



**PRECIOUS WOODS**

## PRECIOUS WOODS 2010 – A YEAR OF ADJUSTMENT AND REGENERATION

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2010 was a very difficult year for Precious Woods. The total operating income of USD 80.5 million is approximately 8 per cent below that of the previous year. The main reasons for this were the ban on log exports from Gabon, lower than expected harvest volumes in Brazil, and the drop in earnings from the sale of CO2 certificates. High charges amounting to a total of USD 54.6 million due to one-off effects and newly discovered issues from the past gave rise to an extremely negative operating result (EBIT) of USD 55.4 million and a net loss of USD 65.6 million.

The high charges largely involve adjustments (impairments) which are primarily attributable to overpriced past acquisitions, due to overestimated earning potential at the time, and uncertainties concerning land titles in Brazil.

The Board of Directors and the Group Management have driven forward a drastic reorganisation of the company, which has led to a comprehensive regeneration, with considerable advances in productivity and market positioning. This is showing the first signs of success: excluding one-off effects, the Precious Woods Group generated an operating result of USD -0.8 million, an improvement of USD 7.7 million compared to the previous year, and a clear indicator of the effectiveness of the turnaround measures introduced since mid-2009. The reworked and realistic five-year plan predicts an EBITDA margin of approximately +15 per cent by the end of the planning period.

The extension of the standstill arrangement with the two lending banks, as well as the launch of convertible loans amounting to at least USD 5 million to ensure short-term liquidity, have enabled the Board of Directors and the Group Management to further improve the underlying financial conditions. A reduction of the nominal value per share from CHF 50 to CHF 1 is being proposed to the Annual General Meeting, in order to re-establish the Group's ability to access the capital market in full. A scaling-down and partial reorganisation of the Board of Directors is also being proposed to the Annual General Meeting.

### **Precious Woods Group: turnaround and initial successes in a recovering market**

The recovery of the markets in the reporting year was slow at best. In 2010, the price of tropical



## PRECIOUS WOODS

logs and sawn wood rose by up to 3 per cent in Precious Woods' relevant market regions. Nevertheless, the Precious Woods Group recorded a drop in sales of around 8 per cent. This is due in particular to the ban on log exports from Gabon, lower harvest volumes in Brazil and significantly lower earnings from the sale of CO<sub>2</sub> certificates. Discounting one-off effects, the Precious Woods Group generated an operating loss (EBIT) of USD 0.8 million, up around USD 7.7 million on the previous year. This improvement indicates that the measures taken back in 2009 and 2010 to reduce structural costs are taking effect.

### **Precious Woods Amazon: harvest volumes lower than expected**

The problems concerning harvest permits, which came to light in the 2009 operating year, were significantly reduced in the reporting year. The main reason for the lower harvest volumes was the early onset of the rainy season, which led to the bans on harvesting being extended. Precious Woods Amazon posted an operating result (EBIT) of USD -29.8 million, which includes one-off effects amounting to USD 22.6 million.

#### Precious Woods Gabon: investments in the local processing chain

The ban on log exports from Gabon, which has been in force since January 2010, caused a drop in sales of some USD 11 million. Alongside one-off effects amounting to USD 12.6 million, this was the main reason behind an operating result (EBIT) of USD -7.3 million. The ban on log exports is forcing the Precious Woods Group to invest in expanding the local processing chain in 2011. In the third quarter of 2011, the new sawmill for tropical hardwoods in Bambidie will begin operations and bring about a marked increase in value creation.

#### Precious Woods Central America: focus on the sale of teak logs

The considerable recovery on the international teak market and the increase of harvest volumes in Central America have led to a positive operating result (EBIT) of USD 1.2 million, which includes impairments in the amount of USD 2.3 million on non-operational assets being held for sale. Industrial wood-processing activities were discontinued as they were proving unprofitable, and the demand from Asian customers focused primarily on logs.

### **Precious Woods Europe: progress made in the turnaround**

The unsatisfactory sales volumes recorded at Precious Woods Europe were caused mainly by supply bottlenecks at Precious Woods Amazon. Fortunately, however, sales margins increased thanks to price increases on the previous year. The restructuring measures initiated at Precious Woods Europe have yielded positive results, with the operating result (EBIT) adjusted for one-off effects increasing from USD -4.3 million in the previous year to USD -1.6 million. The operating



## PRECIOUS WOODS

result of USD -11.2 million for Precious Woods Europe was also burdened by one-off effects (primarily impairments totalling USD 9.6 million).

### **Precious Woods Carbon & Energy: new international valuation method cuts revenue from trading CO2 certificates by half**

Income from CO2 certificates has almost halved due to the introduction of a new international valuation method. Although electricity sales in Brazil increased, the Carbon & Energy segment generated a significantly poorer operating result (EBIT) in comparison with the previous year, posting an operating loss of USD 1.5 million. This includes one-off effects totalling USD 2.3 million.

### **Outlook**

In Europe, Precious Woods' most important market region, experts are forecasting significant variations in how national economies will develop: Germany is seen as a market of opportunities, whereas in other markets, particularly Great Britain, Spain and Italy, a heightened sense of caution remains in the wake of the economic crisis. The extension of anti-dumping duties on EU imports of Okoumé plywood from China can be regarded as a positive move. Overall, the markets can be expected to continue their recovery in 2011, and offer good opportunities as prices remain on the increase. In addition, local markets will grow in importance: the construction boom and additional large-scale projects in Brazil in connection with the forthcoming football World Cup in 2014 and the Olympics in 2016 represent major opportunities for Precious Woods.

In the first quarter of the current fiscal year net sales were up by 6 per cent on the precious year. The current fiscal year will see a marked improvement in sales and operating result in the second half of the year as against the previous year. This forecast is underpinned by the planned commissioning of the new sawmill in Gabon in the third quarter of 2011, and on concluding additional business involving wood waste from forest management in Brazil, to begin in July 2011. Key measures to secure liquidity were also successfully implemented in the first quarter of 2011: both lending banks have extended the standstill arrangement, which had been due to run out at the end of March 2011. In addition, further funds amounting to USD 5 million can be secured in the form of convertible loans to bridge the seasonal liquidity bottleneck in the first half of 2011. The planned sale of operational assets in Central America is also making a key contribution towards the repayment of debts and the strengthening of liquidity. Current analysis suggests that the central turnaround measures can be completed successfully with, most notably, increased productivity in Brazil being predicted for the near future. Furthermore,



## PRECIOUS WOODS

negotiations on a strategic collaboration with a potential industrial investment partner in Gabon are progressing well.

There is to be a change to the operational management team of the Precious Woods Group: Cornelia Gehrig, CFO of the Precious Woods Group, will leave the company of her own volition at the end of July 2011 to seek a new professional challenge. Gerhard Willi (from Zetra International AG) will support the finance department until a suitable successor can be appointed.

### **Important proposals to the Annual General Meeting**

At the upcoming Annual General Meeting of 19 May 2011, the Board of Directors will propose the creation of additional financing capacity in order to continue to be able to react quickly and flexibly to financing requirements. The Board of Directors is to propose an increase in the conditional share capital of 250,000 shares from CHF 60 million to CHF 72.5 million.

At the same time, a reduction in the nominal value from CHF 50 to CHF 1 per share is designed to re-establish the company's ability to access the capital market, as the current market price makes it impossible to issue fully paid-up new shares with a nominal value of CHF 50. The planned reduction in nominal value does not result in a distribution, but rather only results, within the scope of the reduction in nominal value, in the set-off with loss carry forward and change in accounting from share capital into the company's reserves. As far as shareholders are concerned, there will be no change to the value of the shares that they hold. The proposed reduction in nominal value is also intended to eliminate half of the capital loss within the meaning of article 725 paragraph 1 of the Swiss Code of Obligations (the total net loss for the reporting year exceeds half of the share capital and the statutory reserves).

The scaling down and partial reorganisation of the Board of Directors is also to be proposed to the Annual General Meeting. The term of office of three members of the Board of Directors is expiring: Katharina Lehmann is seeking re-election, whereas Daniel Girsberger and Rolf Jeker are not. In addition, Inge Jost intends to resign early from the Board of Directors for professional reasons. Claude Martin is to chair the new 'Sustainability Advisory Committee' at Precious Woods and will thus be on hand to assist the Board of Directors in an important new role. Marga Gyger and Markus Breitenmoser are seeking election to the Board of Directors for the first time. Ernst A. Brugger (Chairman of the Board of Directors), Thomas Hagen and Rudolf Wehrli remain members of the Board of Directors.



## PRECIOUS WOODS

The full annual report 2010 can be downloaded at:

[http://www.preciouswoods.com/images/stories/2011/geschaeftsbericht/annual\\_report\\_2010\\_english.pdf](http://www.preciouswoods.com/images/stories/2011/geschaeftsbericht/annual_report_2010_english.pdf)

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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.

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