

Upsides / Why invest in Baltic forestland

Rising land prices and rising prices of young stands beyond the expectation of the model

- As a result of market maturity
- Have seen this happen historically – and probably still some potential
- Land price is generally around 15-20 % of the total return

Rising timber prices

- Historically, a 1 % increase per year
- Possible return to trend after several years without timber price increases may be indicative of good timing
- The prices of timber are currently about 15-20 % lower than the peak in 2007

Industrial development

- New industries (pulp plants, etc.) and investment in existing industries lead to increased demand for timber and enhanced opportunity to sell inferior assortments
- Has previously been of great importance (e.g. Launkalne sawmill in Latvia => wood cellulose became sawmill timber potential)
- Especially potential if lower grades and lower priced species demanded by the new industry. See, for example news on www.hdforest.com

Liberalisation of the Forest Act (diameter criteria for felling authorization rather than just age criteria)

- Is already happened in Estonia and Latvia. Discussed in Lithuania
- More wood will be available for logging on existing properties, i.e. increased operating income
- Increased harvesting potential will be capitalized into the price of the land as the value of the properties rises

General lower estimation of the volume in the model

- It is our feeling that there is generally more wood than expected when we log

Stronger negotiating position for HD Forest locally

- As HD Forest's business will grow, the negotiating position opposite the timber industries and contractors will be strengthened. This increases the selling price of timber, and costs of subcontractors are reduced for the customer

Downsides / Risks

Declining land and timber prices due to the general economic downturn

- Reduces operating income and return on capital
- Can be encountered by actively timing the operation of timber and property sales
- Not assessed as likely – beyond short-term economic swings

Increased nature protection rules and legislation

- Increases operating costs and reduces the available timber volumes
- Will only have a limited effect due to existing sustainable forest regulation and because national and EU nature conservation initiatives (national parks, Natura 2000, etc.) have already been implemented and are well-known

Relocation of the local timber industry

- If the local market is disappearing, the Baltics will still be optimally positioned to supply industry in the rest of Europe – even though at lower prices for the forest owner
- Generally, relocation is not likely. The woodworking industries are generally modern and efficient – and continuous investment in further modernization and increased capacity is made

Climate change – increased frequency of storms and milder winters

- Increased windfall will result in greater price fluctuations in the timber. Scattered properties reduce the importance of the windfall for the individual portfolio. Price fluctuations are handled with cyclical logging
- Milder winters will result in more wet forest soils with less available time for harvesting. This will require an increased focus of harvest planning, as well as any increased costs of drainage, roads construction, etc.

Russia

- Military confrontation considered unlikely due to the power balance of Russia / NATO
- Russia is expected to continue to seek destabilisation and disinformation as to the rest of the western world
- Russian minorities in the Baltic countries are generally assessed better and better integrated. Russians in the Baltic States know that it is far better to be a Russian in the Baltics than being a Russian in Russia
- Locally, the concern is only vague. There is still significant investments in the Baltic countries by local and international companies as well as by individuals