


NEWS

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Dear reader

by Peter Vind Larsen, Baltic Director – HD Forest

Five months have passed since I started in HD Forest. I have spent the time to (re)connect with the business, the staff and the clients. During this period, I have had the opportunity to meet many of our clients and I will meet more in the coming months. Our clients are a great source of input on how we are doing and for getting new ideas. I therefore always welcome a call or an opportunity to meet in the forest and encourage you all to contact me if there is something you want to discuss.

In this issue of our newsletter you can read about two of our new clients. Their motivation for investing in Baltic forestry is a bit different from that of most of our clients. I hope it will be interesting for you to read about some of the other aspects of investing with HD Forest – in addition to

an attractive financial return of the investment and a low risk.

Timber and property markets are very active in the Baltics. We are therefore organising a number of inspection tours over the summer for potential new clients. Each field trip will be a two-day introduction to the investment case and a chance to meet some of the key staff making it all happen in the forest. If you are interested in participating, please sign up on our webpage. This May we are also hosting a forestry tour by ProSilva – a European federation of foresters to promote Close to Nature Forest Management Principles.

The Baltics are a perfect place to see these management principles carried out in a practical, commercial context. We will tell you more about



the outcome of this tour in our next newsletter.

I wish you all a very nice spring and hope you will enjoy reading our newsletter.





Winter visitors in Estonia

Interview by Kai Thygesen, Head of Sales – HD Forest

Late February, HD Forest was on a winter trip deep into the Estonian forests with brand new investors from Denmark. The main purpose of the visit was to inspect the first forest property, which just recently had been purchased, and to finalise the official paperwork at the notary and the local bank. During the visit we passed through sawmills, a heat and power plant near Tallinn and inspected new forestland for sale near Otepää in southern Estonia.

HD Forest interviewed the Danish investors, Lisbeth & Peter:

Why did you decide to buy forest as an investment?

We are keen orienteering runners. We therefore spend many hours in forests in Denmark running and arranging

orienteering events. This has given us respect and a great interest for the forest and nature in general. Another important reason is that we think global warming is an issue you have to take serious as a human being. So, when we heard about the possibility of investing in forest in the Baltic countries through HD Forest, we thought that this was a perfect match between our interest in the forest and the possibility for doing something good for the environment. Finally, we also consider investment in forest in the Baltic countries to be a sound investment.

Have you been to the Baltics before, and what was your impression of Estonia in general?

This was the first time we travelled to a Baltic country. Our impression of

Estonia is very positive. The country is well organised and more developed than we expected. Travelling in the country, we saw a lot of newly build infrastructure (roads, power plants, airport, etc.) and many new private buildings, so it is obvious that this is a country growing rapidly. We also sensed that Estonians are proud of what they have achieved since the independence in 1991. The language is completely impossible for Danes to understand, but we learned that in particular the young generation spoke English and some of them very good English.

Were the forests as you imagined before leaving Denmark, I mean did they meet your expectations?

Many forests in Denmark are almost park-like with gravel roads and with





a lot of tracks from a high “visiting pressure” by the population on the very modest forest-area we have in Denmark (only 11 percent of the country is forest). Furthermore, in many parts of the country our forests are not natural forests but plantations with monocultures planted in rows. Before we came to Estonia we knew that forests in Estonia are natural forests. However, we were surprised that the diversity is so high in the Estonian forests – that so many different tree species are regenerating just by self-seeding when old trees are felled. We were also surprised and impressed by the way the forests are managed – that only small areas must be felled at a time giving the forest the best opportunity to self-seed and being well protected against fellings caused by wind. This high diversity also gives protection against tree diseases, but at the same time, it causes a more difficult handling of the timber after felling. However, it seems that the Estonian forest

industry is capable and probably optimised to handle the many different tree species.

What was your experience with the Estonian notary system?

The Estonian notary system seems to be professional and trustworthy. All the papers we had to sign to establish an Estonian company were in Estonian, but the notary translated the wordings into English and ensured that we knew what we were signing. He also suggested a change regarding how the power of attorney should be handled to everyone’s satisfaction. We felt confident that the notary ensured that everything was done correctly.

What was your overall evaluation of the trip and what value did it provide to you?

We think the trip went very well and we were met by great hospitality and openness. It was good to see the property, we had recently pur-

chased, and good to see the country in general. However, and probably the most important value of the trip, was to meet Toomas Kams (Country Manager) and Meelis Merenakk (Forester) in persons. Meeting the people who in the future will manage our forest properties is important to build a relationship based on trust when most of our future communication probably will be by email. We think that building this good relationship with Toomas and HD Forest in Estonia was the most important aspect of the trip.

Will you buy more forest and will you be back to Estonia?

Yes, we plan to buy the property we saw near Otepää, if the valuation by HD Forest turns out to be positive. We also plan to come back to Estonia to participate in an orienteering event. Every year there is a 5-day orienteering event in Estonia, which now would be great fun for us to try!

Wood refining plant



Estonian businessmen to build a billion-euro wood refining plant

From Baltic Business News

A group of Estonian investors and forest businessmen are planning to build a wood refining plant in Estonia by 2022 worth one billion euros. Margus Kohava, board member of Est-For, a holding enterprise set up by the investors, said that most of pulpwood and wood chips that Estonia exports could give added value in Estonia. The investment of around one billion euros would be the biggest industrial investment in the his-

tory of Estonia. According to Kohava, the direct added value created by the factory would be up to 350 million euros a year, or 1.8 percent of Estonia's GDP. It would also increase Estonia's exports by up to 350 million euros a year and export value of Estonian products would grow 3 percent. The plan is to create 200 new jobs, in addition to up to 700 people who would be employed in related areas. The factory's production capacity would

be 700,000 tonnes and timber that is consumed as raw material would be 3 million cubic metres a year. It would produce cellulose, hemicellulose and lignin, which could be used to produce different bioproducts.

Source: <http://www.bbn.ee/article/2017/11/estonian-businessmen-to-build-a-billion-euro-wood-refining-plant>

Join our field trips in 2017

by Kai Thygesen, Head of Sales



Participants visiting a Lithuanian forest in 2015.

Why settle for information found on the web, when you can come with us and visit the great forests of the Baltics? If you consider investing in forests, then come with us and see the opportunities for yourself. The prices are approximately only one third compared to the Scandinavian hectare prices. Forestland investment is for the long run and provides you with a low risk and stable return.

The infrastructure and forest related industry is modern in the Baltics and well connected to the world market. Sawmills and veneer factories are often brand new with modern technologies and export worldwide.

HD Forest would be happy to invite you to a field trip to one of the Baltic countries of your choice and show you the many opportunities and characteristics of forest investments. Our dedicated country managers and foresters will guide you and explain about forest management in their home country. We will visit relevant

industry such as a sawmill, veneer factory or a harvester in action.

During the trip, we will elaborate on the establishing process, buying process and exit possibilities. You will have plenty of opportunities to ask questions about forestry and the Baltics in general.

Field trip practical information and terms and conditions:

- HD Forest will arrange local transport and meals during the field trip.
- You will book and pay flights to and from the Baltics.
- You will pay all hotel costs, but we book to ensure one pick-up place.

Planned field trips:

Yearly we plan three open field trips for potential clients; all nationalities are welcome to join, as our country managers will be doing the tour in English.

Please join us in 2017:

- Lithuania – please ask for dates
- Latvia 5-6 June
- Latvia 13-14 June
- Estonia 22-23 August

[You can sign up here](#) (in Danish) or simply email kthy@hededanmark.dk with your details and we will get back to you with more information including terms and conditions.



Rail Baltica on the way

From Danish Embassy in Latvia and Rail Baltic Business Network www.rbbn.ee

Rail Baltica that connects the three Baltic States with Central Europe in a direct line is on track. Stretching across 730 kilometres, Rail Baltica connects Kaunas, Riga, Pärnu, and Tallinn, while also ensuring a connection with the most important transport nodes.

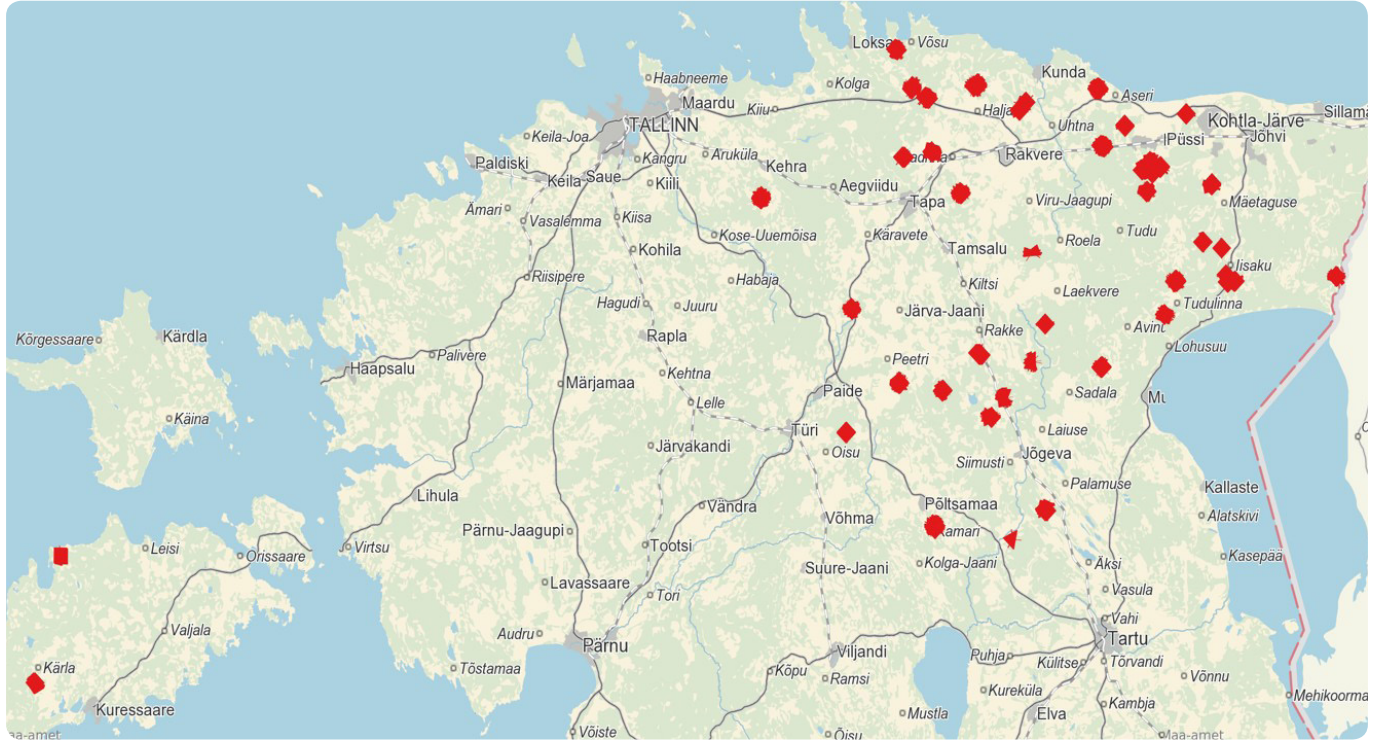
This project denotes this century's biggest infrastructure related cooperation project in the Baltic States, allowing to transport 5 million passengers and 16 million tonnes of cargo a year. The project has been on the agenda for many years but recently all formalities were settled. Rail Baltica represents a high-priority project for the European Union, covering significant sections in the European rail transport system that have thus far stood idle. The project is expected to cost 4 billion euro, and the EU will support up to 85 percent of the costs.

The Rail Baltica line will open in 2025, and in 2030 it will be connected with Warsaw. Rail Baltica is one of the biggest infrastructure investments in the region, and it will improve the transport infrastructure significantly.



Estonian forest property for sale: Teet

by Kai Thygesen, Head of Sales



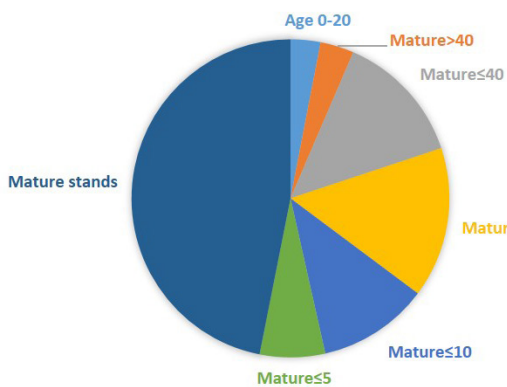
"Teet" is a relatively large forest portfolio for sale in Estonia. The 406 hectares are divided into 43 smaller separate properties, as we normally see in the Baltics.

360 hectares are forestland, 41 hectares are open areas and 4.5 hectares

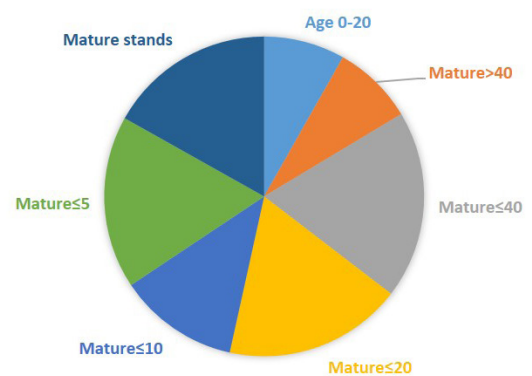
are agricultural land. Expected return on investment is 6.24 percent p.a. 37 percent of the wood mass is Birch, hereafter 20 percent Scotch Pine, 19 percent Norway Spruce and lastly Grey and Black Alder along with some Aspen. A little under half of the trees are mature now and may be felled,

thus giving a significant cash flow to cover expenses and re-invest in more forestland. The rest of the cubic metres are middle aged with a nice increment potential.

MATURITY DISTRIBUTION YEAR 0

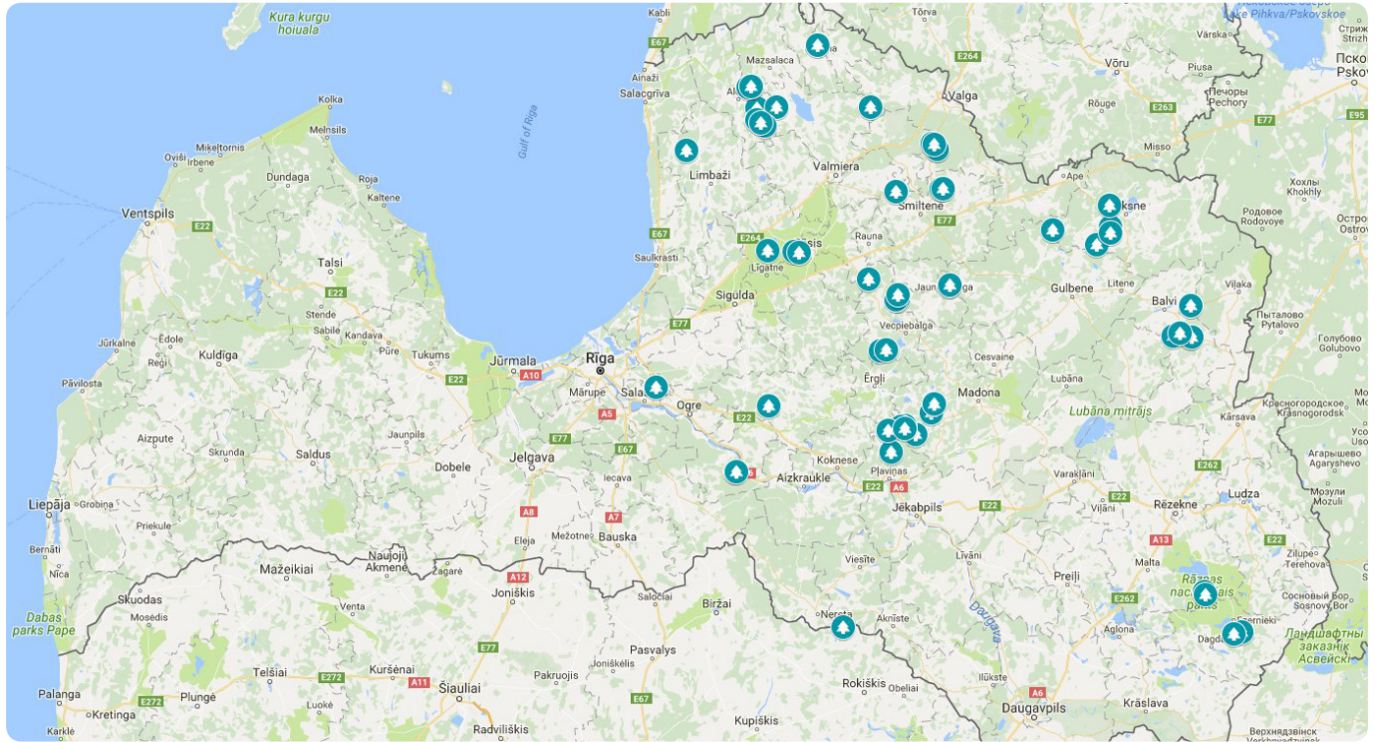


MATURITY DISTRIBUTION YEAR 15



Latvian forest property for sale: Lat_2017_G10

by Kai Thygesen, Head of Sales



"Lat_2017_G10" is a mixed forestland portfolio for sale in Latvia. The 611 hectares are divided into 34 smaller separate properties concentrated over central and northern Latvia.

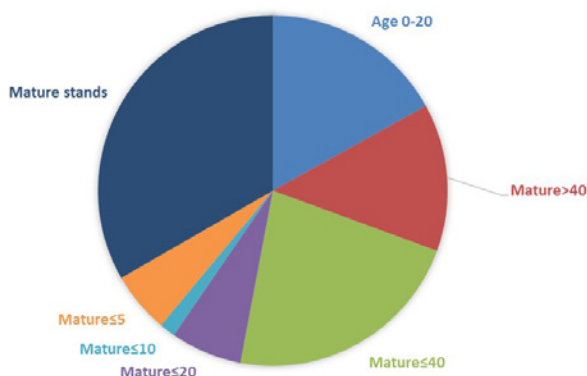
332 hectares are forestland, 74 hectares are open areas and 204 hectares

are agricultural land. Expected return on investment is 5 percent p.a. based on a 15-year model.

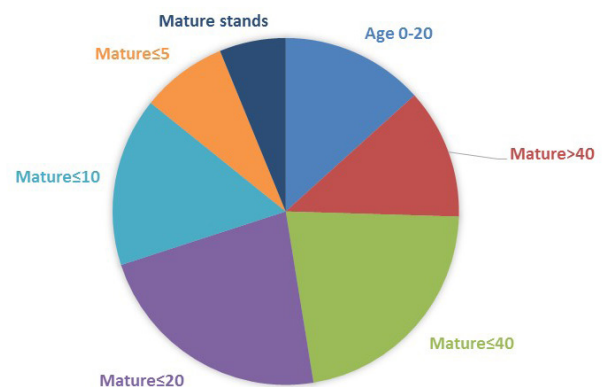
36 percent of the wood mass is Birch, hereafter 31 percent Scotch Pine, 13 percent Norway Spruce and lastly 11 percent Grey Alder along with 9

percent Aspen. One third of the tree volume is mature now and may be felled, thus giving a significant cash flow. However, remaining volume of the timber has more than 40 years to maturity and thus a large growth increment potential.

MATURITY DISTRIBUTION YEAR 0



MATURITY DISTRIBUTION YEAR 15





Swedbank economic outlook

by Kai Thygesen – HD Forest, Head of Sales

Global: Signs of a considerable cyclical upturn in advanced economies. Inflation pressure increases, but remains low in many regions. Political risks remain although they have decreased somewhat.

Baltics: The business cycle in the

Baltic economies strengthened towards the end of last year, driven primarily by household consumption and exports. There is a risk that the rising wages erode competitiveness, but we expect the strong global cycle to support exports.

Read the full report here:

http://www.swedbank-research.com/english/swedbank_economic_outlook/2017/q1/swedbank_economic_outlook_update_april_2017_eng.pdf



Estonia

Expected improvement in foreign demand and recovery of investment growth will help to accelerate GDP growth in 2017 and 2018. Due to labour shortage, wage pressures will persist. Gap between productivity and wage growth expected to narrow, closing in 2018. After temporary slow-down this year, the lifted income tax exemption boosts real wage growth and consumption in 2018.



Latvia

Investments have rebounded, GDP growth forecast revised up to 3 percent and 3.5 percent in 2017 and 2018. Recent sharp rise in exports due to improving external demand. Corporate credit expands. Weak consumer confidence is temporary drag as exports and EU funds' inflow are boosting investment and labour demand, speeding up wage growth and soon consumer confidence/consumption. Business confidence inching up.



Lithuania

Growth revised upwards (to 3.0 percent and 2.7 percent in 2017-2018) as sentiment is high. Slightly decelerating consumption growth will be more than compensated for by higher investment growth. Employment will not grow, due to negative demographic trends, but wage growth will subside only marginally. Export growth will be supported by stronger foreign demand for now.





Climate changes affect the forest growth increment by 20-30 percent

From Danske Bank' magazine "Skog och Ekonomi" February 2017

The UN Climate Panel says that the greenhouse gas levels in the atmosphere have risen to levels not occurred for at least the past 800,000 years. A very large majority of the scientific community agrees. Even if all the world leaders act for a radical shift today, we still have a significant climate change ahead. Different regions of the world are affected in dramatically different ways. The temperature increase will vary across the globe, while rainfall decreases in some regions and increases in others.

The Swedish Forest Agency SKA 15 (Forest-Impact-Analysis 2015) has analysed the effect of climate impacts on forest productivity. As the basic option they use "scenario RCP4,5" which means approximately two degrees increase of the average tem-

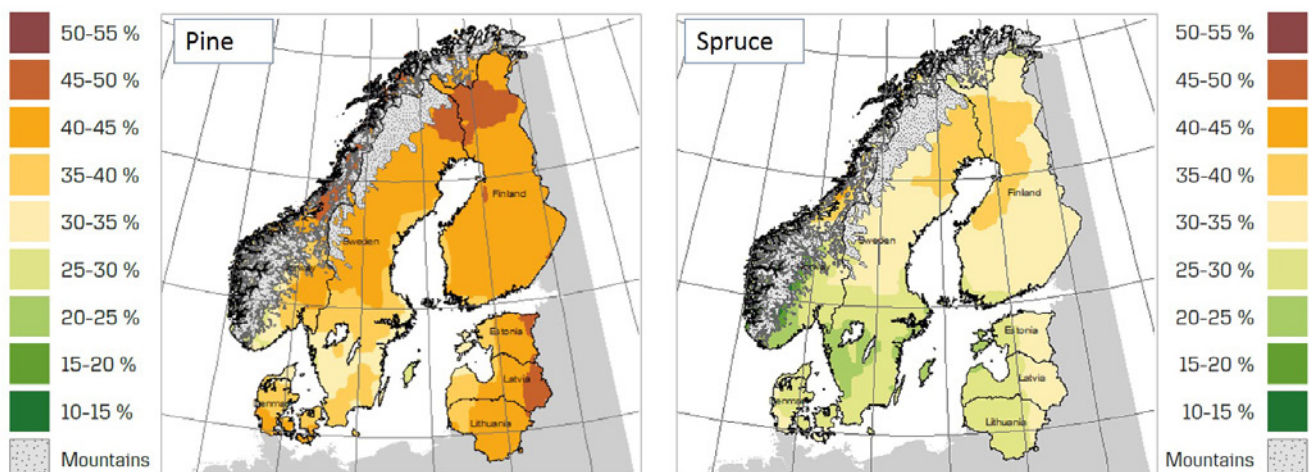
perature from 1985 - 2085. For this case, they calculated climate change to increase forest growth by 20 - 30 percent in Sweden. The growth rate of the forest is mainly due to the growing season being extended by one - two months. According to the so called "2 degree studies" it is the pine that has the highest growth increase in percentages, while the spruce is affected slightly less - see figure.

The difference between the Nordic/Baltic and southern parts of the globe, where it grows throughout the year, is that these areas do not receive any extension of the growing season. Further, the lack of water is here more evident than in other regions.

The Nordic/Baltic region is an area where growth thus is expected to increase quite sharply. This means, paradoxically, an upside of forest value. However, if one looks at other important forest areas like south-eastern and western United States, southeastern Brazil, Central Europe, etc., we see a very negative rainfall situation out there and thus a downside of forest value. With a better understanding of the climate change across the globe, investors will likely more and more take this factor in forest investment into account.

Read the full story in Swedish:
<https://www.danskebank.se/PDF/Skog-och-Lantbruk/Skog-och-Ekonomi/2017/SkogEkonomi-Nr1-2017.pdf>

Relative growth increase in Northern Europe in the end of this century





Timber price update

by Villu Lukk, Forester in HD Forest Estonia, and our Country Managers

Estonia

In Estonia, conifer log prices are quite good right now and it seems that the prices will go up – especially for spruce logs. There are no price changes compared to the previous month, but we have seen an upward trend for the past six months and it is expected that spruce log prices should go a little higher next time. We also see that firewood prices and pellet prices are increasing, and current stocks are low. The demand derives from lucrative economic schemes in Europe for biomass and due to increased investments in combined heat and power plants using biomass.

Latvia

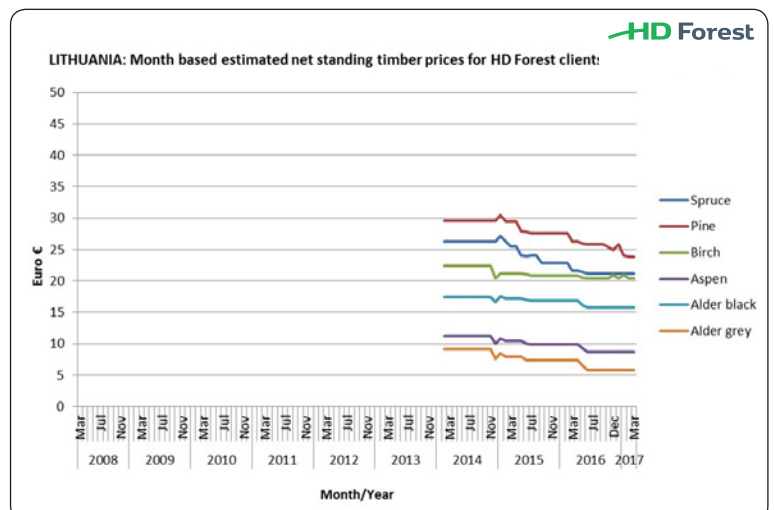
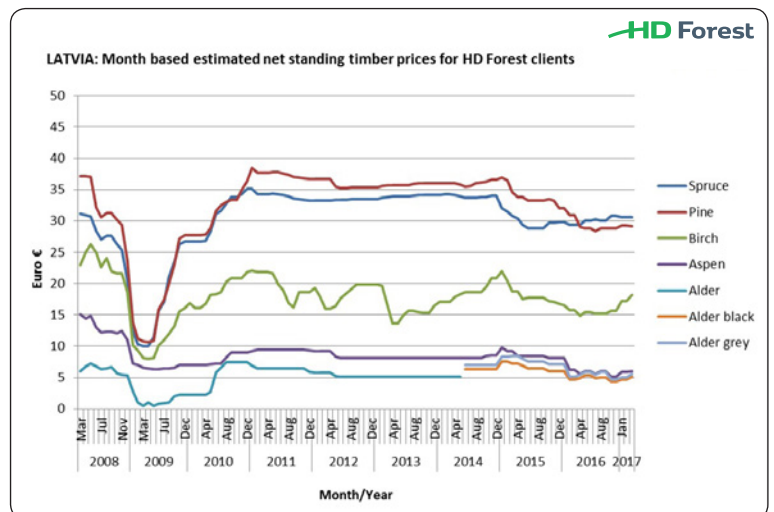
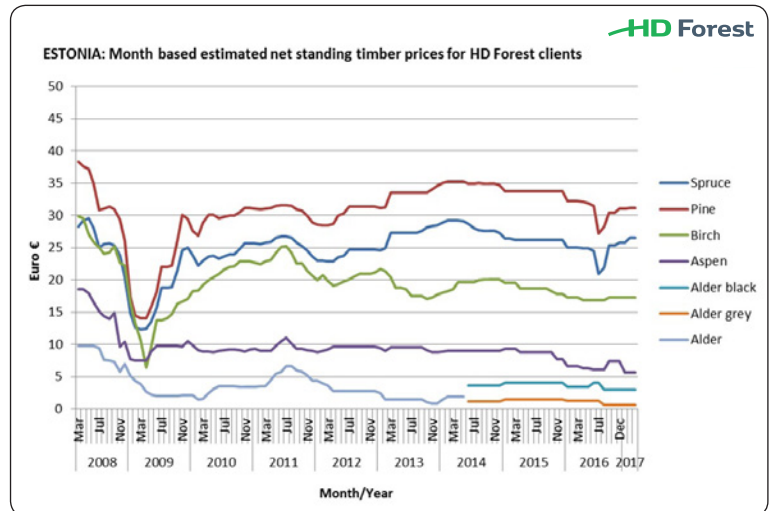
In Latvia, main changes come from Spruce and especially Birch, most likely due to increased veneer and biomass demand. Latvia is the only country in the Baltics where Spruce is priced higher than Pine as there is simply not enough Spruce round wood to supply the local demand, especially in the western part of Latvia. We expect prices in Latvia to remain stable, but with an upside potential.

Lithuania

Good weather conditions in February led to large cuttings, which resulted in the fact that prices for Birch and Pine pulpwood went down in March, other prices remained unchanged. With a rainy March and much timber already sold, we can expect raising prices for all tree species next month and over the summer in general.

Scandinavia

Wood Resources International describes in their newsletter 22 April that sawlog prices in Sweden, Finland and Norway are currently at their lowest levels for over ten years in their local currencies despite healthy lumber markets for sawmills in the region and high production levels. On the other hand, this could end now. According to "Skog Supply" 20 April, then Swedish company Södra raised their prices for timber by 20-25 SEK/m³. Expected high demand in the summer and fall is the reason for the price increase, which is partly implemented by an increase of the price list and as compensation for early felling contracts. Swedish prices in a tight market will eventually spill over to Baltic prices, where we may expect price increase over the summer.





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