Saxinger Chalupsky & Partner Rechtsanwälte GmbH (SCWP). The chairman of the supervisory board, Mag.iur. Alexander Hüttner, LL.M (NYC), is an attorney, managing director and shareholder of SCWP. The amount of the compensation for the services rendered is disclosed in the notes to the consolidated financial statements.

Rule C-31 and C-51: The compensation of the management board members is disclosed as an aggregate amount. An individualized presentation, as stipulated in Rule 31, is not published to protect the privacy of the individual members of the management board. The same applies to the presentation of the remuneration of the supervisory board, as required by Rule 51.

Rule C-54: When appointing supervisory board members, the Company takes into account the guidelines for independence as outlined in Annex 1 of the Corporate Governance Code. According to these guidelines, all members of the supervisory board of THI AG are deemed independent, with the exception of Mr. Erwin Hörmann.

### Organization and procedures of the management board

Internal rules of procedure define the functions and cooperation of the management board. The members of the management board are in constant and close information exchange with each other and coordinate their activities with the heads of the business units in order to assess the corporate progress and take necessary decisions immediately. The management board as a whole informs the supervisory board regularly and comprehensively on all material events and developments in the Group, and obtains advice and recommendations at the supervisory board meetings.

At the balance sheet date, the management board of Teak Holz International AG comprised three members.

### Organization and procedures of the management board

Internal rules of procedure define the functions and cooperation of the management board. The members of the management board are in constant and close information exchange with each other and coordinate their activities with the heads of the business units in order to assess the corporate progress and take necessary decisions immediately. The management board as a whole informs the supervisory board regularly and comprehensively on all material events and developments in the Group, and obtains advice and recommendations at the supervisory board meetings.

At the balance sheet date, the management board of Teak Holz International AG comprised three members.

NAME	YEAR OF BIRTH	DATE OF INITIAL APPOINTMENT	END OF CURRENT TERM OF OFFICE
<b>Dr. Markus Baumgartner</b> CEO since 2010	1973	04/01/2010	01/25/2012
<b>Klaus Hennerbichler</b> Management board member since 2007	1969	01/26/2007	01/25/2012
<b>Pavel Brenner</b> Management board member since 2010	1975	07/01/2010	01/25/2012

In the fiscal year 2009/10, the following person also served on the management board:  
 Dr. Martin Pree, year of birth 1974, CEO from 02/01/2009 until 03/31/2010

### The responsibilities of the management board members are as follows:

#### Dr. Markus Baumgartner (CEO)

Responsibilities: corporate strategy and development, controlling and accounting, treasury, staff agendas, communications and investor relations, internal organization, IT, risk and quality management

#### Klaus Hennerbichler (COO)

Responsibilities: corporate strategy and development, management of the plantations, engineering, purchase, production

#### Pavel Brenner (Sales)

Responsibilities: trade and sales

### Compensation of the management board

The compensation of management board members is based on the scope of their responsibilities and comprises only fixed components, paid out in 14 monthly salaries. In the fiscal year 2009/10, total compensation of the management board members amounted to TEUR 428, in the prior year to TEUR 403. In the fiscal year, the number of management board members was increased from two to three, the total amount of compensation for management board members remained approximately the same. An individualized presentation, as stipulated in Rule 31, is not published to protect the privacy of the individual

members of the management board. At the balance sheet date, no loans or advances have been granted to members of the management board. The Company has no stock option plans or similar share-based compensation systems. Currently, there are no agreements on company pensions for management board members. Members of the management board are entitled to termination benefits in accordance with the provisions of the Austrian Employee Act (Angestelltengesetz). Apart from that, members of the management board are not entitled to any additional benefits in case of termination of employment.

#### Other disclosures on the management board

The management board members of THI AG do not hold any supervisory board mandates in other domestic or foreign listed companies. In the fiscal year, THI AG had D&O (directors and officers) insurance for management board members and executive employees.

#### Organization and procedures of the supervisory board

The supervisory board is informed on a regular basis by the management board on the current corporate development and immediately receives information on risks, as well as opportunities, arising in the course of business operations. In addition to its supervisory functions, the supervisory board also gives advice and makes recommendations. In an open and constructive manner, the supervisory board assists the management board in strategic decisions. Basis for the activities of the supervisory board are laws and regulations, applicable for companies listed in Austria, e.g. the Stock Corporation Act. In addition, the supervisory board has undertaken to comply with the rules of the Austrian Corporate Governance Code (as amended January 2010). With regard to internal company regulations, the articles of association and the rules of procedure are of key importance. The members of the supervisory board are appointed by the general meeting of THI AG and may be recalled by it.

At the balance sheet date, the supervisory board of Teak Holz International AG comprised five members.

NAME	YEAR OF BIRTH	DATE OF INITIAL APPOINTMENT	END OF CURRENT TERM OF OFFICE
<b>Mag. iur. Alexander Hüttner, LL.M. (NYU)</b> Chairman of the supervisory board since 2008, independent	1973	01/26/2007	GM on FY 2011/12
<b>Erwin Hörmann</b> Deputy chairman of the supervisory board since 2007, not independent	1939	02/21/2007	GM on FY 2011/12
<b>Gotthard Count Pilati von Thassul zu Daxberg</b> Supervisory board member since 2007, independent	1945	02/21/2007	GM on FY 2011/12
<b>Dr. Manfred Luger</b> Supervisory board member since 2010, independent	1953	02/18/2010	GM on FY 2013/14
<b>Dr. Karl Arco</b> Supervisory board member since 2010, independent	1961	06/23/2010	GM on FY 2013/14

#### Independence of the supervisory board

The supervisory board of THI AG has adopted the guidelines for the definition of independence of members of the supervisory board as outlined in Annex 1 to the Austrian Corporate Governance Code (as amended January 2010). According to these guidelines, the majority of the members of THI AG's supervisory board are deemed independent. Except for the deputy chairman, Mr. Erwin Hörmann, all other supervisory board members are independent. At the balance sheet date (September 30, 2010), Mr. Hörmann holds more than 10% of the shares in the Company and thus is not deemed independent according to the criteria of Rule C-54. The members of THI AG's supervisory board do not hold any supervisory board mandates in other domestic and foreign listed companies.

#### Compensation of the supervisory board

The compensation for the supervisory board is set at the annual general meeting for the past fiscal year. On February 18, 2010, the 3rd ordinary general meeting set the compensation for the members of the supervisory board at TEUR 16 for the fiscal year 2008/09, leaving it up to the supervisory board how to split this amount.

The supervisory board members have agreed to a voluntary reduction of their emoluments, thus the total remuneration of all members amounted to TEUR 32 in the fiscal year 2009/10, and to TEUR 56 in the fiscal year 2008/09. An individualized presentation of remunerations, as stipulated in Rule C-51, is not published to protect the privacy of the individual members of the supervisory board. At the balance sheet date, no loans or advances have been granted to members of the supervisory board.

#### **Audit committee**

To perform the regular monitoring functions, an audit committee has been established which shall fulfill the functions specified in the Stock Corporation Act. The responsibilities of the audit committee include, among others, monitoring the accounting process, monitoring the effectiveness of the internal control system and risk management system, as well as audit procedures regarding individual financial statements and consolidated financial statements. It is the committee's responsibility to make sure that, from the Group's perspective, adequate processes are in place in the Company and its subsidiaries. Another responsibility of this committee is to review the Corporate Governance Report.

In the fiscal year from October 1, 2009 to September 30, 2010, the audit committee comprised the chairman of the audit committee, Mr. Erwin Hörmann, and the audit committee members Mag.iur. Alexander Hüttner and Gotthard Count Pilati von Thassul zu Daxberg.

Apart from the audit committee, no further committees are in place. Neither a nomination committee nor a compensation committee has been established. All functions which are usually carried out by these committees were performed by the supervisory board as a whole. If a certain company size is reached, the appropriateness of the establishment of further committees will be reviewed.

In the reporting period, the supervisory board held five ordinary meetings. The audit committee convened twice, focusing particularly on monitoring the internal control and risk management system and on reviewing the financial statements and related documents. No supervisory board member was absent at more than half of the meetings in the fiscal year 2009/10.

#### **Directors' dealings**

Pursuant to Section 48d (4) BörseGesetz (Stock Exchange Act), members of the management board and supervisory board of a public limited company have to report their transactions (purchases and sales) in shares and stock-like securities of their own Company to the Austrian Financial Market Authority (FMA). THI AG published directors' dealings on the websites of the FMA, [www.fma.gv.at](http://www.fma.gv.at)

#### **Measures for the promotion of women**

On an annual average, the share of women employed in Austria was approx. 27%. In Costa Rica, the majority of the administrative positions are held by women. Although the majority of plantation workers are men, women employed in plant care account for approx. 10%. There are currently no women on the management board and supervisory board, however, the Company intends to promote the development of women in executive positions in the future.

Linz, January 14, 2011

The Management Board



Klaus Hennerbichler  
Member (COO)



Dr. Markus Baumgartner  
Member (COO)



Pavel Brenner  
Member (Sales)

Teak seeds: Original size approx. 1 cm diameter



We draw attention to the fact that the following auditor's report issued in German on the consolidated financial statements of Teak Holz International AG, Linz, for the fiscal year from October 1, 2009 to September 30, 2010 has been translated into English for the convenience of the reader and that the German wording is the only legally binding version.

## AUDITOR'S REPORT

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Teak Holz International AG, Linz, for the fiscal year from October 1, 2009 to September 30, 2010. These consolidated financial statements comprise the consolidated balance sheet as of September 30, 2010, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ending September 30, 2010, and the notes to the consolidated financial statements.

#### Management's Responsibility for the Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of September 30, 2010 and of its financial performance and its cash flows for the fiscal year from October 1, 2009 to September 30, 2010 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Without qualifying our audit opinion, we refer to the comments on the liquidity risk in the consolidated financial statements (Note 20 b Summary of significant accounting principles) where it is explained that the liquidity risk could be significantly reduced through the placement of a convertible bond, securing medium-term liquidity, however, remains one of the most important strategic goals in the Group's risk management. The Group is exposed to special risks which, by their nature, are typical of a development stage company. The Group is generally dependent on the future economic development of its Costa Rican plantation companies and the activities of the sales companies. At present, the teak trees planted and managed by the Costa Rican subsidiaries are not yet marketable.

In addition, we refer to the comments on the market risk in the notes to the consolidated financial statements (Note 20 b Summary of significant accounting principles), according to which the sales price of teak wood, due to the fair value measurement of the biological assets, significantly influences the result of the Company, but that there are no comparable market prices for plantation teak worldwide.

### **Comments on the Management Report for the Group**

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and whether the other disclosures in the management report for the Group do not give rise to a misstatement of the Group's financial position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a (2) UGB are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a (2) UGB are appropriate.

Vienna, January 14, 2011

PwC Wirtschaftsprüfung GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft



Mag. Dr. Aslan Milla  
Austrian Certified Public Accountant

Disclosure, publication and duplication of the financial statements together with the auditor's report according to Section 281 (2) UGB in a form not in accordance with statutory requirements and differing from the version audited by us is not permitted. Reference to our audit may not be made without prior written permission from us.



## REPORT OF THE SUPERVISORY BOARD

At its meetings during the 2009/2010 financial year, the Supervisory Board fulfilled the duties assigned to it by law and articles. The Managing Board provided regular reports concerning the course of business and the status of the company and its group subsidiaries.

Both the annual financial statements, the management report, as well as the consolidated financial statements and the group management report for the financial year from October 1, 2009 to September 30, 2010 were audited by the PwC Wirtschaftsprüfung GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, A-1030 Vienna, Erdbergstrasse 200.

Following its conclusion, the audit led to no objections. The auditors confirmed that in accordance with the Austrian principles of orderly accounting, the annual financial statements conform with the legal statutes and provide as true and fair a view as possible of the company's asset and financial position as at September 30, 2010 and company earnings for the financial year from October 1, 2009 to September 30, 2010. Moreover, that the management report was consistent with the annual financial statements. In addition, the auditors confirmed that in accordance with the International Financial Reporting Standards (IFRS) as employed in the EU, the consolidated financial statements also conformed with the legal statutes and provided as true and fair view as possible of the group's asset and financial position as at September 30, 2010, as well as group earnings and cash flow for the financial year from October 1, 2009 to September 30, 2010.

In their opinion relating to the annual financial statements, the auditors noted in the annex regarding the continued existence (annex 3, 1f), that the company is subject to risks, which are typical of a company in the development stage. Especially the auditors focussed on the liquidity risk. The managing board assumes, that the liquidity situation is covered especially by convertible bonds given in September, 2010.

In their report relating to the consolidated financial statements, the auditors pointed out the comments regarding the liquidity risk in the consolidated financial statements (annex 1, comments 2ob), where they explain, that the risk could be reduced by negotiation of a convertible bond, but that the securing of the medium-term liquidity still is one of the most important strategic objectives in group risk management. The group is subject to special risks that are typical of companies in the development stage. The group depends on the future economic development of its Costa Rican plantation companies and on the activities of the Sales Company. The teak planted and cultivated by Costa Rican subsidiaries currently hasn't reached the planned market maturity.

In addition, the auditor indicated in the report to the consolidated financial statements regarding market risk (annex 1, comments 2ob), that the sales price of the teak strongly influences the result of the company due to the evaluation of the biological assets, but that there are no existing objective comparable market prices for plantation teak.

The annual financial statements, management report, annual consolidated financial statements and group management report were discussed at a meeting of the audit committee on January 19, 2011. In its report to the Supervisory Board, the audit committee endorsed the result of the audit and following its examination of the management report, the group management report, the annual financial statements and the annual consolidated financial statements, and scrutiny of the management, came to the final conclusion that no reason for objection existed.

The Supervisory Board accepted the report of the audit committee and thus the result of the audit. Moreover, the final result of the examination of the management report, the group management report, the annual financial statements and the annual consolidated financial statements by the Supervisory Board also gave no cause for objection.

Thus the Supervisory Board accepted the annual financial statements, which in accordance with § 96 paragraph 4 of the AktG (Austrian Stock Corporations Act), are therefore taken as approved. The Supervisory Board also consented to the annual consolidated financial statements and the group management report. The Supervisory Board proposes that PwC Wirtschaftsprüfung GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, A-1030 Vienna, Erdbergstrasse 200, be appointed as the auditors for the 2010/2011 financial year.

Linz, January 19, 2010

The Chairman of the Supervisory Board



Mag.iur. Alexander Hüttner, LL.M. (NYU)



## STATEMENT OF ALL LEGAL REPRESENTATIVES PURSUANT TO § 82 (4) (3) OF THE BÖRSEG (AUSTRIAN STOCK EXCHANGE ACT)

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Linz, January 2011

The Management Board

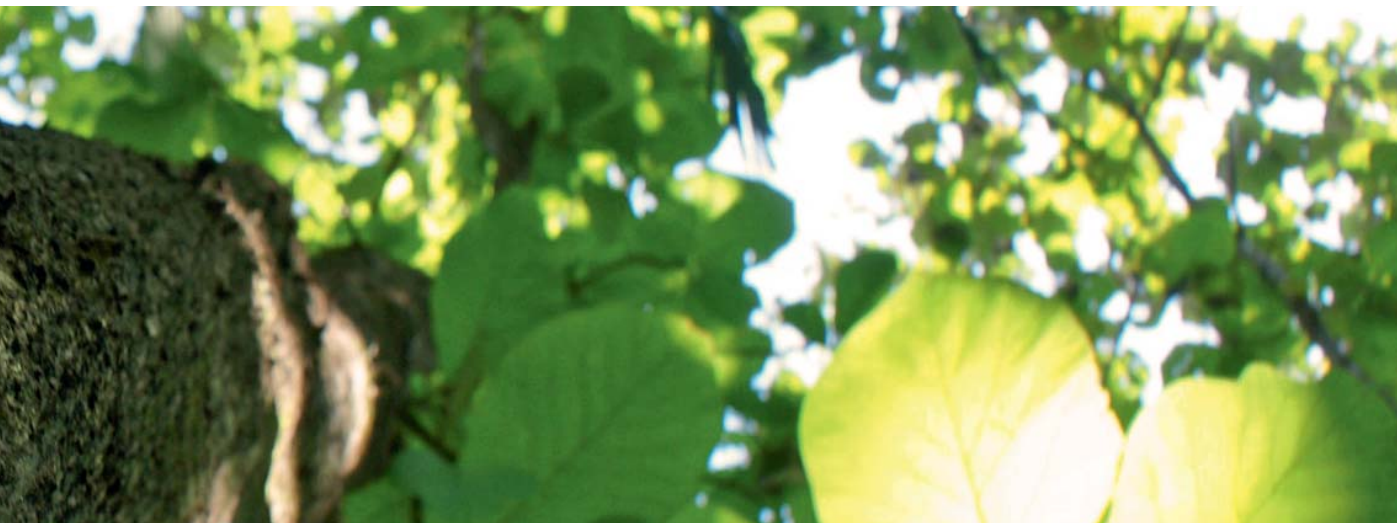


Klaus Hennerbichler  
Member (COO)

Dr. Markus Baumgartner  
Member (CEO)

Pavel Brenner  
Member (Sales)

STATEMENT OF  
ALL LEGAL  
REPRESENTATIVES



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This report has been prepared with the greatest possible care and every effort has been made to ensure the accuracy of the data that it contains. Nevertheless, rounding, typographical and printing errors cannot be excluded. This report contains assessments and assertions relating to the future made on the basis of all the information currently available. We would draw your attention to the fact that various factors could cause actual conditions and the actual results to deviate from the expectations outlined in this report. FSC® and Rainforest Alliance/SmartWood are not responsible for and do not endorse any financial claims on returns on investments.

**We draw attention to the fact that these consolidated financial statements of Teak Holz International AG, Linz, for the fiscal year from October 1, 2009 to September 30, 2010 issued in German have been translated into English for the convenience of the reader and that the German wording is the only legally binding version.**

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Production: Ingeborg Schiller, Salzburg  
Concept and coordination: THI AG, Paul Rettenbacher

### Financial calendar for the fiscal year 2010/11:

27.01.2011 (Thur): Publication annual financial report for the period from October 1, 2009 to September 30, 2010  
09.02.2011 (Wed): Publication of Q1 quarterly report for the period from October 1, to December 31, 2010  
24.02.2011 (Thur): 4<sup>th</sup> ordinary general meeting in Linz, Old City Hall, Hauptplatz 1  
26.05.2011 (Thur): Publication semi-annual financial report for the period from October 1, 2010 to March 31, 2011  
04.08.2011 (Thur): Publication of Q3 quarterly report for the period from October 1, 2010 to June 30, 2011



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