



Half-Year Report 2018



PRECIOUS WOODS

Precious Woods is one of the leading companies active in sustainable management and use of tropical forests.
Additional information can be found at www.preciouswoods.com

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First half-year 2018: Positive net result despite difficult conditions

In the first half of 2018, sales amounted to EUR 22.8 million and earnings before interest and taxes (EBIT) amounted to EUR 1.5 million or 6.8%. This represents a slight increase in sales of 1.7% and an EBIT reduction of EUR 0.3 million compared with the same period of the previous year. Delays in deliveries reduced sales by about EUR 3 million and also had a negative impact on EBIT. This affected the companies in both Gabon and Brazil. Production volumes increased slightly. The net result reached EUR 0.2 million (previous year period: EUR 0.3 million). The generated cash flow enabled further investments in productivity, but no debt reduction. Working capital increased by EUR 0.4 million over the end of the year. This was mainly due to inventory increases. The outlook and expectations for 2018 as a whole remain positive.

The Precious Woods Group generated net sales of EUR 22.8 million in the first half of 2018. This was 1.7% above the previous year's net sales of EUR 22.5 million. The exchange rate effect was -0.8%. The saw mills in Gabon generated a 12.7% increase in sales, while sales at the veneer plant fell by 12.0% compared with the same period of the previous year. On a consolidated basis, Precious Woods Gabon achieved sales of EUR 15.7 million, 3.3% higher than in the same period of the previous year (EUR 15.2 million). Sales in Brazil fell by 11.2% to EUR 4.9 million (previous year: 5.5 million). Sales from the trade of logs and sawn timber from Europe rose by 21.4% to EUR 2.4 million (previous year: EUR 2.0 million).

There were delivery delays in both Brazil and Gabon in the first half-year. Shipments from Brazil were not resumed until April 2018, after large-scale inspections against the illegal timber trade started in mid-December 2017. Of the 64 containers blocked at the time, 20 are still in the port of Manaus waiting to be released, even though no deficiencies were found. New deliveries were brought to the port and shipped again starting at the end of March. Delays occurred in Gabon due to the opening of a second port. Goods could not be cleared, and numerous ships had to leave again without being loaded. This led to a shortage of containers as well as shipping capacity and consequently to a high undelivered inventory of Precious Woods. We expect the situation in both countries to return to normal in the third quarter of 2018. The delay in sales amounts to more than EUR 3.0 million. This margin is missing in the income statement, and the additional expenses are also a burden on the result.

The gross profit was EUR 13.6 million, 3.6% below the previous year period (EUR 14.1 million). The gross profit margin

was 59.7%, compared with 63.0% in the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 3.9 million (previous year: EUR 4.1 million), corresponding to a margin of 17.0%. Earnings before interest and taxes (EBIT) reached EUR 1.5 million (previous year: EUR 1.8 million), with a margin of 6.8%. The negative changes are due to the delivery delays and the associated unrealized margins.

The financial result was EUR -1.4 million (previous year: EUR -1.3 million). The pure interest charge was unchanged at EUR 1.1 million. The net profit amounted to EUR 0.2 million (previous year: EUR 0.3 million). Exchange rate effects on the net result amounted to EUR -0.1 million (previous year: EUR 0.1 million).

The equity ratio was 25.9% (end of previous year: 28.1%). The change is due to exchange rate effects, especially for loans in CHF.

Working capital was EUR 16.0 million, about EUR 0.4 million higher than at the end of the previous year and EUR 2.5 million higher than on 30 June 2017. While the log inventory was reduced, the sawn timber and veneer inventory increased to the same extent due to the delivery difficulties described above. At EUR 6.6 million, trade receivables were EUR 1.6 million higher than at the end of the year. Trade payables fell by EUR 0.2 million. Overall, net debt increased by EUR 0.5 million to currently EUR 31.8 million.

Operating cash flow was EUR 1.0 million (previous year: EUR 1.9 million). This includes the change in net working capital of EUR -2.5 million (previous year: EUR -1.5 million). Investments amounted to EUR 0.6 million (previous year: EUR 0.8 million).

Brief remarks on the individual companies:

Precious Woods Holding Slight enlargement of staff

The team consists of 13 employees, of which 7 work in sales (2 field staff, 5 office staff).

Precious Woods Gabon Increase in productivity

The saw mills produced a total of 20 949 m³ of sawn timber, corresponding to an increase of 3.1% (previous year: 20 316 m³). Production volume at the veneer plant fell by 15.7% to 14 831 m³ (previous year: 17 597 m³). As in the

previous year, maintenance work in the saw mills was carried out in May. The volume reduction in the veneer plant was due to unscheduled maintenance work.

The operating result (EBITDA) was EUR 4.3 million (previous year: EUR 5.3 million). The operating profit margin was 27.6% (previous year: 34.6%).

The result was impacted negatively by logistical difficulties. The inventory of sawn timber and veneer increased dramatically because shipping was not possible. We expect the situation to return to normal in the 3rd quarter. This will have a positive effect on both the result and the financial situation.

Precious Woods Amazon Slight recovery in profitability

The production volume in the first half-year was 11 816 m³ of sawn timber, 0.7% higher than in the previous year (11 737 m³). Net sales were 11.2% below the previous year and reached EUR 4.9 million (previous year: 5.5 million). EBITDA was EUR 0.4 million, an improvement of EUR 0.5 million (previous year: EUR –0.1 million). The operating profit margin was 8.4%.

Additional costs of EUR 0.4 million reduced profit. These were due to warehousing costs and docking fees relating to government inspections in the port of Manaus. Moreover, delivery was delayed and incomplete.

The harvest was resumed already in June. The early interruption at the end of the previous year due to the large amount of rain necessitated this approach. The goal is to increase production volumes in the second half of 2018, thus improving margins.

Precious Woods Trading Increase in sales and profitability

Net sales from trading in European logs and sawn timber amounted to EUR 2.4 million, corresponding to an increase of 21.4% (previous year: EUR 2.0 million). The operating profit margin was 12.4% (previous year: 11.1%).

Carbon & Energy Emission trading (CER)

As in the previous year, there was no trading in CER certificates in the first half-year.

Share price

At the beginning of 2018, shares were trading at CHF 6.45 on the OTC ZKB platform; on 30 June 2018 (cut-off date for the interim report) the price was higher at CHF 7.55. The highest price was reached the beginning of June 2018 at CHF 7.60.

Outlook

As announced at the Annual General Meeting, we expect increased sales of between 5% and 8% for the whole year 2018, operating margins in the previous year's range, and a positive net result. The first half-year was heavily impacted by infrastructure problems, which will no longer affect the second half-year. Both harvest and production volumes have been and will be increased, which will also be reflected in the result.

Our focus continues to be on organic and sustainable growth. Productivity enhancement projects are underway in both Gabon and Brazil. However, the improvement in margins resulting from these measures will not yet be apparent this year. Possible holdings in or takeovers of other companies as well as targeted expansion of concession areas will continue to be evaluated carefully.

Conditional and authorized capital is at our disposal for the financing of larger projects in order to take advantage of opportunities at short notice.

On behalf of the Board of Directors and Management



Katharina Lehmann
Chairwoman of the Board of Directors



Markus Brütsch
CEO / CFO, Delegate of the Board of Directors

Precious Woods Group:

Interim condensed consolidated financial statements

Consolidated statement of financial position

in thousand EUR

	30 June 2018 unaudited	31 December 2017 audited
ASSETS		
Current assets		
Cash and cash equivalents	2 319	2 136
Trade and other receivables	13 197	10 483
Inventories	13 213	14 642
Other current assets	1 370	719
Total current assets	30 099	27 980
Non-current assets		
Property, plant and equipment	32 203	34 351
Intangible assets	4 222	4 737
Investments in associates	676	765
Non-current financial assets	453	449
Other non-current assets	1 328	1 502
Deferred income tax assets	1 621	1 621
Total non-current assets	40 503	43 425
TOTAL	70 602	71 405
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	12 622	12 009
Current income tax liabilities	238	270
Current financial liabilities	10 784	9 699
Current provisions	154	176
Total current liabilities	23 798	22 154
Non-current liabilities		
Non-current financial liabilities	23 349	23 720
Deferred tax liabilities	1 240	1 240
Non-current provisions	3 962	4 196
Total non-current liabilities	28 551	29 156
Equity		
Share capital	5 731	5 731
Additional paid-in capital	64 938	64 938
Foreign currency translation reserve	5 799	7 822
Retained earnings	-58 348	-58 522
Equity attributable to owners of Precious Woods Holding Ltd	18 120	19 969
Non-controlling interests	133	126
Total shareholders' equity	18 253	20 095
TOTAL	70 602	71 405

Consolidated statement of profit or loss

in thousand EUR

	30 June 2018 unaudited	30 June 2017 unaudited
Net sales from trading activities	22 843	22 464
Revenue from emission reduction activities	–	–
Total revenue	22 843	22 464
Changes in inventories of finished goods and work in progress	–1 500	–611
Raw materials and consumables used	–1 767	–1 679
Other productions costs	–5 935	–6 028
Operational contribution	13 641	14 146
Direct and indirect labour costs	–8 714	–8 522
Other operating expenses	–1 398	–1 634
Other operating income	180	148
Share of profit/(losses) of associates	166	–57
Earnings before interest, tax, depreciation and amortization (EBITDA)	3 875	4 081
Depreciation, amortization and impairment	–2 332	–2 252
Earnings before interest and tax (EBIT)	1 543	1 829
Financial income	245	225
Financial expenses	–1 646	–1 494
Earnings before tax (EBT)	142	560
Income taxes (expenses)/income	59	–228
Net profit/(loss) for the period	201	332
Allocation of net profit/(loss):		
Equity owners of Precious Woods Holding Ltd	194	325
Non-controlling interests	7	7
Basic earnings per share	0.03	0.06
Diluted earnings per share	0.03	0.06

Consolidated statement of comprehensive income

in thousand EUR

	30 June 2018 unaudited	30 June 2017 unaudited
Net profit/(loss) for the period	201	332
Actuarial gains and losses	0	0
Tax effect on actuarial gains and losses	-0	0
Fair value changes on equity instruments ¹	0	
Items that will not be reclassified to profit or loss, net of tax	0	0
Gains/(losses) on financial assets available for sale ¹		-1
Gains/(losses) on foreign currency translation	-2 043	-1 231
Items that may be reclassified subsequently to profit or loss, net of tax	-2 043	-1 232
Total other comprehensive income/(loss) for the period	-2 043	-1 232
Total comprehensive income/(loss) for the period	-1 842	-900
Allocation of total comprehensive income/(loss):		
Equity owners of Precious Woods Holding Ltd	-1 849	-907
Non-controlling interests	7	7

¹ Re-assignment due to changes in accounting policies, see note 2.

Consolidated statement of changes in equity

in thousand EUR	Attributable to equity holders of Precious Woods Ltd					Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total		
Balance 31 December 2016	5 595	64 641	9 263	-60 173	19 326	114	19 440
Net profit/(loss) for the period	-	-	-	325	325	7	332
Other comprehensive income/(loss) for the period	-	-	-1 226	-6	-1 232	0	-1 232
Total comprehensive income/(loss) for the period	-	-	-1 226	319	-907	7	-900
Proceeds from issue of shares	139	307	-	-	446	-	446
Balance 30 June 2017	5 734	64 948	8 037	-59 854	18 865	121	18 986
Balance 31 December 2017	5 731	64 938	7 822	-58 522	19 969	126	20 095
Net profit/(loss) for the period	-	-	-	194	194	7	201
Other comprehensive income/(loss) for the period	-	-	-2 043	-0	-2 043	-	-2 043
Total comprehensive income/(loss) for the period	-	-	-2 043	194	-1 849	7	-1 842
Proceeds from issue of shares	-	-	-	-	-	-	-
Balance 30 June 2018	5 731	64 938	5 779	-58 328	18 120	133	18 253

Condensed consolidated statement of cash flows

in thousand EUR	30 June 2018 unaudited	30 June 2017 unaudited
Net cash flow from operating activities		
Operating cash flow before working capital changes	3 524	3 379
Net cash flow operating activities	1 022	1 880
Net cash flow investing activities	-578	-837
Net cash flow financing activities	-260	863
Increase/(decrease) in cash and cash equivalents	184	1 907
Translation effect on cash	-1	-82
Cash and cash equivalents, at the beginning of the year	2 136	1 370
Cash and cash equivalents, at the end of the period	2 319	3 194



Notes to the interim condensed consolidated financial statements

1. Basis of presentation and accounting policies

The unaudited interim condensed consolidated financial statements of Precious Woods Group (hereinafter „interim financial statements“) for the six months ended 30 June 2018, have been prepared in accordance with IAS 34 and were authorized for issue by the Board of Directors on 15 August 2018. The interim financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2017. They mainly focus on new activities, events and circumstances and do not duplicate information previously reported.

With the exception of the changes to International Financial Reporting Standards (see Note 2), these statements have been prepared according to the same accounting policies as those followed for the Group’s annual financial statements 2017.

The reporting currency is Euro (EUR). All amounts are stated in million Euro (€ million), unless otherwise specified. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

2. Implementation of new IFRS standards

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

effects. As the Group does not have financial liabilities that are designated at fair value through profit or loss, the accounting treatment of financial liabilities was not affected.

IFRS 15 Revenue from Contracts with Customers: The standard replaces IAS 18 and IAS 11 and related interpretations. It establishes a five-step model to account for revenue arising from contracts with customers. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized as follows: over time or at a point in time. The Group recognizes its revenue from the sales of timber and from the trading business at a point in time and thus no material effects were identified from the adoption of IFRS 15. This standard has been applied with the modified retrospective approach.

3. Seasonality

For the forestry operations in Brazil the first half of the year is characterized by the rainy season (January to May) during which no logs are harvested.

4. Financial information by segment

The Group's reportable segments are Sustainable Forest Management Brazil, Sustainable Forest Management Gabon, Trading and Carbon & Energy.

Operating segments – 30 June 2018

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other ¹	Total 30 June 2018
Revenue						
Third parties	4 289	15 729	2 397	–	–	22 415
Intersegment	175	–	–	–	–175	–
Associated and related parties	428	–	–	–	–	428
Total revenue	4 892	15 729	2 397	–	–175	22 843
Profit/(loss) on sale of fixed assets and affiliates	–	–	–	–	–	–
Share of profit of associates	166	–	–	–	–	166
EBITDA	412	4 339	298	–0	–1 174	3 875
Depreciation and amortization	–210	–2 115	–	–	–7	–2 332
Impairment charges/reversals	–	–	–	–	–	–
Profit/(loss) from operating activities (EBIT)	202	2 224	298	–0	–1 181	1 543
Financial income and expenses	–486	–823	–13	–	–79	–1 401
Earnings before tax						142
Segment assets	20 833	46 405	2 570	318	476	70 602
Segment liabilities	49 707	34 567	1 238	173	–33 336	52 349

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

Operating segments – 30 June 2017

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other ¹	Total 30 June 2017
Revenue						
Third parties	4 810	15 193	1 974	–	–	21 977
Intersegment	210	33	–	–	–243	–
Associated and related parties	487	–	–	–	–	487
Total revenue	5 507	15 226	1 974	–	–243	22 464
Profit/(loss) on sale of fixed assets and affiliates	11	23	–	–	–	34
Share of profit/(losses) of associates	–57	–	–	–	–	–57
EBITDA	–60	5 273	220	–0	–1 351	4 081
Depreciation and amortization	–231	–2 014	–	–	–7	–2 252
Impairment charges/reversals	–	–	–	–	–	–
Profit/(loss) from operating activities (EBIT)	–291	3 259	220	–0	–1 358	1 829
Financial income and expenses	–484	–837	–7	–	59	–1 269
Earnings before tax						560
Segment assets	22 888	43 684	3 148	70	428	70 218
Segment liabilities	49 159	32 323	1 096	187	–31 533	51 232

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

Reconciliation of reportable segment profit or loss

in thousand EUR	30 June 2018	30 June 2017
Total EBITDA for reportable segments	4 883	5 489
EBITDA Other	-1 174	-1 351
Share of profit/(losses) of associates	166	-57
EBITDA	3 875	4 081
Depreciation, amortization and impairment	-2 332	-2 252
EBIT	1 543	1 829
Financial income and expenses	-1 401	-1 269
Earnings before tax	142	560

5. Subsequent events

There were no significant events after the reporting period.

Additional information

Relating to the share register (entries, transfers, changes of address, etc.):

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Stock exchange listing:

The shares of Precious Woods Holding AG were listed on the SIX Swiss Exchange between 18th March 2002 and 9th August 2013. Since 12th August 2013, the shares are traded over the OTC ZKB platform. You find further information on our website.

Share type: registered share
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Cautionary note on forward-looking statements: This Half-Year Report contains forward-looking statements that reflect Precious Woods' current views with respect to future events. These forward-looking statements are based on assumptions and involve risks and uncertainties with regard to future global economic conditions, foreign exchange rates, regulatory rules, market conditions, environmental factors, the actions of competitors and other factors. These risks and uncertainties could cause actual results to differ materially from those contained in the forward-looking statements. Precious Woods does not assume any obligation, to update information or forward-looking statements set forth in this document.

The Precious Woods Half-Year Report is available in both German and English. The English text is the binding version.

► **Front- and Backcover:**

Aerial view over Franceville/Gabon with a large proportion of savannahs



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