

Half-Year Report 2015



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 2015: Positive earnings before interest and taxes (EBIT) – Stronger operating cash flow – Significant currency exchange effect

The first half-year 2015 concludes with positive earnings before interest and taxes (EBIT) of USD 0.2 million, USD 3.7 million higher than the same period in the previous year. Both the Brazilian company and the operations in Gabon achieved significant increases in productivity and earnings. Further costs were reduced in the Holding. Thanks to this positive development in all areas, the cash situation has also improved. In the consolidated accounts, the strong Swiss franc and the depreciation of the euro and the Brazilian real are reflected primarily in the comparison of sales, the financial result, and the balance sheet.

The net sales of the Precious Woods Group in the first half-year 2015 were USD 22.6 million and thus 11.7 % below the same period in the previous year (USD 25.6 million). Calculated at constant exchange rates, sales growth was 5.1 %. While the saw mills in Gabon achieved sales increases of 18.4 %, sales in the veneer plant fell by 41.1 % compared with the previous year period. This decline was due to a 6-week planned service interruption and comparatively high sales in the previous year period. Sales were within the expected range, however. In Brazil, sales were 9.3 % below the previous year. The negative currency exchange effect was 16.1 % on a consolidated basis. The prices for tropical timber remained relatively stable and began to worsen only starting in July 2015. Especially in Asia, demand declined.

There were no notable interruptions in logistics in the first half-year 2015. Rail capacities in Gabon were sufficient, so that no additional costs were incurred for lorry transport.

The gross profit was USD 13.0 million and thus slightly higher than the previous year (USD 12.9 million). The gross profit margin was 57.6 %, compared with 50.4 % in the previous year. The significant positive change can be explained with reference to the optimization measures that were implemented at all locations. Earnings before interest, taxes, depreciation, and amortization (EBITDA) amounted to USD 2.9 million, USD 2.6 million higher than the previous year (USD 0.3 million). Earnings before income and taxes (EBIT) amounted to USD 0.2 million (previous year: USD –3.5 million).

The financial result was USD –4.3 million (previous year: USD –2.4 million). The pure interest charge was USD 1.6 million (previous year: USD 2.7 million). While the exchange rate losses in the previous year amounted to USD 0.4 million, they reached USD 2.7 million in the reporting period. This ultimately resulted in a net loss of USD 4.1 million (previous year: USD 5.9 million). Part of the foreign exchange

adjustments were made directly via equity and not via the income statement. For that reason, equity at the end of the reporting period was USD 11.1 million or USD 9.1 million lower than at the end of the year. The equity ratio ended up at 15.3 %, compared with 23.2 % on 31 December 2014.

Working capital was within the expected range at USD 9.9 million or 22.4 % of 12-month sales, USD 0.5 million below the previous year period. Net debts amounted to USD 43.0 million (previous year: USD 45.3 million). The decline is solely a consequence of the currency conversion.

Operating cash flow was USD 1.7 million (previous year: USD 1.4 million). Investment cash flow was USD –0.6 million (previous year: USD 1.3 million). In the first quarter of 2014, shares in the small company GWW were sold and thereby contributed to the positive investment cash flow.

Precious Woods Holding:

Further cost savings

Holding costs were decreased by USD 0.4 million or 23.9 % compared with the same period in the previous year. Over the past 18 months, the organization underwent a restructuring process and saved a total of USD 1.5 million in costs per year. The sales team was strengthened due to the higher workload, while administration was cut.

Precious Woods Gabon:

Increase in productivity – Organizational improvements

Production volumes in the saw mill amounted to 18 465 m³ (previous year: 18 259 m³) and in the veneer plant 8 912 m³ (previous year: 14 425 m³). While the production volume in the saw mill was slightly higher than the previous year, the previous year production in the veneer plant could not be reached due to the 6-week service interruption. The loss of production in the veneer plant will be compensated by additional work on weekends until the end of the year. As in the previous year, the maintenance work in the saw mill was carried out in the first half-year. Moreover, minor investments in productivity were made on a selective basis.

One focus in the first half-year 2015 was process optimization from order placement to delivery. Lead time was reduced and quality improvements were achieved. Transport was largely carried out by rail, which was reflected in lower infrastructure costs. The operating

result (EBITDA) amounted to USD 3.6 million and was significantly higher than the previous year (USD 2.2 million). Despite a currency-related decline in sales by 14.4 %, the operating result increased by 66.5 %.

The local financing situation has not improved. The illiquidity of the government of Gabon also has an impact on banks and industry. The existing banks are still supporting us to the extent of their abilities, however. Despite negotiations, the input tax credit from the past has still not been reimbursed by the government; the credit balance of Precious Woods Gabon continues to be about USD 3.5 million.

Precious Woods Amazon: Significant increase in productivity

Production volumes in the saw mill amounted to 11 581 m³ (previous year: 11 698 m³) and were thus 1.0 % lower than the previous year. Net sales amounted to USD 5.9 million, about USD 0.6 million below the previous year period, but the operating result (EBITDA) was USD 0.5 million or about USD 0.1 million higher than the previous year. These improvements were achieved despite a significant rise in fuel and personnel costs.

Also in Brazil, workflows and material flows in the saw mill were further optimized with the goal of reducing lead time, avoiding waiting times, and keeping inventory to a minimum. These improvements were achieved without any investments.

Due to the rainy season in Brazil, logs can be harvested only between July and December, so that log inventories decline in the first half-year. The many different timber species that we have to harvest in order to protect biodiversity constitute a major challenge for sales. New sales markets in Asia and the Middle East have been developed successfully – they are intended to compensate the decline on the European market.

Precious Woods Europe / Trading: Shutdown concluded – Trading activities enhanced

On 31 March 2015, the premises in the Netherlands were vacated completely, and the remaining small inventory was transferred. The operational activities of Precious Woods Europe had already been assumed by the Holding over the course of 2014. Since the 4th quarter of 2014, the Holding has also taken on the sale of certified European logs.

Net sales from trading activities amounted to USD 1.8 million (previous year: USD 3.4 million), and the operating result (EBITDA) amounted to USD 0.1 million (previous year: USD –0.5 million).

Carbon & Energy: Emission trading (CER)

CER certificates from the 2014 production will not be traded again before autumn 2015, so that no sales took place during the reporting period.

Share price

At the beginning of 2015, the share price was trading at CHF 2.60 on the OTC ZKB platform; on 30 June 2015 (cut-off date for the interim report), the price was significantly higher at CHF 3.45. A steady increase in the price was apparent from mid-May 2015.

Outlook

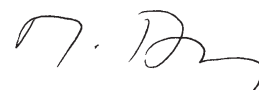
We are maintaining our guidance for slight sales growth with positive EBIT and increased cash flow, although the markets worsened shortly after the interim financial statement. All of the currency exchange effects on the balance sheet are already apparent in the interim financial statement, which is why we do not expect any major changes in this regard if the exchange rates stay at this level.

Due to the high debt and corresponding interest burden, we are planning an important increase in equity. The goal is to reduce the burden on the income statement and to achieve reasonable financing of growth. We will provide information on the planned activities in due course.

To the Board of Directors / Management



Ernst A. Brügger
Chairman of the Board of Directors



Markus Brüttsch
CEO / CFO

Precious Woods Group

Interim condensed consolidated financial statements

as at 30 June 2015

Interim consolidated statement of financial position

in TUSD

	30 June 2015	31 December 2014
	unaudited	audited
ASSETS		
Current assets		
Cash and cash equivalents	2 010	2 769
Trade and other receivables	9 350	10 945
Inventories	8 671	11 789
Other current assets	1 966	1 648
Total current assets	21 997	27 151
Non-current assets		
Property, plant and equipment	41 361	48 450
Intangible assets	7 528	9 094
Investments in associates	945	1 228
Available-for-sale financial assets	560	–
Non-current financial assets	560	531
Other non-current assets	741	855
Deferred income tax assets	54	91
Total non-current assets	51 189	60 249
Non-current assets held for sale	12	6
TOTAL	73 198	87 406
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	11 487	15 618
Current income tax liabilities	166	194
Short-term convertible bonds and loans	2 103	7 306
Current financial liabilities	18 148	19 164
Current provisions	29	205
Total current liabilities	31 933	42 487
Non-current liabilities		
Long-term convertible bonds and loans	1 660	–
Non-current financial liabilities	23 201	18 902
Deferred tax liabilities	54	91
Non-current provisions	5 166	5 650
Total non-current liabilities	30 081	24 643
Equity		
Share capital	3 278	3 278
Additional paid-in capital	67 814	67 659
Foreign currency translation reserve	8 231	13 400
Retained earnings	–68 272	–64 207
Equity attributable to owners of Precious Woods Holding Ltd	11 051	20 130
Non-controlling interests	133	146
Total shareholders' equity	11 184	20 276
TOTAL	73 198	87 406

Interim consolidated statement of profit or loss

	30 June 2015	30 June 2014
in TUSD	unaudited	unaudited
Net sales from trading activities	22 569	25 560
Revenue from emission reduction activities	—	—
Total revenue	22 569	25 560
Changes in inventories of finished goods and work in progress	–1 297	–2 196
Raw materials and consumables used	–1 819	–1 605
Other productions costs	–6 452	–8 887
Operational contribution	13 001	12 872
Direct and indirect labour costs	–8 434	–10 844
Other operating expenses	–1 737	–1 900
Other operating income	105	159
Earnings before interest, tax, depreciation and amortization (EBITDA)	2 935	287
Depreciation, amortization and impairment	–2 728	–3 802
Earnings before interest and tax (EBIT)	207	–3 515
Financial income	140	289
Financial expenses	–4 389	–2 613
Share of profit of associates	–74	–73
Earnings before tax (EBT)	–4 116	–5 912
Income taxes (expenses)/income	28	17
Net (loss)/profit for the period	–4 088	–5 895
Allocation of net (loss)/profit:		
Equity owners of Precious Woods Holding Ltd	–4 091	–5 815
Non-controlling interests	3	–80
Basic earnings per share	–1.09	–1.55
Diluted earnings per share	–1.09	–1.55

Interim consolidated statement of comprehensive income

in TUSD	30 June 2015 unaudited	30 June 2014 unaudited
Net (loss)/profit for the period	-4 088	-5 895
Actuarial gains and losses	—	-1
Tax effect on actuarial gains and losses	—	0
Foreign currency translation differences	12	—
Items that will not be reclassified to profit or loss, net of tax	12	-1
Unrealised gains and losses financial assets available for sale	-2	-0
Foreign currency translation differences	-5 038	1 324
Tax effect on foreign currency translation differences	-131	-64
Items that may be reclassified subsequently to profit or loss, net of tax	-5 171	1 260
Total other comprehensive (loss)/income for the period	-5 159	1 259
Total comprehensive (loss)/income for the period	-9 247	-4 636
Allocation of total comprehensive (loss)/income:		
Equity owners of Precious Woods Holding Ltd	-9 234	-4 606
Non-controlling interests	-13	-30

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 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
Equity component convertible loans	—	—	—	—	—	—	—
Balance 30 June 2014	3 278	67 660	16 639	-59 297	28 280	5	28 285
Balance 31 December 2014	3 278	67 659	13 400	-64 207	20 130	146	20 276
Net (loss)/profit for the period	—	—	—	-4 091	-4 091	3	-4 088
Other comprehensive (loss)/income for the period	—	—	-5 169	26	-5 143	-16	-5 159
Total comprehensive (loss)/income for the period	—	—	-5 169	-4 065	-9 234	-13	-9 247
Equity component convertible loans	—	155	—	—	155	—	155
Balance 30 June 2015	3 278	67 814	8 231	-68 272	11 051	133	11 184

Interim condensed consolidated statement of cash flows

in TUSD	30 June 2015	30 June 2014
	unaudited	unaudited
Profit/(loss) for the period	-4 088	-5 895
Operating cash flow before working capital changes	1 980	233
Net cash flow operating activities	1 703	1 426
Net cash flow investing activities	-556	1 302
Net cash flow financing activities	-1 875	-3 132
(Decrease)/increase in cash and cash equivalents	-728	-404
Translation effect on cash	-31	-51
Cash and cash equivalents, at the beginning of the year	2 769	3 185
Cash and cash equivalents, at the end of the period	2 010	2 730



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 2015, have been prepared in accordance with IAS 34 and were authorized for issue by the Board of Directors on 24 August 2015. 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 2014. 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 2014, except for the new or revised standards and interpretations adopted in these financial statements. Their adoption did not have a significant impact on the financial statements of the Group.

2. Refinancing / Debt restructuring

The Board of Directors and Management expect that the already taken and further planned measures will be successful, and their effects will be sufficient to restore the liquidity of the Group and assure its financial stability in the long term. Therefore, the Board of Directors and Management believe that the existing uncertainties are not material in nature and the going concern assumption of Precious Woods Group is given. The Group is looking to strengthen its equity and to reduce the debt to reasonable value to ensure the future growth.

3. Seasonality

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

4. Convertible bonds and loans

The long-term convertible bonds in the total amount of CHF 1.7 million will be repayable in December 2016 (CHF 1.2 million) respectively May 2017 (CHF 0.5 million). The short-term convertible bond of CHF 2.0 million will be repayable in December 2015.

5. Financial liabilities

The convertible bond of CHF 17.0 million was replaced by a long-term loan of CHF 12.0 million secured by land and CHF 5.0 million secured by guaranties.

6. Financial information by segment

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

Operating segments – 30 June 2015

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading	Carbon & Energy	Other ¹	Total 30 June 2015
Revenue						
Third parties	5 404	14 853	1 803	–	–	22 060
Intersegment	4	–	–	–	–4	–
Associated and related parties	487	22	–	–	–	509
Total revenue	5 895	14 875	1 803	–	–4	22 569
Loss/profit on sale of associate	–	–	–	–	–	–
Loss/profit on sale of fixed assets and affiliates	–	–	54	–	–	54
EBITDA	508	3 583	132	–	–1 288	2 935
Segment assets	24 206	46 614	2 292	86	–0	73 198
Segment liabilities	52 419	34 439	6 074	231	–31 149	62 014

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 2014

in TUSD	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Timber Trading	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
Loss/profit on sale of fixed assets and affiliates	–	–	2	–	–	2
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 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 2015	30 June 2014
Total EBITDA for reportable segments, continuing	4 223	1 980
EBITDA Other	-1 288	-1 693
EBITDA of continuing operations	2 935	287
Depreciation, amortization and impairment	-2 728	-3 802
EBIT	207	-3 515
Financial income and expenses	-4 248	-2 324
Share of profit of associates	-74	-73
Earnings before tax from continuing operations	-4 116	-5 912

7. 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.

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Nominal value: CHF 1.00
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Credits

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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:

Tree of brasilian Forest



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