

## MEMORANDUM OF UNDERSTANDING

This memorandum of understanding (hereinafter- Memorandum) is concluded on 19<sup>th</sup> of May 2011 by and between

**RMK (State Forest Management Centre)**, registration code No 70004459 (hereinafter – RMK), represented by Head of Timber Marketing Department Ulvar Kaubi, on the one side  
and

**AS „Latvijas Finieris”** a company incorporated and existing under laws of Latvia, registration code No 40003094173 (hereinafter – LF), represented by CEO Uldis Biķis, on the other side,  
together hereinafter referred to as the Parties agree on the following:

### Preamble

1. LF is interested to buy a plywood production mill, hereinafter Mill, that is situated in Kohila, Estonia and the purchase negotiation process is started;
2. The purpose of Mill purchase deal is to re-establish industrial production in the Mill and develop the production of plywood.
3. An important factor in the plywood production process is the availability of the timber resource, therefore the issue about the providing of timber resources is an important provision by the appraisal of the Mill purchasing.
4. Parties would like to develop the availability of birch wood in region of Baltic Sea states, as well as, to promote the processing of birch wood in accordance with volume of available timber in Estonia.
5. Parties would like to develop and stimulate the growing of birch, the economically justified usage of birch wood and manufacturing wood products with higher value added.

Taking into account the mentioned above the Parties agree about the cooperation in accordance with following stages of cooperation:

### 1. Terms of co-operation in 1<sup>st</sup> stage:

- 1.1. The Parties agree, that within the time period from 1.08.2011 until 30.09.2011 RMK undertakes to sell and LF undertakes to purchase from RMK birch round wood in trial amount of in the amount varying from 800 m<sup>3</sup> to 1000 m<sup>3</sup>.
- 1.2. The purpose of purchase of birch round wood (as stated in Article 1.1) is:
  - 1) For LF - to get acquainted with the quality conditions of birch round wood sold by RMK and classification of assortment specification;
  - 2) For RMK to get acquainted with the quality conditions and classification of assortment specification for birch round wood most suitable for plywood manufacturing mills and to get acquainted with the measurement system of round wood at the delivery destination of LF.



- 3) For both Parties - to evaluate and develop the further co-operation on sale and purchase of birch round wood.
- 1.3. Within the framework of co-operation in 1<sup>st</sup> stage the price of birch round wood shall be the same as market price of similar birch round wood fixed by RMK on date of delivery.
- 1.4. Delivery terms shall be stated in accordance with Incoterms® 2010 DAP Riga or DAT railway station in Estonia.
- 1.5. Schedule of delivery and payment conditions shall be mutually agreed by the both Parties in accordance with practise of RMK.
- 1.6. Measurement shall be made by SIA "VMF Latvia" and measurement cost shall be paid by LF.
- 1.7. Quality requirements:  
70% of the amount mentioned in Article 1.1. shall be delivered in accordance with RMK quality conditions for the plywood manufacturing industry.  
20% of the amount mentioned in Article 1.1. shall be delivered in accordance with RMK quality conditions for the sawn timber manufacturing industry.  
10% of the amount mentioned in Article 1.1. shall be delivered in accordance with LF quality requirements for purchasing of the birch round wood. LF's representative together with RMK representative shall jointly take part in process of preparation of birch round wood planned for delivery.
- 1.8. The conditions of co-operation 1<sup>st</sup> stage will become effective on date of signing of this Memorandum by the both Parties and shall be valid till fulfilling of respective obligations of the Parties.
- 1.9. Not later than until 30<sup>th</sup> of September 2011 the Parties undertake to evaluate the performed deliveries and, if the Parties will have no objections, to agree in written form about continuation of co-operation, specifying conditions of co-operation in 2<sup>nd</sup> and 3<sup>rd</sup> stages.

2. Terms of co-operation in 2<sup>nd</sup> stage:

- 2.1. The conditions about cooperation in the 2<sup>nd</sup> stage become effective only when the both following preconditions are met and valid:
- 1) LF or daughter company of LF (registered in Estonia) has bought the Mill; and
  - 2) The Parties have agreed about the continuation of the cooperation in accordance to the Article 1.9. of this Memorandum.
- 2.2. In Order to test the operation of the Mill, during the time period from 01.10.2011 until 30.11.2011 RMK undertakes to sell and LF undertakes, that the daughter company of LF (registered in Estonia) will purchase birch round wood in trial in the amount varying from 800 m3 to 1000 m3.
- 2.3. Within the framework of co-operation in 2<sup>nd</sup> stage the price of birch round wood shall be the same as market price of similar birch round wood fixed by RMK on date of delivery.
- 2.4. Delivery terms shall be stated in accordance with Incoterms® 2010 DAP Kohila.



- 2.5. Schedule of delivery and payment conditions shall be mutually agreed by the both Parties in accordance with practise of RMK.
- 2.6. Measurement shall be made by OÜ VMF Estonia and measurement cost shall be paid by LF or daughter company of LF (registered in Estonia).
- 2.7. Quality requirements of the amount mentioned in Article 2.2. shall be in accordance with LF quality requirements for purchasing of the birch round wood it aiming to use in the Mill.
- 2.8. Not later than until 30<sup>th</sup> of November 2011 the Parties undertake to evaluate the performed deliveries and, if the Parties will have no objections, to specify conditions of co-operation in 3<sup>rd</sup> stage.

### 3. Terms of cooperation in the 3<sup>rd</sup> Stage.

- 3.1. The conditions about cooperation in the 3<sup>rd</sup> stage become effective only when the following precondition is met and valid:

The Parties have agreed about the continuation of the cooperation in accordance to the Article 1.9. and 2.8. of this Memorandum.
- 3.2. In order to provide the operation of the Mill with birch round wood production capacity 120 000 m<sup>3</sup> a year and to ensure the development of Mill, RMK undertakes to sell birch round wood to LF or daughter company of LF (registered in Estonia), if LF or daughter company of LF will successfully participate at the negotiations of long-term agreement to be arranged by RMK during 4<sup>th</sup> quarter 2011, considering following ground rules of co-operation:
  - 3.2.1. The period of co-operation in 3<sup>rd</sup> stage shall be 5 years from the 1<sup>st</sup> of January 2012.
  - 3.2.2. The annual amount of birch round wood deliveries to LF or daughter company of LF (registered in Estonia) shall be a certain percentage from the total annual RMK sales amount (i.e. for all purchasers together) of birch round wood (excepting birch fire- and pulpwood). The total estimated annual volume of such wood is 131000 m<sup>3</sup>.
  - 3.2.3. Exact annual amount of birch round wood and delivery plan (division into months) shall be mutually agreed in written form by the both Parties every year.
  - 3.2.4. The price of birch round wood for every next half-year period shall be agreed between the Parties once in a half-year. In the process of coordination of the prices, LF will send to RMK an offer of birch round wood purchasing price for next half-year period and RMK will evaluate and respond this offer considering following conditions:
    - 1) Changes of plywood end product prices in world market;
    - 2) Changes of birch round wood market price in Baltic Sea region.
- 3.3. Specification of birch round wood, quality requirements, terms of delivery, measurement and payment shall be mutually agreed in written form by the both Parties.
- 3.4. For promoting of growing of birch in Estonia, the Parties will co-operate in planting, growing and using of birch wood to ensure availability of birch in long run.

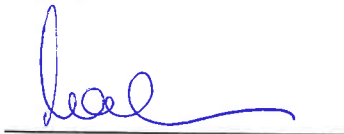


#### **4. Other Conditions**

- 4.1. In case RMK is going to arrange negotiations of long-term agreement during 4<sup>th</sup> quarter 2011 and the Parties have not achieved the targets set to 2<sup>nd</sup> Stage by that time, the evaluation of performance of deliveries in accordance to the Article 2.8 shall be made within three weeks before officially announced negotiations of long-term agreements start.
- 4.2. Neither Party without the written accept of the other Party is authorised to disclose to the third party any information it has gained from the other Party concerning Memorandum, unless this information has been available in public or except for the cases provided for in the laws, when it has to be disclosed to the governmental or municipal institutions.
- 4.3. The above mentioned Confidentiality clause does not concern the cases when the information is given away to the Parties' representatives or contractors, consulting the Party on the implementation of the memorandum; the person giving away the information to its representatives or contractors has to ensure that the person, which has gained the information, is considering the confidentiality conditions, enclosed in this Memorandum.
- 4.4. This Memorandum becomes effective on the date the both Parties have signed it and will be valid till fulfilling of respective obligations of the Parties.
- 4.5. This Memorandum can be terminated before the date by the mutual written agreement between the Parties.
- 4.6. All the disputes between the Parties, arising regarding to this Memorandum, are to be amicably negotiated; in case it is not possible, the dispute will be resolved in court according to the laws of the Republic of Estonia.
- 4.7. This Memorandum has been composed in English in two identical copies, one copy for each Party.
- 4.8. Neither Party without the written accept of the other Party is authorised to grant its rights or obligations arising from this Memorandum, to the third party.

#### **5. Signatures**

**RMK**



Ulvar Kaubi

**LF**



Uldis Biķis