

Half-Year Report 2019



PRECIOUS WOODS

Precious Woods is one of the leading companies active in sustainable management and use of tropical forests.
Additional information can be found at www.preciouswoods.com

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Temporarily difficult business environment resulted in lower sales and earnings

In the first half of 2019, Group sales amounted to EUR 22.7 million, and earnings before interest and taxes (EBIT) amounted to EUR 1.3 million or 5.9%. This represents a slight decline in sales of 0.6% and a reduction in EBIT of EUR 0.2 million compared with the same period of the previous year. Further delays in deliveries from Gabon reduced sales by about EUR 3.5 million, and the veneer plant even had to suspend work for 6 weeks. The lack of margins and the loss of production had a severe impact on EBIT for the first half of the year. The aggravated delivery conditions are consequences of “Kevazingogate” in Gabon, an operation initiated by the authorities against

illegal timber trade and corruption, which has led to the interruption of production and delays in shipments. The sawn timber production of all sawmills increased by about 10%, while the production volumes of the veneer plant fell by about 25%. The operations in Brazil developed positively and in line with expectations. The Group’s net result reached EUR –0.2 million (previous year period: EUR 0.2 million). The generated cash flow enabled further investments in productivity. External debt was also reduced. Working capital remained at the excessively high level of the end of the year. The outlook and expectations for 2019 as a whole remain positive.

in EUR million	30.06.19	30.06.18	Index	Change
Net Sales Precious Woods Group	22.7	22.8	99.4%	–0.1
Sawmills in Gabon	10.7	12.0	88.8%	–1.3
Veneer plant in Gabon	4.8	6.5	74.4%	–1.7
Net Sales Precious Woods Gabon	13.8	15.7	87.9%	–1.9
Net Sales Precious Woods Amazon	6.3	4.9	128.7%	+1.4
Net Sales Precious Woods Trading	2.7	2.4	112.7%	+0.3

The exchange rate effect on sales was merely 0.1% compared with the same period of the previous year.

Extraordinary impediments have arisen in Gabon since mid-May. The government launched a large-scale campaign against the illegal timber trade. This has led to personnel changes in the ministries and to various dismissals in the customs authorities. The campaign became known as “Kevazingogate”, referring to a protected wood species that has been felled, processed and shipped by some companies. As a consequence, both the domestic transport of logs and the clearance of timber products at the port were blocked. The supply of our veneer plant with logs was no longer possible, and operations had to be suspended for about 6 weeks. Similarly, veneer in stock could not be shipped. Only sawn timber from our sawmill was able to be cleared, given that customs clearance took place already near the concession. In the meantime, new staff has been appointed in the ministry responsible for forests. One of the first actions was that sustainably operating and FSC-certified companies are henceforth to receive preferential treatment regarding customs clearance.

The Group’s gross profit was EUR 13.4 million, 1.9% below the previous year period (EUR 13.6 million). The gross profit margin was 58.9%, compared with 59.7% in the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 3.1 million (previous year:

EUR 3.9 million), corresponding to a margin of 13.6%. Earnings before interest and taxes (EBIT) reached EUR 1.3 million (previous year: EUR 1.5 million) and a margin of 5.9%.

The financial result was EUR –1.3 million (previous year: EUR –1.4 million). The current interest charge was an unchanged EUR 1.1 million. The net result was EUR –0.2 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 21.1% on the reporting date (end of previous year: 21.6%) and the working capital of EUR 15.7 million was EUR 0.7 million below the figure at the end of the year. Inventories of logs, veneer and sawn timber increased by EUR 1.8 million. This is due to the circumstances described above. At EUR 5.5 million, trade receivables were EUR 0.3 million lower than at the end of the year. Trade payables increased by EUR 0.5 million. Overall, net debt increased by EUR 2.3 million to currently EUR 34.1 million.

Operating cash flow was EUR 3.2 million (previous year: EUR 1.0 million). This includes the change in net working capital of EUR 1.5 million (previous year: EUR –1.5 million). Investments amounted to EUR 1.6 million (previous year: EUR 0.6 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

Decline in productivity and deliveries

The sawmills produced a total of 19 143 m³ of sawn timber, corresponding to a decline of 8.6% (previous year: 20 949 m³). Production volume at the veneer plant fell by 22.4% to 11 504 m³ (previous year: 14 831 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 6-week interruption of operations.

Net sales were 12.1% below the same period of the previous year, reaching EUR 13.8 million (previous year: EUR 15.7 million). The operating result (EBITDA) was EUR 2.6 million (previous year: EUR 4.3 million). The operating profit margin was 18.7% (previous year: 27.6%).

The result was strongly negatively impacted by political and logistical difficulties. The inventory of logs and sawn timber increased massively because neither shipping nor log transport was possible. We expect inventories to normalize in the 3rd quarter. This will have a positive impact on both the result and liquidity.

Precious Woods Amazon

Increase in productivity and profitability

The production volume in the first half-year was 15 873 m³ of sawn timber, 34.3% higher than in the previous year (11 816 m³). The production flow was again optimized, and deliveries were made on a continuous basis.

Net sales were 28.7% above the previous year and reached EUR 6.3 million (previous year: EUR 4.9 million). Operating profit (EBITDA) amounted to EUR 1.2 million, representing an improvement of EUR 0.8 million (previous year: EUR 0.4 million). This resulted in an operating profit margin of 19.3% (previous year 8.4%).

The harvest was resumed already in June. In addition, the forest inventory process – which previously had been out-

sourced – was established internally. For this purpose, we recruited and trained an additional 35 employees.

Precious Woods Trading

Increase in sales

Net sales from trading in European logs and sawn timber amounted to EUR 2.7 million, corresponding to an increase of 12.7% (previous year: EUR 2.4 million). The operating profit margin was 5.3% (previous year: 12.4%).

Carbon & Energy

Emission trading (CER)

As in the previous year, there was no trading in CER certificates in the first half-year.

Outlook

As announced at the Annual General Meeting, we expect a single-digit increase in sales for fiscal 2019 and a positive net result.

Our focus continues to be on organic and sustainable growth. Productivity enhancement projects were launched in Gabon and Brazil. The margin improvements resulting from these measures will be partially apparent this year. Possible holdings in or takeovers of other companies as well as targeted expansions of concession areas will continue to be evaluated carefully.

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 Brüttsch
CEO / CFO, Delegate of the Board of Directors

Precious Woods Group:

Interim condensed consolidated financial statements

Consolidated statement of financial position

in thousand EUR

	30 June 2019 unaudited	31 December 2018 audited
ASSETS		
Current assets		
Cash and cash equivalents	1 963	2 798
Trade and other receivables	10 999	11 584
Inventories	14 991	14 917
Prepayments	1 504	861
Total current assets	29 457	30 160
Non-current assets		
Property, plant and equipment	36 522	35 217
Intangible assets	3 803	4 005
Investments in associates	694	799
Non-current financial assets	472	466
Other non-current assets	1 217	1 168
Deferred tax assets	1 620	1 620
Total non-current assets	44 328	43 275
TOTAL	73 785	73 435
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	16 396	13 983
Current income tax liabilities	248	108
Current financial liabilities	11 424	12 316
Current provisions	–	156
Total current liabilities	28 068	26 563
Non-current liabilities		
Non-current financial liabilities	24 605	24 924
Deferred tax liabilities	1 571	1 571
Non-current provisions	3 996	4 522
Total non-current liabilities	30 172	31 017
Equity		
Share capital	5 726	5 731
Additional paid-in capital	64 938	64 938
Foreign currency translation reserve	5 204	5 334
Retained earnings	–60 445	–60 273
Equity attributable to owners of Precious Woods Holding Ltd	15 423	15 730
Non-controlling interests	122	125
Total shareholders' equity	15 545	15 855
TOTAL	73 785	73 435

Consolidated statement of profit or loss

in thousand EUR

	30 June 2019 unaudited	30 June 2018 unaudited
Net revenues	22 705	22 843
Changes in inventories of finished goods and work in progress	-312	-1 500
Raw materials and consumables used	-1 960	-1 767
Other productions costs	-7 053	-5 935
Operational contribution	13 380	13 641
Direct and indirect labour costs	-9 950	-8 714
Other operating expenses	-1 204	-1 398
Other operating income	716	180
Share of profit/(losses) of associates	144	166
Earnings before interest, tax, depreciation and amortization (EBITDA)	3 086	3 875
Depreciation, amortization and impairment	-1 738	-2 332
Earnings before interest and tax (EBIT)	1 348	1 543
Financial income	163	245
Financial expenses	-1 480	-1 646
Earnings before tax (EBT)	31	142
Income taxes (expenses)/income	-205	59
Net profit/(loss) for the period	-174	201
Allocation of net profit/(loss):		
Equity owners of Precious Woods Holding Ltd	-171	194
Non-controlling interests	-3	7
Basic earnings per share	-0.02	0.03
Diluted earnings per share	-0.02	0.03

Consolidated statement of comprehensive income

in thousand EUR

	30 June 2019 unaudited	30 June 2018 unaudited
Net profit/(loss) for the period	-174	201
Actuarial gains and losses	-0	0
Tax effect on actuarial gains and losses	-0	-0
Net gain/(loss) on equity instruments designated at FV through OCI	-	0
Items that will not be reclassified to profit or loss, net of tax	-1	0
Currency translation effects	-130	-2 043
Items that may be reclassified subsequently to profit or loss, net of tax	-130	-2 043
Total other comprehensive income/(loss) for the period	-131	-2 043
Total comprehensive income/(loss) for the period	-305	-1 842
Allocation of total comprehensive income/(loss):		
Equity owners of Precious Woods Holding Ltd	-302	-1 849
Non-controlling interests	-3	7

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	Foreign currency translation reserve	Retained earnings	Total		
Balance 31 December 2017	5 731	64 938	7 822	-58 522	19 969	126	20 095
Net profit/(loss) for the period	-	-	-	194	194	7	201
Other comprehensive income/(loss) for the period	-	-	-2 043	-0	-2 043	-	-2 043
Total comprehensive income/(loss) for the period	-	-	-2 043	194	-1 849	7	-1 842
Balance 30 June 2018	5 731	64 938	5 779	-58 328	18 120	133	18 253
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 treasury shares	-5	-	-	-	-5	-	-5
Balance 30 June 2019	5 726	64 938	5 204	-60 445	15 423	122	15 545

Condensed consolidated statement of cash flows

in thousand EUR	30 June 2019 unaudited	30 June 2018 unaudited
Net cash flow from operating activities		
Operating cash flow before working capital changes	1 680	3 524
Net cash flow operating activities	3 195	1 022
Net cash flow investing activities	-1 560	-578
Net cash flow financing activities	-2 494	-260
Increase/(decrease) in cash and cash equivalents	-859	184
Translation effect on cash	24	-1
Cash and cash equivalents, at the beginning of the year	2 798	2 136
Cash and cash equivalents, at the end of the period	1 963	2 319



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 2019, have been prepared in accordance with IAS 34 and were authorized for issue by the Board of Directors on 13 August 2019. 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 2018. They mainly focus on new activities, events and circumstances and do not duplicate information previously reported.

With the exception of the changes to International Financial Reporting Standards (see Note 2), these statements have been prepared according to the same accounting policies as those followed for the Group’s annual financial statements 2018.

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 introduced. The relevant one for the Group is:

IFRS 16 Leases: The new standard replaces the existing guidance on leases, including IAS 17 and IFRIC 4. It requires lessees to recognize all leases and the associated contractual rights and obligations in the statement of financial position. For each lease, the lessee recognizes a right-of-use asset for the right to use the underlying leased asset and a lease liability reflecting future lease payments. Optionally, short-term leases (maximum term of 12 months) and leases of low value may be exempted from balance sheet recognition. Depreciation of the right-of-use asset and interest on the lease liability must be recognized in the consolidated statement of income for all not-exempted leases.

The Group applied the modified retrospective method as the transition method. IFRS 16 is not applied to low value assets and short-term leases. Lease payments for these types of contracts continue to be recognized as operating expenses. Leases with a lease term ending in less than 12 months from 1 January 2019 are not recognized as leases under IFRS 16 and are accounted for as if they are short-term leases. The Group also applied the practical expedient not to reassess the existing finance lease contracts under IAS 17. The payments of lease liabilities under IFRS 16 are presented as financing cash outflows. Precious Woods is not a lessor and also subleases do not occur within the Group. The weighted average incremental borrowing rate for lease liabilities initially recognized as of 1 January 2019 was 7.6%.

The reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is as follows:

in thousand EUR	1 January 2019
Minimum lease payments under operating leases as of 31 December 2018	584
Recognition exemption	
for short-term leases	334
for leases of low value assets	3
Effect from discounting at the incremental borrowing rate as of 1 January 2019	38
Lease liabilities additionally recognized based on the initial application of IFRS 16 as of 1 January 2019	209
Liabilities from finance leases as of 31 December 2018	1 900
Total liabilities from leases as of 1 January 2019	2 109

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.

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
Net revenues						
Third parties	5 788	13 781	2 701	–	–	22 270
Intersegment	74	43	–	–	–117	–
Associated and related parties	435	–	–	–	–	435
Total net 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
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						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 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 2018

in thousand EUR	Sustainable Forest Management Brazil	Sustainable Forest Management Gabon	Trading	Carbon & Energy	Other ¹	Total 30 June 2018
Net revenues						
Third parties	4 289	15 729	2 397	–	–	22 415
Intersegment	175	–	–	–	–175	–
Associated and related parties	428	–	–	–	–	428
Total net revenues	4 892	15 729	2 397	–	–175	22 843
Profit/(loss) on sale of fixed assets and affiliates	–	–	–	–	–	–
Share of profit of associates	166	–	–	–	–	166
EBITDA	412	4 339	298	–0	–1 174	3 875
Depreciation and amortization	–210	–2 115	–	–	–7	–2 332
Profit/(loss) from operating activities (EBIT)	202	2 224	298	–0	–1 181	1 543
Financial income and expenses	–486	–823	–13	–	–79	–1 401
Earnings before tax						142
Segment assets	20 833	46 405	2 570	318	476	70 602
Segment liabilities	49 707	34 567	1 238	173	–33 336	52 349

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 2019	30 June 2018
Total EBITDA for reportable segments	3 801	4 883
EBITDA Other	-859	-1 174
Share of profit/(losses) of associates	144	166
EBITDA	3 086	3 875
Depreciation, amortization and impairment	-1 738	-2 332
EBIT	1 348	1 543
Financial income and expenses	-1 317	-1 401
Earnings before tax	31	142

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
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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:**

Tree picture from Gabon

Front- and Backcover:

Waterfall in the forest of Gabon



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