



# Media Release

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## **Precious Woods: Systematic debt clearance and an effective turnaround**

**2010 was an extremely difficult year for Precious Woods. Although the turnaround begun in 2009 did show some positive effects, it will not be able to be successfully brought to a conclusion until 2011. The results for 2010 will have an extremely negative outcome as a result of extreme charges due to extraordinary items, and new findings about burden from the past. The systematic clearance of this burden from the past was agreed upon by the Board of Directors on the basis of an in-depth internal and external analysis. At the same time, the existing business model was once again examined in depth and adapted with the goal of a significant increase in economic performance. The five-year plan based on these results shows a realistic path towards success that should make it possible to achieve long-term profitability starting in 2012. “With this clearing of burden from the past, we are getting rid of crippling ballast from the past and making the company fit for the future,” says Dr Ernst A. Brugger, Chairman of the Board of Directors. “We not only want to be the leader in terms of ecologic and social aspects, we also want to be successful over the long term from an economic standpoint. Precious Woods’ mission is and will be more important than ever. Only commercial success based on the principles of sustainability will be able to preserve the tropical forests, and thus their contribution to biodiversity and a healthy climate over the long term.”**

### **The 2010 operating results fall within the range of expectations**

In the 2010 fiscal year, Precious Woods recorded sales of USD 73 million, a drop of 12 percent. From a purely operational perspective – i.e. without currency effects and extraordinary items – EBITDA in 2010 had already reached the breakeven point. Consequently, EBITDA in the second half was positive, as planned, and better than in the first half of 2010. These indications do not include the increase in value of the biological assets, as explained further below.

### **Systematic clearance of burden from the past and extraordinary items**

Even so, the annual financial statements for 2010 are extremely stressed due to the systematic clearance of the burden from the past, extraordinary items and value adjustments. Based on an internal and external analysis performed on behalf of the Board of Directors and Group Management, very detailed and partially new findings are now available. They show a great need for the clearance of the burden from the past. The primary causes are overly expensive acquisitions in the past based on overestimates of earnings potential at the time, remaining uncertainties concerning land rights in Bra-



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zil, the settlement of a complex investment situation in Brazil as well as systematically coming to terms with past accounting issues.

In addition, EBIDTA was stressed by extraordinary items. In consideration of them, EBIDTA for the 2010 fiscal year will have a negative outcome of roughly USD –20 - 25 million. The primary reasons are, on the one hand, external factors such as the export ban on logs in Gabon, a reduction by one-half of the income from CO<sub>2</sub> certificates because of new market regulations, as well as the unfavorable development in the exchange rate for the euro. On the other hand, there were internal factors that stressed EBITDA, such as restructuring costs in all business units, as well as an unsatisfactory financial result in Brazil because of smaller harvest volumes and adjustments in lumberyards.

The 2010 annual results for the Precious Woods Group will thus show a very high loss that to a large extent, however, will not impact liquidity. This is the result of the systematic debt clearance, which is painful but at the same time necessary in order to build a strong foundation for the company's future development.

### **Turnaround can be completed in 2011**

It is expected that a fundamental restructuring with the goal of a significant increase in economic performance will be completed – with a slight delay – by the end of 2011. The measures introduced in 2009 are showing their first positive results. “Sales in January 2011 confirm the upwards trend: They are well above the previous year's January sales,” explains CEO Joachim Kaufmann. “A decisive factor is now a strengthening of earning power with an increase in productivity, the expansion of processing capacity and a profitable increase in sales.” The turnaround was slowed down by the above mentioned factors. Additionally, the export ban on logs in Gabon forces Precious Woods to make investments in a new sawmill. Further, extended non-harvesting periods in Brazil due to heavy rainfall and a delay in harvest permits led to lower harvest volumes.

### **A realistic and promising five-year plan**

Together with the heads of the national subsidiaries and external consultants, the management made great efforts to undertake an extensive examination of the Precious Woods business model and developed an adjusted five-year-plan. Substantial adjustments, which were presented alongside detailed plans of action, were proposed and then agreed to by the Board of Directors. Significant and realizable improvements in productivity, investments to expand processing capacities and an improvement in sales through an intensive sales orientation even in local markets are the main pillars for a realistic path to success. The growing FSC-market is assumed as a stimulative precondition. The improvements in industrial processing productivity will be targeted through close collaboration with strategic partners. The five-year plan shows, that it is possible to achieve an EBIDTA of roughly +15 percent by the end of the plan period, and starting 2012 already more than +10 percent seams achievable. This will make Precious Woods economically clearly more sustainable, as well.

### **Additional resources for restructuring and debt clearance**

Additional expenses for restructuring will also have an impact in 2011, the last turnaround year, that need to be financed. At the same time, the Board of Directors and Group Management are targeting a partial debt clearance and an increase of capital productivity. Thus, short term convertible bonds amounting to CHF 5 to 10 million will be issued within the scope of a private placement, and the disposal of non-operating assets will be pushed forward. In Central America, purchase offers for reforested landed areas will be examined such that Precious Woods has the best chances to continue



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arranging economically successful forestry management as well as additional marketing within the scope of a management contract. Therefore a possible adjustment of the value method of the biological assets is discussed. Thus the biological assets are not included in the above estimates. With these financial measures, the board of directors and the management assume it as realistic, to achieve the established goals at this time even without the once considered capital increase in 2011.

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This interim report provides information about the challenges facing Precious Woods and the company's perspectives. It contains the first rough estimates for the 2010 fiscal year but no preliminary data for the 2010 Annual Report. Definitive and comprehensive figures can be issued only after the conclusion of the external audit and the publication of the annual results on April 28.

**Further Information:**

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Precious Woods is an international company active in the sustainable management and use of tropical forests. The company's core activities include reforestation and sustainable management of tropical forests, timber processing and the trading of FSC-certified timber products. The generation of emission rights and electricity from recovery wood represent further integral elements of the company's business. The shares of Precious Woods Holding have been traded on the SIX Swiss Exchange since March 2002. Further information about Precious Woods is available at [www.preciouswoods.com](http://www.preciouswoods.com).

This press release by Precious Woods ("the Company") includes forward-looking statements that reflect the Company's intentions, beliefs or current expectations and projections about the Company's future results of operations, financial condition, liquidity, performance, prospects, strategies, opportunities and the industry in which it operates. Forward-looking statements involve all matters that are not historical fact. The Company has tried to identify those forward-looking statements by using the words "may", "will", "would", "should", "expect", "intend", "estimate", "anticipate", "project", "believe", "seek", "plan", "predict", "continue" and similar expressions. Such statements are made on the basis of assumptions and expectations which, although the Company believes them to be reasonable at this time, may prove to be erroneous.