

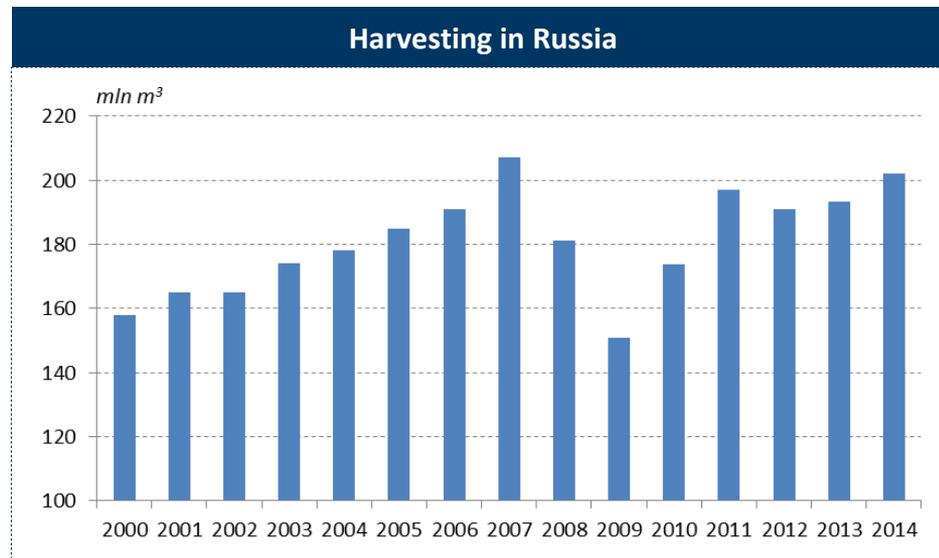
INVESTMENTS IN FOREST SECTOR IN RUSSIA



Helsinki
March 18, 2015

Russian Forest Industry: Figures (1 of 6)

- ▣ The harvesting volume in Russia in 2014 amounts to 202 million m³ (with the total AAC (annual allowable cut) more than 600 million m³)
- ▣ According to our estimates, the volume of harvesting in Russia will not exceed 200-220 million m³ in short-term and medium-term periods. Russia has exhausted all possibilities to increase the harvesting volume significantly at this phase due to inaccessibility of the forests in terms of efficiency
- ▣ There are a few problems that prevent the upgrowth of this sector:
 - the poor infrastructure development;
 - depletion of wood resources in the traditional harvesting areas;
 - lack of capacity for utilization of low-grade resources.



Source: Forest Agency of Russian Federation, 2015

Russian Forest Industry: Figures (2 of 6)

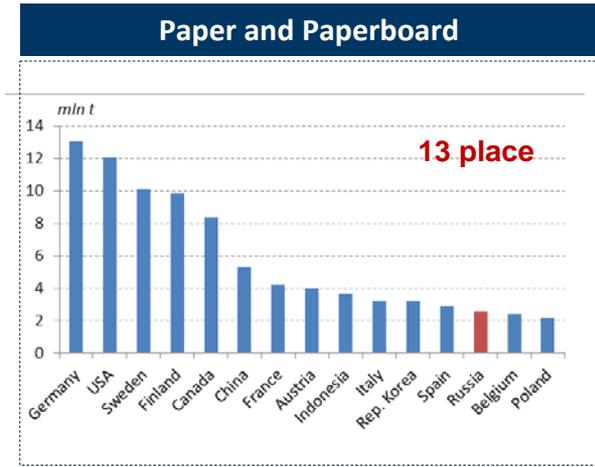
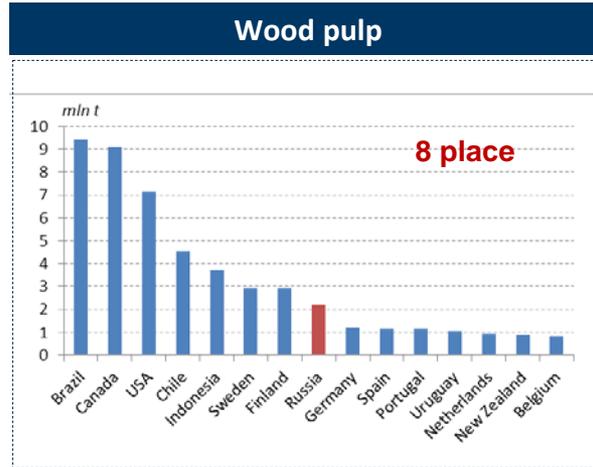
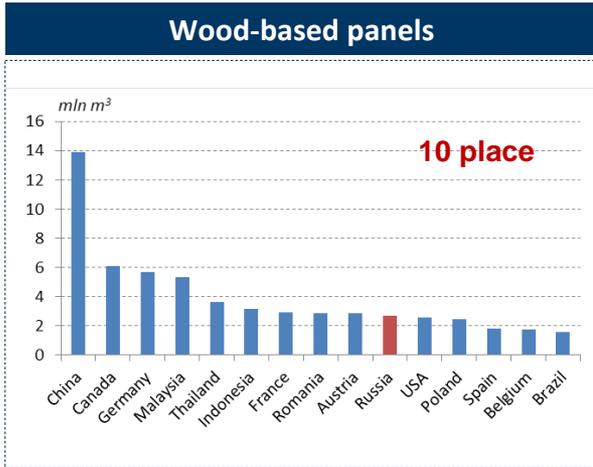
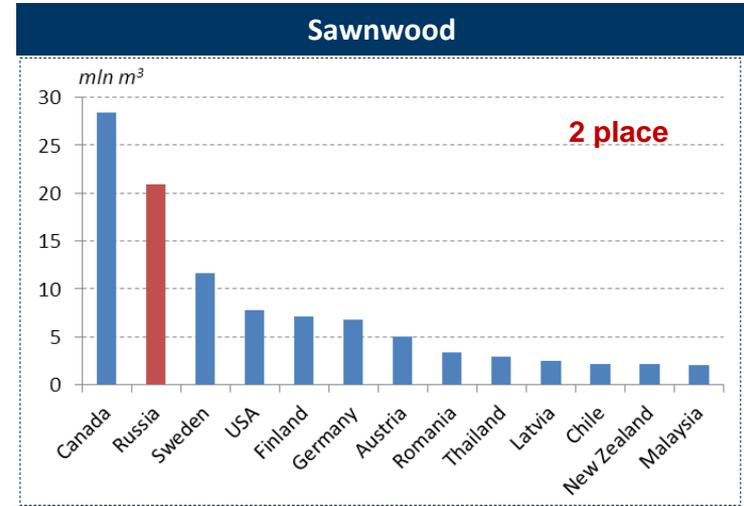
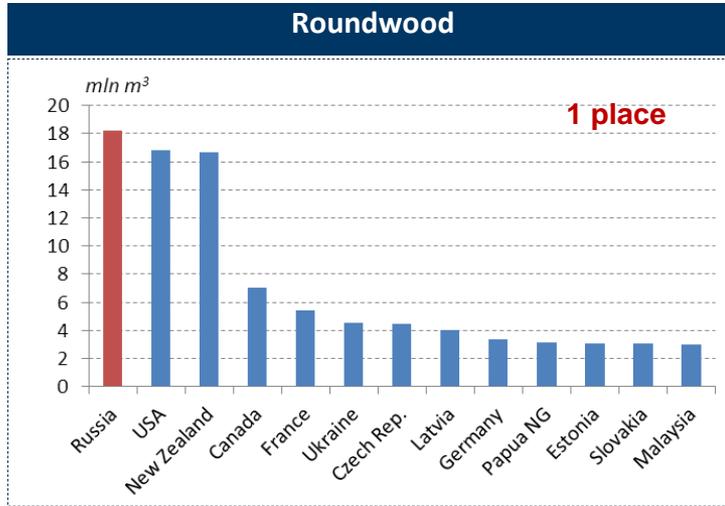
Russia ranks high on the global forest market despite the low level of forest use.

	Place in the world (production)	Place in the world (export)
<i>Roundwood</i>	5	1
<i>Sawnwood</i>	4	2
<i>Wood panels</i>	3	10
<i>Pulp</i>	8	8
<i>Paper and paperboard</i>	14	13

Source: FAOSTAT

Russian Forest Industry: Figures (3 of 6)

EXPORT VOLUMES IN 2013



Source: FAOSTAT

Russian Forest Industry: Figures (4 of 6)

- Russian forestry sector is mainly export-oriented
- Over the last 5 years the value of the forest products exported from Russia has increased by 17%
- At the same time the export volume has mostly increased in the sawnwood (+27%) and plywood (+29%) sectors

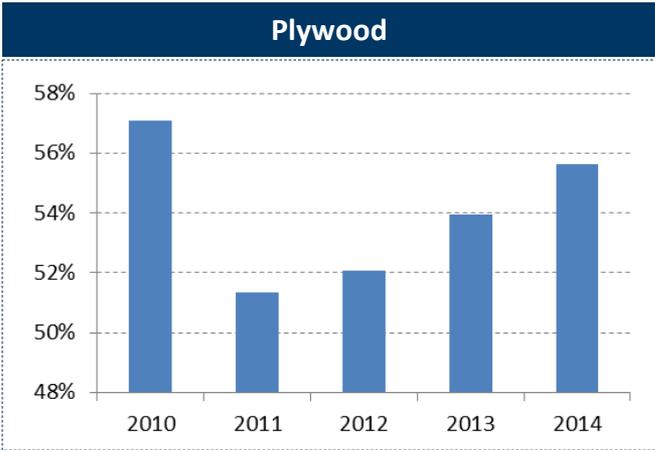
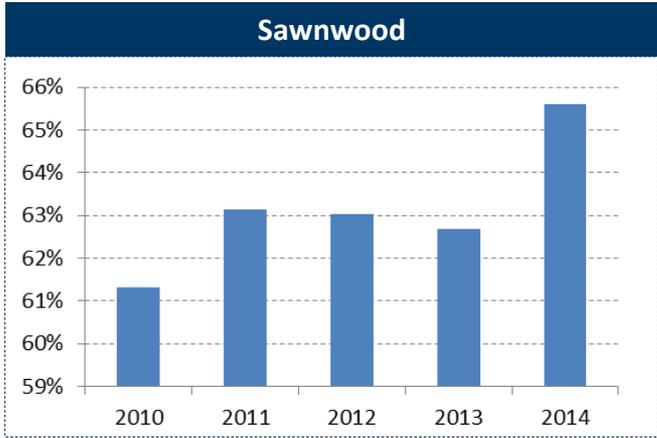
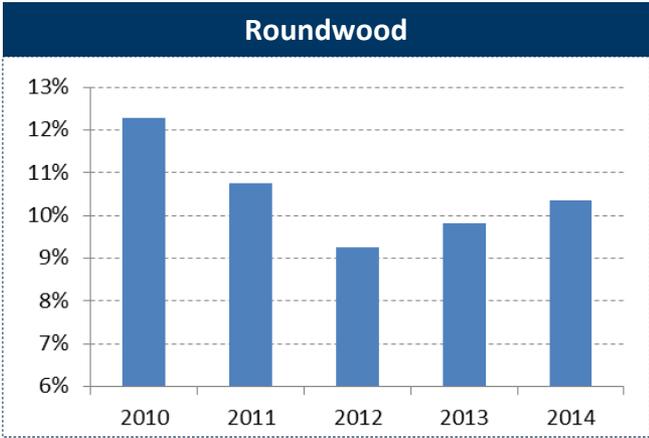
Russia: export volumes in 2010-2014

mln t / mln m ³	2010	2011	2012	2013	2014	2014 vs. 2010, %
<i>Roundwood</i>	21.3	21.2	17.7	19.0	20.9	-2%
<i>Sawnwood</i>	17.7	19.7	20.3	21.0	22.5	+27%
<i>Plywood</i>	1.53	2.96	1.64	1.78	1.97	+29%
<i>Pulp</i>	1.73	1.87	2.07	1.80	1.88	+9%

Source: Federal Customs Service, 2015; FAOSTAT

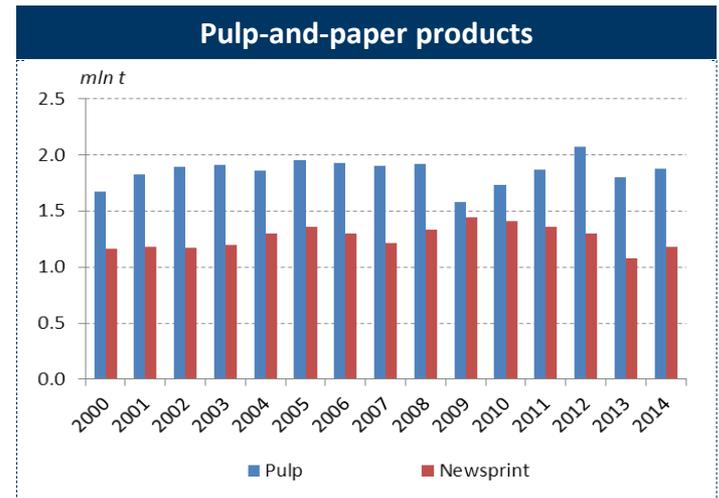
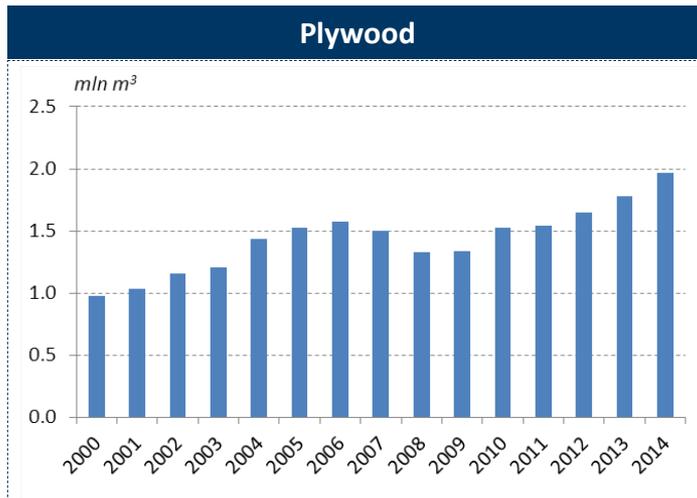
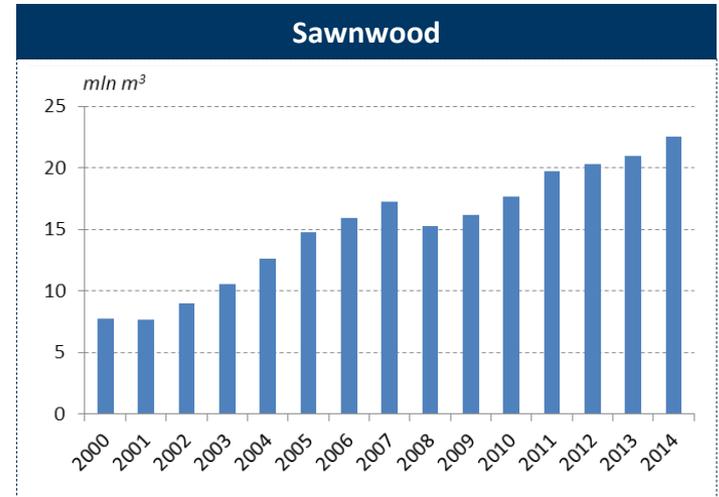
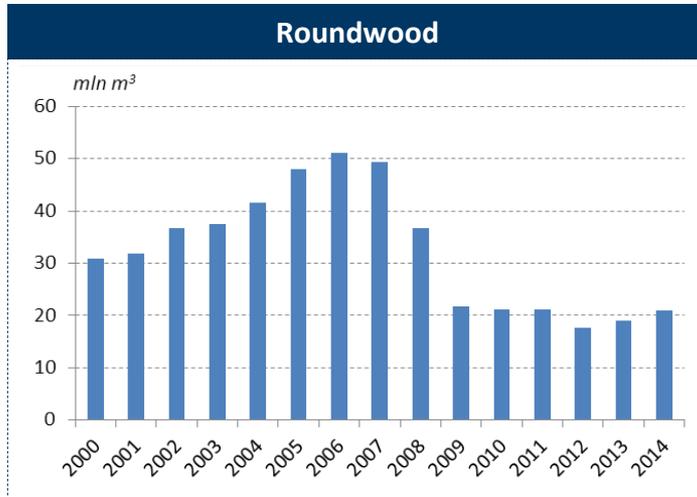
Russian Forest Industry: Figures (5 of 6)

The current trends show the increase of **exports share in the total production of forest products**:



Sources: Federal State Statistics Service, 2015; Federal Customs Service, 2015

Russian Forest Industry: Figures (6 of 6)



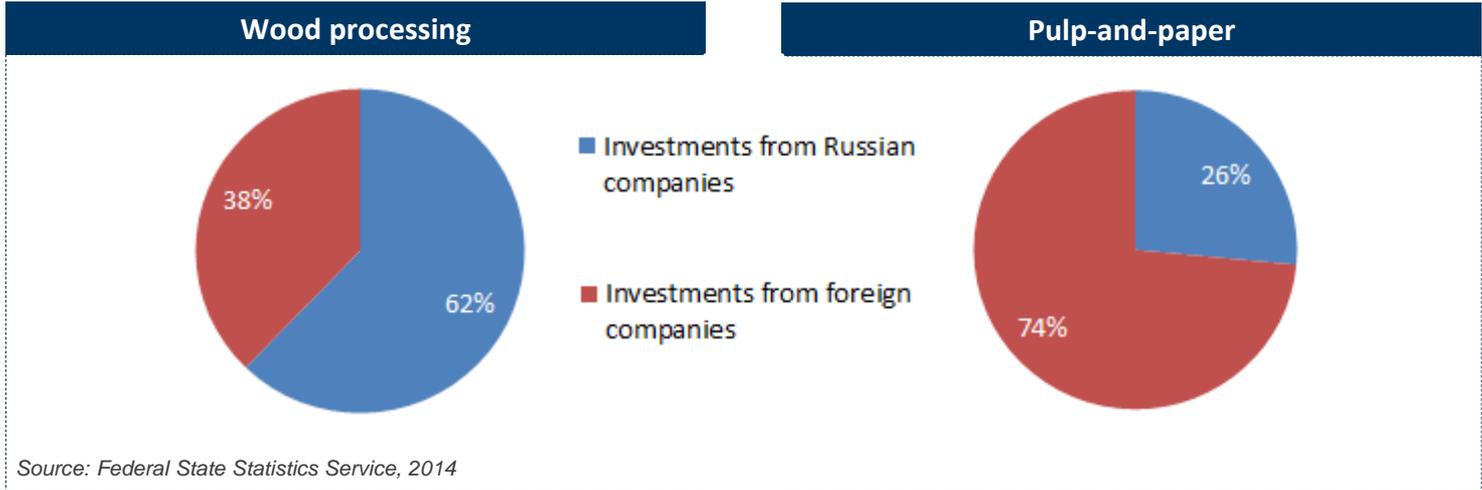
Source: Federal Customs Service, 2015

Foreign Investments in Russian Forest Industry (1 of 2)

Structure of investments in Russian forest industry in 2013:

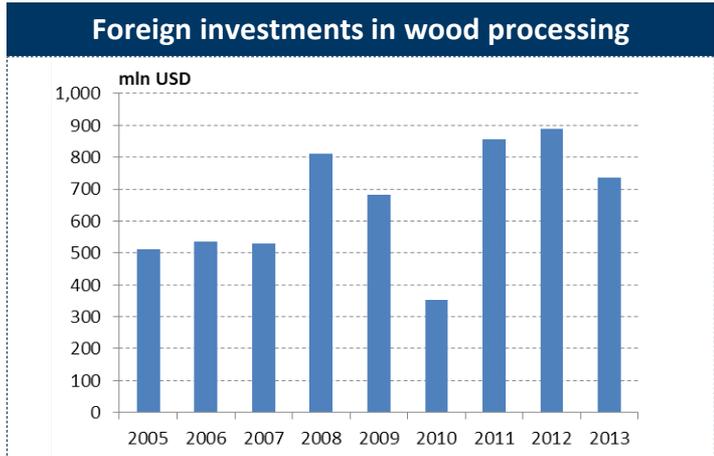
bln RUB	Wood processing	Pulp-and-paper
<i>Investments, total</i>	28.4	43.6
<i>incl. foreign</i>	10.7	32.1
<i>The share of foreign investments</i>	38%	74%

Investments structure in 2013:

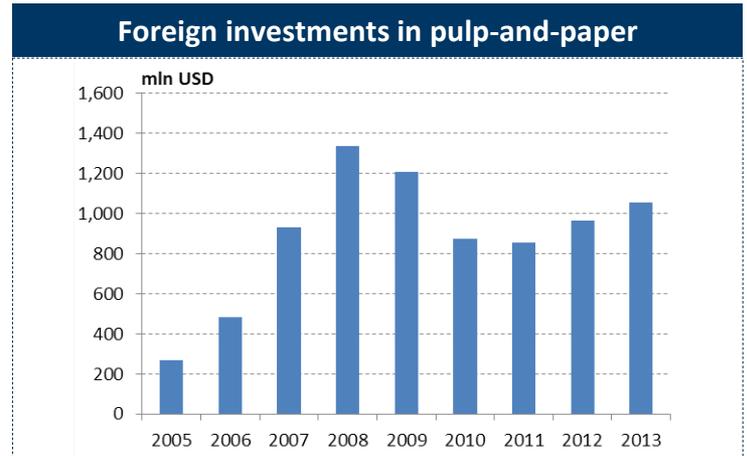


Foreign Investments in Russian Forest Industry (2 of 2)

Dynamics of foreign investments in the Russian forest industry:

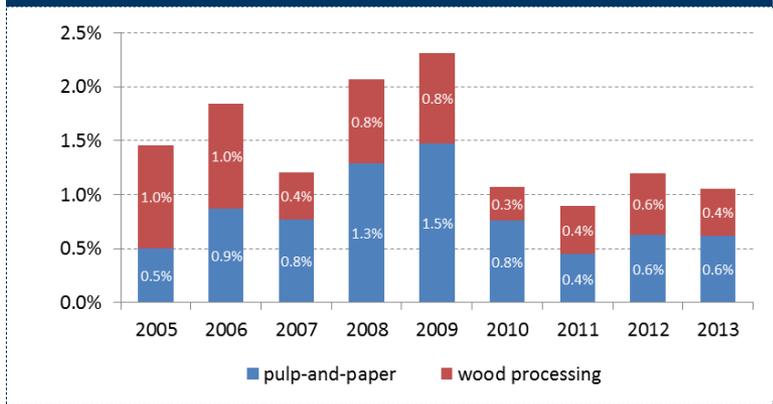


Source: Federal State Statistics Service, 2014



The number of companies with foreign capital in the Russian forest industry is small: 4% of the total number in the wood-processing industry, 6% in the pulp and paper industry (as of 01.01.2014)

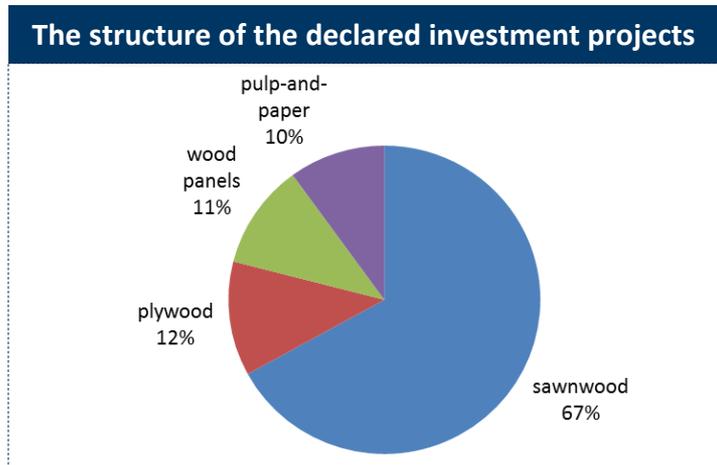
Share of foreign investments into the forestry sector as compared to total foreign investments in Russia



Russian Forest Industry: Priority Investment Projects

As of January 1, 2015:

121	declared priority investment projects
378 bln RUB	total amount of declared investments
278 bln RUB	actually invested
27	new production facilities put into operations in 2007-2014



Source: The Ministry of Industry and Trade of the Russian Federation

Russian Forest Industry: Cases

Factors of failure of the **hardly-going projects**

Factors of failure

Low quality of forest resources

Lack of sufficient volumes of the raw materials

Inefficient formation of assets: lack of synergy and efficiency

Out-of-date machinery/technology installed on site

Lack of business planning (including the selection of target markets, logistics, etc.)

Lack of financial resources (capital)

Inefficient management or no reliable&professional partner in place

Russian Forest Industry: Cases

Factors of success of the **completed projects**

Factors of success

Presence of a professional industrial partner or a financial institution with the proper experience in forestry sector

High-grade forest resources

High level of self-sufficiency of raw materials, easy access to forest resources

High degree of utilization of raw materials

Good access to the main markets

Use of the modern methods/technologies

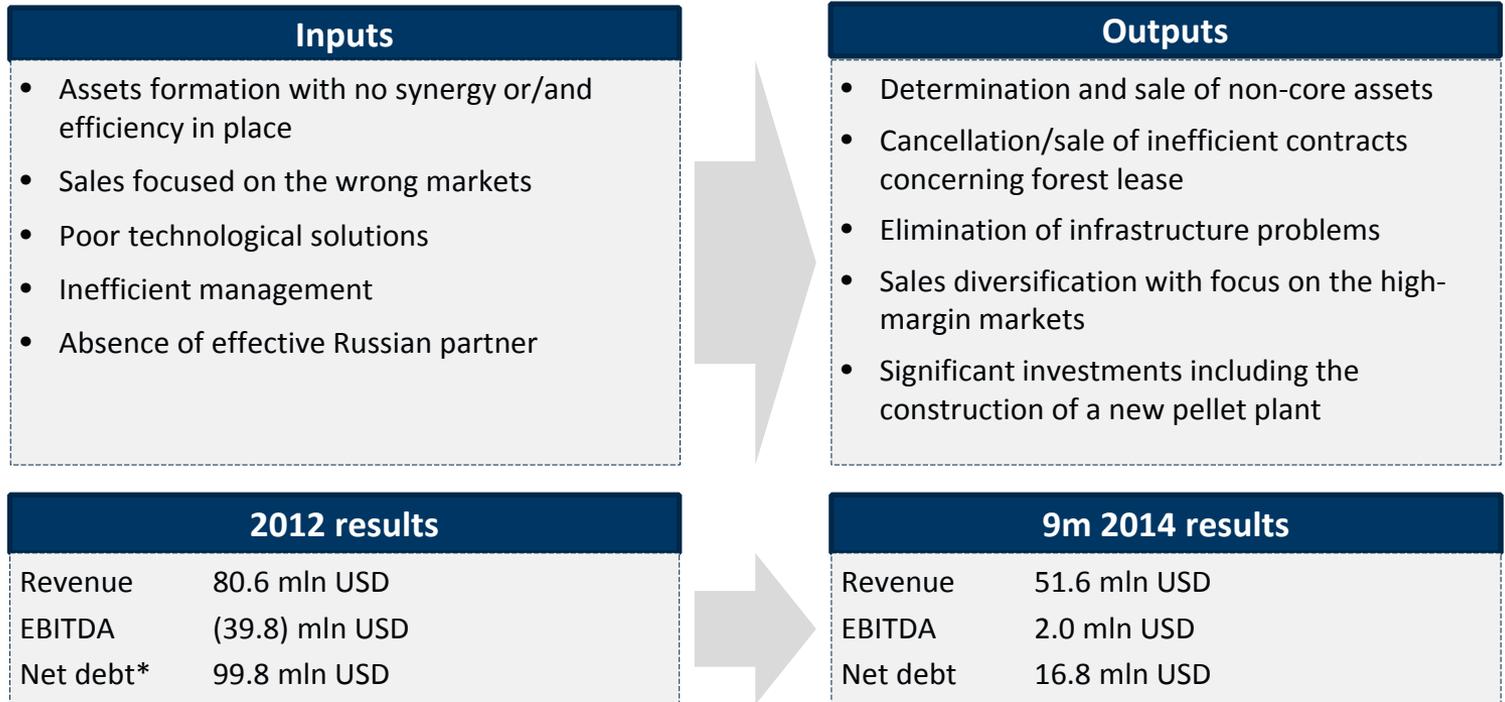
Highly qualified management and production staff

Benefits of the first major player in the sector (especially on the domestic market)

Special Case: RusForest



- 🇷🇺 Swedish forestry company operating in Russia
- 🇷🇺 1.2 million ha forests under lease
- 🇷🇺 1.7 million m³ AAC
- 🇷🇺 90,000 m³ annual sawmilling capacity



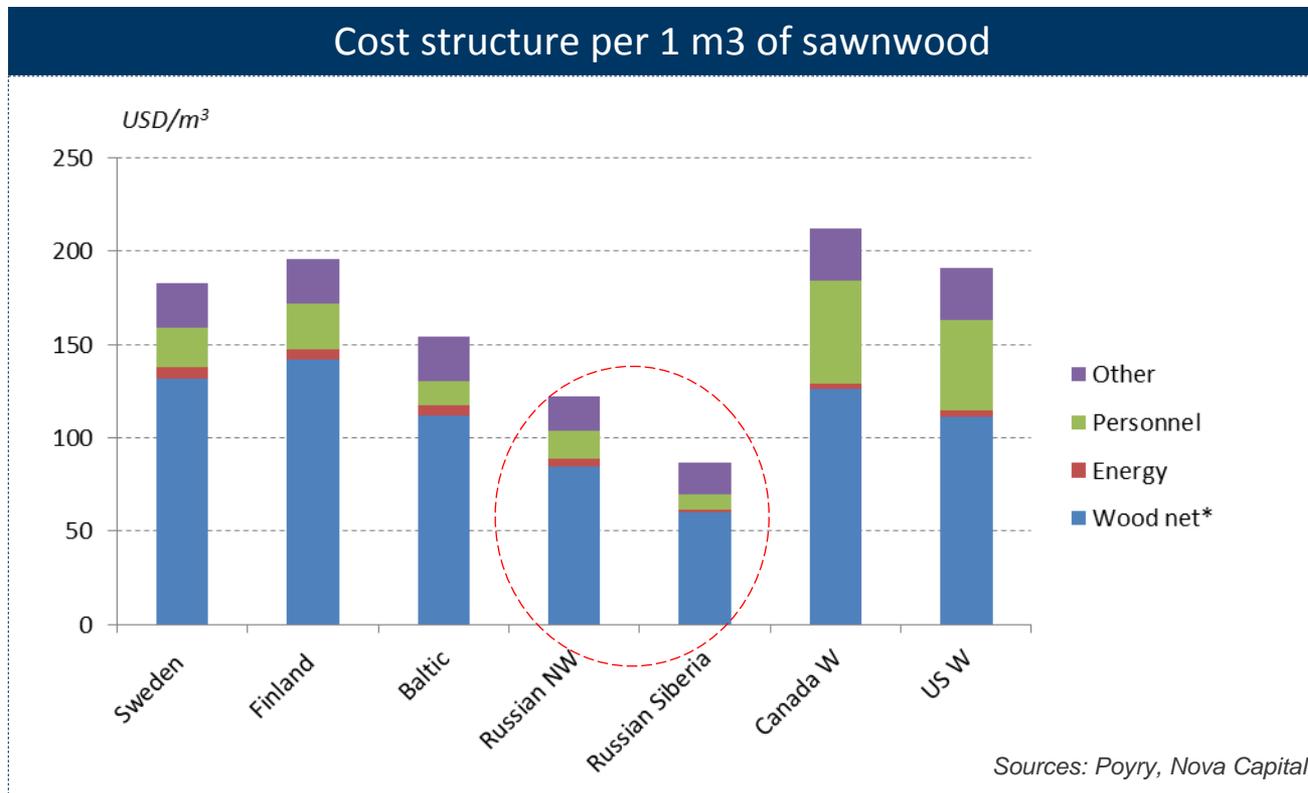
* prior to the restructuring of the bond loan in Q1 2013

Russian Forest Industry: Opportunities and Threats

Opportunities	Threats
<i>Cheap but high-quality raw materials</i>	<i>Lack of infrastructure</i>
<i>Availability of qualified personnel with low level of wages (as compared with main competitors)</i>	<i>Low level of corporate governance</i>
<i>High potential for reducing operating costs through implementation of new methods/technologies</i>	<i>Poor quality of the official figures regarding forest resources (volume&quality)</i>
<i>Export-oriented products</i>	<i>High logistics costs to markets</i>
<i>Start a new «super circle» on the world wood market*</i>	<i>Poor capacity for utilization of low-quality resources, residuals and waste</i>
<i>Extremely low level of valuation of the companies on the Russian market</i>	<i>Lack of access to capital</i>
<i>Fragmented market - 10 largest sawnwood producers (of the total 6,000) produce more than 11% of the total Russian volume</i>	

* According to the opinion of forest analysts (International Wood Markets Group and others)

Russian Forest Industry: Competitive Advantages (illustrated by sawmilling sector)



* Wood net cost = (Log Cost at Mill x Log Consumption) – Income for Residuals.

Wood net cost can be reduced by lowering log consumption (increasing yield) and/or selling residuals at higher price. However in Russia residuals prices are relatively low

Data for Russia and EU countries have been adjusted to the current foreign exchange rates.

Key Factors for Success

-  Use the cutting-edge technologies
-  Right place&objects for investments
-  Availability of the sufficient capital
-  Strong&professional local (Russian) partner

Conclusion

The Russian economy is facing structural changes at present - production/consumption are being adapted to new realities.

In this context, the Russian market has a high level of uncertainty.

In regards to the forest sector in our opinion it has a significant potential for sustainable growth in the medium-term period. To make these opportunities come true just a few small things are needed: the right place, sufficient capital and the right partner.

Key Elements of Success

1. Resources

- **RAW MATERIALS**
- **PERSONNEL**
- **CAPITAL**

2. Technologies

- Modern up-to-date equipment

3. Markets

- **TRANSPORTATION COSTS**
- **PRICE-QUALITY RATIO**
- Market capacity
- Competition

