

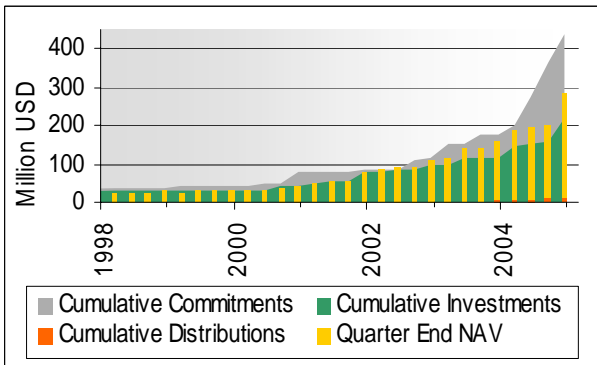
IWC Newsletter

Issue no. 16 - April 2005

Status of IWC investment activities

As of year-end 2004, the value of IWC's total assets under advice or management was USD 273 million. Of this amount, an amount of USD 196 million (72%) was managed through external timber funds. Moreover, firm commitments to specific investments or funds of USD 162 million are yet to be invested.

As shown in the figure below, IWC experienced a high level of both commitment and investment activity in 2004, indicating that investors are increasingly interested in timberland investments and IWC's related services.



As shown in the performance table below, IWC's External Timber Fund Composite per-

STATUS ON IWC INVESTMENT ACTIVITIES (PAGE 1)

- Assets under advice or management, performance, regional distribution of value

SUMMARY OF IWC NEWS SERVICE (PAGE 2)

- Main issues of IWC's electronic news service.

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formed well in 2004. The composite returns are calculated as time-weighted returns in USD net of all fees and expenses, but before taxes at investor level.

IWC External Timber Fund Composite, 31 December 2004. Returns and values in US dollars.

Period	Total Return	NCREIF*	Composite's Share of Total Assets	Total Assets
2004	12.5%	11.2%	72%	273,469,041
2003	19.1%	7.7%	68%	151,877,405
2002	9.5%	1.9%	63%	109,897,703
2001	4.6%	-5.2%	58%	79,341,963
2000	6.4%	4.4%	37%	43,859,297
1999	12.7%	13.1%	19%	31,947,749
1998	15.0%	6.6%	7%	28,430,940
ITD**	11.7%	9.8%		

*) National Council of Real Estate Investment Fiduciaries Timberland Index. Gross of fees.

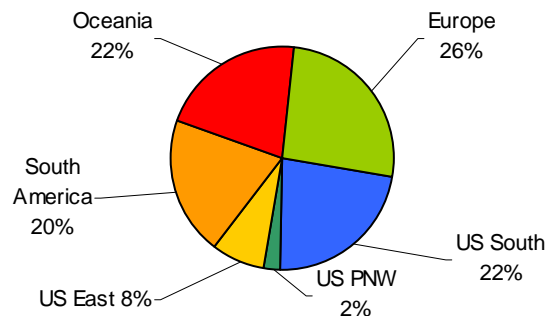
** Inception to date (Inception: March 30, 1998)

IWC's services for investors in external timber funds comprise, among other things, the following:

- advice on allocation of fund commitments
- supervision of investments through reports, etc.
- provisions of quarterly portfolio reports to investors
- on-site inspections of underlying investments

IWC continuously maintains a close dialogue with timberland managers and evaluates their current and new investment products.

The regional distribution of the value of IWC's total assets under advice or management as of year-end 2004 is shown below.



Summary of IWC News

The following is a summary of IWC e-mail news for the first quarter of 2005. The twenty five latest News e-mails can be read on IWC's website (www.iwc.dk).

North America

Annual US exports of softwood lumber fell for the fifth consecutive year, however the rate of decline has continued to fall. Conversely, the value of US softwood lumber exports rose by 4% during the same period. Exporters have been able to raise prices due to robust returns in domestic markets and the weak US dollar.

Canadian exporters continued to export less volume to the US at the beginning of 2005. The value of Canadian exports in US dollars also continued to slide.

US housing starts and construction remained high in the first quarter of 2005. According to the US Census Bureau, housing starts in February 2005 were the highest since 1983. Despite recent increases, interest rates are still not far above their lowest levels in 40 years.

Europe

The January storm that hit northern Europe has damaged an estimated 90 million m³ of timber. In southern Sweden an estimated 80 million m³ of timber fell – Denmark (2 million m³), Great Britain (1 million m³), Estonia (2 million m³), and Latvia (7.5 million m³). Estimates indicate that direct costs associated with the wind throw will exceed SEK 14 billion (USD 2.2 billion) in southern Sweden alone. About one third of the wind thrown timber is expected to remain in the forest.

Beech lumber prices continued to struggle at historically low levels throughout Europe mainly related to a strong euro, a preference for oak and a declining Chinese market. Euro-

pean import data show a sharp decline in imports of hardwood logs over the last five years. This is offset by a significant increase in secondary wood product imports.

Oceania

New Zealand continues to suffer low returns in export log markets because of the NZD/USD exchange rate, increasing Chinese imports from Russia, and high freight costs to Asia. Exporters are waiting for a drop in the NZD/USD exchange rate.

Log prices in the Asian Pacific market fell in the last quarter of 2004. Prices in Japan and Korea have been lower than those in China. Stronger prices in the Chinese market are the result of swift growth in the demand for forest products, coupled with constrained domestic log supplies.

Timberland trades and trends

Two major timberland transactions have taken place in North America.

522,000 acres (211,000 hectares) of industrial timberlands formerly held by the dissolved Crown Pacific were transferred to Cascade Timberlands LLC, a new entity created by the secured creditors of Crown Pacific. Olympic Resource Management LLC, a Washington State based TIMO, will manage the timberlands located in Oregon and Washington State.

Weyerhaeuser Company sold its B.C. Coastal Group assets to Brascan Corporation of Canada. The transaction included 635,000 acres (258,000 hectares) of private timberlands, the annual harvesting rights of 3.6 million m³ on public land, and five softwood sawmills with a combined annual production of 690 million board feet. ■

The International Woodland Company A/S

The International Woodland Company A/S (IWC) specialises in providing advisory services to institutional and private investors in relation to investments in forest and forest investment management as well as in relation to forest in a larger portfolio. Furthermore, IWC provides independent project consultancy in relation to international forest management and forest products markets.

The services are provided by high-level professionals within forestry and investment management with due consideration to both commercial, environmental and social aspects. IWC's services are based on more than 15 years of experience of international forest investments on behalf of institutional investors. The company maintains a systematic knowledge about international investment opportunities and investment conditions.

Managing director of the company is Mr. Otto Reventlow, MSc. in forestry

The Kyoto Protocol – an opportunity for innovative forest investment?

The Kyoto Protocol, negotiated under the 1992 United Nations Framework Convention on Climate Change, came into effect on 16 February 2005. The result is that signatory countries are now legally bound to begin the process of reducing emissions of six greenhouse gasses (GHGs), including carbon dioxide (CO₂).

According to the protocol, net changes in the level of GHGs may be addressed in part through afforestation and reforestation undertaken since 1990. Such activity promotes the CO₂ uptake, and may in turn be employed to offset GHG emissions elsewhere, thus creating an economic incentive for investment in forests that need not yield timber during the entire investment period.

For the forest investment community, the sale of carbon credits may represent a new source of income to fund forest establishment or may serve to increase returns on existing investments.



Of particular interest to forest investment firms are three mechanisms designed to help industrialized countries meet GHG reduction targets in a cost effective manner. *Joint implementation*, the *clean development mechanism* and *emissions trading* allow for GHG removals via forest-related projects involving other countries.

Joint implementation and the *clean development mechanism* permit an industrialized country to initiate a carbon ‘sink’ project, such as afforestation or reforestation, within another industrialized country or a non-industrialized country, and credit the resulting *emission reduction units* toward meeting its own GHG reduction target. Through *emissions trading* countries may sell excess carbon credits from forest projects to other countries.

According to the World Bank, if half of emissions reductions are realized domestically by industrialized countries, the ‘compliance gap’ to be addressed through emissions trading with non-industrialized countries through 2012 would be 2.5 billion tons.

With the current price of ‘Kyoto compliant’ credits from projects in non-industrialized countries fetching USD 3 to USD 5 per tonne, and some countries paying USD 10 per ton for credits that will help them meet obligations under the EU Emissions Trading System, credits could be worth USD 7.5 — USD 25 billion. By combining the above values with average CO₂ uptake in mature temperate forests, it is evident that the credit value associated with individual forests may be noteworthy (Figure 1).

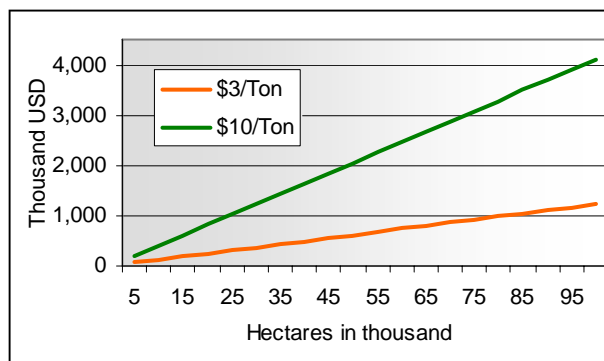


Figure 1. Total credit value based on average CO₂ uptake in differently sized Douglas-fir forest stands in Western British Columbia.

Of course, with any new potential income source it is important to be wary of price predictions, and attentive to the variables that affect returns. For example, the number of credits linked to a forest is dependent on the approach to deriving baseline storage and ‘leakage’. In addition, decisions regarding the premature release of stored carbon (via fire, etc.), and the concept of managing a forest simultaneously for timber and carbon uptake will affect the number of credits claimed.

Nevertheless, for forest investment firms with sufficient expertise and patience to experiment with carbon sequestration during what could be considered the protocol’s trial period, the benefit of knowing the ins and outs of the market may pay off as more parties become aware of the merits of combining forest investment and combating global climate change. ■

Investor tour to the southern USA

Along with two Danish institutional investors, IWC toured the US South from March 12 to March 18, 2005.

The purpose of the trip was to give the investors a better insight in timberland investments all the way from acquisition to final disposition and liquidation of a timber fund. This also includes an insight into the actual day-to-day forest management. Additionally, the tour included some leisure time to explore the region and its attractions. The agenda was as follows:

- Visit to Everglades National Park in Florida.
- Attended Global Forest Partners 2005 Client Conference
- On-site inspection of loblolly pine plantation in Tennessee
- Visit to paper mill.

Overall the trip was a success from which all parties benefited. IWC is looking forward to an upcoming investor tour to US PNW in September.

New employees at IWC

As of 1 February 2005, IWC welcomes Mikkel Brings Nielsen and Johnny Vibe Hansen.

Mikkel received his MSc in forestry from the Royal Agricultural University in Copenhagen in 2003. Prior to joining IWC, Mikkel spent a year as an international fellow at the World Forest Institute in Portland, Oregon, working with international forestry professionals. His main focus has been on risk management and valuation of timberland investments. As a part of the IWC consultancy team, Mikkel is now responsible for price statistics, time series analysis, market analysis, southeast Asia

including China and India, and IWC's news services.



Mikkel Brings Nielsen

Johnny holds an MSc in Applied Economics & Finance from the Copenhagen Business School and an MBA from Weatherhead School of Management, Cleveland, Ohio. Johnny will be working in close co-operation with Torben Degn. Apart from taking over some of Torben's responsibilities, Johnny will be responsible for developing and adjusting IWC's portfolio analysis models as well as various internal and external economic and financial analyses.



Johnny Vibe Hansen

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The International Woodland Company A/S

Amalievej 20 • DK-1875 Frederiksberg C • Tel. +45 3324 4266 • Fax +45 3324 0242
iwc@iwc.dk • www.iwc.dk

Company Registration Number: CVR 1501 3176 • Bank: Danske Bank