



# Report First Half 2009

Umoe BioEnergy ASA

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## Highlights

- The financial result for Umoe BioEnergy ASA and its Brazilian operations after first six months of 2009 was poor and the company is reporting a negative EBITDA and cash flow from operation.
- The crop season started 26<sup>th</sup> of March. 30 % of the cane in the field was leftover cane from previous season, which were not harvested due to late completion and start up of the industrial units.
- The leftover cane with its poor quality represented a challenge for harvesting and brought with it a large amount of both vegetal and mineral impurities distorting productivity and conversion efficiency in the industrial process.
- The volume of ethanol produced so far is clearly lower than plans and expectations due to a number of factors both on the agricultural and the industrial side of the operation.
- Industrial Unit 1 showed stable crushing performance but a few technical incidents occurred with negative effects on extraction ratio.
- Industrial Unit 2 continued technical ramp up and tuning during April-June and several technical deficiencies and incidents were interrupting and delaying full production. On 18<sup>th</sup> July the Unit 2 achieved the contractual performance test requirements and production is getting closer to stable design capacity.
- The company has a dispute with the consortium about several issues, including final payment, related to the construction of Unit 2. Negotiations are ongoing in an attempt to settle these matters.
- Both industrial units have for the time being operational licenses and operate in compliance with law and regulations. However, an additional operational step up license for Unit 2 is needed to utilize the full capacity for the rest of 2009.
- In late June and first part of July, Sao Paulo state and our region experienced record amount of rain. The heavy rain and the following dry up period hindered harvesting and caused significant production delays, dilution of sugar levels in the crop and lower industrial efficiency due to increased impurities.
- The market for ethanol in Brazil was very depressed in the first half year and it seems to continue into the autumn. The ethanol price is still volatile at a low level.
- The company's liquidity position is stressed and this is expected to continue. In addition the company will require additional financing and/or capital going forward, both for working capital and for mandatory and key investments like a minimum Cogen facility.
- The debt market is still challenging and Umoe Group as the main stakeholder in the company has signalled that no more shareholder loans can be expected. Based on this the Board of Directors have initiated a process for a restructuring of the balance sheet of the company and Arctic Securities has been appointed as advisor.
- Based on the financial performance so far and taking the medium term outlook into consideration, a substantial write down of the book value of the company's assets may be expected. This will be resolved by the Board of Directors as soon as the information needed is sufficiently analyzed.

**Key Financials** (unaudited)

The financial result for Umoe BioEnergy ASA and its Brazilian operations after first six months of 2009 is poor. This is mainly due to significantly lower than planned revenues caused by lower volume and lower than expected market price for ethanol. The company also currently has higher costs than industry average.

Umoe BioEnergy ASA reported net revenue of NOK 118.7 million in the first half 2009.

EBITDA was negative with NOK 32.6 million and EBIT was negative NOK 109.0 million.

Net ordinary result was negative with NOK 143.4 million.

The Board of Directors have initiated a fast track process to develop and execute a concrete improvement program with the aim to get to average industry operational performance during the 2010 crop season. In addition the company has started a program to reduce both indirect and direct cost. Finally the Board of Directors have initiated a process to restructure the company's balance sheet and Arctic Securities has been appointed as advisor.

**Operation**

The company has secured 33.000 ha of land of which currently about 29.000 ha is planted with sugar cane. Due to liquidity constraints the planting of 4.000 ha has been withheld. For the company to be optimally positioned to feed 100% of its industrial capacity, this area should have been planted in first half of 2009. The company will therefore not be able to supply sugar cane from own plantations to achieve full capacity utilisation in 2010.

The agricultural operations have been challenged with around 30 % sugar cane left over from the previous harvest season due to late completion and start up of industrial units. To get rid of this and to safeguard the roots of these canes the units have been fed by a mix of this leftover cane (+80%) with normal and good quality cane (20%). The leftover cane is of variable quality and its poor condition has impacted the operations negatively in several ways. The mechanical harvesting goes slower and to be able to harvest the same tons per day, more than

200 manual cane cutters have been temporarily employed.

This cane also contains a large amount of vegetal impurities and infections, causing need for more input of antibiotics in the industrial process. The harvesting is difficult due to poor visibility and mineral impurities are brought with it, causing significant pollution in the industrial process and equipment. Together the large amount of impurities has led to slower and reduced conversion results. All the leftover cane will be harvested by early September.

The industrial operation is based on two mills in the same area, Unit 1 and Unit 2. Unit 1 has an installed crushing capacity of 1.0 million ton of cane per harvest year, and Unit 2 has 1.9 million tons capacity. Industrial Unit 1 showed stable crushing performance but had a few technical incidents with negative effects on extraction ratio.

Industrial Unit 2 continued technical ramp up and tuning during April-June and several technical deficiencies and incidents were interrupting and delaying full production. On 18<sup>th</sup> July the Unit achieved the contractual performance test requirements.

The company has a dispute with the consortium about several issues, including final payment, related to the construction of Unit 2. Negotiations are ongoing in an attempt to settle these matters.

Both industrial units have for the time being operational licenses and operate in compliance with law and regulations. However, an additional operational step up license for Unit 2 is needed to utilize the full capacity for the rest of 2009.

The company has been selling all its production of 59.000 m3 of hydrous ethanol and do not currently hold any stock. Deliveries are done according to three delivery contracts with Iparanga and Petrobras, which are all based on actual Esalc price index on day of delivery. The company has so far not been able to deliver the contracted volumes in time, and has renegotiated delivery schedules several times. It is expected that the company will be able to comply with revised schedules in the second half of this year.

**Market**

After a spike up in price during January, the price started already in February to fall significantly and bottomed out at very low levels in April-June. The

price net of tax was as low as BRL 550/m<sup>3</sup>, while the industry's average cost of production is BRL 750/m<sup>3</sup> (ref. UNICA). The low price was a consequence of a supply overhang spurred by lower export demand from US, the financial crisis and the liquidity pressure on companies increasingly moving into financial distress from maturing debt and short term credits. In addition the higher sugar prices created margin calls on sugar forward contract and many producers had to sell all their ethanol stock and production to service such obligations.

Increased domestic demand contributed to some tightening during June and the net price climbed back to levels between BRL 700-720/m<sup>3</sup>. The heavy rain in June and July distorted production and the market tightness in second semester is apparent.

#### **Balance sheet**

The company's consolidated balance sheet per 30<sup>th</sup> June 2009 was NOK 1 996 mill. The total debt was NOK 1 064 mill, including a bond loan of NOK 548 mill and shareholder loans from the Umoe group totalling NOK 300 mill.

The company's liquidity is stressed. Umoe BioEnergy ASA will require additional financing and/or capital going forward, both for working capital and for mandatory and key investments like a minimum Cogen facility.

The debt market is still challenging and Umoe Group, the main stakeholder in Umoe BioEnergy ASA, has signalled that no more shareholder loans can be expected. Based on this the Board of Directors have initiated a process to restructure the balance sheet of the company and Arctic Securities has been appointed as advisor.

Based on the financial performance so far and especially taking the medium term outlook into consideration, a substantial write down of the book value of the company's operating assets may be expected. This will be resolved by the Board of Directors as soon as the information needed is sufficiently analyzed.

#### **Corporate**

The company employed 2 041 persons per 30<sup>th</sup> of June 2009. This is about 200 more than planned and is represented by short term hiring of manual cane cutters needed to manage the leftover cane. These "extra" employees will leave during September.

In February the company relocated the head office from Ribeirao Preto to the city of Sao Paulo and moved a number of back office and support functions to a new office in the city of Presidente Prudente.

#### **Outlook**

After a challenging ramp up of the company, the produced volume of ethanol is currently at a disappointing low level. The Board of Directors expect that it will take time to bring the operational performance to industry average. The ethanol price is expected to remain volatile at a low level for a period ahead. There is still a need for investments in working capital and for key mandatory investments in a situation where the company's liquidity is stressed.

All in all, the short and medium term outlook for operational and financial performance of Umoe BioEnergy ASA is not satisfactory. The stressed liquidity position of the company will continue short term and may worsen in the months to come. The Board of Directors have therefore initiated a fast track operational improvement program and a process to restructure the company's balance sheet. Subject to a successful execution of these activities, the board believes that that company longer term gradually can work its way out of the present unfavourable situation.

Fornebu, Norway 27<sup>st</sup> August 2009

Board of Directors

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**About Umoe BioEnergy**

Umoe BioEnergy ASA aims to be a producer of low cost, sustainable bioethanol from sugar cane with land and integrated agroindustrial operations in Paranapanema region of the State of Sao Paulo, Brazil. The production environment is unique, with vast available land areas, rich natural resources and a well established industry. Umoe BioEnergy has 33,000 ha of arable land reserves, state-of-the art, highly mechanized agricultural operations, and two industrial production sites with a capacity to produce 250,000 m3 of hydrous ethanol per year. The company employs more than 2,000 people and has a management with agroindustrial competence and strong focus on environmental and social responsibility. Umoe BioEnergy's strategy is to become a leading production company for ethanol and clean electricity, and to build a strong position towards major domestic and international buyers, supported by long term and active owners.

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