

APPROVED BY

Directive No. 1-5/113 of the Chairman of the Management Board of the State Forest Management Centre (date of digital signature)

**REGULATIONS OF STATE FOREST MANAGEMENT CENTRE FOR SALE OF
TIMBER BASED ON LONG-TERM CONTRACTS**

1. GENERAL PROVISIONS

The purpose of these regulations (hereinafter *the Regulations*) is to ensure that the sale of timber based on long-term contracts in the State Forest Management Centre (hereinafter *the SFMC*) is transparent and verifiable for bidders and that the terms and conditions thereof are equal and foreseeable. The Regulations are based on the requirements provided for the sale of timber in Regulation No. 1 Procedure for Sale of Felling Rights to Standing Crop in State Forest and of Timber issued by the Government of the Republic on 4 January 2007 and determine more detailed sales organisation principles as well as criteria for the evaluation of bids.

The Regulations do not cover the sale of forest residuals.

2. SALES ORGANISATION PRINCIPLES

2.1. Negotiation procedure and entry into long-term contracts

2.1.1. Bidders submit their requests along with a price bid at buyers yard (DAT) and the purchase terms and conditions requested in the sales notice.

2.1.2. Based on the price bids and purchase requests in terms of volume, the organiser of the sale calculates the weighted average price at buyers yard (DAT) for each assortment and, taking into account the price points received for the purchase terms and conditions, the weighted average price at forest roadside (EXW) of successful bids. The bidder's weighted average price is calculated according to the customer-based sales statistics within the last 12-month period as follows: the price of high-quality timber * share + (in the event of logs) D-quality price * share + the price of substandard timber * share, whereas the substandard timber the list of whose reasons is determined by the organiser of the sale is left out. In respect of new bidders, the average values of the SFMC sales statistics are used as a basis. The weighted average price at forest roadside (EXW) of bids is received by using the SFMC application for weighing sales decisions (*MOK*).

2.1.3. Negotiations are held between the organiser of the sale and the bidders for specifying the purchase terms and conditions bid and evaluating the bids submitted by bidders. Negotiations are recorded in the minutes and the purchase terms and conditions set out therein serve as a basis for any further evaluation of bids (the bid evaluation criteria have been listed in clause 4.1 of the Regulations).

2.1.4. During negotiations, bidders are notified of the weighted average price at buyers yard (DAT) of bids and the weighted average price at forest roadside (EXW) of successful bids, incl. the bidder's weighted average price and the sum of the bidder's price points received for the purchase terms and conditions in euros (the value of a price point has been provided for in clause 4.2 of the Regulations). The sum received for the price points in euros is added to the bid price before weighing and is included in the price at forest roadside (EXW).

2.1.5. When a new long-term contract is entered into, the conditionally ensured quantity of the first year is found out calculating the ratio (expressed as a %) of the bidder's quantity that had been declared successful on the basis of a long-term contract during the three previous years to the total quantity of all the bids that the SFMC had declared successful in respect of the corresponding assortment on the basis of long-term contracts during the same period, which is multiplied by the quantity of the corresponding assortment to be offered for sale by the SFMC on the basis of long-term contracts the following year (85%), which is, in turn, multiplied by the basic percent (70%) of the conditionally ensured quantity. The bidders who have, upon entry into a new long-term contract, a quantity that has been calculated using this method can buy this quantity or a larger quantity at the price (DAT) bid by them if they are successful at this price at least in respect of this quantity at forest roadside or, respectively, a smaller quantity in respect of which they are successful at forest roadside. The bidders who do not prove to be successful at the price that they bid or who prove to be successful in respect of a smaller quantity than the conditionally ensured nominal quantity can buy the conditionally ensured quantity if they agree to the weighted average price at forest roadside of the successful bidders who outstrip them. The bidders who had no long-term contract during the three previous years do not have any conditionally ensured quantity and their quantity will develop according to weighing the bid. The price bid submitted by the bidder also applies to the long-term contracts entered into before 1 January 2018.

2.1.6. Taking into account the principle described in clause 2.1.5, the organiser of the sale carries out logistic weighing (to the accuracy of the SFMC planning areas) to find out the timber quantity of the first year of a long-term contract, which is the quantity won in respect of the first delivery period and, in respect of the following delivery periods, 70% of the potentially won quantities, which are called conditionally ensured quantities. A calendar year is divided into three delivery periods, of which the first period lasts for 6 months and the second and third periods last for 3 months. The first delivery period is longer, taking into account the seasonal nature of felling areas. The conditionally ensured quantity of the following year of a long-term contract for sale of timber is found calculating the ratio (expressed as a %) of the bidder's quantity that had been declared successful on the basis of a long-term contract during the three previous years to the total quantity of all the bids that the SFMC had declared successful in respect of the corresponding assortment on the basis of long-term contracts during the same period, which is multiplied by the quantity of the corresponding assortment to be offered for sale by the SFMC on the basis of long-term contracts the following year (85%), which is, in turn, multiplied by the basic percent (70%) of the conditionally ensured quantity. The conditionally ensured quantities of each following year are found out in the fourth quarter of the previous year, taking into account the timber assortment forecast issued by the SFMC for the following year.

2.1.7. In respect of the quantity ($\geq 30\%$) to be sold out of the quantities of all the delivery periods of a long-term contract after the conditionally ensured quantities have been found out, a sales decision of the long-term contract is made pursuant to the auction principle.

2.1.8. Successful bidders are awarded long-term contracts that set out the conditional nominal quantity of the first year in cubic metres, which consists of the quantity won at the price of the first delivery period and, to the extent of 70%, of the conditionally ensured quantities of the second and third delivery period, the price of the first price agreement period, the sum of the bidder's price points, the delivery schedule of the first delivery period in terms of months as well as any other agreements necessary for the performance of the long-term contract.

2.1.9. All bidders are notified of the weighted average price at forest roadside (EXW) of successful bidders in respect of the quantities offered for sale in the respective period and the

conditional nominal quantity of the first year, incl. the quantity won for the first delivery period as well as its geographic location (in terms of the SFMC planning areas).

2.1.10. Long-term contracts are entered into in the fourth quarter each year. In the first year, the new bidders who participate in negotiations can bid according to the auction principle. The principle provided for in clause 2.1.5 of the Regulations applies to the bidders with whom a long-term contract had been entered into earlier.

2.2. Procedure for negotiations prior to delivery periods of long-term contract

2.2.1. The organiser of the sale calculates, before the beginning of the following delivery period and in accordance with clause 3 of these Regulations, the starting prices at forest roadside (EXW) of the assortments that correspond to the usual value of timber, draws up a timber assortment forecast (in terms of the SFMC planning areas), prepares a price bid form and submits these to bidders. Bids of lower prices than the starting prices of the timber assortments do not participate in weighing.

2.2.2. Bidders submit a price bid at buyers yard (DAT), a purchase request in terms of volume for the delivery period and proposals for amending the purchase terms and conditions by the set time limit. The price bids and purchase requests in terms of volume serve as a basis for calculating the weighted average price at buyers yard (DAT) for each assortment and the weighted average price at forest roadside (EXW) of potentially successful bids. The bidder's weighted average price is calculated according to the customer-based sales statistics within the last 12-month period as follows: the price of high-quality timber * share + (in the event of logs) D-quality price * share + the price of substandard timber * share, whereas the substandard timber the list of whose reasons is determined by the organiser of the sale is left out. Upon weighing, the sum of the bidder's price points received for the purchase terms and conditions in euros is added to the price bid by the bidder.

2.2.3. Negotiations are held between the organiser of the sale and all bidders for specifying the bidders' purchase terms and conditions (check of the sum of the price points, review of the cutting matrix, etc.). During negotiations, bidders are notified of the weighted average price at buyers yard (DAT) of bids and the weighted average price at forest roadside (EXW) of successful bids, incl. the bidder's weighted average price. The bidders who have a conditionally ensured quantity in a long-term contract can buy this quantity or a larger quantity at the price (DAT) bid by them if they are successful at this price at least in respect of this quantity at forest roadside or, respectively, a smaller quantity in respect of which they are successful at forest roadside. The bidders who do not prove to be successful at the price that they bid or who prove to be successful in respect of a smaller quantity than the conditionally ensured nominal quantity can buy the conditionally ensured quantity if they agree to the weighted average price at forest roadside (EXW) of the successful bidders who outstrip them. By the end of negotiations, the quantities to be delivered in the forthcoming delivery period will be clear in respect of all bidders.

2.2.4. The organiser of the sale carries out logistic weighing of sales decisions for finding out the timber sales quantities of the respective delivery period under the long-term contract. The logistic weighing is carried out taking into account the volumes of all the effective long-term contracts. All bidders are notified of the weighted average prices at forest roadside (EXW) of successful bidders in respect of the quantities offered for sale in the respective period and the quantities won for the delivery period as well as their geographic locations (in terms of the SFMC planning areas). Based on the quantities won and the prices, the weighted average price,

which is set out in the contract as the price for the delivery period, is calculated for each bidder in respect of the long-term contracts entered into before and as of 1 January 2018.

2.2.5. Annexes to the long-term contract are signed with successful bidders setting out at least the price for the delivery period and the timber quantity, the sum of the bidder's price points and the delivery schedule of the delivery period in terms of months.

3. USUAL VALUE OF TIMBER

3.1. Pursuant to subsection 46 (5) of the Forest Act, a negotiated price of timber may not be lower than the usual value of the timber. Pursuant to section 65 of the General Part of the Civil Code Act, the average local selling price (i.e. market price) of an object is deemed to be the value of the object unless otherwise prescribed by law or a transaction. The scope of market is defined in respect of each assortment (commodity group) as the territory where the vast quantity of the assortment is sold/consumed. As a result, market price is defined as the average selling price that develops in the respective territory. Such a territory may cover more than one country.

3.2. Pursuant to the International Valuation Standards (IVS) 104 (https://www.ivsc.org/standards/glossary#letter_m), market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

3.3. Usual value is found using the price information originating from public data sources and the market transaction comparison method. Sales transactions conducted with timber of similar quality and under similar terms and conditions are compared within the last 6 months. The sources of the price information used are as follows:

3.3.1. the SFMC price statistics of sales transactions and results of public auctions www.rmk.ee;

3.3.2. the prices of the assortments of the Baltic Sea countries published on the website of the Natural Resources Institute Finland (Luke) <https://stat.luke.fi/en/volumes-and-pricesroundwood-trade>;

3.3.3. the monthly price reviews published by the Latvian Forest and Wood Products Research and Development Institute at www.latvianwood.lv;

3.3.4. quarterly reviews of the timber market published by the Estonian Private Forest Centre Foundation at <https://www.eramets.ee/uuringud-ja-statistika/hinnainfo/>;

3.4. Based on the sources listed in clause 3.3 of these Regulations, the starting prices at forest roadside (EXW) of timber assortments are determined prior to the sales process carried out before each delivery period.

3.5. In the event of a price bid with elements of market distortion, the bidder must explain the price formation logic and reasons therefor and an explanation is provided of the risks that the bidder will incur if their bid proves to be successful, but the bidder withdraws from it and fails to perform the contract later.

4. EVALUATION CRITERIA AND PRICE POINTS

4.1. Criteria for evaluation of bidder's bid upon selling timber based on long-term contracts and price points to be given for these

Criterion to be evaluated	Price point
The receipt of timber is ensured in all months of the calendar year within at least two weeks	1
Environmental preferential aspect (the existence of an internationally recognised FSC, PEFC or ISO14001 certificate), also buying uncertified material at the same time	1
Claim for financial compensation filed within the last 12 months due to a long-term breach of the rules for the measurement or quality assessment of timber and ascertained by the SFMC	-3
An invoice for default interest submitted by the SFMC within the last 12 months	-1
The lengths purchased in respect of conifer logs: three or more (3.0-6.0 m), incl. the share of the lengths according to the SFMC log standard cutting matrix, or the lengths purchased only ≤ 4.2 m, and the lengths purchased in respect of deciduous logs: two or more (2.4-4.8 m), incl. the share of 2.4-3.3 m in the event of birch logs $\geq 50\%$, aspen and black alder logs 100%	2
The consecutive diameter groups purchased in respect of conifer logs: three or more; or two; or one	2 1 0
Restrictions on sorting and loading conditions: the lengths need not be sorted out separately and the top ends need not be turned to one direction; the lengths separately (does not apply to pole purchasers) or top ends in one direction; the lengths separately and the top ends in one direction or different lengths related to a different diameter range	2 1 0
Receipt in the place of delivery is ensured during the period of the delivery schedule on all days of the week, except for public holidays and the agreed holiday	1
Pulpwood and/or firewood is/are processed in a company owned by the bidder or their parent company that holds at least 50% of the bidder's shares	3

4.2. The value of a price point is 0.33 EUR/m³. The price points are added up and the sum received is multiplied by the value of a price point. The amount received in euros per cubic metre is added to the price bid by the bidder before carrying out weighing.

5. LIABILITY

5.1. All the employees of the SFMC whose job applications set out the obligations to carry out timber sales operations are liable for the adherence to the Regulations. The aforementioned employees must be aware of the Regulations and ensure the compliance with the requirements thereof.

5.2. The Head of the Timber Marketing Department is liable for the overall functioning, updating and application of the Regulations.