

Timberland investment activities in 2005

International Paper, once the largest US timberland owner, has decided to sell off most timberland holdings. Timberland worth USD 10 billion is likely to enter the US market during 2006. New Timberland Investment Management Organizations (TIMOs) are being formed and others are merging.

More and more institutional investors are investing in timberland as part of their portfolio. During recent years, forestland in the US has been sold by vertically integrated timber companies and has changed the structure of forestland ownership throughout the US. Today nearly USD 30 billion worth of American timberland is in the hands of financial investors. That is six times more than in 1994.

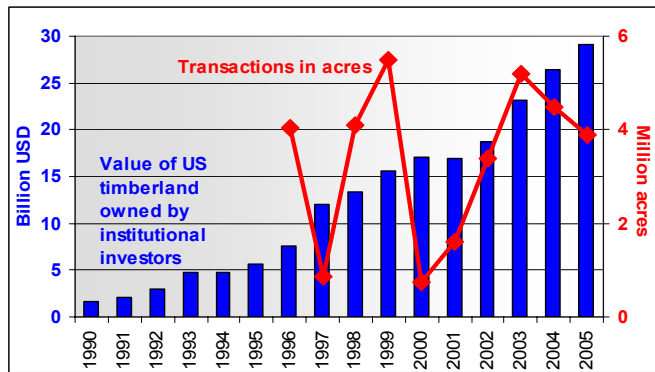


Figure 1: Value of US timberland owned by institutional investors and amount of yearly transactions in acres (Source: Hancock TRG and RISI)

TIMBERLAND INVESTMENT ACTIVITIES IN 2005 (PAGE 1)
<ul style="list-style-type: none"> Major events in the global forestland investment market
SUMMARY OF IWC NEWS SERVICE (PAGE 2)
<ul style="list-style-type: none"> Main issues from IWC's electronic news service
THEME: CONSERVATION EASEMENTS (PAGE 3)
<ul style="list-style-type: none"> The role of conservation easements in forest investment
IWC NEWS (PAGE 4)
<ul style="list-style-type: none"> IWC fact finding trip to China IWC selected as a Gazelle Company IWC Global Forest Investment Advisor

The trend continues as International Paper (IP), who just a few years ago was the biggest timberland owner in the US, announced that it would sell off nearly 6 million acres (2.5 million hectares). Other companies are following IP and have announced further divestment of large portions of their timberland holdings. It is estimated that timberland worth USD 10 billion will come to market over the next year or two.

Seller	Buyer	Hectares	Price USD	USD/ha
Boise Cascade	Forest Capital Partners	890,000	1,650 mill	1,853
Forest Capital Partners	X	152,000	190 mill	1,250
Cascade Timberlands	Several buyers	X	185 mill	X
Weyerhaeuser	Brscan	257,000	889 mill	2,568
Harvard Management	Hancock TRG	376,000	X	X
X	GMO	X	250 mill	X

Table 1: Major timberland deals in the US during 2005 (Source: Various news sources)

TIMOs also faced new challenges and new circumstances in 2005. One of the most eye-catching events in the world of forest investment in 2005 was the acquisition of PruTimber by Hancock Timber Resource Group. Along with this deal, 182,000 ha of timberland in Oceania and South America, valued at 660 million USD, changed manager hands. Also, in October 2005, The Forestland Group announced a merger with ATCO, a Real Estate Investment Trust (REIT). The deal is expected to close early in 2006, and the combined company will be managing 850,000 hectares of timberland.

With more money searching for timberland investments and more players in the market, alternative revenue streams are being sought for. Traditionally, higher-and-better use for property development has been a primary consideration for alternative income. More recently, conservation easements have become increasingly relevant (see page 3).

Apart from the mergers and acquisition activity, new TIMOs have recently appeared. Among these are Brscan Timberlands Asset Management and Timber Star.

Summary of fourth quarter IWC e-mail news

The West coast of the US has the most profitable sawmills in the world. Roundwood prices in the Baltic countries continued to rise. International Paper completed the sale of its shares in New Zealand based Carter Holt Harvey and also withdrew from its forestland holdings in the country. If you wish to subscribe to the e-mail news service, please send an e-mail to Mikkel at mbn@iwc.dk.

North America

According to a global benchmarking report, the average earnings at sawmills around the globe were 24 USD/m³. Sawmills on the West Coast of the US are the most profitable in the world with revenue postings almost three times greater than the world average.

The largest component of sawmilling costs is the cost of logs delivered to mills. Global average log costs delivered to mill was estimated at 56 USD/m³. Finland reported the highest delivered log cost at 85 USD/m³. By contrast, Russia had the lowest delivered log costs at less than 25 USD/m³. The US West Coast region reported one of the highest delivered log costs at over 75 USD/m³, although they remain the most profitable in the world.

The ongoing softwood lumber dispute between Canada and the US took a new turn when the US decided to cut import duties nearly in half. The combined rate of 10.8% was down sharply from the previous collection rate of 20.2%.

Europe

European markets continued to be affected by the January 2005 storm in southern Sweden. Latvia experienced a continuous gain in the value of roundwood exports which rose 4.3% to LVL 80 million. Export volume however, was down to 3 million m³, a drop by 8.6%. The reduced export volume was mainly caused by fewer sales opportunities in recipient countries like Sweden, which had to deal with the effects of the January storm. Exports from the Baltic countries to Sweden dropped

by 21% compared to 2004. The roundwood instead found its way into Finland, where imports were up from 80,000 m³ in 2004, to almost 300,000 m³.

Pacific Rim

Investments in environmental goods and services hold a huge promise in Asia and the Pacific as governments in the region tightened laws. Asia's share of the global market for environmental goods and services is likely to triple over the next decade to some 100 billion dollars per year. Massive investments in environmental infrastructure throughout the region will create a potential for new forest related projects. It is believed that environmental clean-up and protection including forestry, represents a strong business and job creation opportunity.

The emerging timber industry in Russia, with the world's lowest cost of timber, and China, with the lowest sawmilling costs, is expected to be a globally competitive region as China ramps up its sawmill production. This may affect the possibilities for mills producing commodity lumber in other parts of the world to compete on price, especially in China's own domestic market.

Timberland trades and trends

International Paper completed the sale of its 50.5% stake in Carter Holt Harvey (CHH) of New Zealand to Rank Group Investments. Proceeds of the sale totaled USD 1.14 billion. In addition, CHH completed the sale of 233,000 acres (94,300 ha) of New Zealand timberland to a consortium including Rayonier and Deutsche Asset Management. The sale was completed for USD 300 million. The consortium, becomes the third largest forest owner in New Zealand at 353,000 acres (142,000 ha). US based Plum Creek Timber agreed to buy 650,000 acres (263,000 ha) of forest in Michigan for USD 345 million (530 USD/acre). Plum Creek extends its lead as the largest commercial timberland owner in the US with about 8 million acres (3.24 million ha). ■

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 the role of forests in a larger portfolio. IWC provides independent project consultancy in relation to international forest management and forest products markets.

The services are provided by forestry and investment management professionals with due consideration to both commercial, environmental and social issues. IWC's services are based on more than 15 years of experience with 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 role of working easements in forest investment

Conservation easements represent a new trend in timberland investments. Easements can provide the investor with more options and perhaps a better return in the long run.

As the ownership of forestland in the US continues to shift from forest product companies to institutional investors, the number of forestland conservation easement deals negotiated between forestland owners and private conservation organizations or public entities, increases. Working conservation easements are legally binding agreements that limit certain types of development (e.g. building of homes) on the land, while allowing the owner to continue to sustainably harvest timber. Easements generally exist in perpetuity, so when the property changes owners the easement remains intact.

Conservation easements can allow the forestland investor to monetize the conservation value of the land, thus boosting return. In addition, the sale of such easements bolsters the investor's "social licence to operate", thereby reducing management risk and communicating a willingness to work with stakeholders, which can prove beneficial for future acquisitions.



According to Timberland Markets, there were 18 major forestland conservation easement transactions from 2004 through the end of 2005. In half of the transactions, representing 65% of the total area entered into easement (1,020,300 acres), forestland investors (TIMOs and REITs) were the sellers. The total value of the eight easement sales for which there is transaction price information was USD 172.7 million, or approximately USD 245 per acre (USD 603 per hectare).

Conservation easements can sometimes be considered as an alternative to Higher and Better Use (HBU). While direct comparison of the two options is difficult – often land that is attractive for conservation easement is not available for HBU de-

velopment due to zoning laws, etc. – it is important to note that the sale of land for HBU development represents a one-time cash injection. In contrast, the sale of a working conservation easement allows for cash flow input, plus continued income from sustainable timber harvest and a contribution to the property selling price at the end of the investment term.

Examples of how the sale of conservation easements can provide mutual benefit for forestland investors and the conservation community are growing increasingly common. These include The Conservation Fund's purchase of an easement for USD 30 million on 43,000 acres owned by Plum Creek and the Nature Conservancy's purchase of a 271,000 acre easement from Forestland Group for USD 78 million.



In the US, a portion of working easement purchases have been partially funded through government incentive programs, the most notable of which is the Forest Legacy Program, administered by the USDA Forest Service. The program has budgeted USD 60 million in 2006 for the acquisition of partial interests in privately owned forestlands, including funding for easement purchases.

One obstacle to increasing use of conservation easements outside of North America is the paucity of private forestland in some regions with forest investment potential. In Africa, Asia and Russia, most of the industrial forestland is owed by the state, rendering the easement issue mute. Therefore the greatest potential benefit of conservation easements, is in the established markets of North America, Western Europe, Oceania and Latin America where development pressure allows investors and conservation interests to develop mutually beneficial partnerships around forestland easements. If you would like to know more about conservation easements, please contact Kelly Droege at kmd@iwc.dk.

IWC fact finding trip to China

In early November 2005, IWC conducted a two week fact finding trip to explore the Chinese forest sector. The trip began in Donguan in the south-eastern part of China, continued through Hunan province, where IWC visited Chinese fir and poplar plantations, and ended in Beijing to meet government representatives, NGO's and others. The trip offered IWC valuable insight into the Chinese forest sector and the conditions for both timber growers and processing industries in the country. To learn more about IWC's experiences in China, please contact Peter Vind Larsen (pvl@iwc.dk) or Mikkel Brings Nielsen (mbn@iwc.dk)



Chinese fir covered mountains in Hunan Province, South-eastern China.

IWC selected as a Gazelle Company

In the autumn 2005, IWC was selected as a Gazelle Company by the leading business periodical in Denmark, Børsen, and Jyske Bank, recognizing the company as one of the most knowledge-oriented, dynamic and innovative small businesses in Denmark in 2005. Since 1991 IWC has assisted clients in investing in forests throughout the world. Today, IWC is well positioned for the future with its multinational staff of five professional foresters and two economists. We foresee tremendous potential for growth, including an increasing demand for sustainable and socially responsible investments within the arena of traditional forest production, and in the long run, within the broader market for biological fibre production.



IWC – Global Forest Investment Advisor Since 1991

In collaboration with Kreab, a communication agency specialized in the fields of corporate and financial communication, IWC recently completed an internal marketing analysis.

The work confirmed that IWC's key services relate to the development and supervision of forest investments. Furthermore, the analysis reaffirmed its current structure of two business units.

The Portfolio Management team is dedicated to servicing IWC's clients through portfolio development and analyses, investment controlling, reporting and due diligence of investment opportunities.

The Forest Investment Development and Analysis team focuses on the future of forest investments, and is thus engaged in product and investment market development projects, as well as market and trend analysis and research.

This newsletter may be copied or forwarded only with reference to IWC. The news is for information purposes only and is not intended to be considered as counselling. IWC is not responsible for any action based on the information in the newsletter. Editor of IWC Newsletter is Mikkel Brings Nielsen: mbn@iwc.dk

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