

Half-Year Report 2014



PRECIOUS WOODS

Precious Woods is one of the world's leading companies in sustainable management of tropical forests globally.

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First half-year 2014: The positive trend continues – improved sales and earnings

In the first half-year 2014 all operating figures improved significantly on the previous year: net sales by 29 %, gross profit by sound 23 %; EBITDA of USD 0.3 million is positive and increased by USD 2.3 million on the previous year. These figures are the result of considerable progress in Gabon and Brazil, but also an outcome of further cost savings and the successful reorientation of commercial activities to direct sales to customers. The closure of PW Europe is going according to plan and has entered the last phase, while market activities were successfully strengthened in Asia. The Group is currently working towards securing additional financial means for growth. A refinancing of loans is also due at the end of this year. Because of operational improvements, market response and further cost-saving effects we expect an even better second half-year with a considerable positive operational result (EBITDA).

Precious Woods Group's net sales increased in the first half-year 2014 by 29 % to USD 25.6 million, and are by USD 5.7 million higher on the previous year. The increase was achieved by our operations in Gabon, while turnover in Brazil decreased by USD 0.6 million and in Europe by USD 1.8 million on the previous year. The positive currency exchange effect was around 2.2 %. Sales prices for tropical timber slightly recovered during the reporting period, and we could increase the value chain through better utilization of logs and improved drying. With the unchanged turnover in Brazil on the previous year the reorganisation to B2B sales from redistribution via our Dutch entity can be considered as successfully concluded. Since market demand in Europe hasn't improved yet, sales activities were significantly expanded in the Asian market.

During the first half of the year deliveries in Gabon experienced some external interruptions, without affecting productivity. Heavy rains in the Amazon, which had already started in December 2013, delayed harvest operations; increased costs occurred during the first three months of this year as timber logs still had to be transported during short rain breaks from the forest to the saw mill.

The gross profit amounted to USD 12.9 million, and thereby increased by 23.2 % on the previous year (USD 10.4 million). The profit margin was 50.4 %, which is slightly lower compared to the previous year (52.7 %). The negative alteration increased from destocking vis-à-vis last year's stock build-up. Earnings before interest, taxes, depreciation, and amortization (EBITDA) amounted to USD 0.3 million, which is an increase of USD 2.3 million on the previous year (USD –2.1 million). Earnings before interest and taxes (EBIT) amounted to USD –3.5 million (previous year: USD –6.1 million).

As a result of the significant sales growth funds were tied up in working capital, which further strained the liquidity situation as against the end of 2013. Irrespectively, net debts decreased by just under USD 1 million. The Group continues its efforts to secure additional financial means for growth as well as for refinancing of loans by the end of this year. The equity ratio amounted to 28 %, which is worse by 3.7 % due to the loss of USD 5.9 million.

The operational cash flow amounted to USD 1.4 million (previous year: USD –0.6 million). In the first quarter 2014, shares in the small company GWW were sold and thereby contributed to the positive investment cash flow of USD 1.3 million (previous year: USD –0.4 million).

Precious Woods Holding: further cost savings – Expansion of the sales department

Holding costs could be decreased by USD 0.3 million or 14 % on the previous reporting period. The majority of consultancy contracts were terminated in the first quarter; the cost savings will be mainly felt in the second half of this year. As all export sales will now be administered through the Holding (Brazil through PW Europe in the previous year) the sales team will be expanded by one sales representative and one office employee in the fourth quarter 2014. These additional costs will be more than compensated by the elimination of costs in the Netherlands.

Precious Woods Gabon: Increased performance and productivity

While productivity was still hampered by an illegal strike in the veneer plant in the first half-year 2013, during this reporting period production could run continuously. Only deliveries experienced some constraints due to short customs strikes.

Production volumes in the saw mill amounted to 20 157 m³ (previous year: 12 659 m³) and in the veneer plant to 13 160 m³ (previous year: 8 410 m³), and thereby improved considerably on the previous year. The investments, mainly undertaken during the last year, demonstrate their positive impact in these figures.

Transport costs nearly doubled during the first half-year due to bottlenecks in the railway network requiring a shift to the road. Since July 2014, the situation has normalized and we can transport two thirds of the sales by train again. The operating result (EBITDA) amounted to USD 2.2 million and is significantly higher than that of the previous year (USD 0.5 million). The sales increase of 56 % has affected the operating result disproportionately.

Due to the sales increase the liquidity situation in this segment grew more acute. A main reason is that for several years now the government of Gabon is not paying back submitted value added tax. The credit balance for Precious Woods amounts to around USD 4 million.

***Precious Woods Amazon:
significant increase in productivity***

The net sales of USD 6.5 million were around USD 0.6 million below on the previous reporting period, however, the operating result (EBITDA) of USD 0.4 million was by around 1.8 million higher on the previous year. Cost savings across all areas and optimisation of production secured this enormous improvement.

The reorganisation from redistribution to B2B resulted in an increased inventory of finished-products, while the inventory of logs decreased due to the held off harvest during the rainy season in the first half-year.

***Precious Woods Europe:
Reduced operations following closing-down decision***

In November 2013, it was agreed to close-down PW Europe, a decision which was consequently implemented during the first few months in 2014. As per the reporting date 30 June 2014, only three staff members were left in employment consigned to inventory sale and administration of transit orders as well as asset sales. A large part of the inventory was sold last year to one customer, but is still being stored at PW Europe. Net sales amounted to USD 3.4 million (previous year: 5.1 million) and the operating result (EBITDA) amounted to USD -0.5 million (previous year: USD -1.3 million). The improvement on the operating result level will be even more significant by the end of this year as fixed costs have been largely eliminated. The lease period ends on 31 March 2015, it is planned to conclude the inventory sale by 31 October 2014.

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

CER certificates from the 2013 production will be traded next only in autumn 2014; therefore no sales took place during the reporting period.

Share price

At the beginning of 2014, the share price was trading at CHF 2.60 on the OTC ZKB platform; on 30 June 2014 (due date semi-annual report), the price was a little lower at CHF 2.345. In May 2014, a maximum high of CHF 3.20 was recorded.

Outlook

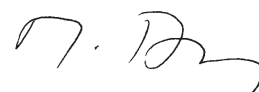
Due to the good basis and the cost-saving measures, which still have to show their impact, we are expecting an improved second half-year on the reporting period. Therefore, we are also keeping our guidance for a two-figure sales growth, a distinct positive operational result (EBITDA) and a balanced EBIT, as well as a positive operational cash flow.

We will inform about the progress in liquidity and refinancing of loans accordingly. We are confident to resolve those issues in due time.

To the Board of Directors / Management



Ernst A. Brugger
Chairman of the Board of Directors



Markus Brüttsch
CEO / CFO

Precious Woods Group

Interim condensed consolidated financial statements

as at 30 June 2014

Interim consolidated statement of financial position

in TUSD

	30 June 2014	31 December 2013
	unaudited	audited
ASSETS		
Current assets		
Cash and cash equivalents	2 730	3 185
Trade and other receivables	11 904	9 017
Inventories	11 510	14 818
Current income tax receivables	—	—
Other current assets	2 109	1 872
Total current assets	28 253	28 892
Non-current assets		
Property, plant and equipment	58 588	59 824
Intangible assets	10 990	11 326
Investments in associates	1 399	2 726
Non-current financial assets	586	587
Other non-current assets	209	147
Recoverable taxes	811	—
Deferred income tax assets	177	314
Total non-current assets	72 760	74 924
TOTAL	101 013	103 816
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	16 782	13 620
Current income tax liabilities	243	228
Short-term convertible bonds and loans	24 493	18 468
Current financial liabilities	12 189	12 660
Current provisions	548	758
Total current liabilities	54 255	45 734
Non-current liabilities		
Long-term convertible bonds and loans	2 097	7 535
Non-current financial liabilities	9 437	10 912
Deferred tax liabilities	141	300
Non-current provisions	6 797	6 414
Total non-current liabilities	18 472	25 161
Equity		
Share capital	3 278	3 278
Additional paid-in capital	67 660	67 660
Foreign currency translation reserve	16 639	15 429
Retained earnings	−59 297	−53 481
Equity attributable to owners of Precious Woods Holding Ltd	28 280	32 886
Non-controlling interests	5	35
Total shareholders' equity	28 285	32 921
TOTAL	101 013	103 816

Interim consolidated statement of profit or loss

	30 June 2014	30 June 2013
in TUSD	unaudited	unaudited
Net sales from trading activities	25 560	19 669
Revenue from emission reduction activities	–	149
Total revenue	25 560	19 818
Changes in inventories of finished goods and work in progress	–2 196	1 212
Raw materials and consumables used	–1 605	–1 491
Other productions costs	–8 887	–9 094
Operational contribution	12 872	10 445
Direct and indirect labour costs	–10 844	–10 893
Other operating expenses	–1 900	–1 813
Other operating income	159	204
Earnings before interest, tax, depreciation and amortization (EBITDA)	287	–2 057
Depreciation, amortization and impairment	–3 802	–4 036
Earnings before interest and tax (EBIT)	–3 515	–6 093
Financial income	289	2 043
Financial expenses	–2 613	–3 386
Share of profit of associates	–73	4
Earnings before tax (EBT)	–5 912	–7 432
Income taxes (expenses)/income	17	–146
Net (loss)/profit for the period	–5 895	–7 578
Allocation of net (loss)/profit:		
Equity owners of Precious Woods Holding Ltd	–5 815	–7 470
Non-controlling interests	–80	–108
Basic earnings per share	–1.55	–2.08
Diluted earnings per share	–1.55	–2.08

Interim consolidated statement of comprehensive income

in TUSD	30 June 2014 unaudited	30 June 2013 unaudited
Net (loss)/profit for the period	-5 895	-7 578
Actuarial gains and losses	-1	-
Tax effect on actuarial gains and losses	0	-
Items that will not be reclassified to profit or loss, net of tax	-1	-
Foreign currency translation differences	1 324	-2 529
Tax effect on foreign currency translation differences	-64	298
Items that may be reclassified subsequently to profit or loss, net of tax	1 260	-2 231
Total other comprehensive (loss)/income for the period	1 259	-2 231
Total comprehensive (loss)/income for the period	-4 636	-9 809
Allocation of total comprehensive (loss)/income:		
Equity owners of Precious Woods Holding Ltd	-4 606	-9 701
Non-controlling interests	-30	-108

Interim consolidated statement of changes in equity

in TUSD	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 2012	2 923	66 594	16 939	-33 736	52 720	251	52 971
Net (loss)/profit for the period	–	–	17	-7 487	-7 470	-108	-7 578
Other comprehensive (loss)/income for the period	–	–	-2 231	–	-2 231	–	-2 231
Total comprehensive (loss)/income for the period	–	–	-2 214	-7 487	-9 701	-108	-9 809
Proceeds from issue of shares	330	1 035	–	–	330	–	330
Equity component convertible loans	–	-55	–	–	980	–	980
Costs of capital increase/transaction costs	–	-120	–	–	-120	–	-120
Balance 30 June 2013	3 253	67 454	14 724	-41 223	44 209	143	44 352
Balance 31 December 2013	3 278	67 660	15 430	-53 482	32 886	35	32 921
Net (loss)/profit for the period	–	–	–	-5 815	-5 815	-80	-5 895
Other comprehensive (loss)/income for the period	–	–	1 209	–	1 209	50	1 259
Total comprehensive (loss)/income for the period	–	–	1 209	-5 815	-4 606	-30	-4 636
Balance 30 June 2014	3 278	67 660	16 639	-59 297	28 280	5	28 285

Interim condensed consolidated statement of cash flows

in TUSD	30 June 2014	30 June 2013
	unaudited	unaudited
Profit/(loss) for the period	-5 895	-7 578
Operating cash flow before working capital changes	233	-854
Net cash flow operating activities	1 426	-597
Net cash flow investing activities	1 302	-427
Net cash flow financing activities	-3 132	2 348
(Decrease)/increase in cash and cash equivalents	-404	1 324
Translation effect on cash	-51	-188
Cash and cash equivalents, at the beginning of the year	3 185	5 357
Cash and cash equivalents, at the end of the period	2 730	6 493



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 for the six months ended 30 June 2014, have been prepared in accordance with IAS 34 and were authorized for issue by the Board of Directors on 25 August 2014. The interim condensed consolidated 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 2013. They mainly focus on new activities, events and circumstances and do not duplicate information previously reported.

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.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

2. Going concern – Debt restructuring and refinancing

1. Background

The group has to refinance convertible loans in the amount of CHF 17 million mid of December 2014. As of the date of this report the funds for repayment are not fully available.

2. Debt restructuring / refinancing

The Board of Directors and Management work on various paths in order to solve the group's repayment obligations and to ease the current cash situation. The following actions have been taken:

Stressed cash situation

- Discussions to increase of current credit lines with banks in Gabon
- Planned factoring of trade accounts receivable in Gabon

Convertible loans

- Identified possible investors/buyers in Brazil. The focus is on the sale of land titles and on investments in the Brazilian operations.
- Negotiations with the existing bond holders for a possible extension or conversion of the loans
- Negotiations with possible new bond holders and investors

3. Uncertainties

Stressed cash situation

The group has to finance the organic growth and is working on working capital financing. Once funded, the group should have sufficient liquidity until November 2014. However, should these assumptions not materialize as expected, then the group might not be in a position to fulfill its financial obligations.

Convertible loans

Should the required liquidity for the repayment of the loans not be obtained (either through new loan holders, an extension of the repayment terms of the current loans or through new investors), then Precious Woods Group will not be in a position to settle its financial liabilities in the short term.

4. Conclusion

The redemption of the convertible loans in December 2014 indicates the existence of a material uncertainty, which may cast significant doubt about Precious Wood's ability to continue as a going concern. In such a case, the financial statements would have to be prepared on a liquidation value basis.

The Board of Directors and Management expect that the proposed measures will be successful, and their effects will be to reduce the indebtedness and to strengthen the liquidity of the Group and assure its financial stability in the long term. Therefore, the Board of Directors and Management believe the going concern assumption of the Precious Woods Group is given.

3. Seasonality

The first half year of the forestry operations in Brazil is characterized by the rainy season (January to May) during which no logs are harvested and processing yields and sales of logs are lower than what can be achieved in the second half of the year. For the reporting period, the unfavorable seasonal effect was extended by one month due to ongoing rain in Brazil.

4. Convertible bonds and loans

The convertible bond at a par value of CHF 17 million will be repayable in December 2014 or can be converted into shares at a rate of 100 shares per CHF 5000. The convertible loans amount to CHF 7.5 million in total and are repayable or convertible in 2015.

5. Financial information by segment

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

Operating segments – 30 June 2014

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other ¹	Total 30 June 2014
Revenue						
Third parties	4 174	17 379	3 288	–	–	24 841
Intersegment	1 671	–	–	–	–1 671	–
Associated and related parties	656	–	63	–	–	719
Total revenue	6 501	17 379	3 351	–	–1 671	25 560
Loss/profit on sale of associate	–	–	–44	–	–	–44
EBITDA	355	2 153	–528	–	–1 693	287
Segment assets	32 853	64 145	4 019	118	–121	101 013
Segment liabilities	55 893	62 456	8 966	186	–54 774	72 727

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 2013

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading Europe	Carbon & Energy	Other ¹	Total 30 June 2013
Revenue						
Third parties	3 373	11 148	5 148	149		19 818
Intersegment	3 706	–	–	–	–3 706	–
Total revenue	7 079	11 148	5 148	149	–3 706	19 818
EBITDA	–1 431	514	–1 290	1 629	–1 479	–2 057
Segment assets	50 818	73 289	14 362	690	–26 579	112 582
Segment liabilities	75 144	71 490	11 878	430	–90 704	68 237

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

	30 June 2014	30 June 2013
Total EBITDA for reportable segments, continuing	1 980	–164
EBITDA Other	–1 693	–1 611
EBITDA of continuing operations	287	–1 775
Depreciation, amortization and impairment	–3 802	–3 970
EBIT	–3 515	–5 745
Financial income and expenses	–2 324	–1 343
Share of profit of associates	–73	236
Earnings before tax from continuing operations	–5 912	–7 432

6. Share capital

On 21 May 2014, the Annual General Meeting reapproved the authorized capital of CHF 1.6 million.

7. Change in contingent liabilities

There are no changes in contingent liabilities. The IBAMA case (see note 29 of the Annual Report 2013) is still pending.

8. Subsequent events

On issuing date there were no subsequent events to be reported.

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 under www.preciouswoods.com.

Security type: registered share
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Precious Woods Holding Ltd

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.

► Backcover:

Aerial view of the forest of Gabon



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