

# Swedish Chamber of Commerce for Russia & CIS

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## AGM & Seminar

14 April 2016



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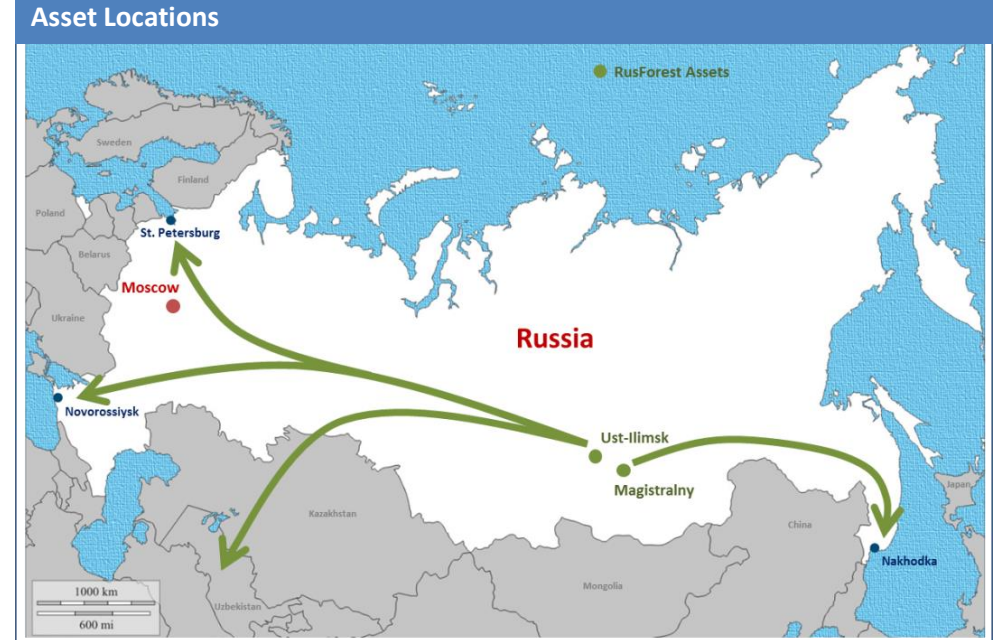
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# 1. Company Overview

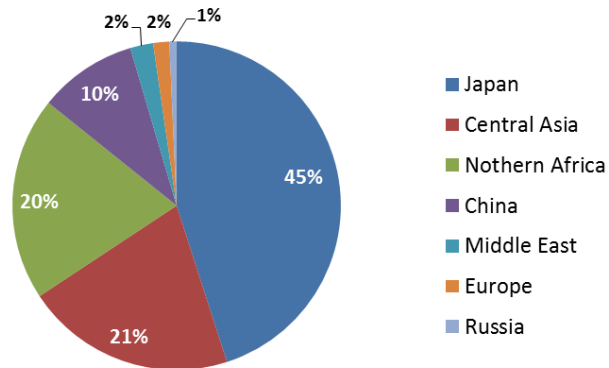
# 1. RusForest Summary

## Summary

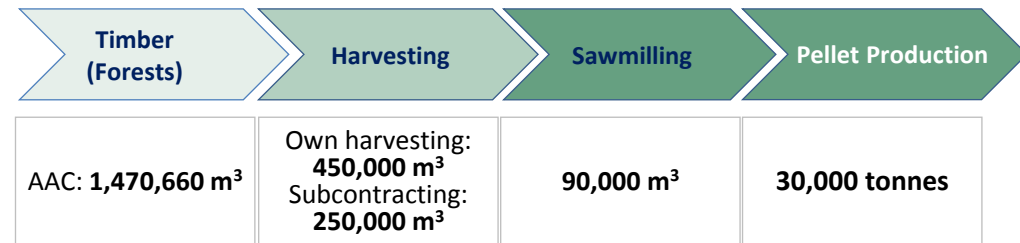
- Swedish forestry company operating in Russia
- Wholly export oriented
- Vertically integrated from timber leases to sawmilling and wood pellets.
- High-quality, slow-growth forests
- Close proximity to main growth markets in Asia
- Strong management team and board
- Largest share holder – Nova Capital (25.4%)



2015 sawnwood sales by market



## Forestry value chain & annual capacities



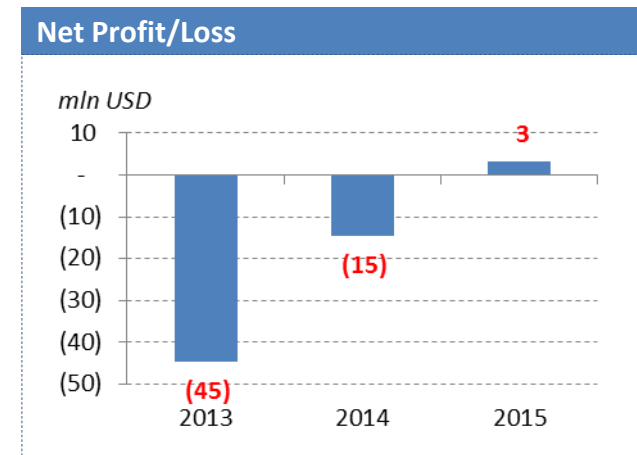
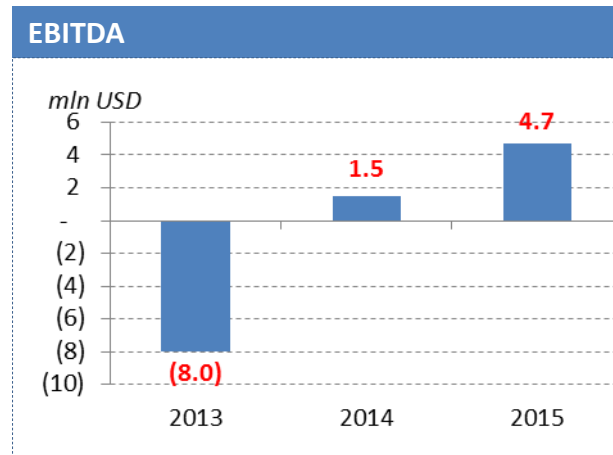
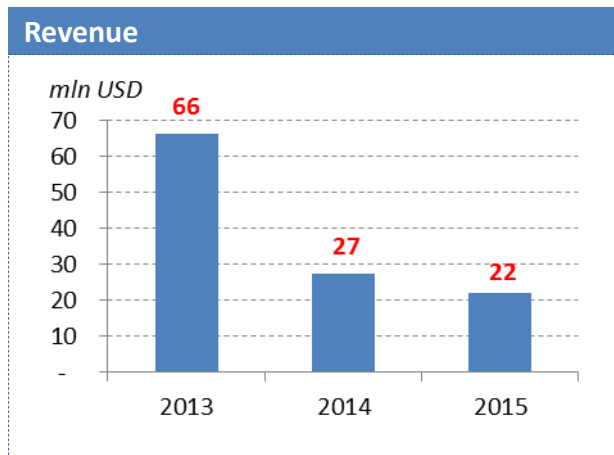
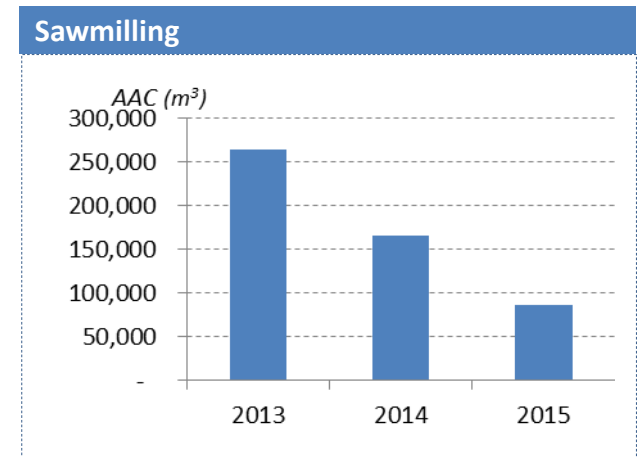
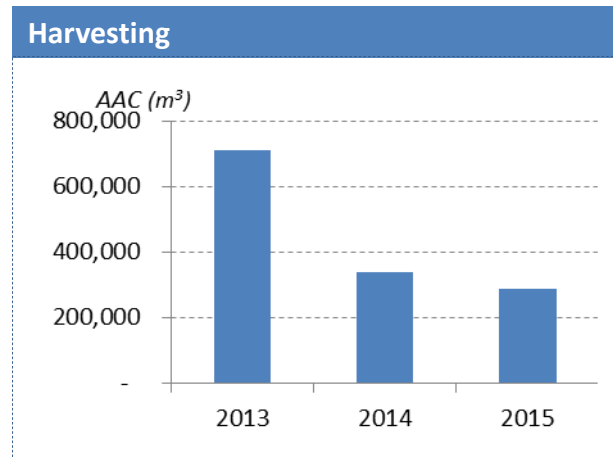
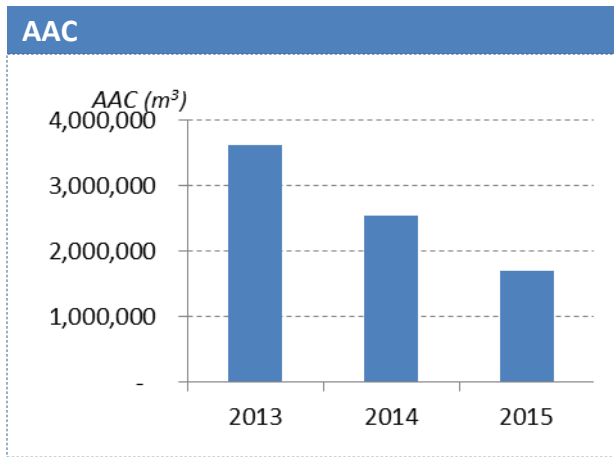
AAC = Annual Allowable Cut; m<sup>3</sup> = cubic meters

# 1. RusForest Recent Development

Turnaround	Stability/Profitability	Investment/Growth
2013 - 2015	2014 - 2015	2015/2016 -
<p>New main shareholder and senior management</p>	<p>Increase efficiency and profitability in core operations</p> <ul style="list-style-type: none"> <li>-Magistralny harvesting, sawmilling and sales</li> <li>-Ust-Ilimsk subcontracted harvesting &amp; asset sales</li> </ul>	<p>Magistralny pellet mill</p>
<p>Market reorientation to Japan</p>	<p>Admin cost reduction</p>	<p>Own harvesting in Ust-Ilimsk</p>
<p>Divestment of unprofitable non-core business units</p>	<p>Forest lease optimisation (utilisation)</p>	<p>Forest lease optimisation (consolidation &amp; concentration)</p>
<p>Legal structure optimisation</p>	<p>Share buyback program</p>	<p></p>
<p>Forest lease optimisation</p>		<p></p>

# 1. Turnaround

*Volume output reduced while profitability increased...*



# 1. RusForest Is Investing!

## Magistralny pellet mill



***An economically very attractive and business risk reducing add-on investment to existing sawmill!***

- Facility construction completed, final equipment tests in process
- Project CAPEX approx 4 MEUR (ex VAT)
- Annual output 30,000 tons
- Fully supplied with rawmaterial from own sawmill
- Current target market Europe, while potential for future sales to Japan or South Korea
- First annual volume contracted with leading European trading house

## Own harvesting in Ust-Ilimsk



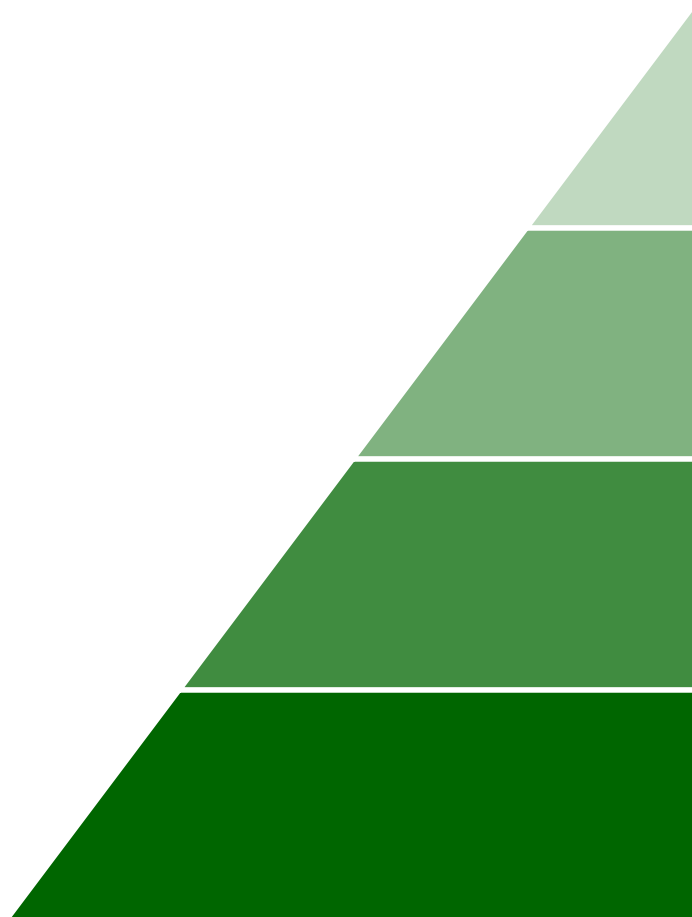
***To increase cash generation from existing (core) forest leases and ensure an additional long term strategic raw material source for the group***

- Project CAPEX approx 5 MUSD (ex VAT) – (4 MUSD in 2015 and the rest in 2016)
- CAPEX mainly related to new machinery and equipment
- Current long term target approximately 200,000 m<sup>3</sup> in own annual sawlog harvesting
- Operations will develop in stages with targeted start for winter 2016
- Procurement of necessary new equipment and recruitment of staff started in Q3 2015
- Target domestic and export markets

# 1. RusForest's Competitive Advantages

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RusForest's competitive advantages



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Highly experienced management team

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Strong market position in Japan

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Low production costs

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Wood resources of highest quality

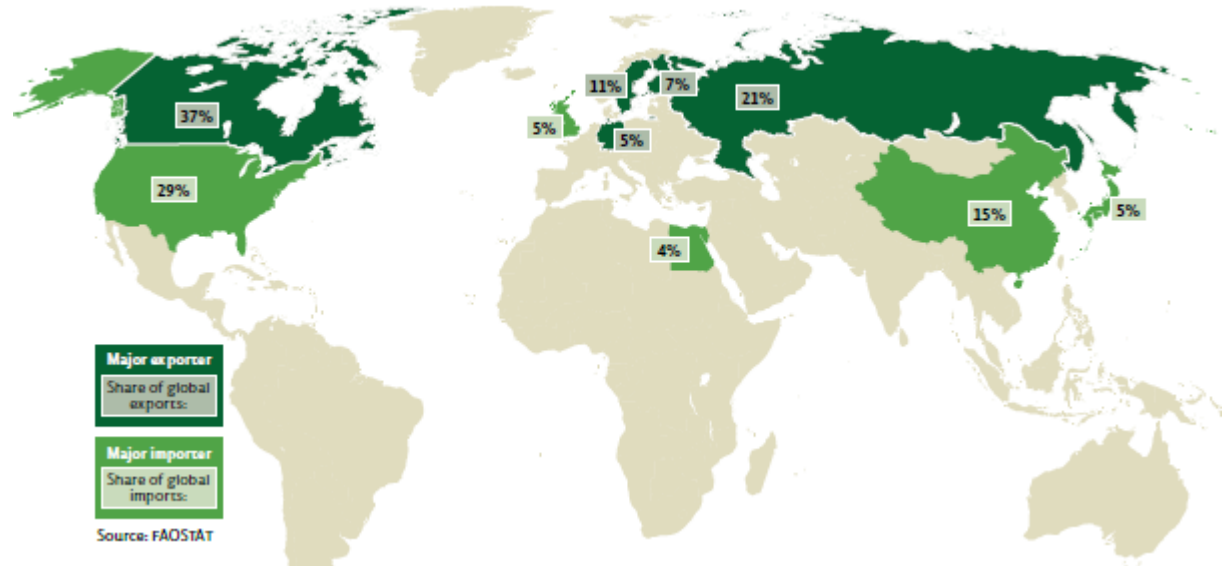
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## 2. Russian Forestry Sector

## 2. Russian Forestry

Five largest exporters and importers of sawn softwood in 2015

**Russia has the world's largest forest resources and is the world's second-largest exporter of softwood sawnwood after Canada**



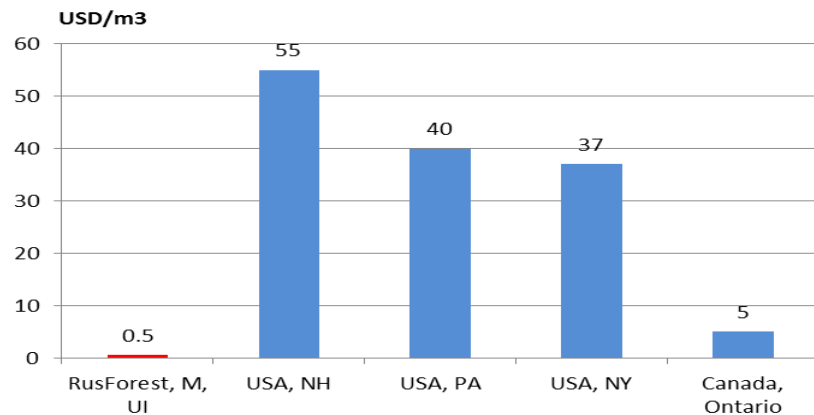
### Russia's wood resources:

- Forest land area in Russia amounts to 882 million ha with total growing stock of 82 billion m<sup>3</sup>, which makes up 20% of total world forest resources
- Mature and over-mature stands account for 44 billion m<sup>3</sup> or 54% of the total growing stock
- The majority share of forests is concentrated in Siberia and Far East of Russia – 78% of stocked area and 73% of the growing stock
- Severe weather conditions for tree growth in Siberia (short summers and cold winters) results in a special strength and durability of wood that is particularly valued by consumers in Japan and other high end markets. Siberian wood generally counts twice the amount of growth rings than equal dimensions from other countries. The density of Siberian wood is higher than other European species

## 2. Attractive Location and Costs

- Russian forestry sector characterized by attractive raw material- and other costs
- However, many infrastructure challenges and other execution obstacles
- Benefit from proximity to Asian growth markets

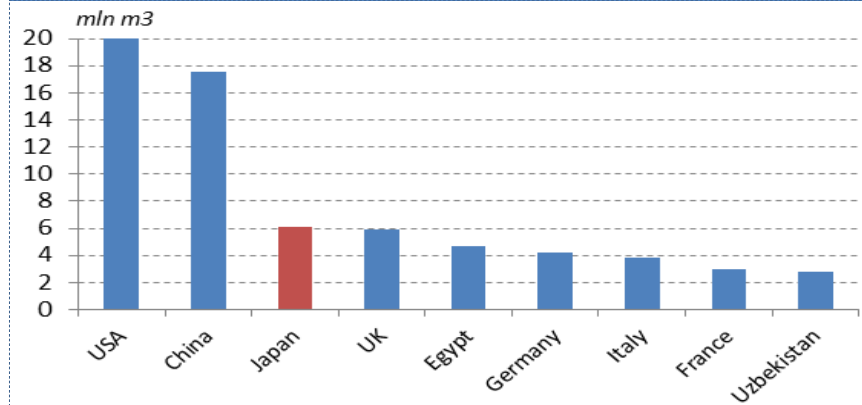
Average forest lease cost (stumpage price)



Russia sawnwood exports in 2015 (1000 m3)

China	10,784	45%
Uzbekistan	2,286	10%
Egypt	2,030	8%
Japan	812	3%
Iran, Islamic Republic of	766	3%
Azerbaijan	683	3%
Tajikistan	680	3%
Estonia	583	2%
Finland	482	2%
Germany	450	2%
Other	4,447	19%
<b>Total</b>	<b>23,943</b>	<b>100%</b>

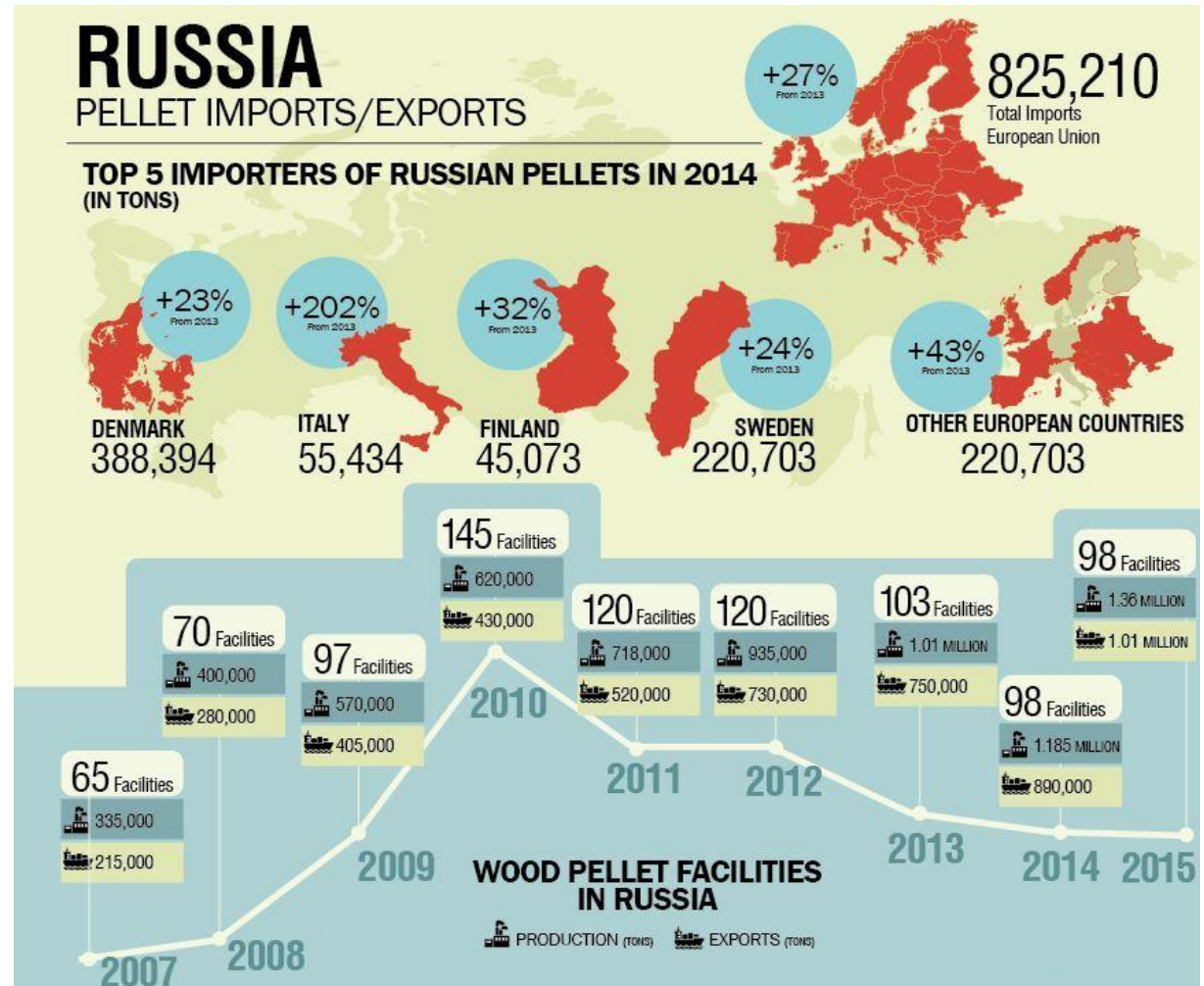
World's largest softwood sawnwood importers in 2014



Source: FAOSTAT

## 2. Growing Wood Pellet Production

- Supplier driven movement
- Approx 10% yearly growth in production of wood pellets
- EU main market for Russian pellets but also exports to Asia and very small domestic..
- Logistic arrangement and cost, as well as export dependence are main challenges
- High quality, cheap raw material and RUB cost benefit main strengths of Russian pellets



Source: Biomass Magazine

## 2. Improvement on wood legality

### Improved traceability and exclusion of illegal wood

- Decrease of small-scale harvesting companies
- Increase in long-term wood supply contracts
- Increase in the FSC certified area
- Committed multinationals
- EU Timber Regulation
- Russian legislation on wood traceability: The Russian federal law FZ-415 (2013)
- Wood pellets theme also driving sustainability work (ENPlus and SBP Certificates)



A background image showing a large stack of cut logs, with the ends of the logs visible, creating a pattern of circular wood grain. The image is slightly faded to allow text to be overlaid.

## 3. Current Challenges

## 3. How Is Russian Forestry Performing In 2015?

In 2015, Russia increased sawnwood exports by 6% to 23.9 million m<sup>3</sup> and sector profits significantly increased.

- Clear benefit from weak Russian rouble
- Russia taking market share in key markets
- The sector is investing
- Big potential for long term sector improvement

*But also..*

- Many markets for sawnwood and sawlogs remain very weak (Egypt, Central Asia)
- Local RUB input prices slowly adapting to new currency environment

ЭКСПОРТ PETS

14 апреля 2016, 02:23

# Газета.ru

ПОЛИТИКА БИЗНЕС ОБЩЕСТВО АРМИЯ МНЕНИЯ КУЛЬТУРА НАУКА ТЕХНОЛОГИИ АВТО СТИЛЬ ЖИЗНИ

ЭКОНОМИКА ФИНАНСЫ ПРОМЫШЛЕННОСТЬ ЭНЕРГЕТИКА ПОТРЕБИТЕЛЬСКИЙ ТРАНСПОРТ ТУРИЗМ НЕДВИЖИМОСТЬ РЕГИОНЫ

## «Деревянные» 300%

Лесопромышленный комплекс РФ в прошлом году показал рост прибыли почти в три раза

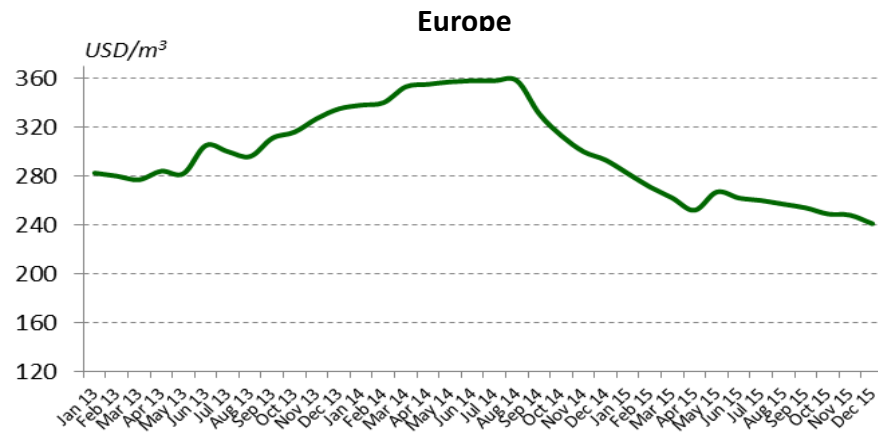
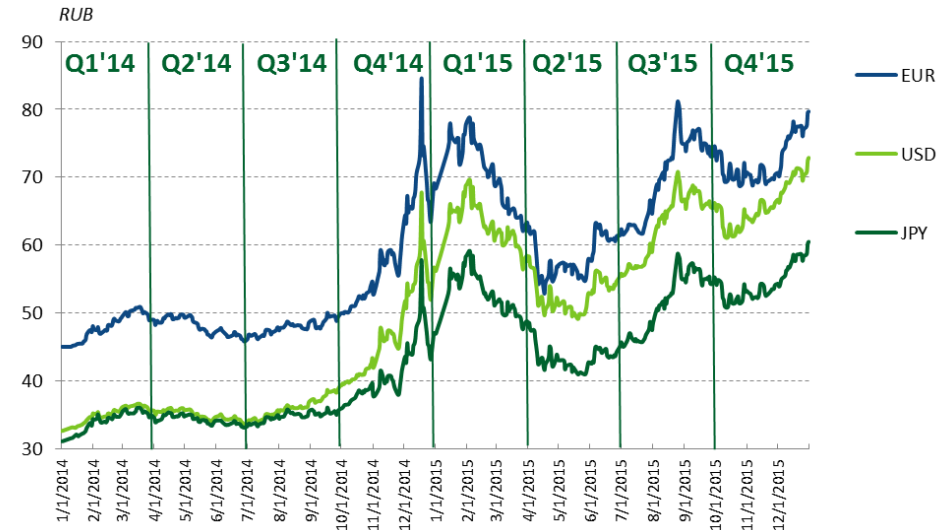
Алексей Толгалов 06.04.2016, 14:37



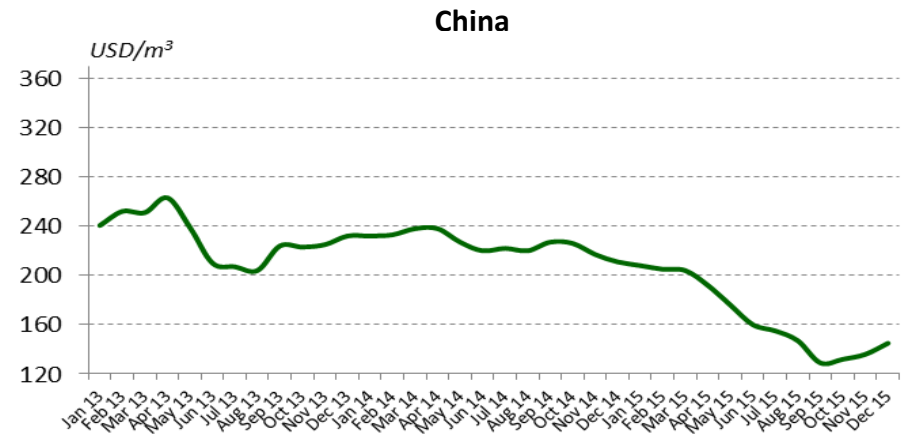
Российскому лесному удалось нарастить прибыль почти на 300% в прошлом году (в 2014-м отрасль демонстрировала убыток). Помогло падение рубля, в результате чего даже снизившиеся в долларах цены дали почти двукратное увеличение выручки. Кроме того, выросли цены на внутреннем рынке. При этом традиционные импортеры российской древесины закупают все меньше необработанного леса и все больше продуктов деревообработки

# 3. 2015 A Year of Mixed External Economic Factors

- **Falling oil price**
- **Falling RUB rate**
- **Weak sawnwood and sawlog markets**
- **Increase in transportation costs due to sanctions**
- **Low sea freight rates**



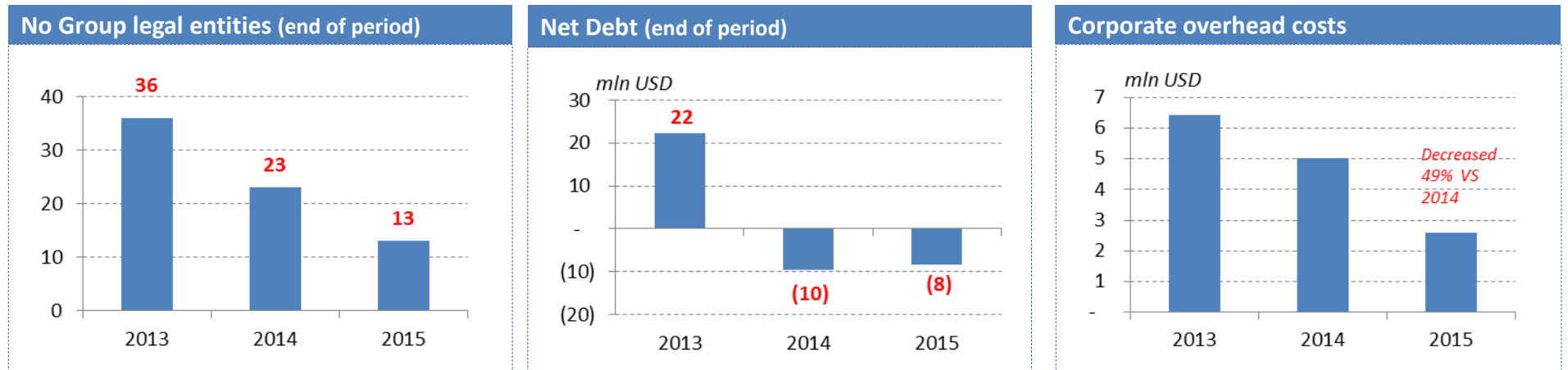
– Whitewood, sawfalling, KD, 47x75–225mm, CIF ARA ports



– SPF Utility, KD, 2x4", 8/20', CIF China ports

### 3. RusForest Recent Experience and Actions

- Only minimal cash deposits in RUB due to volatility
- RusForest has been working to reduce overhead costs and achieve a more transparent and efficient legal structure
- Invested USD 10.5 million in new capacity in 2015
- Operational profitability benefited from RUB depreciation, as do many business plans
- RUB cost inflation to manage
- No affect from sanctions except for indirect on transportation cost to Europe etc.
- Clear affect on Russian credit markets and foreign Russia risk appetite



**Thank you!**

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**Thank you!**

**Gustav Wetterling**  
**CFO**