

Half-Year Report 2020



PRECIOUS WOODS

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Additional information can be found at www.preciouswoods.com

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Group results





« Even if the current situation has not left our company unaffected, we have nevertheless been able to hold our own in this difficult environment. »

Markus Brütsch, CEO, CFO



Picture large: New sawmill Azobé in Gabon
Picture small: Sawmill in Brazil

Lower earnings in the first half of 2020

In the first half of 2020, Group sales amounted to EUR 23.1 million, and earnings before interest and taxes (EBIT) amounted to EUR –0.4 million or –1.9 %. Despite sales growth of 1.9 %, this represents a reduction in EBIT of EUR 1.8 million compared with the same period of the previous year. Along with other influences, the impact of the Covid-19 virus on operations, but also on sales markets, caused this drop-in earnings. At the veneer plant in Gabon, production could not resume as scheduled in January due to delays in technical maintenance. Strikes and transport problems also interfered with deliveries within Gabon. The lack of margins and the loss of production had a severe impact on EBIT for the first half of the year. The sawn timber volumes of all sawmills were about 2.3 % lower than in the previous year, while the production volumes of the veneer plant fell by only about 3.7 % despite the loss of production. Operations in Brazil developed positively in line with expectations, and the exchange rate also developed to our advantage. The Group's net result was EUR –2.3 million (previous year: EUR –0.2 million). The generated cash flow enabled further investments in productivity. Debt remained at the year-end level. Working capital fell by about EUR 2.4 million but is still too high at 31.9 % of sales. Barring governments having to impose new Covid-19 lockdown measures, the outlook and expectations for 2020 as a whole is cautiously positive, given that the second quarter ended at least with a breakeven result.

in EUR million	30.06.20	30.06.19	Index	Change
Net Sales Precious Woods Group	23.1	22.7	101.9 %	+0.4
Net Sales Precious Woods Gabon	15.8	13.8	114.4 %	+2.0
Sawmills in Gabon	12.0	10.7	112.1 %	+1.3
Veneer plant in Gabon	6.3	4.8	132.0 %	+1.5
Net Sales Precious Woods Amazon	6.2	6.3	98.5 %	–0.1
Net Sales Precious Woods Trading	1.4	2.7	51.2 %	–1.3

The exchange rate effect on sales was -0.7% compared to the same period last year.

Net sales group

23.1

EUR million

The markets' development was extremely volatile in the first half of 2020. The worldwide lockdown led to delays in acceptances and payments, and in some cases, shipment was no longer possible. This had a negative impact on cash flow. In general, there was pressure on prices because customers were very reluctant to place orders. The first easing of the situation occurred in the Chinese sales markets, but the situation is still unstable. The crisis has affected us not only on the sales side, but also in the procurement of maintenance and replacement material, most of which comes from Europe or Asia. Timely procurement was not guaranteed due to supply chain interruptions, leading to delays and significant additional costs. However, there was also a positive effect on the cost side: all costs incurred in BRL led to a lower value by about 20% in the consolidated accounts, given that the Brazilian real suffered massively from the crisis. But, this could compensate only partially for the overall negative effect.

The current order volume allows us to produce on a continuous basis, but unfortunately, we too are at times understaffed and have to send individual teams into quarantine on health grounds. In both Gabon and Brazil, we instituted the Swiss standards for hygiene rules early on, even though they were not yet required locally. Despite these measures, we still have employees today who tested positive, but fortunately have so far been spared serious illness. We exercise direct influence on compliance with all precautionary measures and support our local companies with all means at our disposal.

EBITDA

1.6

EUR million

The Group's gross profit was EUR 11.7 million, 12.3% below the previous year period (EUR 13.4 million). The gross profit margin was 50.7%, compared with 58.9% in the previous year. The main reasons for this negative development are a lower sales price and additional personnel costs. The latter were incurred because we were only able to begin partial operations at the new sawmill in Gabon in April 2020. Earnings before interest, taxes, depreciation and

amortization (EBITDA) amounted to EUR 1.6 million (previous year: EUR 3.1 million), corresponding to a margin of 6.7%. Earnings before interest and taxes (EBIT) reached EUR –0.4 million (previous year: EUR 1.3 million) and a margin of –1.9 %.

The financial result remained unchanged at EUR –1.3 million (previous year: EUR –1.3 million). The current interest charge amounted to EUR 1.3 million (previous year: EUR 1.1 million), due to the investment volumes in Gabon since 2019. The net result was EUR –2.3 million (previous year: EUR –0.2 million). Exchange rate effects on the net result amounted to EUR 0.1 million (previous year: EUR –0.1 million).

The equity ratio was 30.0% on the reporting date (end of previous year: 42.0 %). The correction of land values in Brazil undertaken in 2019 is accounted for in BRL. The exchange rate fell by 26 % compared with the end of the year, which had a direct effect on equity. Working capital at EUR 14.3 million was EUR 2.4 million below the level at the end of the year. Inventories of logs, veneer and sawn timber increased by EUR 4.3 million. At EUR 7.3 million, trade receivables were EUR 2.8 million higher than at the end of the year, because deliveries picked up only towards the end of the second quarter. Trade payables increased by EUR 0.9 million. Overall, net debt at EUR 41.5 million remained at the level at the end of the year.

Operating cash flow was EUR 3.5 million (previous year: EUR 3.5 million). This includes the change in net working capital of EUR 2.1 million (previous year: EUR 1.5 million). Investments amounted to EUR 2.6 million (previous year: EUR 1.7 million).

A few brief remarks summarizing the results in the individual companies:

Precious Woods Holding

Stable headcount

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

Precious Woods Gabon

Lower margins with higher sales

The sawmills produced a total of 19 269 m³ of sawn timber, corresponding to an increase of 0.7 % (previous year: 19 143 m³). Production volume at the veneer plant fell by 3.7% to 11 082 m³ (previous year: 11 504 m³). As in the previous year, maintenance work in the sawmills was carried out in May. The volume reduction in the veneer plant was due to a 4-week interruption of operations.

Net sales were 14.2% above the same period of the previous year, reaching EUR 15.8 million (previous year: EUR 13.8 million). The operating result (EBITDA) was EUR 1.0 million (previous year: EUR 2.6 million). The operating profit margin was 6.2% (previous year: 18.7%).

The result was again strongly negatively impacted by political and logistical difficulties. Strikes by customs officials and/or the forestry authority made delivery practically impossible. This, and the impact of Covid-19, meant that the supply of replacement material from Europe for our operations, but also of individual components for the new hardwood sawmill, was not ensured. This consequently led to increased downtimes in production as well as in quality loss of the sawn timber, which was reflected in a lower sales price.

Equity ratio

30.0 %

Net sales PWG

15.8

EUR million

Net sales PWA**6.2**

EUR million

Precious Woods Amazon**Productivity loss but profitability gain**

The production volume in the first half-year was 14 953 m³ of sawn timber, 5.8% lower than in the previous year (15 873 m³). A limited supply of logs in June caused a decline in sawmill activity. The new harvesting season began at the end of June, ensuring the supply of logs.

Net sales were 1.5% below the previous year, reaching EUR 6.2 million (previous year: EUR 6.3 million). Operating profit (EBITDA) amounted to EUR 1.5 million, representing an improvement of EUR 0.3 million (previous year: EUR 1.2 million). This resulted in an operating profit margin of 24.5 % (previous year: 19.3%).

In February, two additional smaller saw lines were put into operation. This increases monthly log cutting capacity to 15 000 m³. The permit for the harvest volume for the second half of the year is still pending, because the competent authority was closed for three months. But we are confident that we will receive the permit in time. During the same period of the previous year, a high level of inventory, caused by government inspections, was sold in addition to the normal volume. Sales can therefore be compared only to a limited extent.

Precious Woods Trading**Drop in sales****Net sales PWT****1.4**

EUR million

Net sales from trading in European logs and sawn timber amounted to EUR 1.4 million, corresponding to a decrease of 48.8% (previous year: EUR 2.7 million). The operating profit margin was -7.6% (previous year: 5.3%). The oversupply of European logs and sawn timber in Asia, coupled with weak demand for finished products in both the domestic and export markets, was so considerable that prices collapsed. We reduced our activities accordingly. Additional costs for processing our inventories in the Netherlands also led to this collapse in margins.

Carbon & Energy**Emission trading (CER)**

CER certificates in the amount of EUR 0.1 million were sold in the first half-year, while there was no trading in the same period of the previous year.

Outlook

It is especially difficult to formulate a reliable outlook for this year as a whole. We have expanded production capacity, and the new sawmill in Gabon will be fully operational in the second half of the year. The course has been set for an increase in productivity and profitability. We cannot predict how the market will develop or what further restrictions to expect. From today's perspective, we nevertheless expect an increase in sales and also profitability compared to the first half of the year.

We are currently involved in the process of establishing a joint venture for veneer production in Gabon. This will enable us to continue to operate this component of our business successfully and to be part of a value chain in Europe. At the same time, we are investing in technology, with the aim of increasing yield and reducing costs.

Conditional and authorized capital is at our disposal to finance larger projects or 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



Financial Report

Our accounting in accordance with IFRS reflects the reality of the figures and thus creates transparency and trust.



Picture large: Forest photograph of Brazil
Picture small: Football team of Bambidie, Gabun

Precious Woods Group:

Interim condensed consolidated financial statements

Consolidated statement of profit or loss

in thousand EUR

	30 June 2020 unaudited	30 June 2019 unaudited
Revenues	23 126	22 705
Changes in inventories of finished goods and work in progress	–3 502	–312
Raw materials	–1 010	–1 960
Consumables used	–5 139	–5 343
Other productions costs	–1 748	–1 711
Labour costs	–8 938	–9 950
Other operating expenses	–1 514	–1 204
Other operating income	92	716
Share of profits/(losses) of associates	185	144
Earnings before interest, tax, depreciation and amortization (EBITDA)	1 552	3 086
Depreciation, amortization and impairment	–1 992	–1 738
Earnings before interest and tax (EBIT)	–440	1 348
Financial income	350	163
Financial expenses	–1 619	–1 480
Earnings before tax (EBT)	–1 709	31
Income taxes (expenses)/income	–631	–205
Net profit/(loss) for the period	–2 340	–174
Allocation of net profit/(loss):		
Equity owners of Precious Woods Holding Ltd	–2 328	–171
Non-controlling interests	–12	–3
Basic earnings per share	–0.33	–0.02
Diluted earnings per share	–0.33	–0.02

Consolidated statement of comprehensive income

in thousand EUR

	30 June 2020 unaudited	30 June 2019 unaudited
Net profit/(loss) for the period	-2 340	-174
Gain/(loss) on defined benefit plans	-5	-0
Tax effect on gain/(loss) on defined benefit plans	0	-0
Gain/(loss) on land revaluation	-11 357	
Tax effect on gain/(loss) on land revaluation	3 862	
Items that will not be reclassified to profit or loss	-7 500	-1
Currency translation effects, net of tax	-11 560	-130
Items that may be reclassified subsequently to profit or loss	-11 560	-130
Total other comprehensive income/(loss) for the period	-19 060	-131
Total comprehensive income/(loss) for the period	-21 400	-305
Attributable to:		
Equity owners of Precious Woods Holding Ltd	-21 388	-302
Non-controlling interests	-12	-3

Consolidated statement of financial position

in thousand EUR

	30 June 2020 unaudited	31 December 2019 audited
ASSETS		
Current assets		
Cash and cash equivalents	3 311	2 578
Trade and other receivables	13 338	10 778
Inventories	12 473	16 807
Prepayments	1 255	534
Total current assets	30 377	30 697
Non-current assets		
Property, plant and equipment	64 653	77 083
Right-of use assets	3 065	3 249
Biological assets	9 732	13 158
Intangible assets	2 801	3 514
Investments in associates	820	1 066
Non-current financial assets	25	25
Other non-current assets	443	804
Recoverable taxes	346	480
Total non-current assets	81 885	99 379
Assets held for sale	–	1 000
Total assets	112 262	131 076
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	15 793	14 115
Current income tax payables	611	295
Current financial liabilities	9 275	8 213
Short-term lease liabilities	678	776
Total current liabilities	26 357	23 399
Non-current liabilities		
Non-current financial liabilities	33 798	33 822
Long-term lease liabilities	1 178	1 397
Deferred tax liabilities	12 928	12 928
Non-current provisions	4 299	4 426
Total non-current liabilities	52 203	52 573
Equity		
Share capital	5 729	5 731
Additional paid-in capital	64 938	64 938
Revaluation surplus on land	20 961	28 457
Foreign currency translation reserve	–3 159	8 401
Retained earnings	–54 852	–52 519
Equity attributable to owners of Precious Woods Holding Ltd	33 618	55 008
Non-controlling interests	84	96
Total shareholders' equity	33 702	55 104
Total liabilities and shareholders' equity	112 262	131 076

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	Revaluation surplus on land	Currency translation effects	Retained earnings	Total		
Balance 31 December 2018	5 731	64 938	–	5 334	–60 273	15 730	125	15 855
Net profit/(loss) for the period	–	–	–	–	–171	–171	–3	–174
Other comprehensive income/(loss) for the period	–	–	–	–130	–1	–131	–	–131
Total comprehensive income/(loss) for the period	–	–	–	–130	–172	–302	–3	–305
Purchase of own shares	–5	–	–	–	–	–5	–	–5
Balance 30 June 2019	5 726	64 938	–	5 204	–60 445	15 423	122	15 545
Balance 31 December 2019	5 731	64 938	28 457	8 401	–52 519	55 008	96	55 104
Net profit/(loss) for the period	–	–	–	–	–2 328	–2 328	–12	–2 340
Other comprehensive income/(loss) for the period	–	–	–7 496	–11 560	–5	–19 060	–	–19 060
Total comprehensive income/(loss) for the period	–	–	–7 496	–11 560	–2 333	–21 388	–12	–21 400
Purchase of own shares	–2	–	–	–	–	–2	–	–2
Balance 30 June 2020	5 729	64 938	20 961	–3 159	–54 852	33 618	84	33 702

Condensed consolidated statement of cash flows

in thousand EUR

	30 June 2020 unaudited	30 June 2019 ¹ unaudited
Net cash flow from operating activities		
Profit/(loss) for the period	–2 340	–174
Total non-cash adjustments	3 725	2 117
Operating cash flow before working capital changes	1 385	1 943
Total working capital adjustments	2 307	1 582
Net cash flow generated from operations	3 692	3 525
Income tax paid	–195	–67
Net cash flow operating activities	3 496	3 458
Cash flow from investing activities		
Purchase of intangible assets	–23	–31
Proceeds from sale of property, plant and equipment	12	799
Purchase of property, plant and equipment	–2 704	–2 758
Proceeds from disposal of other non-current assets	–	17
Purchase of other non-current assets	–133	–62
Increase/(decrease) in recoverable taxes	9	10
Dividends received on investment in associates	150	263
Dividends received on non-current financial assets	119	32
Net cash flow investing activities	–2 570	–1 730
Cash flow from financing activities		
Purchase of own shares	–2	–
Proceeds from borrowings	1 604	131
Repayment of borrowings	–793	–2 264
Interest paid	–482	–428
Interest expenses on leases	–57	–13
Payment of principal portion of lease liabilities	–352	–13
Net cash flow financing activities	–82	–2 587
Increase/(decrease) in cash and cash equivalents	844	–859
Translation effect on cash	–111	24
Cash and cash equivalents, at the beginning of the year	2 578	2 798
Cash and cash equivalents, at the end of the period	3 311	1 963

¹ Allocation adjustment of dividends



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 2020, have been prepared in accordance with IAS 34 Interim Financial Reporting and were authorized for issue by the Board of Directors on 10 August 2020. 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 2019. They mainly focus on new activities, events and circumstances and do not duplicate information previously reported.

These statements have been prepared according to the same accounting policies as those followed for the Group’s annual financial statements 2019. The effects of changes to International Financial Reporting Standards are explained in Note 2.

The reporting currency is Euro (EUR). 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. New or revised IFRS standards, amendments and interpretations

Certain IFRS standards and interpretations were revised or amended, effective on or after 1 January 2020. None of these changes is relevant for the Group; neither the ones effective

on 1 January 2020, nor the amendment to IFRS 16, Covid-19-Related Rent Concessions, which became effective on 1 June 2020.

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.

For further details on the sharp increase in segment assets in Brazil, please refer to the 2019 Annual Report.

Operating segments – 30 June 2020

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other ¹	Total 30 June 2020
Revenues						
Third parties	5 551	15 774	1 384	65	–	22 774
Intersegment	301	15	–	–	–316	–
Associated and related parties	352	–	–	–	–	352
Total revenues	6 204	15 789	1 384	65	–316	23 126
Profit/(loss) on sale of fixed assets and affiliates	12	–	–	–	–	12
Share of profit of associates	185	–	–	–	–	185
Earnings before interest, tax, depreciation and amortization (EBITDA)	1 519	974	–105	6	–842	1 552
Depreciation and amortization	–229	–1 739	–	–	–24	–1 992
Profit/(loss) from operating activities (EBIT)	1 290	–765	–105	6	–866	–440
Financial income and expenses	–185	–1 050	–6	–	–28	–1 269
Earnings before tax (EBT)						–1 709
Segment assets	58 948	52 641	1 956	447	–1 730	112 262
Segment liabilities	62 619	47 354	1 409	101	–32 923	78 560

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 2019

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other ¹	Total 30 June 2019
Revenues						
Third parties	5 788	13 781	2 701	–	–	22 270
Intersegment	74	43	–	–	–117	–
Associated and related parties	435	–	–	–	–	435
Total revenues	6 297	13 824	2 701	–	–117	22 705
Profit/(loss) on sale of fixed assets and affiliates	77	398	–	–	–	475
Share of profit of associates	144	–	–	–	–	144
Earnings before interest, tax, depreciation and amortization (EBITDA)	1 214	2 587	144	0	–859	3 086
Depreciation and amortization	–253	–1 472	–	–	–13	–1 738
Profit/(loss) from operating activities (EBIT)	961	1 115	144	0	–872	1 348
Financial income and expenses	–317	–902	–4	–	–94	–1 317
Earnings before tax (EBT)						31
Segment assets	21 683	48 725	3 417	302	–342	73 785
Segment liabilities	51 307	38 424	1 324	162	–32 977	58 240

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 2020	30 June 2019
Total EBITDA for reportable segments	2 208	3 801
EBITDA Other	–842	–859
Share of profit/(losses) of associates	185	144
EBITDA	1 552	3 086
Depreciation, amortization and impairment	–1 992	–1 738
EBIT	–440	1 348
Financial income and expenses	–1 269	–1 317
Earnings before tax	–1 709	31

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
Nominal value: CHF 1.00
ISIN: CH0013283368
Security number: 1 328 336

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Editorship

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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.

► **Pictures in report:**

Cattle from Gabon

Lizard from Brazil

Front- and Backcover:

Forest photograph of Brazil



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PRECIOUS WOODS