Teak investment

The natural power pack for your portfolio

LIFE FORESTRY GROUP®
Prospectus publisher / Supplier

Name and registered office of the company
Life Forestry Switzerland AG
Mühlebachstr. 3
6370 Stans NW
Switzerland
Telephone: 0041-41-632 63 00
Fax: 0041-41-632 63 01
e-mail: info@lifeforestry.com
www.lifeforestry.com

Managing Director
Carl-Lambert Liesenberg

Legal system
The prospectus publisher is subject to Swiss law.

Business purpose
Development of teak plantations in Costa Rica and Ecuador and in other countries in Central and South America and the sale of tree populations

Declaration
We affirm that to the best of our knowledge and belief we have not furnished any incorrect advantageous particulars concerning circumstances which are of material importance for any decision to participate in this offer, and have not concealed any disadvantageous facts.

The prospectus publisher / access provider, Life Forestry Switzerland AG, domiciled: Mühlebachstrasse 3, 6370 Stans NW, Switzerland, accepts responsibility for the contents of the prospectus.

Company Register Nidwalden CHE-112.908.289
Editorial

Wood is a fascinating natural product. Sturdy and flexible at one and the same time, it is extremely versatile. Teak, one of the noble woods, attracts us on one hand by its beauty and elegance and on the other by its incomparable material properties. Seen as an investment object, timber in its raw state is the ideal addition to conventional asset classes, since it has very little correlation with those. First and foremost, timber is inherently profitable, because earnings grow with the biomass of the trees – a natural compound interest effect.

For wood as a raw material the challenge of developing a business model, which brings ecology and economy into harmony, seems to me to be more important nowadays than ever before. In view of the world-wide exploitation of our raw materials on one hand and the destruction of the environment on the other, the business model of the Life Forestry Group becomes extremely attractive, because it takes into account concerns about sustainability and at the same time facilitates high returns on investment.

However, in order to make investing in teak a successful proposition, a whole range of factors must be in place. The most important of these, of course, are the teak trees. Only when they are planted at the best locations and managed by skilled employees and forestry experts do they form the basis for successful investment.

In this respect, Life Forestry can today look back on many years of experience in growing teak. With the acknowledged expert in teak Dr. Diego Perez as our Director of Forests, we successfully grow the highest quality teak and ensure that not only the quantity of timber, but also the timber quality is right for the investors. Together with market prices these are decisive parameters for return on investment.

However, Life Forestry Group teak plantations offer even more. They promote bio-diversity, contribute to the protection of the rain forest and offer secure, well paid employment. For many years now, Life Forestry has been committed to sustainable management in accordance with the Forest Stewardship Council ® (FSC®) guidelines and has already certified a number of teak plantations.

First class finance and ecological responsibility. In our offer, these important criteria for contemporary investment are blended into an ideal combination. In the following pages we give you a comprehensive, transparent account of our concept and the framework conditions for the offer, to allow you to make an informed decision.

I hope you will find reading our account informative and entertaining and would be delighted to welcome you as a proud tree owner with Life Forestry.

Yours sincerely,

Carl-Lambert Liesenberg
Managing Director Life Forestry Switzerland AG
## Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>The Life Forestry Group</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Your Specialist for Investment in Teak</td>
<td></td>
</tr>
<tr>
<td>02</td>
<td>Earnings</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Optimum Opportunities-Risks Ratio</td>
<td></td>
</tr>
<tr>
<td>03</td>
<td>The Timber Volume</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Commodities Class with Compound Interest Effect</td>
<td></td>
</tr>
<tr>
<td>04</td>
<td>The Market</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Booming Demand, Rising Prices</td>
<td></td>
</tr>
<tr>
<td>05</td>
<td>The Locations</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>Costa Rica – ideal climate for growing teak</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ecuador – best prospects at the Equator</td>
<td></td>
</tr>
<tr>
<td>06</td>
<td>The Plantations</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>The Foundation for First-class Teak Timber</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;A completely different kind of development aid&quot;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>An interview with Knut Radicke, Life Forestry’s agricultural engineer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social Commitment</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>The Offer in Detail</td>
<td></td>
</tr>
<tr>
<td>07</td>
<td>Annex</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>GTCs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Outlook</td>
<td>63</td>
</tr>
</tbody>
</table>
The Life Forestry Group

The Life Forestry Group is a forestry and service sector company formed by the contractual partners, Life Forestry Switzerland AG, Life Forestry Costa Rica S.A., Life Forestry Ecuador S.A. and the Life Forestry Foundation. Together they stand for sustainable, high-yield forestry management of noble wood plantations in the tropical forest.

Plantation Management Costa Rica S.A. and Plantation Management Ecuador S.A., which are also members of the Life Forestry Group, manage and care for the plantations on site.

The corporate foundation is bound exclusively to the customer and its financial reserves ensure the care of the trees acquired and the right of use of the plantation until harvest.

Earnings

When the climatic conditions are optimal, the quality of the seedlings is right and the soil is rich in nutrients, the earnings from investment in forests from each individual teak tree are very high. Life Forestry Group qualified staff care for and manage the plantations.

All in all, these are ideal conditions for achieving a high return on investment from timber. The constantly increasing demand for high-quality teak timber also plays a part and the resulting rise in prices has a positive effect on profit forecasts. Currently the forecast IRR lies between 4.18 per cent and 10.45 per cent per annum for a total forestry investment term of 20 years. However, older teak plantations owned by the Life Forestry Group offer shorter terms.

The Timber Volume

Thanks not just to the ideal climatic, but also to the political and economic conditions, Ecuador and Costa Rica in South and Central America offer optimum framework conditions for the teak plants. The timber volume is correspondingly high.

On the systematically managed Life Forestry Group teak plantations 1,100 teak trees per hectare are planted; a commercial timber volume of about 210 cubic metres is forecast for these in 20 years' time.

The Offer in a Nutshell
The Market

Experts are of the opinion that the demand for timber is growing in parallel with world population. The demand for high-quality teak timber is also growing. This is borne out by a study, which analysed the global demand for tropical hardwoods such as teak.

According to this study, the global demand will more or less double between 2007 and 2030*. China and India in particular have an extremely high demand for tropical woods and need over 30 million cubic metres of roundwood per year. Demand for tropical woods is rising overall and with it the price.

* HWWI study - Strategy 2030

The Locations

Cost Rica is ideally suited to forestry investment from the political, economic and climatic points of view. The political situation is stable. To a major extent this has been the work of Costa Rica’s President, Oscar Arias Sánchez, who concluded a peace treaty with the other Central American countries. In 1987 he was awarded the Nobel Peace Prize for this.

In addition, the climatic factors in Costa Rica are ideal for teak plantations, because the climate there is tropical to sub-tropical. The alternation from dry season (December to April) to rainy season (May to November) promotes rapid growth of the teak trees. The same is true in Ecuador. Under President Rafael Correa the country has accomplished in a breath-takingly short period lasting change towards greater political and economic stability.

The Plantations

A teak plantation gives very high yields if high quality is kept in mind from the very start. This begins with the preparation of the soil, because it is only on soil bases rich in nutrients that the carefully selected seedlings and later the young plants can grow and thrive to the best advantage. In these conditions it takes them only a few months to reach an average height of up to two metres.

So that flawless teak timber is sold at peak prices, our skilled employees are constantly tending the trees. Interim deforestation is carried out to give the trees sufficient space, in which to grow. Life Forestry’s specialists, forestry engineers and skilled workforce manage the plantations in close cooperation with scientific research institutes.
Opportunities and Risks

1. Market Situation
Everything indicates that the demand for teak will increase further with decreasing supply. This applies in particular to timber from certified plantations. Therefore we are assured of a constant rise in the price for teak.

2. Location Factors
With Costa Rica and Ecuador we have chosen locations which to some extent have been serving as an example for the region for decades with respect to economics and politics. The framework conditions for investment are ideal and will remain ideal in the long term. A political system based on western standards, an extensively stable legal system and the constant rise in wealth are guarantees of this.

3. Life Forestry Group Management
Life Forestry Group employees work with the greatest care and are absolutely conscientious. Nevertheless, in order to offer our customers the maximum security possible, we have provided additional safeguards. Therefore, even if insolvency proceedings were initiated, the trees remain the property of the customers. We guarantee the funding for the management of the plantations by means of the Life Forestry Foundation. Furthermore, Life Forestry Switzerland AG is audited annually by a firm of auditors.

4. Ownership Structure
With the Life Forestry Group the ownership structure is clearly regulated. Immediately after purchase, our customers receive a certificate of tree ownership containing all the details, plus the numbered sequences and coordinates of the planting plots. GPS technology allows each investor to find his teak trees with ease in the plantation.

5. Environmental Risks
By the time the trees are three to four years old, the roots and trunk are already so strong that summer storms no longer present any danger to teak trees. Moreover, the regions in which our plantations are located have an extremely calm climate. The areas are situated outside the hurricane zones. This means that the trees are to a great extent protected from wind.
Teak trees are robust plants. Because of its extremely high density and the high oil and rubber content, the wood cannot become infested with worms or fungi. Therefore, disease can be almost completely excluded.

Its specific properties make teak trees hardly flammable. After four years of growth the plants can indeed be damaged by fire, but not completely destroyed. Moreover, in the tropics the risk of fire exists only during the dry season. Fire breaks and wide maintenance paths on the plantations prevent major fires.

6. Management on the Plantation
In order to ensure optimum timber stocks in terms of quality and quantity, we have established comprehensive checking systems on our plantations and carry out regular reviews. In this way all our tree populations are managed in accordance with high ecological standards. The FSC® (Forest Stewardship Council) is an independent, charitable organisation and promotes responsible forest management all over the world. Each year the FSC® inspects and audits certified plantations of certified producers. In addition, the Life Forestry plantations are regularly inspected by other independent bodies.

7. Transparency
We believe that transparency is the basis for trust in working together. Therefore, on one hand we disclose the principles underlying our calculation of revenue. Statistical surveys on risk and earnings from various kinds of assets help the investor to have a realistic appreciation of investing in teak. Indeed, the well-known Hancock Timber Resource Group assesses timber as an asset class with lower risk and higher earnings than, for instance, international shares.

On the other hand, we keep our customers informed about the development of their investment, in other words their tree populations. Several times a year we publish a newsletter containing all the current new developments from the plantations. In addition, independent experts and customers contribute travel reports giving their impressions of our work in Costa Rica and Ecuador. Once a year our forestry engineers record the condition of the plantations and the growth of the trees in an inventory.

Your Security at a Glance

- **Life Forestry Foundation**
  We build up reserves in the foundation account of the Life Forestry Foundation. In this way we ensure that the management of our plantations is permanently ensured.

- **Forest Stewardship Council (FSC)**
  Our plantations are managed in accordance with the guidelines of the FSC, which advocates sustainable forestry, and are annually inspected by experts.

- **Annual audit**
  The transactions of Life Forestry Switzerland AG are audited once a year by an authorised firm of auditors in accordance with Swiss law.

- **Global Positioning System (GPS)**
  Since our plantations are surveyed by GPS, the location of each plot is determined exactly. This enables tree owners to find their plants in the plantation with ease.

- **Information/Publications**
  Our range of publications keeps our customers informed and thus creates transparency. Our publications include newsletters, travel reports and an annual inventory.
"We show how to succeed both in protecting the natural world and in achieving high returns on investment"

*An interview with Dr. Diego Perez, the Life Forestry Director of Forests*

He has always had a passion for the forest. So it was natural that our forestry engineer, Dr. Perez should study forestry management, first of all in San José and later in Europe. Finally he studied for a doctorate on the topic "Teak cultivation in Costa Rica" at the University of Helsinki and today throughout the world he is regarded as an expert and is much in demand.

As Director of Life Forestry Costa Rica S.A., he brings his many years of experience and his high level of professional skills to the Life Forestry Group.
Dr. Perez, you have been working for more than 20 years with teak wood. How did you come to it?

Diego Perez: These trees and this timber have fascinated me ever since my youth. At that time I watched the first commercial teak plantations being set up in Costa Rica. I was incredibly impressed by how quickly this timber grows and at the same time develops its extreme hardness. This passion stayed with me throughout my forestry studies and finally led to my doctorate. Since then I have seen very many teak forests and teak plantations and the fascination remains.

How did the cooperation with the Life Forestry Group come about?

Diego Perez: Life Forestry not only wanted to have their plantations assessed by their own director of forests and forestry engineers, they were also seeking an independent assessor. In the first instance I undertook a detailed, critical investigation of the La Aldea plantation and then later on I assessed all the other plantations. In doing so, I discovered that the work here actually is of the highest level. Since I speak German and immediately was on good terms with the people in charge and we share the same philosophy of maximum quality, it was suggested that the cooperation should be intensified and permanently set on a firm basis.

As a forestry expert you contribute all the specialist know-how. What are the decisive criteria for the economic success of a teak plantation?

Diego Perez: Of course, the external framework conditions play a key role. The right seeds, suitable soil and the optimum climate form the scaffolding. But the quality of the timber is dependent on the actual management. This begins with the planting schedule and continues with the care of the trees. In the early years it is hugely important to keep the plantations clean and to de-branch the tree trunks regularly. We constantly take soil samples and check that the soil contains the correct nutrients. But there are other factors which play a major role. Only conveniently located plantations allow for low transport costs in the end. What use is the best timber, if it has to be transported thousands of kilometres to the nearest port?

There are still people who have concerns about investing directly in teak trees.

Diego Perez: I have no difficulty in understanding that. The plantations are a long way away and it is difficult to check on your investment. But the many customer visits I have observed on Life Forestry plantations have shown how enthused the customers are. You can actually visit and touch your trees. In the case of most capital market products the investor has absolutely no idea of what is happening to his money and there is no way he has any direct influence on it.

Life Forestry operates teak plantations in Costa Rica and Ecuador. Can you see any differences between the two countries?

Diego Perez: The climatic and geographical framework conditions are optimal in both countries. Because the rainy seasons occur at different times I can work in both countries. I have assessed numerous areas in Ecuador and can affirm that there is a very high potential for teak in that country. Because of the size of the country it is also somewhat easier to find areas suitable for plantation for teak cultivation.

What prospects do you want to develop with Life Forestry in the coming years?

Diego Perez: Thanks to its quality, Life Forestry has become a market leader in direct investment in teak. If we continue cultivating teak at the highest level, we will attract many new satisfied customers. I should really like to show that investment in teak trees makes ecological sense and protects the climate. If, in addition to optimal management and FSC certification, we can set up a small saw mill, then we will be able to offer on the world market not just teak trunks (roundwood) but already processed teak timber; this would once more significantly increase the value and profitability for Life Forestry’s customers.
Ecology and economy can be brought into harmony; that is our deepest conviction and we act accordingly. In this way our sustainable forestry management in Central and South America protects the environment and at the same time achieves attractive earnings. Our investment in teak makes it possible for our customers to support the forests in a financially profitable way.

We behave towards our customers with the same sense of responsibility as that which we bring to our treatment of the natural world. For this reason we have organised the Life Forestry Group in such a way that it offers the investors the maximum security possible and at the same time works with extreme efficiency. In addition, many years of experience and a high degree of professional skills facilitate high returns on investment.
As a forestry and service sector company we, the Life Forestry Group, develop, manage and market noble wood plantations in the tropics. We offer our customers the opportunity to become owners of teak trees in Costa Rica and/or Ecuador. We tend the stock of trees and sell the timber to earn attractive income for our customers.

Our plantations contribute to maintaining the diversity, vitality and productivity of the eco-system for future generations. This is because when timber is used solely from cultivated areas, the natural forests are permanently protected from felling.

Many years of experience

Many years of experience and a high degree of professional skills inform our commitment in Central and South America. As a Director in the Life Forestry Group, Dr. Diego Perez is responsible for all forestry processes. For more than 15 years he has been supporting institutional investors in selecting, developing and managing plantations for teak timber. Dr. Diego Perez has developed several locations with ideal conditions in the province of Alajuela in Costa Rica for the Life Forestry Group. Since they were planted in 2003, teak trees have been thriving on the 200 hectare La Aldea plantation. With confirmed growth success a further area of more than 3,400 hectares followed in the San Carlos and Guanacaste regions in Costa Rica.

The corporate structure of the Life Forestry Group gives comprehensive security for the customers' property.
Experts are always on site

The Life Forestry Group comprises three independent companies. Life Forestry Switzerland AG, with its registered office in the canton of Nidwalden, is the direct contact partner for our customers. The company's business is led by Carl-Lambert Liesenberg, who draws on his international experience and his global network to fulfil this role.

Life Forestry Costa Rica S.A. has its registered office in San José, the capital of Costa Rica. From this base it represents the interests of the Life Forestry Group in Central America and maintains relationships with local economic and scientific activity. In addition, the Costa Rican company is the proprietor of the land. This is a decided advantage, because land acquisition is significantly more difficult, time-consuming and cost-intensive for foreign purchasers. The former Costa Rican Foreign Minister, Carlos Rivera is the President and Patron of Life Forestry Costa Rica S.A. As Director, forestry expert Dr. Diego Perez manages business operations together with the Managing Director, Detlef Helling.

Life Forestry Ecuador S.A. was founded in 2008 and we were fortunate to attract the well-known Ecuador connoisseur and agricultural engineer, Knut Radicke to manage it. In this way the Santa Maria plantation in Puebloviejo, province of Los Ríos in the canton of Baba emerged in the same year on 205 hectares of land. Further plantations followed in the provinces of Los Ríos and Guayas, with currently more than 1,500 hectares.

Innovative organisation guarantees the highest degree of security

The sub-division of the Life Forestry Group guarantees our customers the maximum security possible. This is because even if Life Forestry Switzerland AG were to become insolvent, the teak trees will continue to be managed in the long term by Plantation Management Costa Rica S.A. or Plantation Management Ecuador S.A.

Even in the case of - purely hypothetical - bankruptcy of these two companies, our customers' property is completely secure. Since the land and the teak plants growing on it are sold independently of each other, the tree populations always remain the property of the investors. Moreover, Life Forestry Costa Rica S.A. and Life Forestry Ecuador S.A. are solely landowners and conduct no business transactions. Management errors are therefore excluded.

The Life Forestry Group is completed by the Life Forestry Foundation. The Life Forestry Foundation administers the management reserve funds in trust and thus offers an additional safeguard. Immediately after a business transaction is concluded, Life Forestry Switzerland AG creates a reserve, which is irrevocably assigned to the Life Forestry Foundation. From this the foundation finances the management of the stock of trees. As well as the Board of Trustees, it has set up as a further body statutory auditors pursuant to Article 552 Section 27 Para. 4 of the Persons and Companies Act (PGR). The annual task of this body is to verify whether the foundation assets are being administered and used in accordance with their purpose.

Life Forestry – good reasons for investing in teak

- Specialist in teak investments
- High yields and ecological commitment
- Many years of experience and high degree of professional skill
- The Life Forestry Foundation – the highest degree of security for our customers
Earnings

Optimum Opportunities-Risks Ratio

Forestry investments are classed as assets with an optimum opportunities-risks ratio. For more than fifty years investors have been achieving returns on investment averaging about twelve per cent per annum. In investing in this way they run a significantly lower risk than if they invested in the American index, Standard&Poor's.

Teak, the king wood, is particularly suitable for investment. It grows incredibly quickly, is in demand and its price is steadily increasing. For this reason, by investing in teak with the Life Forestry Group our customers add a real power pack to their portfolio. Over the total term in the best case they can even achieve an average annual return on investment in double figures, while at the same time enjoying an extremely high degree of security.
The more precisely the framework conditions are known, the more reliably can the earning potential of an investment be forecast. In the revenue calculation in our offer we have therefore considered all the factors, including the quality of the seedlings, the soil properties and the climatic conditions. Practical experience in the management of noble wood plantations, such as statistical data on the growth of teak trees and on the underlying market development, has also informed the forecast.

Three factors are crucial for the calculation of possible returns. These are the timber quantity, the timber quality and the future development of the price of timber.

Historical reference values, documented in studies, can be drawn on to estimate the expected quantity of timber. The respective growth development of the plantations also allows inferences to be made on the quantity of timber. Long-term analyses prove that, depending on the site and the quality of the cultivated area, 250 to 450 cubic metres of teak timber per hectare is harvested in Costa Rica in a 20-year growth cycle. Since each teak tree is individual and unique, the assessment is always made after an individual expert assessment. This always makes it difficult to make flat-rate statements as to the current price. This is all the more the case since there is as yet no international standard for the classification of plantation teak and also, the surcharges for FSC certification are not assessed on a unified basis. On the world market, between 70 and 250 USD are paid as cubic metre prices for 10-year-old teak timber. For 15-year-old plantation teak the prices reach 600 USD/m³ and for best quality 20-year-old timber even up to 1000 USD/m³ and more.

However, these prices depend on whether they are for standing teak trees, whether these are delivered ex plantation storage site, in the container to the port of loading (FOB) or delivered to the customer (CIF). It must also be kept in mind that the age data alone tell us nothing about the timber volumes or the trunk diameter.

Furthermore, the price dynamic must be particularly carefully calculated. Therefore, we have calculated the earnings on the basis of different rates of price increase, namely 0, 3 and 6 per cent p.a. A rate of price increase of 0% means that the estimated teak prices do not change during the entire growth periods. An average annual price increase of 3% presumes adjustment in line with the inflation rate. The good case presumption of an average annual price increase of 6% takes...
Anyone who decides on long-term investment, in order, for example, to contribute to his own pension scheme, usually seeks the combination of the highest possible return on investment and the highest possible degree of security. A comparison of the three tangible assets, shares (DAX), gold, and timber (NCREIF) provides impressive evidence of the outstanding position of timber investments.

A comparison of the absolute development of return on investment over a period of 30 years from 1987 to 2016 produces for:

- **TIMBER (NCREIF Timberland Index)**: Performance: **12.55% p.a.**
- **Shares (German Share Index DAX)**: Performance: **7.05% p.a.**
- **Gold**: Performance: **3.51% p.a.**

As well as the comparison with the absolute return on investment it is also evident that, in contrast to timber, shares are subject to strong fluctuations. For instance, in 2010, DAX was still sitting below its 2000 value. Up to the start of the financial crisis, gold was experiencing more than 15 years of decline. Conversely, even in periods of crisis, timber has proved itself to be robust and has performed four to five times better in comparison with gold and shares.

In order to make performance de facto comparable, the actual rates have been converted in such a way that they corresponded to the value “100” at the start of the observation period.

Source: NCREIF, boerse.de, own illustration
into account the price development in the past and on the other hand the situation of increasing demand with a simultaneously decreasing supply.\(^1\)

Based on the assumptions made there is a variety of different possible scenarios, leading to different prospects for return on investment.

The forecast calculation opposite, which covers a moderate to high assumption both for the timber quantity and also for the current timber prices, sets out an example for you. This is justified by the circumstance that Life Forestry invests a correspondingly high outlay in the planting and management of the teak plantations. This example forecast is ultimately calculated with three different price development scenarios.

- **Bad-Case:** Even if the assumption for the entire investment term is based on the current price level for teak, a return on investment (IRR)\(^2\) of 4.18 per cent can be forecast.
- **Mid-Case:** A return on investment (IRR) of 7.31 per cent p.a. is possible, if noble wood increases in price by 3 per cent per annum.
- **Good-Case:** With an annual price increase of 6 per cent a return on investment (IRR) of 10.43 percent p.a. and more can be reached.

The earnings come from the sale of the teak timber. This occurs at the commercial interim deforestation, which is planned in the 10th and 15th years after planting and at the main harvest in the 20th year. 85 per cent of the respective net return on sales is paid directly to the investors. We use the remaining 15 per cent of the earnings for management, deforestation and sale of the teak trees.

The example forecast calculation is made on the basis of new planting of 1,100 teak seedlings on one hectare. A price of 36,300 Euros per hectare is estimated for these new plantings. During the 20-year growth period we assume an estimated total commercial volume of about 210 cubic metres of timber. With an annual price increase of 6 per cent some 254,000 Euros net would be paid out. The calculation shows the development of the timber volume over the entire period. The monetary returns for all three scenarios emerge from the earnings forecast.

Should unforeseen circumstances arise, which make it seem sensible to extend the growth period, this would be possible, since the Life Forestry Group is the owner of the entire plantation area and has not simply leased it for a determined period. In this way, the timber can always be sold at the optimum time — an additional safeguard for the best possible return on investment.

\(^1\) OLAT, Raymond M. Keogh, *A bright Future for Teak in Latin America*  
\(^2\) Internal Rate of Return

---

### Bases of calculating return on investment (all amounts rounded)

<table>
<thead>
<tr>
<th>Age of the trees (in years)</th>
<th>Trunk diameter at breast height (in cm)</th>
<th>Commercially exploitable timber volumes per ha (in m³)</th>
<th>Timber price per m³ (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>6 - 11 cm</td>
<td>0 m³</td>
<td>0 USD</td>
</tr>
<tr>
<td>7</td>
<td>12 - 20 cm</td>
<td>0 m³</td>
<td>0 USD</td>
</tr>
<tr>
<td>10</td>
<td>16 - 28 cm</td>
<td>8 - 26 m³</td>
<td>70 - 250 USD</td>
</tr>
<tr>
<td>15</td>
<td>22 - 40 cm</td>
<td>24 - 36 m³</td>
<td>200 - 600 USD</td>
</tr>
<tr>
<td>20</td>
<td>29 - 52 cm</td>
<td>142 - 312 m³</td>
<td>350 - 1000 USD</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\* Diameter at Breast Height

Source: own illustration
Since investing in teak is investing in a natural product, the exact quantity of timber cannot be defined. As a matter of principle, in regions with a longer dry season somewhat less teak timber grows, but it is of a higher quality. The higher prices thus achievable can compensate for the difference in quantity.

In the example calculations, the figures and the estimated earnings from 1,100 teak trees in a new plantation are based on a sales price of EUR 36,300. The prices in the table correspond to the average teak timber prices which were achieved in 2016 for teak timber of comparable specification (age, diameter, quality) on the international timber market.

0% - figures and earnings without an annual increase in the price for teak timber over a period of 20 years.
3% - figures and earnings with an annual increase in the price for teak timber of 3% over a period of 20 years.
6% - figures and earnings with an annual increase in the price for teak timber of 6% over a period of 20 years.

The anticipated timber volumes are based on scientific studies and measurements. The calculation of earnings therefore rests on a solid base.

In all the calculations and scenarios presented we are talking about forecasts. These give no guarantee of or pledge for the amount of future earnings from the sale of timber. The deforestation deadlines are guide values.

Since investing in teak is investing in a natural product, the exact quantity of timber cannot be defined. As a matter of principle, in regions with a longer dry season somewhat less teak timber grows, but it is of a higher quality. The higher prices thus achievable can compensate for the difference in quantity.

In the example calculations, the figures and the estimated earnings from 1,100 teak trees in a new plantation are based on a sales price of EUR 36,300. The prices in the table correspond to the average teak timber prices which were achieved in 2016 for teak timber of comparable specification (age, diameter, quality) on the international timber market.

0% - figures and earnings without an annual increase in the price for teak timber over a period of 20 years.
3% - figures and earnings with an annual increase in the price for teak timber of 3% over a period of 20 years.
6% - figures and earnings with an annual increase in the price for teak timber of 6% over a period of 20 years.
Forestry investments – an asset class with perfect opportunities-risks ratio

The forecast earnings are based on experience from previous forestry investment. Therefore, according to data from the well-known Hancock Timber Resource Group, the earnings from timber have remained at an average 9 to 15 per cent from the 1960s to the present day. Since its introduction in 1987 the NCREIF Timberland Property Index indicates an average annual return on investment of more than 12 per cent for listed investments in the timber market.

The return on investment achieved on average is thus significantly higher than the interest yield sought from other investment options.

- For instance, the annual return on investment from savings accounts lies between zero and one per cent.
- Earnings of between zero and one per cent are estimated from call money.
- Building loan contracts may bring the investor an annual return of between one and three per cent.
- A pension fund may have an annual interest rate of up to six percent.
- You can expect up to five per cent return on investment per year from open property funds.
- For closed property funds the annual rate of interest is up to six per cent.

However, all funds also bear the risk of negative performance up to total loss. Since the first financial crisis many funds have slid to some extent into the red.

However, some investments promise investors very high earnings. Returns on investment of 20 per cent per annum can, for instance, be achieved with hedge funds or private equity funds. Corresponding to the opportunities for a high return on investment these investment options, however, also conceal substantially higher risks than forestry investment.

Attractive earnings prospects and comprehensive security are ideally combined in investment in timber. The Hancock Timber Resource Group uses statistical values to compare the earnings situations and risk of various forms of assets.

### Risk and earnings from various forms of assets (in the last 40 years)

<table>
<thead>
<tr>
<th>Yield in per cent p.a.</th>
<th>Timber</th>
<th>Real property</th>
<th>Standard&amp;Poor's</th>
<th>International shares</th>
<th>Long-term loans</th>
<th>Short-term government bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>16%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Risk (SD) in per cent

Forestry investment is distinguished by its ideal opportunities-risk ratio

1 Hancock Timber Resource Group
2 Zertifikate Journal
3 Investmentsparen.net
4 Investmentsparen.net
According to the results of analysis the annual returns on investment in forestry investment not only lie significantly above 12 per cent, the identified risk is also lower than for the US American index Standard&P Poor's and for international shares. The average earnings for the last-named forms of investment also turn out some ten percent per annum lower than for timber. Investments in short-term government bonds, real property and long-term loans are less risky. However, in these cases the average return on investment also lies only between one and just under four per cent.5

Teak timber – king class among commodities

Attractive returns on investment and comprehensive security – these two convincing arguments for investing in timber apply in particular to the offer from Life Forestry Switzerland AG. This is because teak timber offers the ideal combination of the two success factors for high returns on investment: the trees’ rapidly increasing biomass and rising market prices.

Life Forestry – good reasons for investing in teak

» Annual return on investment up to 12 per cent and more (IRR)

» Planned earnings 10, 15 and 20 years after planting

» Optimum opportunities-risks ratio

» Teak, the king wood – rapid growth and rising market prices

» Outstanding returns on investment with growth potential

5 Hancock Timber Resource Group
The Timber Volume

*Commodities class with compound interest effect*

If you invest in timber, you accept a gift from Nature, because in contrast to most other commodities, trees grow day after day and thus increase the timber volume. For this they need only good soil, sufficient sunshine and rain and careful tending.

While your trees are growing, your earnings are increasing, which is why we like to call this the ‘compound interest effect from Nature’. Teak is particularly suitable for investment, since the robust plants grow extremely quickly. All you need to contribute is patience. Nature takes care of everything else.
Earnings from forestry investment depend to a great extent on the daily increase in the biomass of the trees as they grow. As well as the quantity of the commodity, the quality makes a decisive contribution to good return on investments. On the international market very different prices are paid for the same species of roundwood.

**Teak timber – king of the noble woods**

Teak timber is particularly suitable for forestry investment. It grows quickly, is robust and of high quality. The timber yield can be planned without difficulty. To ensure that after a few years the young plants become mighty trees, various factors are important: healthy seedlings, nutrient-rich soil, plenty of rain and sun, time and tender care from human beings. Most of these are delivered free of charge by Nature. It remains up to the human beings to create optimum framework conditions, for instance by careful selection of the seedlings and professional management of the plantation. If these conditions are satisfied, the plants grow day after day and in this way multiply quite naturally into future earnings. This is why we call this the **natural compound interest effect**.

The increase in volume can be very accurately predicted for a natural product. The diameter of a good teak trunk can grow to 40 centimetres within 20 years. In the same time the area of the cross-section multiplies to 1,256.64 square centimetres. Of all the noble woods, teak shows the most luxuriant growth. Its timber volume in cubic metres per hectare is significantly higher than that of oak and mahogany. Even robinia do not reach a similarly high level of growth after 20 years.

**Increase in volume of different trees**

![Graph showing increase in volume of different trees](source: own illustration)

After 20 years, 1,100 teak tress planted on one hectare produce a total timber volume of up to 400 cubic metres.

Because of this natural growth the timber volume steadily increases and with it your earnings. That is why we call this the compound interest effect from Nature.
Natural growth, natural return on investment – with compound interest effect

We have calculated the commercially viable volumes of timber in our offer extremely conservatively. In doing so, we have taken into account statistical values and the opinion of forestry experts, as well as our many years of practical experience. In addition, we have included in our calculations all the effects which could conceivably reduce the stock of trees. It is easier to visualise the increase in timber volume from an example. At the time of the main harvest there are about 230 trees remaining of the 1,100 teak trees planted per hectare. The other trees have already to some extent been commercially exploited and cleared out over the course of the years. This is necessary to guarantee high-quality timber. Only in this way can the trees remaining on the plantation receive sufficient nutrients and develop a straight trunk. The teak plants have a flawless surface, since branches and leaves are regularly pruned by our foresters. This successful management enables our exploitable timber to obtain high prices on the international markets. The commercial timber volume per hectare is forecast at about 210 cubic metres after 20 years.

Teak trees: in safe hands with us

Tree populations are exposed to natural phenomena and other risks – just like any natural product. On one hand, these have been taken into account in our calculation of the anticipated timber volume. On the other we have taken extensive precautionary measures to protect the plants on the Life Forestry plantations.

If they are not properly tended, plantations can quickly revert to the wild and become unprofitable. We exclude this risk for our tree populations, because we employ only well-trained staff. They are guided by our forestry expert, Dr. Diego Perez, who, in his capacity as the Life Forestry Group teak expert, manages all the forestry procedures. In addition, together with our forestry engineer, Manuel Solis Corrales, he regularly records in an inventory the condition of the plantations and the growth state of the trees in Costa Rica. This task is undertaken in Ecuador by the Managing Director and agricultural engineer, Knut Radicke.

Plantations can be at risk from forest fires. However, with teak trees this risk is minimal, because the tree’s specific properties make it almost non-inflammable. Additional protection from flames is offered by the strips of secondary forest and wetlands, which traverse the Life Forestry plantations. Wide maintenance paths and fire breaks prevent major fires from spreading.

The teak trees in our plantations are robust and immune to most risks. If there is any risk, it is in the first four years, in which the young plants are endangered. Should an unusually large number of trees die or be affected by a disease, Life Forestry reforests the teak stock or guarantees equivalent replacement.

First-class prospects for teak timber

An investment with Life Forestry grows in the literal sense of the word day after day. The quantity of timber increases by 0.0329 per cent each day. This produces growth of 12.0085 per cent per annum. In addition, teak timber is already achieving excellent prices on today’s markets. The situation on the teak market indicates that this sought-after noble wood will continue to increase in price in the future and thus further improve prospects for earnings. In the next chapter we show you in detail the background to and developments on the timber market.

Life Forestry – good reasons for investing in teak

- Commodities class with compound interest effect
- Commercial yields with payments scheduled after 10, 15 years and at main harvest after 20 years
- Top location for optimum timber volume and the highest return on investment
- Comprehensive security concept for valuable plants
The Market

*Booming demand, rising prices*

For vendors, the situation on the timber market is ideal. Demand is booming, but conversely supply is steadily declining. Accordingly, the prices for the renewable commodity timber have been rising for years. A trend that will intensify even further in the future.

This is particularly true for teak, for this noble wood is extremely sought-after, since its special quality and its material properties cannot be replaced by those of any other species.

Moreover, it is only in the last few decades that the first plantations have been created. Therefore, there is a constraint on the development of supply.

For investors this means: if you acquire teak trees today, you will profit from rising market prices and in the future you will be able to realise high earnings from sales.
As well as the timber volume generated, the price per cubic metre determines the return on sales and with it the earning prospects. This is created freely from the relationship between supply and demand on the international markets. Contrary to agricultural products, where the situation is often distorted by governmental barriers to trade and subsidies, the forestry sector is scarcely affected by such factors. The present situation looks extremely advantageous for vendors. Statistical data on development paint a picture of continually increasing demand for timber. Forecasts suggest that the market is far from being saturated for a long time to come. Quite the contrary. Still every year much more timber is harvested than is newly planted.

### Booming demand

According to a projection by the United Nations Food and Agriculture Organization (FAO), the global use of timber is steadily increasing. Whereas just fewer than 2.8 billion cubic metres of roundwood were in demand in 1980, in 2013 this amount had already risen to more than 4.7 billion cubic metres.\(^1\) This means an increase of some 52 per cent in 30 years. In the opinion of the experts this tendency is set to continue, because the world-wide demand for timber is increasing in parallel with a steady increase in world population.

The use of tropical woods is also growing steadily. According to data from the International Tropical Timber Organization (ITTO) the cumulative consumption of roundwood, (logs) in all ITTO member states between 2002 and 2016 increased by approximately 51 per cent from just fewer than 133 to over 200 million cubic metres. For next year, the organisation is anticipating further growth to more than 230 million cubic metres. The demand for tropical woods is rising particularly fast in Asian countries. Thus, India consumed about 28.5 million cubic metres of tropical roundwood in 2009, which was more than 50 per cent more than in 2002. In 2015, China’s consumption was 23 million cubic metres – about 164 per cent more than 7 years previously. In view of the huge expansion of the economy in the Asian countries such growth rates should not surprise us in the next few years. In Germany, the demand for roundwood rose by more than 150 per cent between 2002 and 2015. In 2013, some 59 million cubic metres of roundwood were sold in Germany.\(^2\)

---

\(^1\) Food and Agriculture Organization (FAO)

\(^2\) International Tropic Timber Organization (ITTO)
Calculations over a longer time-frame also produce favourable results. For instance, the International Forestry Review forecasts a rise of 35 per cent in demand for tropical hard wood between 2010 and 2030.³

**Market potential for investors**

In contrast to the rising demand, it is anticipated that the supply of tropical woods will drastically decrease in the next few years. One crucial reason for this is that all over the world the forests are retreating to a significant extent. Figures from the ITTO show a steady reduction in forested areas, in relation to the entire regions, for the individual ITTO producer regions in the period from 1985 to 2016:

- Africa: from 49.3 per cent to 35.2 per cent
- Asia: from 41.4 per cent to 28.2 per cent
- Latin America: from 59.4 per cent to 40.3 per cent
- ITTO producer countries: from 52.7 per cent to 39.6 per cent⁴

³ International Forestry Review
⁴ International Tropic Timber Organization (ITTO)

The consumption of tropical woods is also increasing year on year. Demand in China and India in particular is increasing.
Certified timber particularly sought-after

The imbalance of supply and demand will probably have particularly dramatic results for sustainably produced and certified noble woods. By virtue of statutory regulations, but also because of the growing ecological awareness in society, it can be assumed that the demand for certified tropical timber will rise over the long term. The importance of products from controlled plantation cultivation will therefore increase. At present supply is comparatively low. Less than five per cent of teak timber traded comes from plantations.

Rising Market Prices

Tropical wood is even more in demand. The potential supply is decreasing. At the same time, the prices for commodities are constantly rising. According to the FAO price index, tropical timber rose in price by some 25 per cent by 1989 as compared to the reference year 1980. In the mid-1960s the price for this natural product was only one quarter of the 1980 price.\(^1\)

A comparison with gold is also instructive. The price for the precious metal multiplied from 1970 to about the mid-1980s, when depreciation in value set in, which lasted until a few years ago. In the same period, noble wood steadily rose in price and today is regarded as the gold among renewable raw materials.

Teak – the king class of the noble woods

The value of teak is developing at a particularly fast pace. Since 1970 its market price had risen by an average of about 7.5 per cent per annum. A tendency which is still continuing. Thus, the price for one hoppus ton\(^2\) of teak from Myanmar has more than doubled within only 7 years and at the end of 2016 cost more than 8,300 US dollars.\(^3\)

The positive price development for teak will probably continue in the future, because there are very few other materials which can replace this noble wood. It is durable and exclusive, hard-wearing and weather-resistant. Its use is equally diverse. Teak garden furniture is one particularly well-known use. However, terrace and parquet flooring is also manufactured from this robust raw material. This material is particularly in demand for shipbuilding, since a ship’s deck made from teak remains weather-resistant and undamaged for generations. This timber is also frequently used for harbour construction because of its water-resistant surface. On account of its hardness it is used for equipping laboratories and for special applications in the chemical industry. Its unobtrusive aesthetics make teak a valued material for luxury interior decoration.

---

\(^1\) Food and Agriculture Organization (FAO)
\(^2\) 1 hoppus ton = 1.8 m\(^3\)
\(^3\) Myanmar Teak Logs, FOB, 4th Quality, Veneer
All these factors provide clear evidence that teak can be sold successfully in the medium to long term – and in a climate of rising prices. Therefore, even if all reasonable caution is applied, attractive and, most importantly, secure returns on investment can be anticipated.

**Price Development for Teak**

**Plantation teak from India** (Prices in USD per m³)

- Logs, girth class II, trunk diameter 35-50 cm
- Annual increase in price of 12.8% from 1970 to 2016

Even today, world-wide timber production of 520 million m³ per year cannot satisfy the demand for 1.5 billion m³. In the future the gap will continue to widen. While, at an optimistic estimate, production itself can be increased only to 940 million m³, this must be seen against a demand of over 9 billion m³. This situation will sustain rising timber prices for decades to come.

**Development of the global timber market**

Demand for roundwood in millions m³/year

Even today, world-wide timber production of 520 million m³ per year cannot satisfy the demand for 1.5 billion m³. In the future the gap will continue to widen. While, at an optimistic estimate, production itself can be increased only to 940 million m³, this must be seen against a demand of over 9 billion m³. This situation will sustain rising timber prices for decades to come.

**Life Forestry – good reasons for investing in teak**

- Rising prices thanks to increasing demand and stagnating supply
- Growing market for FSC-certified noble wood
- Long-term maximum prices for teak timber
“A teak tree is always striving towards the light”

An interview with
forestry engineer, Manuel Solis Corrales

Once a year our experienced forestry engineer, Manuel Solis Corrales records the condition of the Life Forestry plantations and the growth of the teak trees in what is known as an "inventario". The expert from Costa Rica learned his craft at the renowned Laboratorio de Productos Forestales forest academy and in 2010 he was awarded the title of Forestry Engineer of the Year. He plants and organises all the work on the plantations of the Life Forestry Group.
"You don't transplant an old tree," as the saying goes. Are there not risks in cultivating an Asian plant on a large scale in Central America?

Manuel Solis Corrales: At the start we did not know whether the trees would grow at all in this region. However, teak was introduced into Central and South America over 50 years ago. It became evident that the plants thrive really well in this area and more and even larger plantations began to be created. In addition, here the trees are protected from disease. Many natural enemies of teak, which have to be controlled in Asia, have not yet been encountered in Costa Rica.

Buyers in Germany are paying increasing attention to the FSC certification of timber products. Is increasing awareness of the environment having an impact on forestry in Costa Rica? Do you now have different working methods from those at the beginning of the 1990s?

Manuel Solis Corrales: No. Because well before the Forest Stewardship Council was known, we were turning towards the principles of sustainable forestry. We have been protecting the existing natural rain forests for a long time now. In this way we comply with the Costa Rican government's goals of being a pioneer in environmental protection. Our employees are well paid and benefit from social insurance.

What are you looking for, when you select land for a new plantation?

Manuel Solis Corrales: It depends on a whole range of factors: the size of the plantation, the fertility of the soil and its acidity, the annual precipitation and the length of the dry season. In addition, the terrain must be easy to reach and integrated into an intact infrastructure.

Why are the Life Forestry areas especially suited for afforestation?

Manuel Solis Corrales: They are all well integrated and we can extend the plantations without problems. In the gently rolling countryside the rainwater seeps away well. On the other hand the hills are not too steep, for teak trees do not like that.

Over the course of the years, in which you have worked as an expert in Costa Rica, have you had any bad experiences?

Manuel Solis Corrales: Yes, for a tree is not machine-made, it is a natural product. Even when it appears that all the factors for successful planting are there, it can happen that the teak trees do no thrive. Fortunately, that happens only rarely and if it does, only to a partial extent. Since this usually involves quite young plants, as a rule these are replanted.

What factors interfere with the growth of teak trees or even jeopardise the harvest?

Manuel Solis Corrales: Most are natural risks. Therefore, it is important to select the terrain particularly carefully. We plant only on areas where hurricanes, volcanic eruptions, flooding and similar events do not occur. We also have fire breaks and there are strict fire regulations for employees and visitors. Once the teak trees are three or four years old, they even withstand forest fires. Moreover, our employees are constantly checking the plantation for diseases and pests. They report every abnormality, so that we can immediately take countermeasures.

The Life Forestry Group expects high crop prices for their customers on the sale of the timber. How do you manage to grow particularly high-yield and high-quality trees?

Manuel Solis Corrales: A teak tree is always striving towards the light. If you plant them close together they compete for their "place in the sun" and grow straight trunks. Furthermore, the first twelve metres give the best timber. The fewer branches it has, the more valuable it is. By pruning the trees frequently we improve the quality.

Can you give us an impression of work on the plantation?

Manuel Solis Corrales: In the first few years, management of a teak plantation is very labour-intensive. Our forestry workers tend and manage not only the trees, but they also cut back the undergrowth, help in deforestation and keep the maintenance paths clear.
The Locations

*The most successful growth regions – natural and economic*

The question as to what are the best locations for teak plantations is asked again and again. There are without doubt a range of natural criteria, which must be satisfied. These include the climatic framework conditions and the quality of the soil. Nature is capricious and so we investigate the potential risks of storms and severe weather conditions, of flood or fire. When these questions have been satisfactorily answered, we begin the second, much more complex selection procedure.

Since long-term investment is involved, we have also to take political, social and cultural aspects into account. How stable is the political situation, what guarantees can we expect from the government and the criterion of the workforce must not be forgotten. For the best planting is wasted, if the plants are neglected afterwards.
Costa Rica is considered the Switzerland of Central America, for the country offers everything which makes a perfect investment location. The political system is stable, the legal system transparent and the economic system is business-friendly. In addition, the standard of education in Costa Rica is extremely high. Forestry experts, in demand all over the world, are educated at the famous Laboratorio de Productos Forestales.

Teak trees do well in the climatic conditions in Costa Rica. The alternating dry and wet seasons promote fast, healthy growth of the trees. This is why timber from Costa Rican plantations obtains high market prices already after 20 years. These are good reasons to decide to invest in teak in Costa Rica.
In political, economic and climatic terms, Costa Rica offers optimum conditions for forestry investment. The political situation is stable. Since 1895, Costa Rica has been governed as a democracy. The system is clearly modelled on the North American presidential system. Every four years the people elect the President and two Vice Presidents, and constitutional law dictates that they may not be immediately re-elected. The legislature acts independently. In this aspect Cost Rican law follows European models. Its foreign policy has a strong economic bias. As a founder member of the World Trade Organisation (WTO), the country insists on international co-determination on economic issues.

With its capital San José, Costa Rica is the economic lynchpin in Central America. Agriculture is a mainstay of the economy. Bananas, coffee, pineapples, sugar, maize, rice, beans and potatoes are cultivated. Costa Rica is the second largest exporter of bananas after Ecuador.

Ideal climate for teak

World wood consumption has been steadily rising since 1980. Therefore, Costa Rica is now discovering a lucrative timber trade for itself, for as well as the political and economic conditions, the country also offers the right climatic factors for cultivating teak plantations. For this reason it is in high demand with those wishing to invest in forestry. The climate in Costa Rica is tropical to sub-tropical. The alternation from dry season (December to April) to rainy season (May to November) promotes rapid growth of the teak trees.
First-class performance thanks to high standards of education

As a location, Costa Rica does not simply offer optimum climatic and political conditions for forestry investment, it also has a well-established education system. This is because, in the opinion of President Oscar Arias Sánchez, the only way to guarantee a healthy economic climate is to have high standards of education, which will create a secure framework for investment. Therefore, education is a very high priority in Costa Rica. Currently the government is investing some six per cent of its Gross Domestic Product in education. It is planned to increase this amount to eight per cent. In comparison with the rest of the world, Costa Rica has a high standard of education. The universities of applied science and other universities operate at an equally high level and are in close contact with American and European educational establishments. Costa Rica is known for its first-class performance in research areas, such as the biological sciences and the condition of the timber and it publishes its results in regular publications. The skilled personnel are also in demand for Life Forestry and they work closely with the forestry company. Their know-how and optimum political, economic and climatic conditions make Costa Rica an internationally recognised investment location for forestry plantations.

Another important educational establishment is the renowned Laboratorio de Productos Forestales, which is an institute of the University of Costa Rica. Its activities include the investigation and analysis of current developments in forestry and agriculture in Costa Rica and research into soil conditions and the condition of the timber and it publishes its results in regular publications. The skilled personnel are also in demand for Life Forestry and they work closely with the forestry company. Their know-how and optimum political, economic and climatic conditions make Costa Rica an internationally recognised investment location for forestry plantations.

**Life Forestry – good reasons for investing in teak**

- Stable political and economic environment
- Ideal climate for first-class teak timber
- Maximum prices thanks to best timber quality
- First-class performance due to high standards of education
- World-renowned forest academy, the Laboratorio de Productos Forestales
For several years, Ecuador has seen impressive development. Political and economic reforms have guided the country onto a democratic, market-oriented path, which will open the door for it to play a decisive role among the South American states. As an immediate consequence of these positive changes, Ecuador has become increasingly attractive to foreign investors.

This country on the Equator also offers excellent prospects for teak cultivation. The climatic conditions, especially in the western part of Ecuador, are just as ideal for teak trees as in Costa Rica. Here also, the change from dry to wet season promotes the rapid, healthy growth of the trees, which can be felled 20 years after planting and sold for an attractive market price.
Modern Ecuador has developed an optimum combination of the best political, economic and climatic conditions, required for beneficial investment in the forestry sector. As regards politics, the country has for years now enjoyed stable conditions. This country, which has been independent since 1821, is a presidential republic with representative democracy and a multi-party system. Ecuador's new constitution, which came into force in 2008, models itself very strongly on the constitutions of Western European Democracies. The system of western values is also reflected in the thought and action of President Rafael Correa. He has consistently advocated the comprehensive modernisation of his state.

The framework conditions for this process could not be more favourable. The country has a strikingly young, aspiring population with high dynamic potential. No wonder that its social and economic developments are all also marked by strong growth. In order to safeguard economic stability, the country decided years ago to introduce the US dollar as its national currency. This was a step in the right direction as was soon to be shown.

A country with a positive, optimistic outlook

The country's aspiring economy is illustrated by the intensive construction and expansion of new infrastructures. For example, the road network is one of the most modern in the region. Railway lines have even been constructed in the high regions of the Andes, in order to secure provision for the whole country. As well as its agriculture and its two economic centres around the capital Quito and Guayaquil, with over a million inhabitants, Ecuador has a wealth of mineral
A broad product portfolio ensures stable economic growth.

The country's main export, crude petroleum oil, is exported around the world from Guayaquil, Ecuador's largest port. The "black gold" still constitutes up to 59% of Ecuador's exports, but coffee, cocoa, bananas, shrimps and cut flowers are also among the typical goods exported from the expanding Ecuadorian economy. In the course of the industrial development of the country metal goods and machinery have for some time been increasing in importance. The total value of all exports in 2015 amounted to some 20 billion US dollars. This positive economic climate is attracting foreign investors in ever-larger numbers. Large international corporations such as Unilever, Siemens, Nestlé and Daimler AG are represented in Ecuador; some of them have been here for several decades. Global players in the computer and semiconductor industry are capitalising on the location qualities of Ecuador.

One reason for this prosperity certainly lies in the rich range of opportunities, which this diverse country offers. The outstanding climatic conditions for the cultivation of teak trees, together with the many other positive aspects, have induced us to invest in Ecuador.

After months of intensive preparations our forestry experts planted teak plantations in the province of Los Ríos in 2008/2009. In the meantime our plantations cover more than 1,500 hectares, where the same high ecological and social standards apply as for the FSC-certified plantations in Costa Rica. Thus, the teak plantations in Ecuador are also managed in accordance with the FSC criteria. As regards social matters, we also place a high priority on meeting completely and absolutely the high challenges we have set ourselves. In this way, the plantation workers employed by Life Forestry Ecuador S.A. are paid considerably more than the average and therefore fairly and in addition they receive the corresponding social security contributions and benefits. This will create secure long-term employment in the markedly rural teak plantation regions and is also an active contribution to development aid. The planned reforestation using ecological methods incidentally protects the tropical soil from erosion and neutralises carbon dioxide emissions. This benefits both the global and the local climate. And something equally important: with our investment we are assuming a truly pioneering role in Ecuador and thus assisting the country to become an international location in the medium term for modern, sustainable forestry.

Life Forestry – solid foundation in Ecuador

- Political and economic stability
- Experienced skilled management team
- Favourable purchase costs facilitate better return on investment
- Environmental protection and forest conservation established in the constitution
The Plantations

The foundation for first-class teak timber

Only first-class teak timber fetches the highest prices. For this reason we ensure the best quality from the outset. The terrain for the plantations is carefully selected, the soil is prepared by experts and the irrigation is optimised. We plant our high-quality seedlings the ideal distance apart. Professionally tended by our employees, healthy teak trees grow with straight trunks.

A large part of the Life Forestry plantations comprises secondary forest, left uncultivated, which provides a habitat for the local flora and fauna. In this way, the tree populations can be sensibly managed both in economic and ecological terms. Since we operate a sustainable forest management, we comply with the Forest Stewardship Council® (FSC) guidelines on all our plantations.
The Life Forestry Group develops teak plantations in Central and South America near the Equator. The area of the plantations has extended in the meantime to more than 5,100 hectares, almost a third of which consists of protected secondary forest. This secondary forest is left to grow wild and provides biodiversity, which together with the climatic conditions, is essential for successful, sustainable, protective management of the plantations.

Energy storage – nutrient-rich soil

The tropical to sub-tropical climate may be ideal for cultivating teak trees, but usually the soil has been overused to such an extent that it has become arid and densely covered with brushwood. A high-quality teak tree, however, needs the soil to be flawless. Therefore, the skilled Life Forestry workers prepare the ground to the highest standard for the seedlings. They clear the undergrowth and use natural methods to fertilise the arid soil. The forestry engineers also check the infrastructure for drainage and if necessary, improve it.

Quality from the outset – from high-quality seeds

Life Forestry considers quality in seeds very important and stores them in optimal climatic conditions. Finally the seeds are sowed in jiffy pots in the tree nursery with a special germinating mix. A short time later little seedlings develop from them. They undergo several selection procedures, in order to produce young plants of high quality. Then the plants grow in the open air at a distance of three metres from each other. Fertilisers and growth media are carefully balanced and applied and in the rainy season after only six months they can reach up to two metres in height.

Professional care

Life Forestry teak trees are tended throughout their growth. It is necessary to keep the area around the base of the tree free from grass, weeds and undergrowth and to prune the branches regularly. Skilled forestry workers then cut back the plantations from time to time in accordance with forestry require-

Santa Elena site plan, planting years 2004 - 2011

The FSC-certified Santa Elena Life Forestry plantation, planting years 2004 - 2011, covers an area of over 200 hectares. On 63 per cent of the surface teak trees have been planted. More than one third of the plantation is made up of nature reserves and biotopes.
ments. In doing so, they remove the required number of trees. In this way the stronger, healthier plants thrive even better. From the original 1,100 teak trees per hectare, about 230 remain standing at the end of the rotation period.

**Tree stock traceable by satellite thanks to precisesatellite localisation**

So that every owner can clearly identify his trees from planting to harvest, the individual teak trees are provided with sequentially numbered aluminium labels and are distinctively allocated by means of uniquely issued, individual tree and lot numbers and the name of the plantation. The customer can also track the exact location of the stand of trees he has purchased thanks to the global positioning system (GPS). This and further information is recorded in the tree ownership document.

**Certified teak plantations for a better world climate**

Life Forestry’s specialists, forestry engineers and qualified skilled personnel work in close cooperation with the institute of the University of Costa Rica, the Laboratorio de Productos Forestales. In Ecuador we cooperate with the state research institute, the INIAP (Independent National Institute for Agricultural Research). In this way, the plantations are managed in accordance with strict, ecological, social and economic standards. Therefore, the Life Forestry Group guarantees sustainable management of the plantations. This is also confirmed by the quality seal of the Forest Stewardship Council (FSC), which has been awarded to Life Forestry. This acknowledges that by afforesting the barren areas in a legal, protective manner we are taking an active stance against the illegal felling of the rain forests in Central and South America. Reforestation protects the tropical soils, which are threatened by erosion, serves as a water store, compensates for CO2 emissions and thus has a positive influence on the local and global climate. The Life Forestry plantations also create permanent employment in the rural regions and bring social security contributions and benefits. Since our strategy has hitherto been successful, we shall plant further plantations in the immediate area and in other equatorial regions.
In order to be able to offer a worthwhile opportunity to invest in teak trees to even more potential buyers, we have extended our activities to Ecuador.

Since January 2009 we have planted our recently created plantations in the provinces of Los Ríos in the canton of Baba and Guayas in the canton of Balzar with teak seedlings from Life Forestry Ecuador S.A., which is managed by the agricultural engineer and renowned aid worker, Knut Radicke.
As a development aid worker, who has lived and worked very successfully in Ecuador for many years, what induced you to work for a forestry company like Life Forestry Ecuador S.A.?

Knut Radicke: The job and the company both attracted me. After all, I am an agricultural engineer by training and could use this knowledge only to a limited extent in my previous work. Now it is different. In addition, I found Life Forestry's ecologically oriented concept very convincing. Here it is being proved that you can cultivate timber very efficiently while protecting the natural growth of the primary and secondary forest. And that by using these methods you can even generate remarkable profits.

You can now contribute your particular agricultural and forestry knowledge. But have you not rather left your commitment as an aid worker rather to one side?

Knut Radicke: Definitely not! Helping people to help themselves is always a good approach. If you are offering people a secure existence and with it real prospects, that is the best basis for the positive development of entire regions. This is what I have always found during my time in Brazil and Ecuador and it is exactly that basis that Life Forestry is offering the population here.

So you also regard the company's forestry work as active development aid?

Knut Radicke: Exactly. The people here are not underpaid minions, who can be exchanged at will. They are a skilled work force and are treated and paid by us as such. In addition to the above-average wages their social security contributions and benefits are also paid, as is customary, but which is not paid everywhere. This adds up to true security of livelihood for a large number of people and at the same time is a basis which can spread throughout the entire region.

One could say that Life Forestry is doing what would actually be the task of the politicians?

Knut Radicke: I wouldn't put it exactly like that. In the ideal case politics should create the conditions for private initiatives. When these exist and creative, enthusiastic people take matters into their own hands, something good for everyone can come out of it. That is exactly how it has worked in Ecuador in recent times. With his policies, President Rafael Correa has first of all laid the foundations for sustainable, stable development and on this ground investors like our company now have the opportunity to work successfully.

Has your life now changed in the long term?

Knut Radicke: Of course, my work for development aid projects was something quite different, but even in this new area of responsibility I can pursue the same goals – the basic improvement of living conditions for everyone here and a sustainable economy. In addition I can live as before with my family in this beautiful, aspiring country. And while doing so, work towards a better future.
Investing in the Future

Life Forestry supports education and family projects

Life Forestry does not simply look after young trees, it looks after young people, too. And like young trees, they need a great deal of care to grow and so it is important to help children and young people to have a good education and training. However, in many of the countries of Central and South America, a good school education is something which you still cannot take for granted. Therefore, Life Forestry accepts responsibility and invests in specific projects on site.

When we went to Costa Rica for the first time, in order to look for areas suitable for cultivating teak, we often went past little village schools. We learned that even the smallest children often have to face long journeys on foot each day, in order to learn to read and write. The schools often lack teaching materials, the school buildings themselves often do not have sanitary facilities and play equipment in the playground is scarcely ever to be seen.

School projects on site

In the course of the years Life Forestry has supported a number of schools in Costa Rica and Ecuador and itself benefits from this in many respects. In this way we have good standing among the local people, have a good local and regional network and are a popular employer. The result is that at all our locations we are able to find qualified employees. However, there is another reason to take this commitment further in the future: the children's gratitude and their sunny, happy laughter, which often greets us.

Partner of SOS Children's Villages

Some years ago we took the next step and entered into a partnership with SOS Children's Villages. Life Forestry now funds the Rio Hondo SOS Children's Village in Peru and this enables some 80 children not only to have a school and vocational education, but gives them a new sheltered home. This means that these children can grow tall and develop like our teak trees.
The offer in detail

Object of the offer
The object of our offer to purchase is the tropical noble wood, teak. On our plantations in Costa Rica and Ecuador we plant young seedlings, tend them until the main harvest and on request finally market the timber. Our tree populations are managed ecologically and sustainably in accordance with the Forest Stewardship Council criteria (see box on right).

Offer to purchase
Through Life Forestry Switzerland AG you have the opportunity to become the owner of teak trees on our plantations. The purchase price for the plants is dependent on their age. In the case of newly planted trees, 1,100 seedlings cost 36,300 Euros (status 01.03.2014). The number of trees purchased and the extent of the investment can be adjusted to your individual requirements.

Subscribing to the offer
In order to subscribe to the offer to purchase, you conclude a sales and services contract with Life Forestry Switzerland AG. The number of teak trees purchased and the exact purchase price are fixed in the purchase contract. Furthermore, with the services contract you commission Life Forestry Switzerland AG to manage and finally sell the purchased trees after the main harvest.

Payment of the purchase price
On signature of the contracts the price must be transferred in full to a Life Forestry Group account. This payment is a one-off payment and includes all costs, including future costs.

Tree Ownership Certificate
On receipt of payment in full into our account you receive a tree ownership certificate with the numbers of your trees and a site plan with the GPS data for the individual plots. Ownership is clearly allocated by uniquely assigned individual tree and plot numbers and plantation names. The plots can be exactly located by GPS. The tree ownership certificate fully guarantees your legal claim to the stock of trees, because under Costa Rican and Ecuadorian laws the land and the plants growing on it can be sold separately. This means that in the event of insolvency, your teak trees do not become part of the assets in the insolvency. This is because Life Forestry Costa Rica S.A. and Life Forestry Ecuador S.A. are only the owners of the land and do not transact any business on their own account.

Life Forestry Foundation input
From a pre-determined portion of the total payment received, which is always related to the plantation and fixed, Life Forestry Switzerland AG creates a reserve fund, which is assigned irrevocably to the Life Forestry Foundation. This independent foundation administers these reserve funds in trust. This ensures that the deposits remain unaffected even in the event of the insolvency of Life Forestry Switzerland AG and the management of your stock of trees is financially protected to the best of our ability.

Reporting system
We keep you informed of progress on the plantations and the development of the tree populations in various ways:

- We publish all the important news on the plantations in newsletters and on our website.
- Travel reports from independent experts and customers paint provide insight into life and work at the locations.
- Dr. Ing. Diego Perez regularly records the condition of the Costa Rican plantations and the state of growth of the trees in an inventory or inventario. This task is undertaken in Ecuador by our agricultural engineer, Knut Radicke.

Earnings position – scheduled reflux of money
Commercial felling of your trees is planned 10, 15 and 20 years after planting. Gross earnings are paid out to 85 per cent. We use the remaining 15 per cent to defray costs for cultivation, management and processing, as well as the sale of the timber on the world market. The amount of earnings depends on the volume of commercially viable timber and the current market prices for teak timber.
Ten Principles for Certified Forestry

**Principle 1: Compliance with laws and FSC principles**
The forestry management shall comply with all the relevant laws of the country, as well as international contracts and conventions, which the country has signed and shall satisfy the principles and criteria of the FSC.

**Principle 2: Ownership claims, land use rights and responsibilities**
Long-term ownership claims and land use rights in land and forest resources shall be clearly defined, documented and based in law.

**Principle 3: Rights of indigenous peoples**
The legal and customary rights of the indigenous groups with respect to ownership, use and management of land, territories and resources must be acknowledged and respected.

**Principle 4: Relations with the local population and employment rights**
Management of the forest shall maintain or improve in the long term the social and economic welfare of those employed in the forest and of the local population.

**Principle 5: Benefit from the forest**
Management of the forest shall promote the efficient use of the many diverse products and services from the forest, so that it becomes tenable in the long term and can guarantee a wide range of ecological and social benefits.

**Principle 6: Impact on the environment**
Management of the forest shall maintain the biological diversity and the values attached thereto, the water resources, the soils and unique and sensitive eco-systems and landscapes and thus guarantee the ecological functions and the integrity of the forest.

**Principle 7: Management plan**
A planning scheme reasonable for the size of the operation and the cropping intensity of the forestry operation must be prepared, applied and updated. It shall specify the long-term management goals and the means of realising them.

**Principle 8: Control and assessment**
The forest condition, the earnings from the harvested forest products, the trade and sales chain, the management measures and their social and ecological impacts must be identified in documents and assessments reasonable for the structure of the operation.

**Principle 9: Maintenance of forests with a high conservation value**
Management measures in forests with a high conservation value shall retain or propagate the characteristics of the forests. These decisions concerning the forests shall always be considered as preventive approaches.

**Principle 10: Plantations**
Plantations must be managed in accordance with the principles and criteria 1 - 9 and principle 10 and its criteria. If plantations can deliver a range of social and economic benefits and in addition, contribute to satisfying the global demand for forest products, they must also expand the management of natural forests, reduce the pressures on these and promote their restoration and maintenance.

*Source: Forest Stewardship Council (FSC)*
Premature Termination of Contract
Your forestry investment can be ended prematurely by terminating your services contract and selling your stock of trees. It must be ensured that the remainder of the plantation is not affected. In the event of termination of contract Life Forestry is entitled to make a take-over bid for your stock of trees. Should this not take place, Life Forestry offers the felling and sale of the stock of trees. The costs for this amount to 20% of the original purchase price and must be paid in advance. You shall receive 100% of any proceeds of sale.

The exact returns on investment in the event of a premature withdrawal from the forestry investment cannot be specified. However, it can be presumed that these lie significantly below the forecast returns on investment for an investment which has remained for the scheduled term.

Assignment
You may also terminate investment prematurely by assigning the contracts and the GTCs to a third party. You receive 100% of the proceeds of sale.
Of course, you are free to gift or bequeath your stocks.

Fiscal treatment
The taxation aspects of forestry investments are dealt with differently in Germany, Austria and Switzerland. Furthermore, a distinction must be made between private and business assets in forestry investment.

The following regulations apply to private persons (no liability is assumed for the information):

Germany and Austria
- The purchase price for teak trees cannot be claimed as tax exempt in Germany and Austria. This means that taxable income cannot be reduced by the amount of the purchase price.
- Teak tree purchases from LFS are to be regarded as investments in the context of managing your private assets. In this case the earnings are tax-free.
- Where applicable, in the case of a premature sale, speculation periods must be taken into account.

Switzerland
- The profit from the sale of the teak trees is deemed to be private capital gains and is therefore free of income tax.

In all case Life Forestry Switzerland AG recommends that you consult an accountant who is familiar with the tax regulations in each individual case. Moreover, in every country it is recommended that you consult the respective tax authorities.
An overview of the investment process

1. You conclude a purchase and services contract with Life Forestry Switzerland AG.

2. You transfer the price in full to Life Forestry Switzerland AG. On receipt of the payment into one of our accounts you receive a Tree Ownership Certificate for your stock of trees.

3. A portion of the total price is assigned to the Life Forestry Foundation as reserves for management costs. The Foundation administers these reserves in trust on your behalf.

4. We notify you regularly of progress on the plantation.

5. Commercial felling is planned from the 10th and 15th years, as well as the final harvest as from the 20th year. We fell your stocks of trees and sell them as commercially viable timber. The earnings are paid out to 85 per cent. 15 per cent of the earnings go to Life Forestry to cover cultivation, management and processing costs.

6. The forestry investment can be ended at any time by terminating the services contract or assigning both contracts and the GTCs to a third party.

7. On payment of the last net earnings from the sale of the trees the contractual relationships end in the normal way.
Certificado

Código de registro de certificado:
GFA-FM/COC-001468

Emisión número 2

Fecha de emisión  Fecha de vencimiento*
17.01.2013  16.01.2018

Esto es para certificar que

Life Forestry Costa Rica SA
Calle 31, Avenida 8 & 10 #440
5057-7020 San José
Costa Rica

ha sido evaluado por GFA Consulting Group GmbH de acuerdo al siguiente estándar:
- GFA-Estandar Genérico adaptado a Costa Rica versión 3.0.

La compañía tiene el derecho de utilizar la marca registrada FSC para los productos y/o servicios mencionados a continuación**:

Manejo forestal y producción y venta de madera en troza.

Certificado por:
Carsten Hollis, Program Director
GFA Consulting Group GmbH, Eulenbergstr. 82, 22569 Hamburg, Alemania
Teléfono: +49 40 65356 111, Fax: +49 40 65356 140
www.gfa-certification.de

* La fecha de vencimiento de este certificado está en la lista de certificados del FSC en www.fsc.org. ** Una declaración de los productos y servicios que conforman la base de certificación FSC es continua en la página del certificado en el sitio web de la GFA.
1. Introduction

1.1. On the Life Forestry Costa Rica S.A. (LFCR) plantations in Costa Rica and on the Life Forestry Ecuador S.A. (LFE) plantations teak trees are planted and managed in accordance with ecological, social and economic standards. These are based on the criteria of the FSC® (Forest Stewardship Council).

1.2. The LFCR and LFE plantations are planted and cultivated in accordance with a sustainable plantation management system. The newly planted teak trees are felled at specified intervals within a period of 20 years in accordance with a carefully developed deforestation system and if possible sold.

1.3. Life Forestry Switzerland AG (LFS) sells its own stocks of trees on the plantations of LFCR and LFE to customers who each acquire the title and unconditional rights of exploitation and use in the precisely specified trees. In accordance with the contract these tree populations are sold by LFS in its own name and for account of a third party and accounted for to the tree owners.

2. Agreement

The agreement comprises a purchase and services contract.

3. Sales contract

3.1. In accordance with the purchase contract the customer acquires from LFS a precisely specified, already planted and numbered teak tree stock. The plantations and their hectare plots are surveyed by GPS to identify the teak tree stock. Each teak tree receives an individual and unique tree number, which remains valid until it is harvested or until it is sold. The numbering allows the customer to identify his teak tree stock unambiguously on the plantations.

3.2. The purchase price is contained in the overall price of the agreement on the purchase and services contract.

3.3. By concluding the purchase contract the customer acquires the title and unconditional right of exploitation in the trees acquired. However, he does not acquire any title to the land on which the trees are growing. The customer acquires a right of access to his trees, which can be exercised at any time.

4. Service contract

4.1. On conclusion of the service contract the customer assigns to LFS the task of managing, cultivating, felling, deforesting and selling the teak trees purchased in accordance with the following General Terms and Conditions of Business. Te customer empowers LFS to undertake actions which are required to fulfil this contract.

4.2. Remuneration for this is included in the overall price in the agreement on the purchase and services contract.

5. Term of the service contract

5.1. With respect to longer-term cultivation in the case of the planting of new trees the contract is concluded for a minimum term of 20 years. In the case of older tree stocks, the minimum contractual term is reduced by the age of the trees at the time of sale.

5.2. The services contract ends automatically with the payment of the last net earnings from the sale of the customer's trees and at the latest one year after the felling and harvesting of all the customer's trees.

5.3. If forestry, economic or other grounds make a longer growth period than the minimum contractual term for the teak trees seem sensible, there is the possibility of extending the term of the contract up to a maximum of 10 years with respect to the term forseen in the contract.

The decision on whether to extend the contractual term is the sole responsibility of LFS. Should this situation occur, the customer shall be notified thereof at the latest six months prior to the planned extension of the contract.

The customer has the right to object to an extension of the contractual term. His trees shall then be harvested and sold at the time originally provided for.

6. Plantation management

6.1. The purpose of the sustainable, systematic plantation management is to achieve the highest quantity and quality of timber, in order to obtain the best price under the market conditions existing at the time of the sale.

7. Management and maintenance

7.1. LFS ensures the maintenance and management of the customer's trees from the time of purchase of the trees up to their being felled and sold. LFS or third parties commissioned by them regularly check the trees and their growth and manage their cultivation.

8. Deforestation and final harvest

8.1. In the interest of the best possible growing conditions LFS shall periodically conduct deforestation measures, which take into consideration the interests of the tree owner, in order to provide the remaining trees with an optimum amount of nutrients, space and light.

8.2. The customer is aware that the felling of young trees without heartwood achieves no commercial earnings.

8.3. In agreement with the forestry experts on site, who manage and monitor cultivation, LFS determines the exact time for deforestation and the final harvest, as well as the number of trees to be felled in a deforestation phase, taking into account a variety of factors, in particular the growth profile and size of the trees, growth prospects for the remaining trees, economic factors such as the market price for tropical timber, the costs and availability of a workforce and government regulations.

8.4. In the case of new plantings, in accordance with the usual run of things without special incidents, the plantation management plans commercial deforestation and assessments from years 10 and 15, as well as the final harvest from year 20 after planting.
9. LFS Standards

9.1. LFS operates in accordance with the international guidelines and standards of the Forest Stewardship Council® (FSC) regarding sustainable forestry and plantation management.

9.2. If in the first four years after planting more than 10% of the teak trees of a plantation die off, Life Forestry undertakes to supply replacement trees of the same age and quality or to plant new trees.

10. Representation/Agency

10.1. In order to fulfill the contract LFS may engage third parties at any time.

11. Premature termination of contract

11.1. The customer is the sole owner of his trees and may give notice to terminate the services contract at any time. In this case the customer must take adequate measures to ensure that this does not interfere with the cultivation or growth of the remaining trees. LFS is entitled to continue cultivation until the customer provides evidence of providing suitable tree husbandry. For the case of premature termination of the services contract the customer shall not receive any reimbursement for management reserves already paid.

11.2. If on terminating the services contract the customer seeks premature felling and sale of his trees, LFS is granted a right of pre-emption in the trees. If LFS wishes to make use of this right of pre-emption, within four weeks of the termination the customer shall receive a buyback offer.

11.3. There is no obligation on LFS to issue any offer and the customer has no buyback claim against LFS.

11.4. If on termination no agreement is reached between the customer and LFS with respect to a buyback, the customer may have the trees felled by specialists only in agreement and with the consent of LFS with due regard to the operational, natural and time factors.

11.5. In agreement with the forestry experts on site LFS shall determine the ideal time for felling within a period of at the longest six months from termination.

11.6. The customer shall bear the costs incurred for the premature felling of his tree stock and transport to the storage site and is himself liable and responsible for its removal from the storage site on the plantation.

11.7. If the customer entrusts LFS with the premature felling of the trees, the costs shall be invoiced in advance to the customer at 20% of the original overall price.

11.8. If the customer undertakes the felling of the trees and their transport to the storage site himself, he must ensure that these measures do not damage other trees, maintenance paths and other infrastructure. The customer accepts liability for any damage whatsoever caused during the felling and transport of his trees and must remedy or make good such damage prior to removing the trees from the storage site.

12. Communications

12.1. After every phase of commercial deforestation the customer shall receive from LFS a detailed list of the number of felled trees, the timber volume resulting therefrom, the amount of the gross sales price achieved and the net earnings to be paid to the customer.

12.2. LFS shall notify the customer regularly, at least once per year about the activities on the plantations.

13. Sale of the timber

13.1. The plantation management oversees the felling of the trees for deforestation and harvesting purposes, as well as, if applicable, the subsequent processing of the trees into tradable timber. The timber is sold on the national or international market at the best possible price obtainable and after each sale the net earnings achieved are remitted to the customer.

13.2. The net earnings are paid out as quickly as possible and at the latest one half year after the sale of the timber.

13.3. Net earnings are calculated on the gross earnings of the timber sold, less the cultivation and management fees in accordance with sections 15 and 16. Where applicable, any taxes and fees still due on the sale of the timber in the country of origin and any costs which are incurred for transport and insurance ex storage site are deducted from net earnings.

14. Payment conditions

14.1. The total price for the sales and services contract is due on signature. The amount must be paid to LFS at the latest 14 days from written acceptance of the agreement.

14.2. LFS undertakes to transfer reserves to a separate reserve account of the Life Forestry Foundation. These secured reserves serve as payment for cultivation and deforestation on the plantations up to the first commercial deforestation.

14.3. Life Forestry Switzerland AG is solely responsible for the payment of costs for care, deforestation and sale.

15. Management and processing fee

15.1. The management and processing fee for maintenance, deforestation, harvest and sale in the amount of 10% is deducted from the gross return on sales.

16. Administration fees

16.1. The administration fees for tree and land administration, marketing, deforestation, harvesting and sales administration in the amount of 5% are deducted from the gross return on sales.

17. Tree ownership certificate

17.1. On receipt of the total price in full the customer is sent a Tree Ownership Certificate showing detailed information on the trees.

18. Rights of control

18.1. At any time subsequent to prior agreement in good time regarding the date the customer or any person nominated by him is entitled to visit
the plantation on which the trees purchased by him are located. There the customer is entitled to inspect the cultivation documents, in which the plantation and tree management are properly documented (Management Handbook).

There exist no rights of inspection of any business documents of LFS.

19. Assignment

19.1. The customer is entitled to assign the trees to third parties. The assignment is acknowledged when the customer notifies this in writing and the acquirer provides his personal details and his address and undertakes in writing to take over the present contract with all the attached rights and duties.

19.2. The customer is deemed a party to the contract until a proper and correct assignment of the contract has been completed and the customer has surrendered to LFS all the Tree Ownership Certificates and the LFS Tree Register has been updated to take account of the assignment.

20. Risk

20.1. The customer is aware that the purchase of teak trees represents a long-term investment, that no earnings or return on investment guarantees exist and that political or ecological risks up to total loss cannot be excluded.

20.2. The customer knows that the present agreement concluded for the sale and cultivation of trees does not represent any financial market instrument and that currently no official or regulated trading market for trading in tree stocks exists. He is aware that all calculations are solely forecasts with no warranty and no guarantee of return on investment.

21. Liability

21.1. LFS accepts no liability for damage incurred by reason of force majeure. All claims for compensation in damages are restricted to culpable intent and gross negligence.

22. Declarations

22.1. The customer affirms that he has read, understood and accepted all the documents delivered to him by LFS, in particular the present GTCs.

22.2. This agreement, consisting of the purchase and services contract and the present General Terms and Conditions of Business, represents the sole legal basis between the parties.

23. Addresses and deliveries

23.1. In order to guarantee smooth communication between LFS and the customer at all times, the customer shall notify LFS as quickly as possible of any changes in his personal details or address. Correspondence to the last known address is deemed to have been delivered.

24. Entry into force

24.1. The agreement comes into force as soon as it has been signed in a legally valid manner by both parties or the total price is paid on account or paid. The signature at the bottom of the contract may also be produced by machine by LFS.

24.2. Ownership of the trees is transferred on entry into the Tree Register, if the contract has come into force and the total price had been paid in full to LFS. Insofar as the total price has not been paid in full, LFS reserves the right to withdraw from the contract.

24.3. The total price is due for payment within a period of 14 days from signature of the contract. In the event that this payment deadline elapses without payment in full, LFS has the right to withdraw.

24.4. On the lapse of the payment deadline without payment in full the customer falls into arrears. From this moment the customer is liable to pay additional interest on arrears in the amount of 5% of the sum owed.

24.5. On signature of the purchase contract, or the payment on account or payment of the total price the customer has the right to revoke or withdraw from the contract within a period of 14 days.

25. Amendments to the contract

25.1. Additions or amendments to the contract shall be valid only if mutually agreed and in written form. Amendments to the contract, presented to the customer in writing by LFS, shall be deemed to have been accepted, unless the customer gives notice to the contrary within 30 days.

26. Invalid provisions

26.1. The nullity, invalidity or infeasibility of individual provisions of this agreement shall not affect the validity of the remaining contractual provisions. Any invalid provisions in this contract shall be replaced by a provision which comes closest in law to the meaning and purpose of this agreement. The present contract must be supplemented in accordance with its meaning and purpose if omissions become apparent.

27. Applicable law and place of jurisdiction

27.1. The agreement is subject to Swiss law. The sole place of jurisdiction for disputes arising from this agreement is the registered office of LFS in Switzerland. The application of the UN Convention on the International Sale of Goods is expressly excluded.

Life Forestry Switzerland AG
Mühlebachstrasse 3 • P.O. Box • CH-6370 Stans NW
Telephone: 0041-41-632 63 00 • Fax: 0041-41-632 63 01
e-mail: info@lifeforestry.com • www.lifeforestry.com
Outlook…

The teak market 30 years on

The timber market is booming. Teak is in particularly high demand and is fetching high market prices. There are many arguments suggesting that this trend will continue for the next 30 years.

- **Rising demand.** In the coming years the global demand for timber is going to increase, because on one hand the world population and with it the number of consumers is steadily increasing. On the other hand, average per head consumption is rising. One reason for this is the progress in the industrialisation of emerging economies like China and India.

- **Decreasing supply.** As demand increases, the supply of timber is decreasing. One cause of this is the shrinking areas of forests throughout the world. Large parts of the remaining forests will also be better protected in the future from logging and therefore will no longer be available as sources of raw materials.

- **Future for plantation timber.** Since the supply of timber from naturally growing forests is decreasing, plantations are becoming steadily more important as sources of supply for the commodity. A decisive factor in this is that the plantations are sustainably managed and are accordingly certified (FSC seal). This is because effective legal provisions and changed awareness from the consumers make the sale of non-certified timber almost impossible.

- **Teak’s exceptional situation.** What applies in general on the timber market is particularly applicable to teak, for the supply of this unique, sought-after tropical wood is extremely limited and is becoming more so. This is all the truer since teak in the virgin rain forest in Burma (Myanmar) may no longer be felled, sold and exported. Therefore, the demand for teak from sustainably managed plantations will rise at a really fast pace in the future. However, tree populations take a long time to grow to maturity, so that the need for teak will significantly exceed the supply over a period of at least 20 to 30 years. Market prices are rising accordingly.
Contact

We hope you will find our offer attractive. We will be pleased to give you details over the telephone about investing in teak and to identify the ideal purchase strategy with you. Simply call us, send us an e-mail or visit us.

Life Forestry Switzerland AG
Mühlebachstr. 3
6370 Stans NW
Switzerland

Telephone: 0041-41-632 63 00
Fax: 0041-41-632 63 01
e-mail: info@lifeforestry.com

www.lifeforestry.com
www.lifeforestryfoundation.li

Life Forestry is a member of and promotes FSC Switzerland