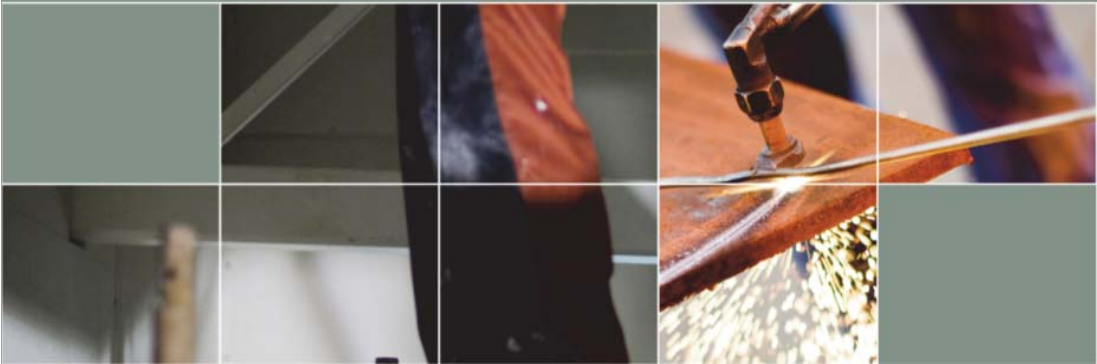


East Anglian Timber Trade  
Association

Cambridge Dinner  
26.9.2012



Overview of the Baltic  
Market

**NORVIK**  
TIMBER INDUSTRIES

**Sampsa Auvinen**  
CEO



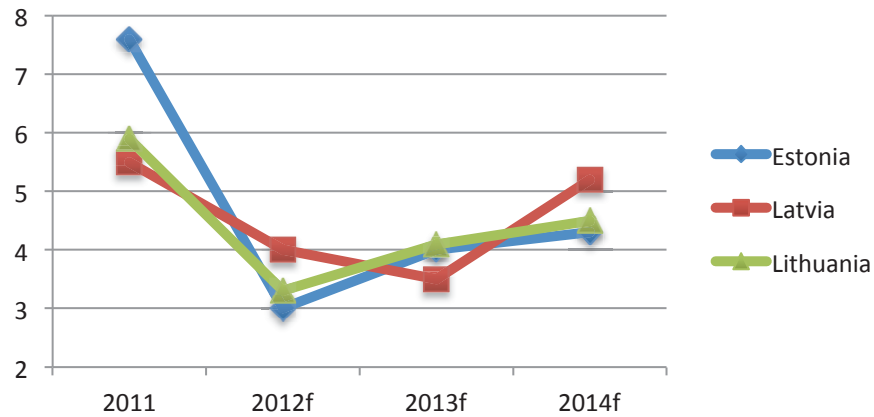
## Latvia & Estonia

- General Economic Situation
- Raw Material
- Production & Exports
- Conclusion

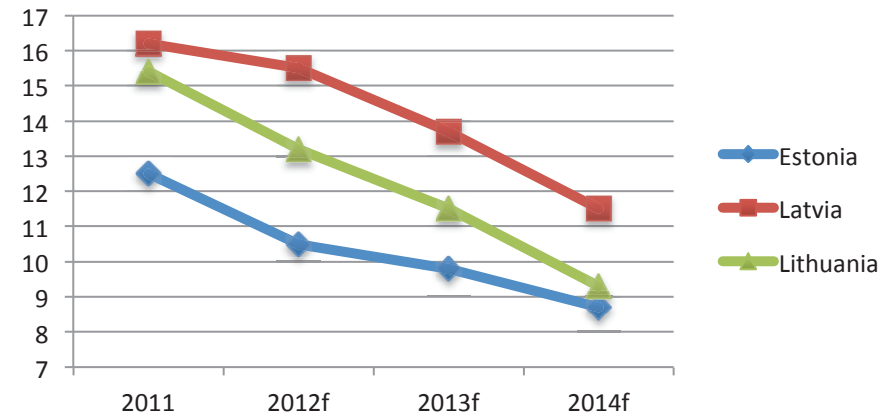
# General Economic Situation

# Economic Indicators

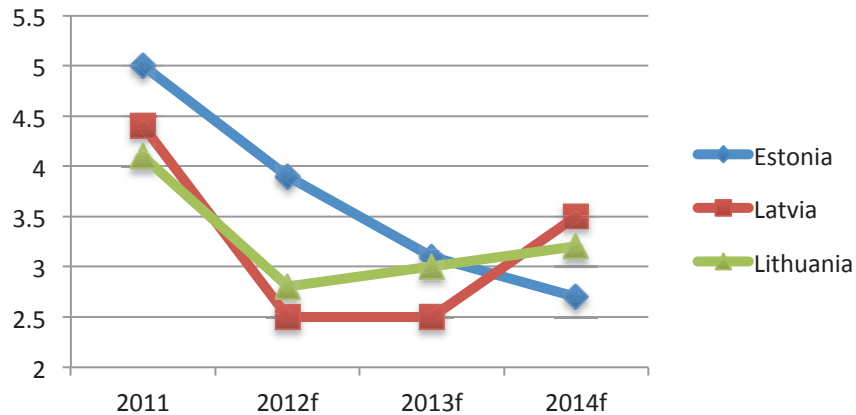
Real GDP growth, annual change in %



Unemployment rate, % of labour force



Consumer price index, annual change in %



Manufacturing growth (index Jan 2008=100, seasonally adjusted and three months moving average)<sup>1/</sup>



Sources: National statistics authorities and Swedbank.

- Domestic demand a shock absorber in export slowdown
- Exports weak but competitive
- Slow decline in high unemployment

## Estonia

- Economic growth slowed in the first half of 2012, and growth is increasingly being generated by the domestic economy, while export growth has slowed.
- Unemployment continued to decrease in the first half of 2012, to 10.8% on average.

## Latvia

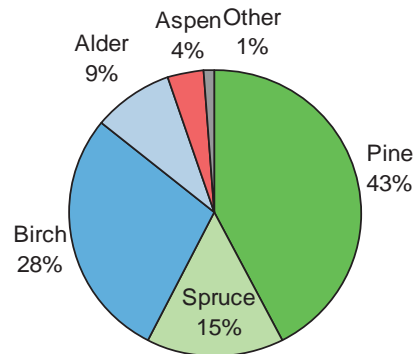
- The economy expanded by a remarkable 6% in the first half of 2012.
- Both exports and domestic demand are contributing to growth, owing to robust confidence, gains in competitiveness, and EU fund support.

# Raw Material

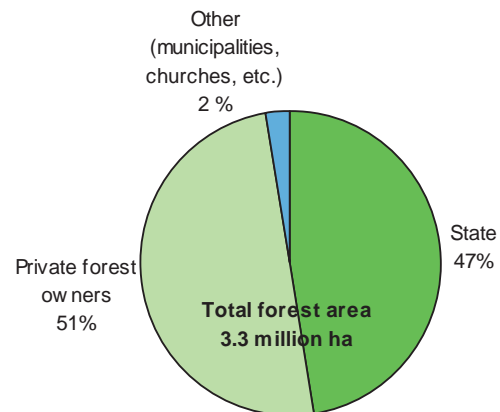
# Forests Composition & Ownership

## Latvia

Species Distribution of the Growing Stock

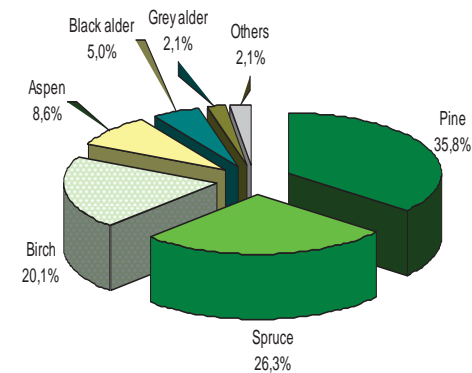


## Forest Ownership

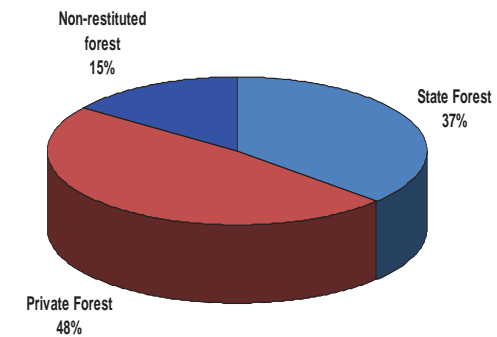


## Estonia

Species Distribution of the Growing Stock



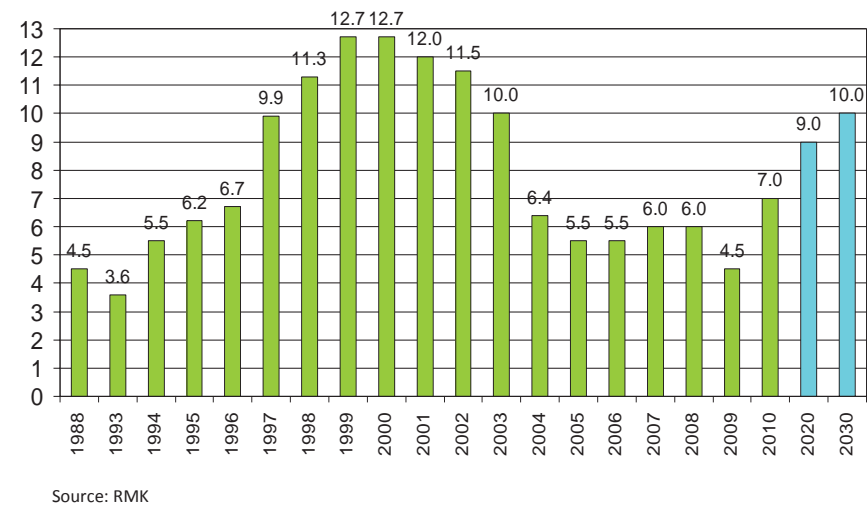
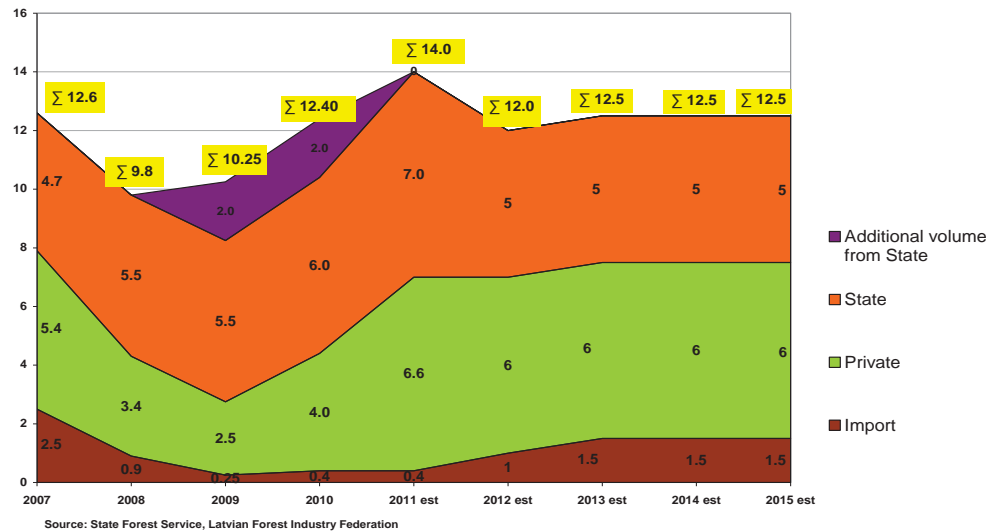
## Forest Ownership



# Annual Fellings

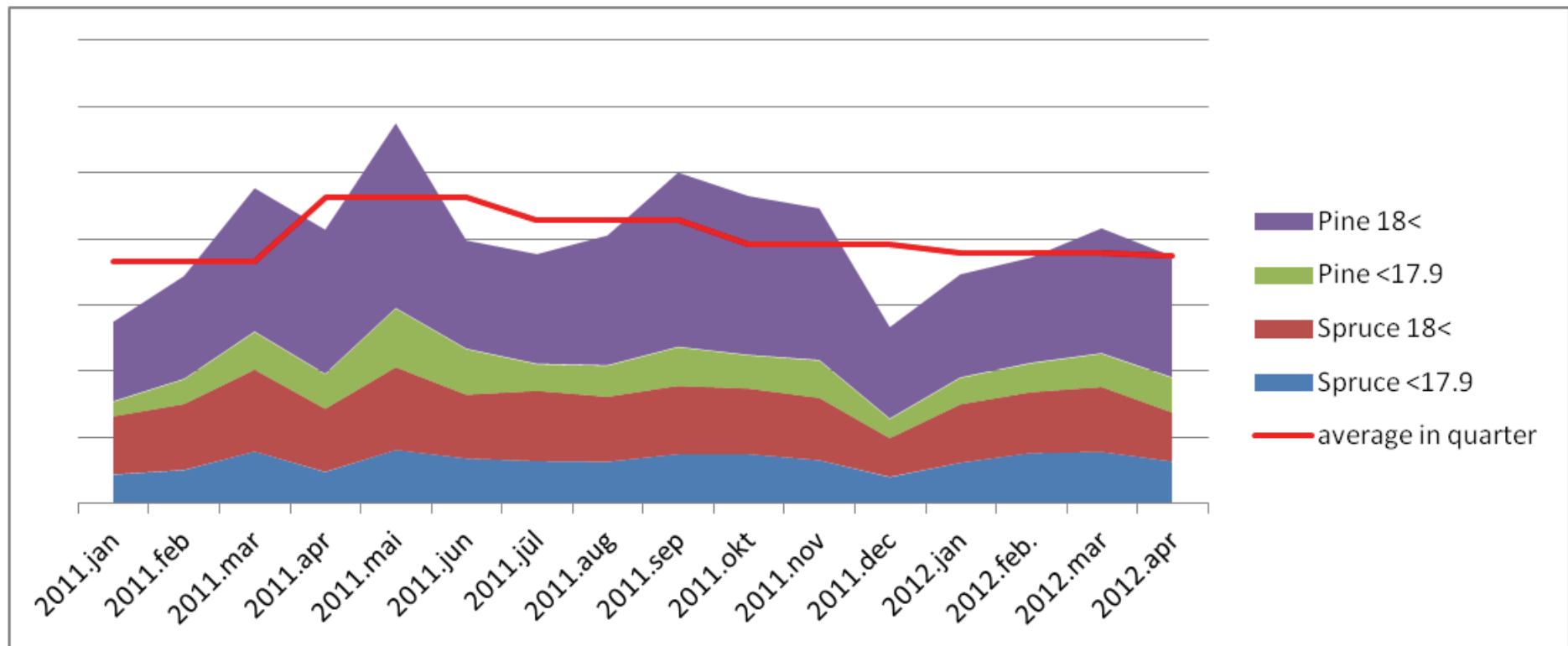
## Latvia

## Estonia



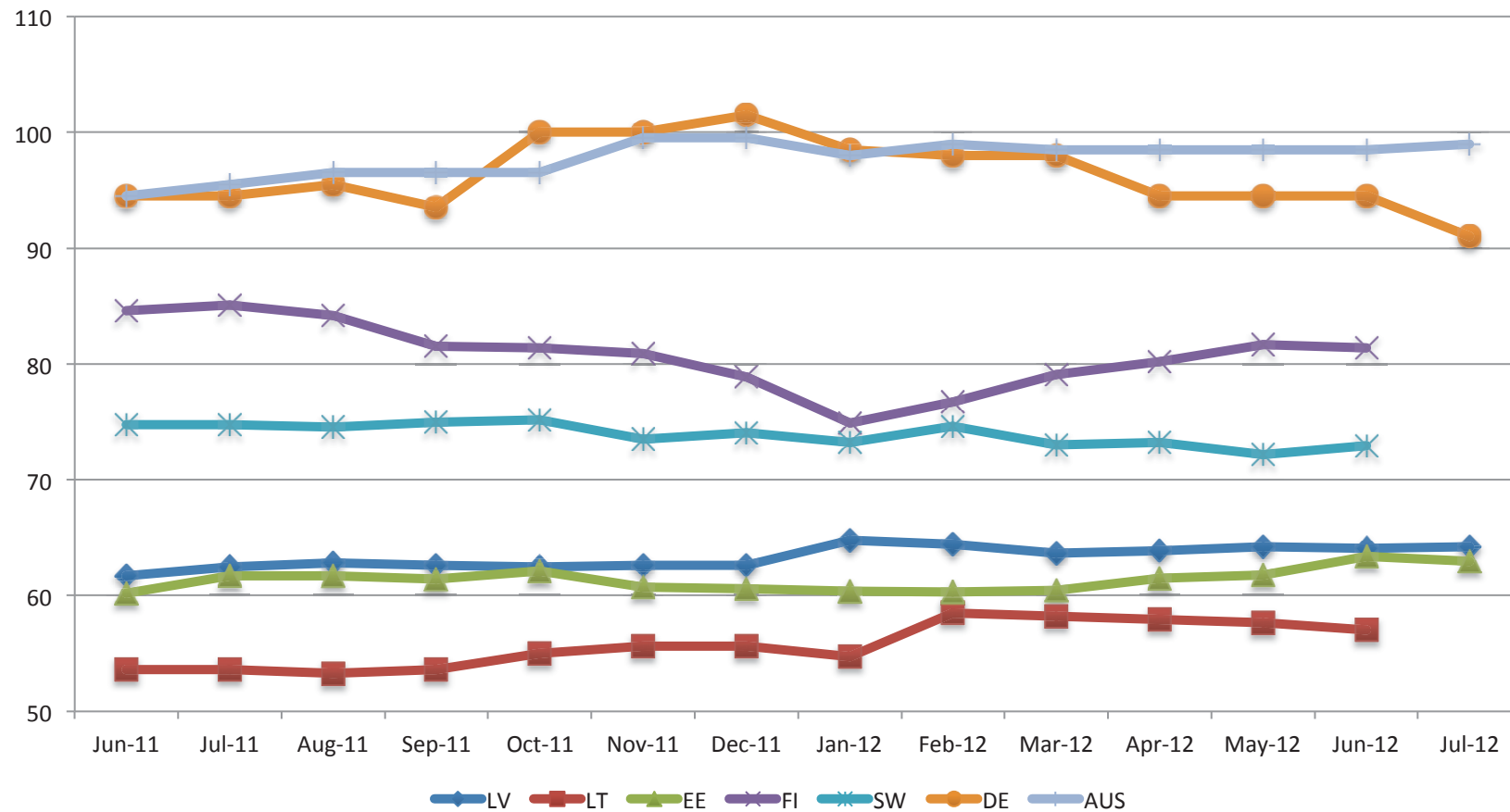


# Supply from Latvian State Forests



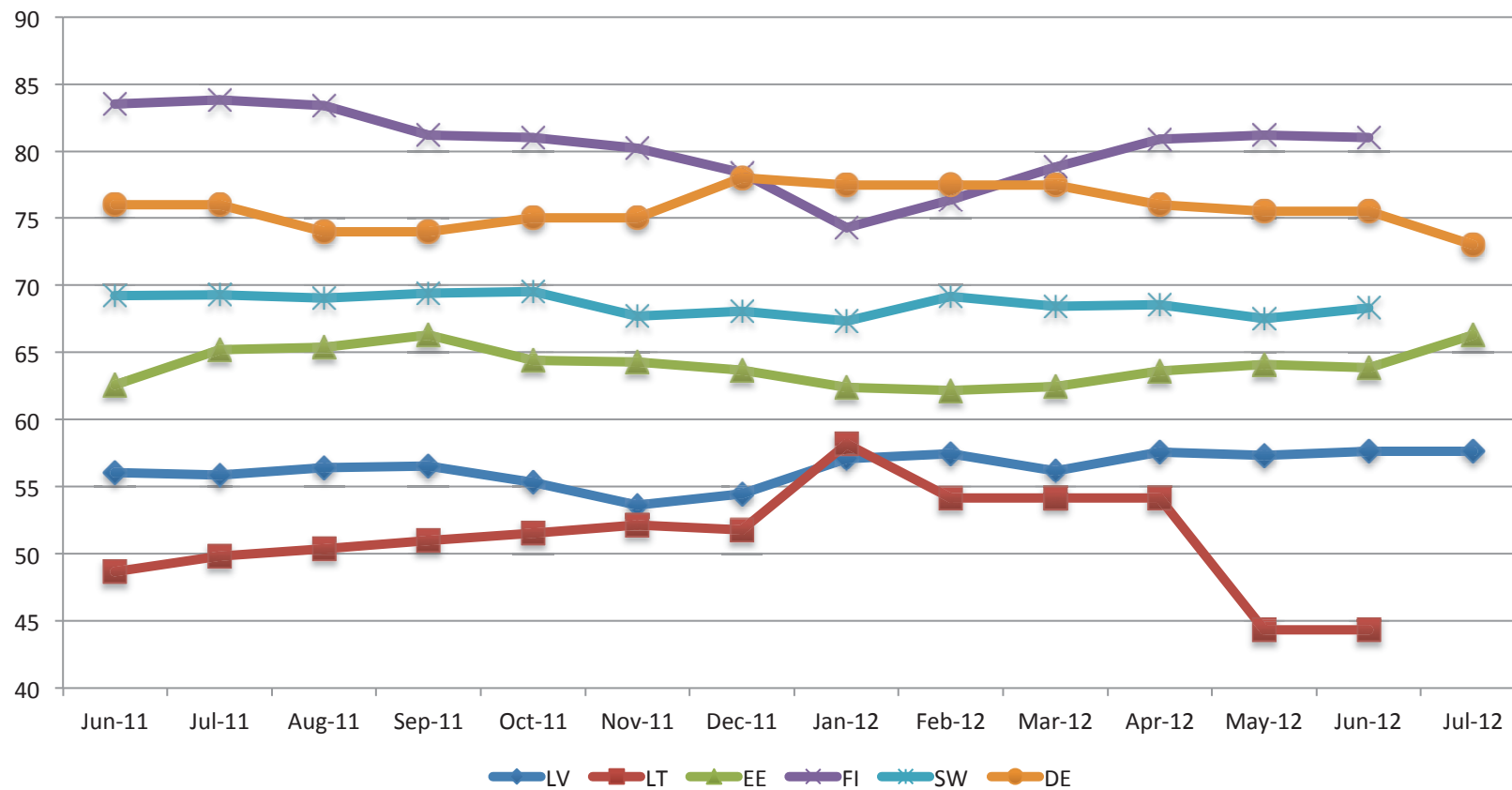
# Log Price Development

## Spruce Sawn Log Price, EUR/m3



# Log Price Development

## Pine Sawn Log Price, EUR/m3



# Raw Material Outlook

## Latvia

- During the 2012 H1 raw material situation at sawmills has been surprisingly good. The LVM harvesting reductions have not yet been seen drastically but situation during H2 is expected to get more challenging.
- Prices are expected to increase modestly during the H2. A lot depends on the pulp log market and sawmills' production adjustments.
- 6 out of 8 regions have been FSC certified and the remaining 2 regions are expected to be finalized in the coming months.

## Estonia

- Harvesting volumes and prices are expected to remain relatively stable during H2.
- The Estonian Government has initiated an amendment to the Electricity Market Act and limiting production of green energy in the Narva Power Plants. As a result Narva Power Plant has decided to suspend production of renewable energy from wood chips. As a result logging companies will have less of an incentive to supply high-grade timber if they can't sell the residual wood.
- As in Latvia, the pulp log market is affecting the overall harvesting in Estonia.

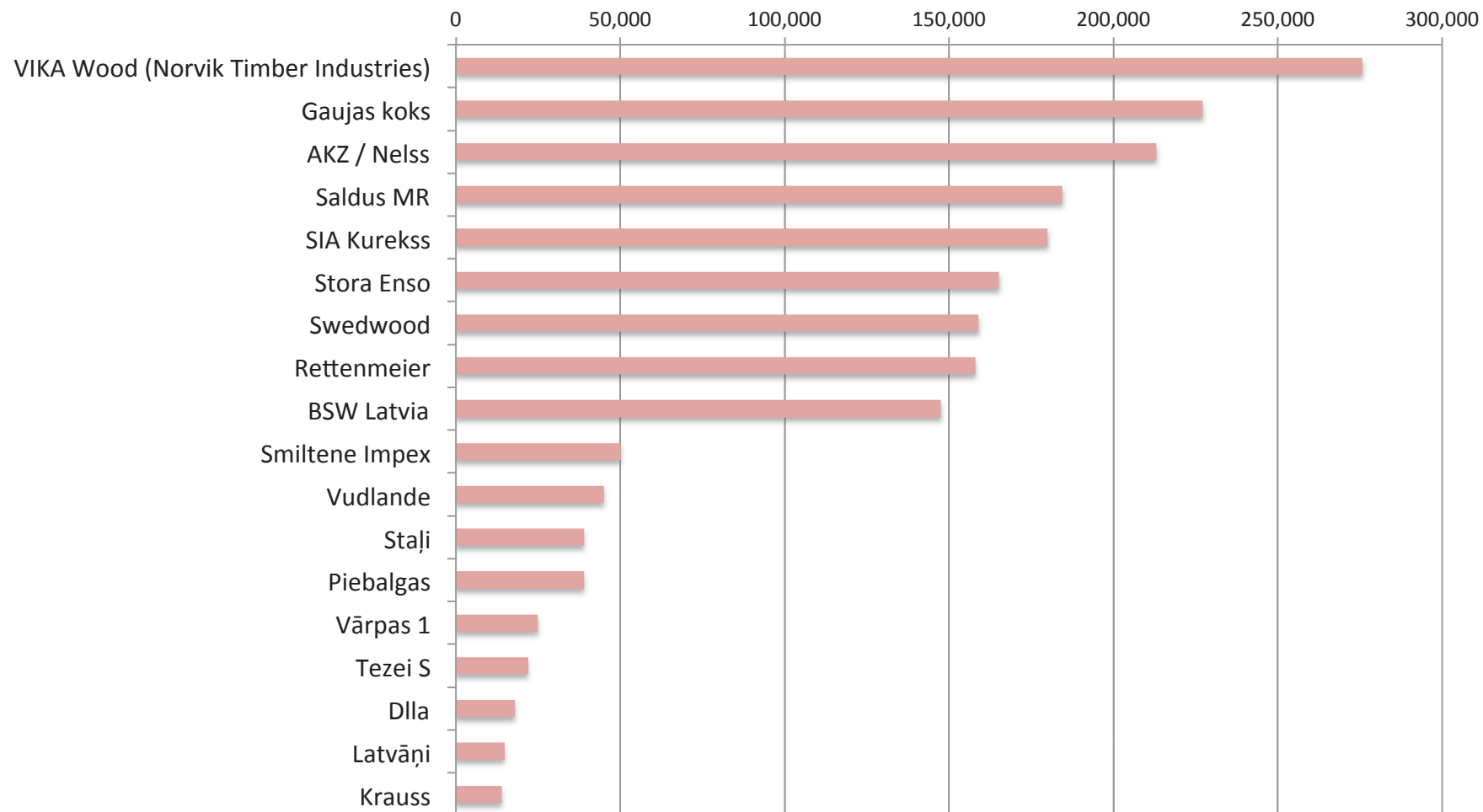
# Russian WTO Membership

- Russia has joined the WTO and as a result the export duties have reduced for logs within agreed quotas.
- Sawmilling capacity in North West Russia has increased significantly with Western companies' investments - about 3.5 million M3 - with logging volumes staying at same level or even reducing.
- Production capacity of pulp mills in Finland has reduced.
- It is not expected that export of logs from Russia to Baltic countries will reach historical maximum levels.

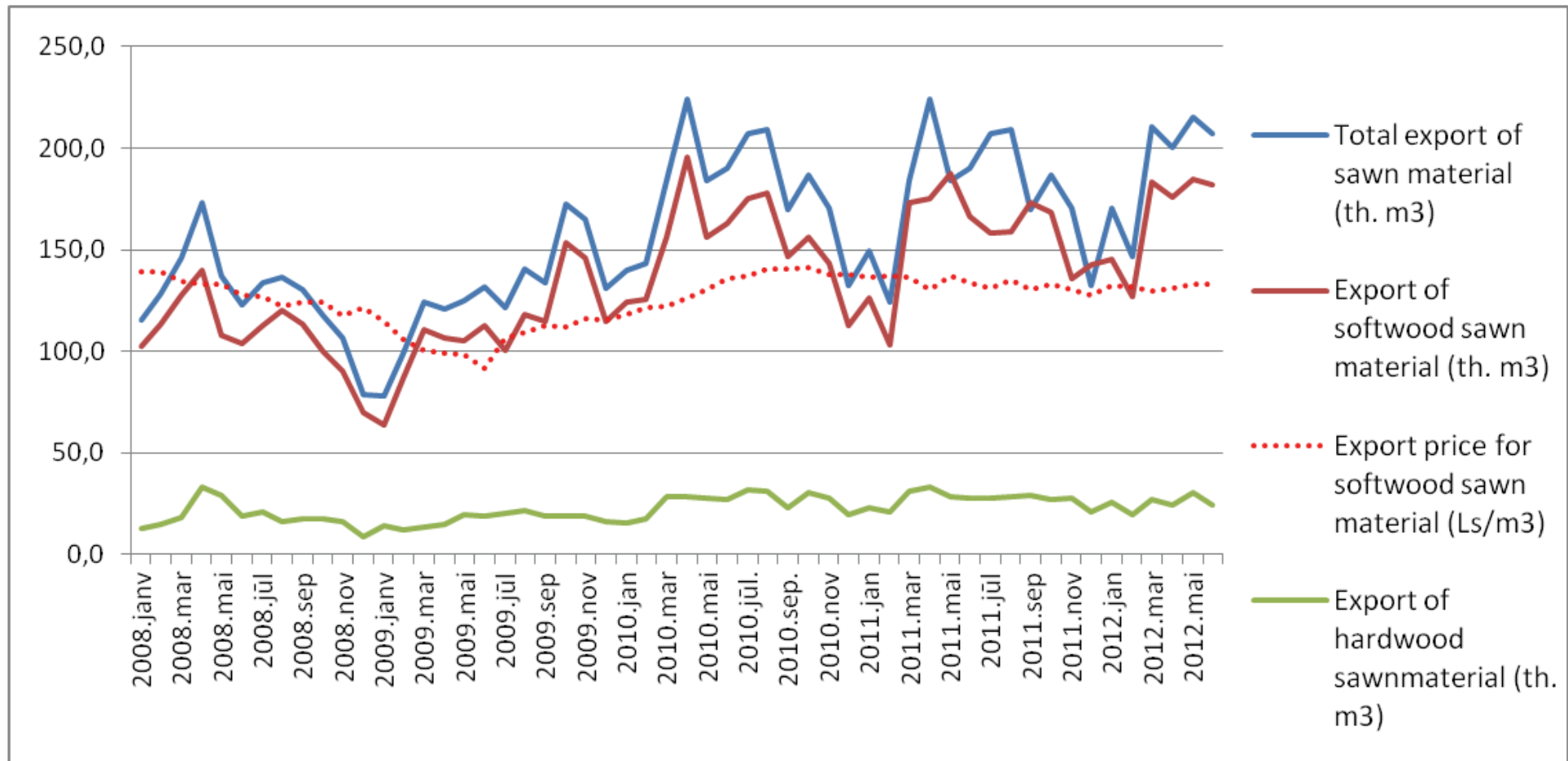
# Production & Exports

# Top Latvian Producers

## 2011 Production in M3



# Latvian Sawn Timber Exports





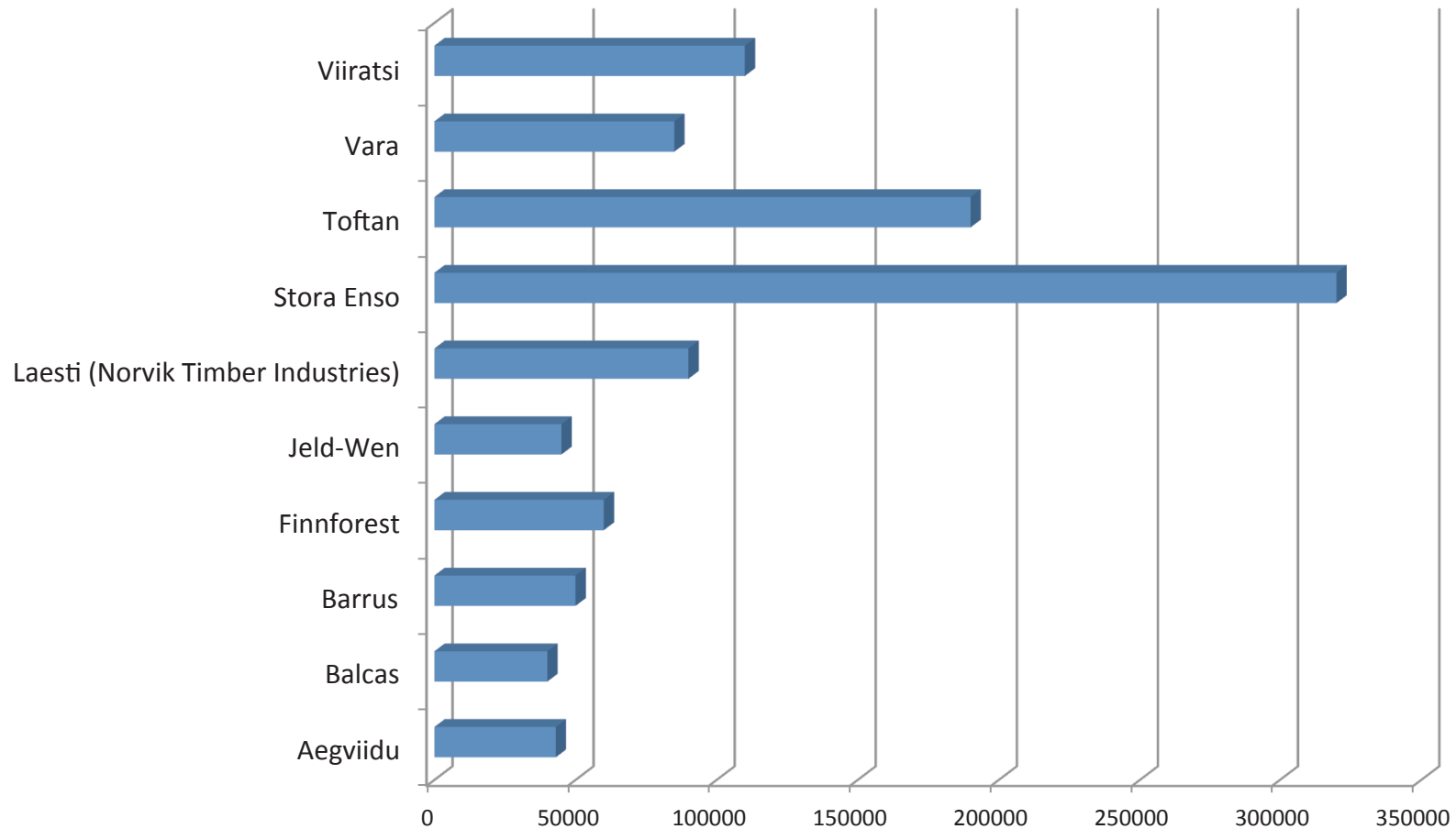
# Latvian Exports per Destination

## Coniferous sawn & planed timber exports, Jan-Jun

	2012	2012/2011 (%)
UK	270,155	0%
Egypt	137,453	63%
Holland	71,346	-2%
Estonia	65,592	3%
Japan	64,406	-2%
Germany	55,046	-27%
France	45,659	12%
Belgium	40,737	-10%
Poland	33,072	8%
Rep of Korea	28,311	23%
Lithuania	27,099	7%
Israel	16,512	77%
Norway	13,232	144%
Sweden	13,186	27%
Ireland	12,578	-1%
Tunisia	9,976	55%
Denmark	9,379	77%
Jordania	8,608	335%
Algeria	7,515	-4%
China	6,315	-8%
Iceland	6,042	-24%
United Arab Emirates	5,803	245%
Pakistan	5,355	170%
Other	28,336	-43%
TOTAL	981,713	8%

# Top Estonian Producers

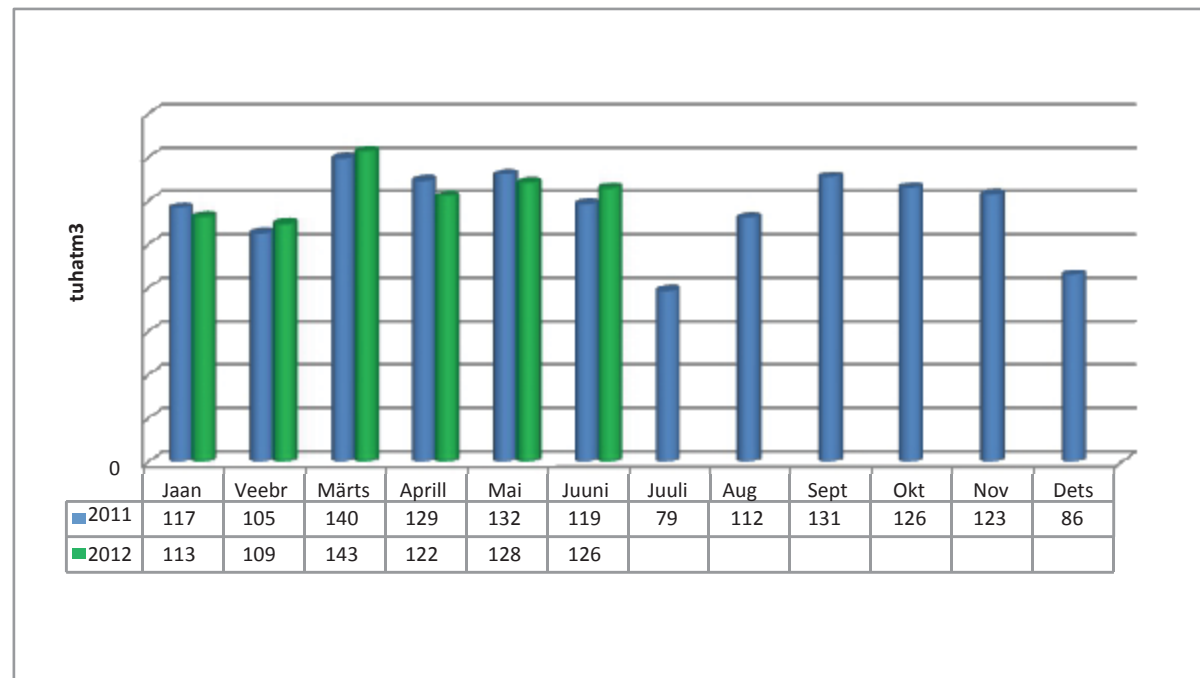
Annual Production in sawn m3



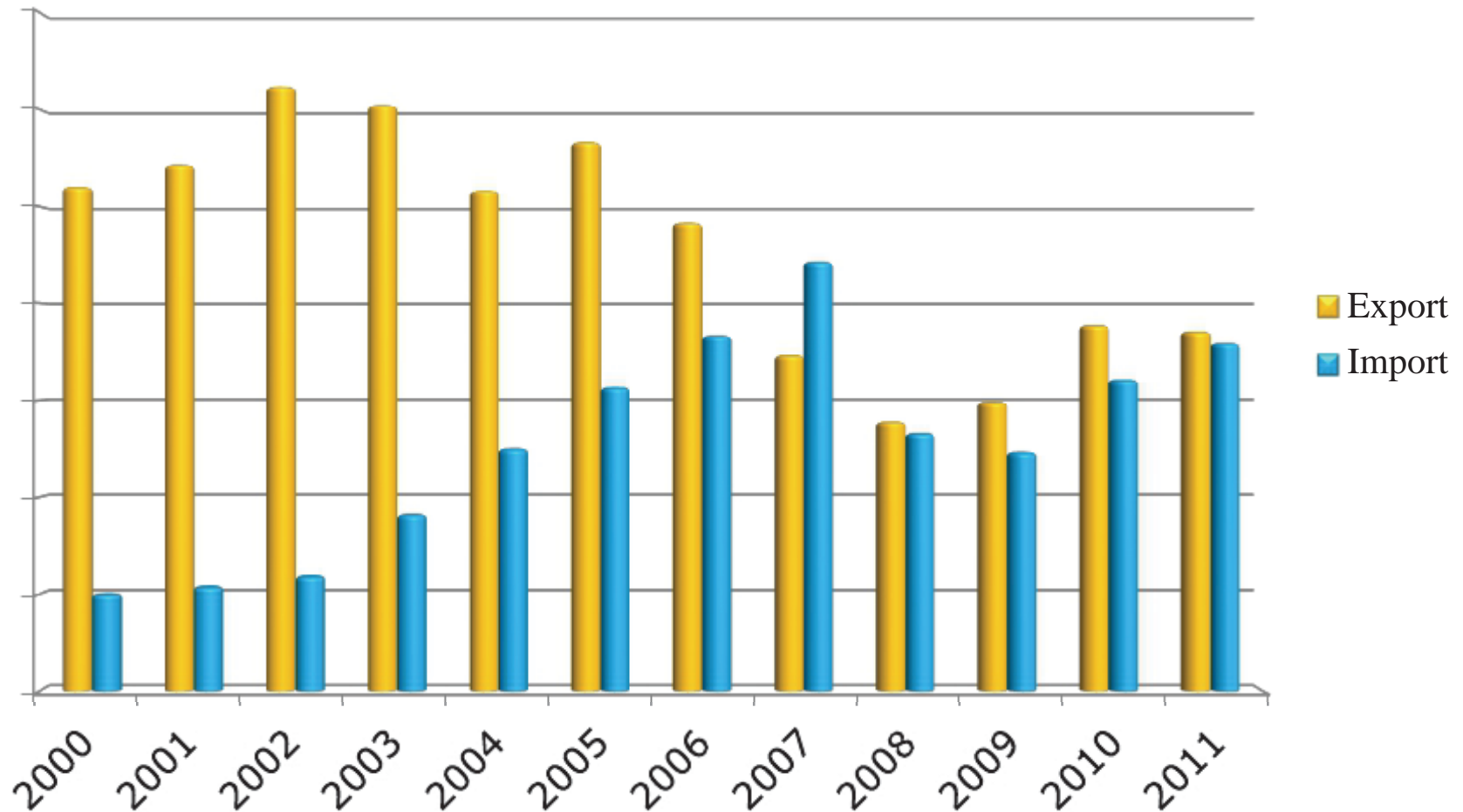
Source: Own estimations and public sources

# Estonian Production

Production of Sawn & Planned Timber 2012/2011, in '000 M3



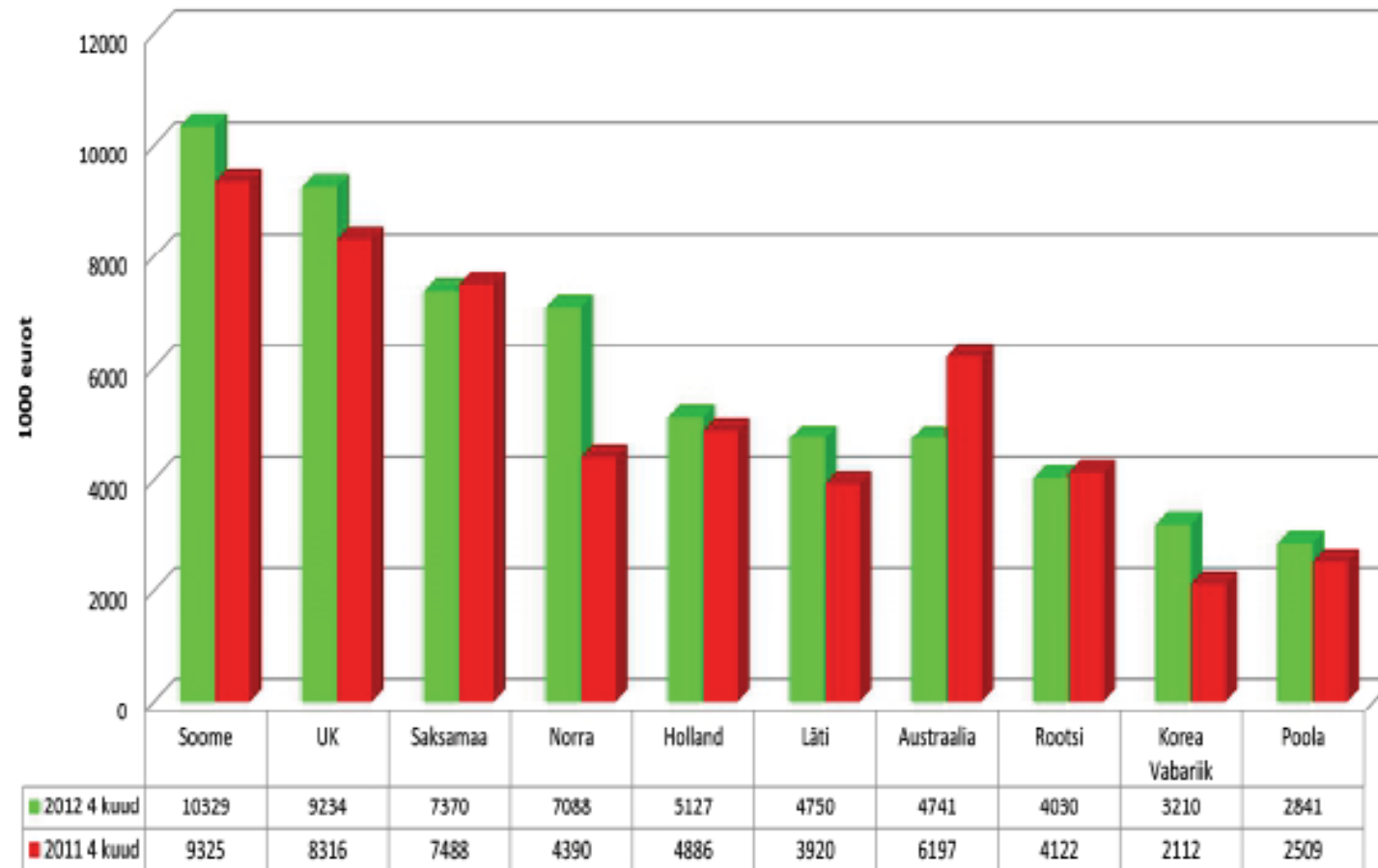
# Estonian Exports & Imports



Source: Estonian Forest Industry Association

# Estonian Exports per Destination

Export of Sawn & Planned Timber 2012/2011, Jan-Apr, TOP 10 Countries, in '000 EUROS



Source: Estonian Forest Industry Association

# Conclusion

- Worsening economic environment globally and the European recession will affect Baltic economies more in 2012 than 2011 but the economies will continue to grow.
- Raw material situation in Latvia likely to deteriorate during H2.
- Residual wood market deterioration could impact Estonian log market.
- Sawmills' production reasonably stable in Latvia & Estonia.
- Baltic sawmills in good position to maintain or even gain market share as raw material prices are amongst most competitive in Europe.

Thank you!

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