PRECIOUS WOODS

News

News about the company, its reforestation projects, and the sustainable management of tropical forests

Nr. 1 – September 2010

To our shareholders, customers and other interested parties

Precious Woods invests in its turnaround

The turnaround introduced in spring of 2009 grew into a profound reorganisation of the Precious Woods Group. The core objective shared by the Board of Directors, Group Management and employees is to increase operational profitability while maintaining the reached high ecological and social standards. Although the measures introduced are beginning to show initial results (e.g. at Precious Woods Europe), internal and external factors meant that, by mid-2010, they had not yet brought about positive figures. Negative results are i.e. reported in Brazil and – due to the ban on the export of logs – in Gabon. For the Board of Directors and the Group Management, the focus is on accelerating the impact of the measures initiated.

The markets for tropical timber products have shown signs of a recovery over the past few months. Precious Woods (PW) is obtaining better prices for its products, and sales volumes have stabilized. Our cost-cutting and process-optimization programs have been showing the first signs of success in Europe and Central America. However, political restrictions have once again had a negative effect on the result: in Gabon, the government's ban on the export of logs has been enforced rigorously since January 1, 2010. Contrary to expectations, the export quotas for logs that the government announced have not yet been approved. In Brazil, the required harvest permit has been granted, however around three months late and only for a part of the harvest area. These developments have influenced the negative result of the first half of 2010.

Following four factors were the main contributors to the operative loss recorded in the first half of 2010:

- The negative impact of the ban on the export of logs from Gabon (USD 2.3 million).
- An unexpected loss on stored wood in Brazil (USD 0.9 million) caused by an inventory error (which is currently being investigated with an internal audit).
- Excessive fixed costs in relation to sales figures in Brazil (USD 2.3 million). These were caused primarily by the extended ban on harvesting due to the rainy season lasting longer than normal, by the delay in receiving the harvest permit and by the necessary switch to lower-quality woods.
- The USD 2.4 million drop in the net growth of biological assets in Central America (compared to the previous year) caused by the change in the valuation system for plantations introduced at the end of 2009 (see 2009 Annual Report, page 26).

The Board of Directors and the Group Management find the unsatisfactory performance at mid-2010 bitterly disappointing given that intensive work is being put into a profound turnaround. Since fall of 2009 – and with greater intensity starting at the beginning of this year – measures have been taken to tackle the above-mentioned causes. However, they are requiring longer than expected to be effective. The Board of Directors and Group Management

Revenue and net loss			
in million USD	*1st half 2010*	*1st half 2009*	
Revenue from wood and electricity sales	39.3	40.8	–3.7 %
Total operating income	42.9	44.8	–4.2 %
Loss from operating activities	–6.7	–3.7	
Net loss	–8.9	–4.8	

Key figures of the first half year 2010 (see details on page 6).

expect the measures to have a greater impact next year and the turnaround to be completed.

The new CEO, Joachim Kaufmann, assumed responsibility at the beginning of June 2010 after an introductory phase. On his visits to all the induvidual countries, he was impressed by how committed and motivated the employees are and by the ecological and social commitment of Precious Woods. The Company can certainly be regarded as a global "benchmark" in these fields. To ensure sustainable long-term Group profit, however, an important key element – yet one which is also feasible – is the optimization of processes to increase productivity by a considerable degree. In particular, the new CEO believes that additional growth is also needed, and it will require selective investment – for example, in an additional sawmill in Gabon.

Gabon

The export of logs from Gabon has been banned since January 1, 2010. Although PW supports the Gabonese government's intention to boost value creation locally, the government's precipitous decision caused problems for all forestry companies in Gabon. It led to PW losing export revenue at around USD 7.5 million with above-average margins in the first half of 2010. Despite this major setback, Precious Woods Gabon succeeded in compensating some of this lost revenue through increased sales of sawn wood, better prices and growth in domestic sales. Nevertheless, EBIT was still burdened by USD 2.3 million of lost income.

The details of the project to construct an additional sawmill for various types of sawn wood ("bois divers"), which were worked out in the wake of the export ban, will be addressed by the Board of Directors in the near future. In the event of a positive decision, the new sawmill will begin operating in spring of 2011.

The variable cost structures at Precious Woods Gabon have been adjusted. Therefore forest production can be increased again as soon as the government approves the promissed export quotas or a new sawmill begins operations.

Central America

After the recovery in teak prices, the harvest of teak forests was increased with primarily marginal areas being harvested and reforested with better-quality, cloned seeds. As a result, it was possible to increase sales by USD 1.8 million to USD 2.6 million compared to the previous year, in part thanks to new customers in Asia and slightly better prices.

In the first half of 2010, net growth from biological assets in the amount of USD 0.8 million was capitalized. This is USD 2.4 million less than in the same period in the previous year (USD 3.2 million). The main reason for this variance is the revised model for valuating biological assets introduced at the end of 2009.

Brazil

The problem with harvest permits has been solved to a certain extent. In Caribe, Precious Woods was granted an extension to its harvest permit but was only able to harvest less quality wood. The permit for the first 4,000 hectares of the high-quality Monte Verde fazenda was received on August 4, 2010 – three months later than planned. Further permits are expected in October which guarantees the harvesting over the financial year 2010.

The environment and resources authority IBAMA prohibited end of December, 2009 harvesting after end of January 2010 (during rainy season). This meant that considerably less time was available for harvesting, which caused high costs. This situation forced Precious Woods to purchase wood from third parties in order to keep the sawmill and also – with the resulting biomass – the power plant at full capacity. This had a positive effect in that energy sales were USD 1.3 million up on the previous year.

A check of stocks on hand revealed a discrepancy in the inventory of around 5,000 cubic meters, worth USD 0.9 million. Precious Woods has initiated an internal audit.

In Pará, the sale process of real estate for the second half of 2010 has been intensified.

In June 2010, the previous Head of the business unit in Brazil left the company by mutual consent and has been replaced on an interim basis by the former Chief Financial Officer.

Europe

The cost-cutting program at Precious Woods Europe is having a positive impact. Although sales were only slightly higher than in the second half of 2009, Precious Woods Europe reported with EBIT of USD –0.4 million a better operative result than in the previous year – despite the weak Euro and the long winter, which put pressure on revenues in the first few months of the year. The construction market in Holland hardly grew at all, while incoming orders from the United Kingdom look promising.

Energy and CO_2

The performance of Precious Woods Energy is pleasing. At USD 3.2 million, energy sales have almost doubled compared with the previous year. With EBIT, too, the result was a profit of USD 0.4 million.

However, earnings from CO_2 certificates fell nearly 50 percent to just over USD 0.5 million in the first half of 2010. This is because the Itacoatiara CDM* project was revalidated at the end of 2009 after running for seven years. The new methods used to calculate methane reduction meant that fewer emission certificates can be issued.

Share price

At the beginning of the year, the share price stood at CHF 37.50. At the time of printing of this report (31.8.2010) the rate was CHF 30.00, CHF 7.50 lower.

Financing

The Annual General Meeting in May 2010 approved the creation of conditional and authorized share capital. The company can thus place either a convertible bond of an amount up to CHF 60 million or a capital increase of an amount up to CHF 40 million on the capital market.

The requirements for securing the Group's medium-term financial base are as follows: the creation of new capital, the discussions initiated on the refinancing of the loans falling due in spring of 2011, the already announced sales of non-operational assets and the far reaching measures to ensure the turnaround.

* Clean Development Mechanism in accordance with the Kyoto Protocol

Outlook

In the second half of the year, Precious Woods will focus on significantly improving productivity, on obtaining further harvest permits in Brazil and on expanding capacity in Gabon. Furthermore, increasing sales at PW Europe are also important. Central America will meet its objectives for the year. Based on current business development and the additional expenditures required to improve the situation in Brazil, Precious Woods is predicting that the operating results, after adjustment for currency effects and without one-offs, can be improved slightly in the second half of 2010.

Information

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Stock Exchange Listing

The shares of Precious Woods Holding Ltd. have been traded on the SIX Swiss Exchange since March 3, 2002.

Type of share: Registered Share
Nominal value: CHF 50.00
Security number: 1 328 336
ISIN: CH0013283368
Ticker symbol: PRWN
Reuters: PRWZn.S

Interim condensed consolidated financial statements June 30, 2010 Precious Woods Group

Interim condensed consolidated statement of financial position at June 30, 2010 and December 31, 2009 (in USD 1000)

ASSETS	June 30, 2010 unaudited	December 31, 2009 audited
Current assets		
Cash and cash equivalents	6 215	18 825
Trade and other receivables	10 981	13 655
Inventories	23 194	28 748
Other current assets	2 556	1 633
Total current assets	**42 946**	**62 861**
Non-current assets		
Property, plant and equipment	95 836	107 955
Biological assets – Central America	59 845	59 048
Intangible assets	28 323	33 528
Deferred income tax assets	4 948	5 526
Investment property	6 393	6 393
Investments in associates	1 732	2 046
Available-for-sale financial assets	147	167
Other financial assets at fair value through profit or loss	6 317	7 791
Recoverable taxes	1 184	1 222
Other non-current assets	1 899	1 905
Total non-current assets	**206 624**	**225 581**
Non-current assets held for sale	2 742	2 882
TOTAL	**252 312**	**291 324**

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	16 037	18 770
Current income tax liabilities	601	634
Other current financial liabilities	9 051	13 835
Current provisions	3 223	3 963
Total current liabilities	**28 912**	**37 202**
Non-current liabilities		
Convertible bond	13 571	13 988
Other non-current financial liabilities	34 171	42 363
Deferred tax liabilities	24 689	26 899
Non-current provisions	2 203	2 554
Total non-current liabilities	**74 634**	**85 804**
Equity attributable to equity holders of the parent		
Share capital	127 002	127 002
Additional paid-in capital	65 750	65 750
Foreign currency translation	673	11 324
Retained earnings	–46 790	–37 820
Equity attributable to equity holders of Precious Woods Holding Ltd.	**146 635**	**166 256**
Non-controlling interests	**2 131**	**2 062**
Total shareholder's equity	**148 766**	**168 318**
TOTAL	**252 312**	**291 324**

Interim condensed consolidated statement of comprehensive income for the half-year periods ended June 30, 2010 and June 30, 2009 (in USD 1000)

	June 30, 2010 unaudited	June 30, 2009 unaudited
Net revenue from trading activities	39 284	40 820
Revenue from emission-reductions activities	533	758
Increase in fair value of biological assets – Central America	3 080	3 200
Total operating income	**42 897**	**44 778**
Cost of sales	**–42 250**	**–41 057**
Personnel expense	–4 236	–5 517
Depreciation, amortization and impairment	–848	–864
Other expense	–3 646	–2 926
Other income	1 356	1 869
(Loss) / profit from operating activities	**–6 727**	**–3 717**
Finance income	5 267	1 916
Finance expense	–7 445	–3 218
Share of profit of associates	113	98
Net (loss) / profit before taxes	**–8 792**	**–4 921**
Income taxes	–110	103
Net (loss) / profit	**–8 902**	**–4 818**
Fair value changes net of tax, available for sale financial assets	1	–
Foreign currency translation differences	–10 651	7 681
Comprehensive (loss) / income for the period	–19 552	2 863
Allocation of net (loss) / profit:		
Equity holders of the Precious Woods Holding Ltd.	**–8 971**	**–4 663**
Non-controlling interests	69	–155
Allocation of comprehensive (loss) / income:		
Equity holders of the Precious Woods Holding Ltd.	–19 621	3 018
Non-controlling interests	69	–155
Basic earnings per share	**–2.61**	**–1.36**
Diluted earnings per share	**–2.61**	**–1.36**

Interim condensed consolidated statement of changes in equity for the periods ended June 30, 2010, and June 30, 2009 (in USD 1000)

	Share capital	Additional paid-in capital	Foreign currency translation	Retained earnings	Non-controlling interests	Total equity
	Attributable to equity holders of Precious Woods Holding Ltd.					
Balance December 31, 2008	**126 971**	**64 156**	**1 205**	**–9 690**	**1 698**	**184 340**
Net (loss) / profit for the period				–4 818	155	–4 663
Other comprehensive (loss) / income			7 681			7 681
Total comprehensive (loss) / income			**7 681**	**–4 818**	**155**	**3 018**
Balance June 30, 2009	**126 971**	**64 156**	**8 886**	**–14 508**	**1 853**	**187 358**
Balance December 31, 2009	**127 002**	**65 750**	**11 324**	**–37 820**	**2 062**	**168 318**
Net (loss) / profit for the period				–8 971	69	–8 902
Other comprehensive (loss) / income			–10 651	1		–10 650
Total comprehensive (loss) / income			**–10 651**	**–8 970**	**69**	**–19 552**
Balance June 30, 2010	**127 002**	**65 750**	**673**	**–46 790**	**2 131**	**148 766**

Interim condensed consolidated statements of cash flows for the periods ended June 30, 2010, and June 30, 2009 (in USD 1000)

	June 30, 2010	**June 30, 2009**
	unaudited	unaudited
Net loss	–8 902	–4 818
Operating cash flows before changes in working capital	–9 782	–173
Net cash flows from / (used in) operating activities	**–5 382**	**3 347**
Net cash flows from / (used in) investing activities	**664**	**–2 263**
Net cash flows from / (used in) financing activities	**–6 635**	**–3 388**
Net increase / (decrease) in cash and cash equivalents	–11 353	–2 304
Translation effect on cash and cash equivalents	–1 257	663
Cash and cash equivalents at the beginning of the year	18 825	2 909
Cash and cash equivalents at the end of the period	6 215	1 268

Notes to interim condensed consolidated financial statements

The unaudited interim condensed consolidated financial statements of Precious Woods Group for the six months ended June 30, 2010, have been prepared in accordance with IAS 34 and were authorized for issue by the Board of Directors on August 16, 2010. 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 December 31, 2009. They mainly focus on new activities, events and circumstances and do not duplicate information previously reported.

1. Significant accounting policies

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 December 31, 2009, except for the adoption of new standards and interpretations as of January 1, 2010, noted below:

- **IFRS 2** Share-based Payment – Group Cash-settled Share-based Payment Transactions: The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- **IFRS 3** Business Combinations: The revised standard introduces significant changes in the accounting for business combinations occurring after July 1, 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The adoption of this revised standard did not have any impact on the financial position or performance of the Group as it applies prospectively.

- **IAS 27** Consolidated and Separate Financial Statements: This amended standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

- **IFRIC 17** Distribution of Non-cash Assets to Owners: This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor the performance of the Group.

Improvements to IFRSs (issued April 2009): In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- **IFRS 8** Operating Segment Information: This amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The Group's chief operating decision-maker does review segment net working capital.

- **IAS 36** Impairment of Assets: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- **IFRS 2** Share-based Payment
- **IFRS 5** Non-current Assets Held for Sale and Discontinued Operations
- **IAS 1** Presentation of Financial Statements
- **IAS 7** Statement of Cash Flows
- **IAS 38** Intangible Assets
- **IAS 39** Financial Instruments: Recognition and Measurement
- **IFRIC 9** Reassessment of Embedded Derivatives

- **IFRIC 16** Hedge of a Net Investment in a Foreign Operation

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

2. 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 can be achieved in the second half of the year. For the reporting period, the unfavorable seasonal effect is as expected, just as a favorable seasonal effect for the second half of the year can be assumed in Brazil.

3. Financial information by segment

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

Operating segments of Precious Woods (in USD 1000)

June 30, 2010	**Sustainable Forest Management Brazil**	**Sustainable Forest Management Gabon**	**Timber Trading Europe**	**Forest Plantations**	**Carbon & Energy**	**Others***	**Consolidated**
Total operating income third parties	3 128	19 824	12 152	1 972	2 741	–	39 817
Change in biological assets				3 080			3 080
Intersegment	3 104	67	866	–	69	–4 106	–
Total operating income	**6 232**	**19 891**	**13 018**	**5 052**	**2 810**	**–4 106**	**42 897**
Loss/profit before taxes	**–4 244**	**–1 292**	**–502**	**294**	**888**	**–3 936**	**–8 792**

June 30, 2009	**Sustainable Forest Management Brazil**	**Sustainable Forest Management Gabon**	**Timber Trading Europe**	**Forest Plantations**	**Carbon & Energy**	**Others***	**Consolidated**
Total operating income third parties	2 415	22 566	13 942	732	1 924	–	41 578
Change in biological assets				3 200			3 200
Intersegment	1 026	–	1 603	–	241	–2 871	–
Total operating income	**3 441**	**22 566**	**15 545**	**3 932**	**2 165**	**–2 871**	**44 778**
Loss/profit before taxes	**–2 693**	**–59**	**–3 100**	**2 617**	**–53**	**–1 633**	**–4 921**

* Eliminations and adjustments consist of the intersegment eliminations in revenue and the positions from Precious Woods Holding that cannot be allocated to a specific segment.

4. Restructuring

The restructuring provision on June 30, 2010, amounts to USD 1.3 million (December 31, 2009: USD 3.0 million) and relates to the Group's restructuring activities in Para, Amazon, Gabon and the Netherlands. USD 1.0 million of the restructuring provision was used in the first half-year of 2010. The bankruptcy of the Netherland-based subsidiary Precious Woods Manufacturing BV resulted in a release of the restructuring provision of USD 0.5 million.

5. Share capital

The ordinary share capital of the Company amounts to CHF 171,917,750 (3,483,355 registered shares with a nominal value of CHF 50 each). During the first half-year of 2010 there were no changes to the ordinary share capital. On May 20, 2010, the Annual General Meeting approved an increase of the conditional share capital and the creation of authorized share capital.

6. Subsequent events

In July 2010, a Brazilian subsidiary won an important court case against IBAMA (Brazilian Ministry of the Environment). This case reduces the contingencies from the IBAMA fines (USD 32 million on December 31, 2009, see note 35 in the Annual Report 2009) by more than 80 percent.

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