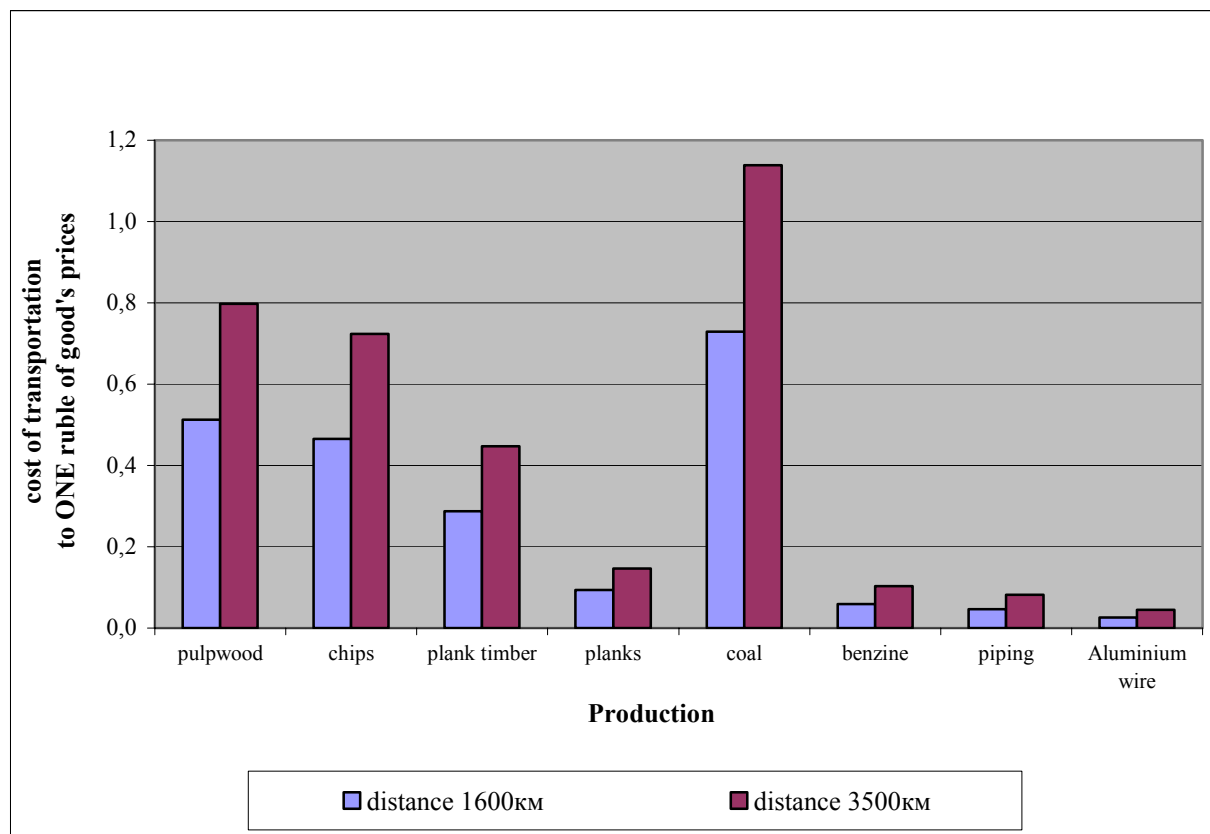


Appendix 4. Prices on production, raw materials and transportation.

In the given document the analysis of dynamics of prices for finished commodity of woodcutting and for necessary resources and also dynamics of charges for delivery of merchantable wood is given. The document is built according to priorities that seem most important to the authors.

The ratio of production value and its transportation to the consumer

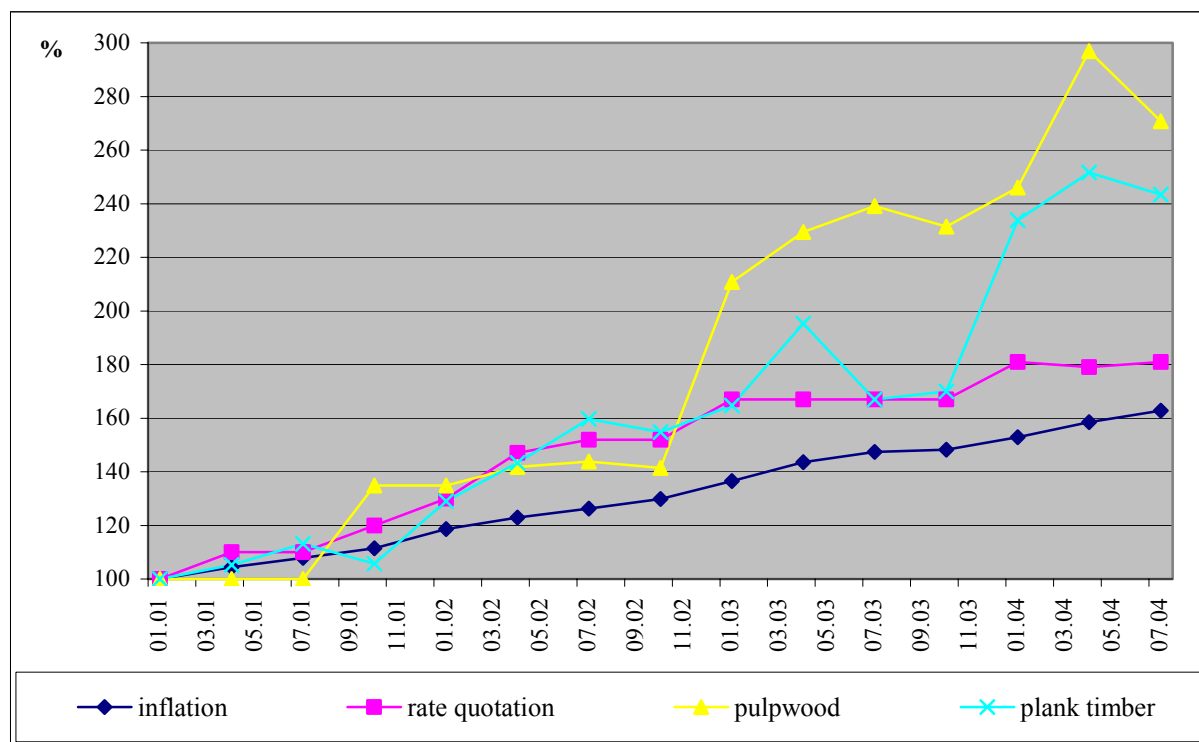
The key moment in the analysis of a ratio of market prices on merchantable wood and of its carriage is understanding that the value of production for consumers (for example, pulp and paper mills) differs from the cost price not only on size of clear profit but also on carriage to the consumer. The explaining diagram is given below.



As shown in the diagram switch from traditional production (plank wood and pulpwood) to production of round wood processing and wood chips as raw material for cellulose promises considerable benefits. If the profit from change to sawing production seems obvious, the validity of changeover on wood chips requires some explanations. Firstly, at the change from plank wood to board lumber it is possible to increase profitability of sawing at the expense of wood chips sale. Secondly, at switch from pulpwood to wood chips some technological stages of harvesting become simpler or vanish absolutely, that lowers the cost price of felling. Thirdly, at such technological approach most full use of wood is achieved.

Dynamics of the prices on integrated products

For the analysis of the prices dynamics the average data on real sales of the enterprise were taken. All data is taken in percentage terms. For a reference point January 2001 is accepted. On the diagram inflation and railroad rate for transportations are displayed.



Price level for plank timber.

During last years stable rise of prices on plank timber is observed on the home market of the Russian Federation. The weighted average price on coniferous plank timber in the European part of the Russian Federation in 2001 has made 410.00 roubles for cubic meter, in 2002 – 570.00 roubles/m³, in 2003 – 670.00 roubles/m³, in the present period (the first half-year of 2004) it makes 860.00 roubles/m³ (all prices are specified without taking VAT into account). Thus, on the coniferous sawing materials about 28.3 % cost increase per one year is observed.

Europe is seriously competing with the Russian internal market of plank timber. The mean price of a cubic meter in the European market makes 70.00 US dollars or about 2 100.00 roubles taking VAT into account. The specified price is stable during several years and there are no visible reasons for its instability. There are two constraining factors that influence growth of export volumes of plank timber from the European part of the Russian Federation to Europe: 1) obligation of licensing and certification of goods by the European rules (down to licensing and certification of a raw base (i.e. available wood)); 2) necessary large volumes of consignments (as a rule, ship parcels). The second factor is connected with the necessity of optimization of shipping costs. Licensing and certification are serious questions for many suppliers of wood raw materials in the present moment. In 2003-2004 the tendency to pass through the inspection certification by logging enterprises voluntarily was rather seriously. As to creation of large lots of goods for last three years a whole network of firms engaged in batching of the given consignments and organization of shipments directly in ports was created. As a rule such firms have a stable range of suppliers of plank timber. Besides last two years the tendency of growth of export in the Asian countries (Kazakhstan, Iran etc.) becomes more and more serious.

Summarizing told above it would be possible to assume that reduction of export volumes from the European part of the Russian Federation to Europe in a near future is not expected, but during last 7-8 years the state statistical data show serious decrease of volumes of harvesting both in the European part of the Russian Federation and in Siberia.

Last state statistics fix the precise tendency that lucrative woodworking enterprises become unprofitable. It is seen especially clear for small woodworking factories. At stable cost increase on plank timber processing and selling of a raw waste lumber (particularly sale

of wood chips to pulp and paper milks as a raw material) become the determining factor for rise of profitability.

At the dearness on sawing raw material on the foreign markets and general decrease of woodcutting volumes in the Russian Federation it is possible to predict continuation of cost increase on sawing raw material in the country within the former rates down to alignment with the European values. At preservation of the listed tendencies the European price level on Russian home market will be achieved approximately by 2010 and then prices will become stabilize.

Price level on pulpwood

For some last years the same stable cost increase on pulpwood, as well as on sawing raw material, is observed on the Russian home market. The weighted average price on coniferous pulpwood in the European part of Russian Federation in 2001 has made 230.00 roubles for cubic meter, in 2002 – 310.00 roubles/m³, in 2003 – 460.00 roubles/m³, in the present period (first half-year of 2004) – 550.00 roubles/m³ (all prices are given without taking VAT into account). Thus, the rise in prices on about 34.2 % a year on coniferous pulpwood is observed. The rise in prices on deciduous pulpwood is still essentially behind the growth rate of prices on coniferous raw materials and makes about 6.5 % per one year.

Pulpwood is a raw material for pulp and paper industry. Average volume of consumption by pulp and paper milks (PPM) makes from several thousand up to several tens thousand cubic meters of pulpwood per day. As in Russia there is no lespromchoz with similar volume of manufacture in the pulpwood market a system of intermediary firms of the first and second levels has appeared. A brokerage business of the first level is an Affiliated company as a rule and delivers raw material directly to a pulp and paper milk. For reception of quotas on delivery and forming of favourable prices on posting of raw material the intermediaries of the first level are forced to form parcels of volume over one million cubic meters per one year. In this connection they willingly negotiate contracts on consignment with volume over fifty thousand cubic meters annually. In the present moment it is not a lot of logging enterprises with such, that is why intermediaries of the second level had appeared. These firms buy up pulpwood directly in the bottom timber landings of logging enterprises for undercharges. Orientation toward intermediaries of the second level is fraught with instability of selling and purchasing prices.

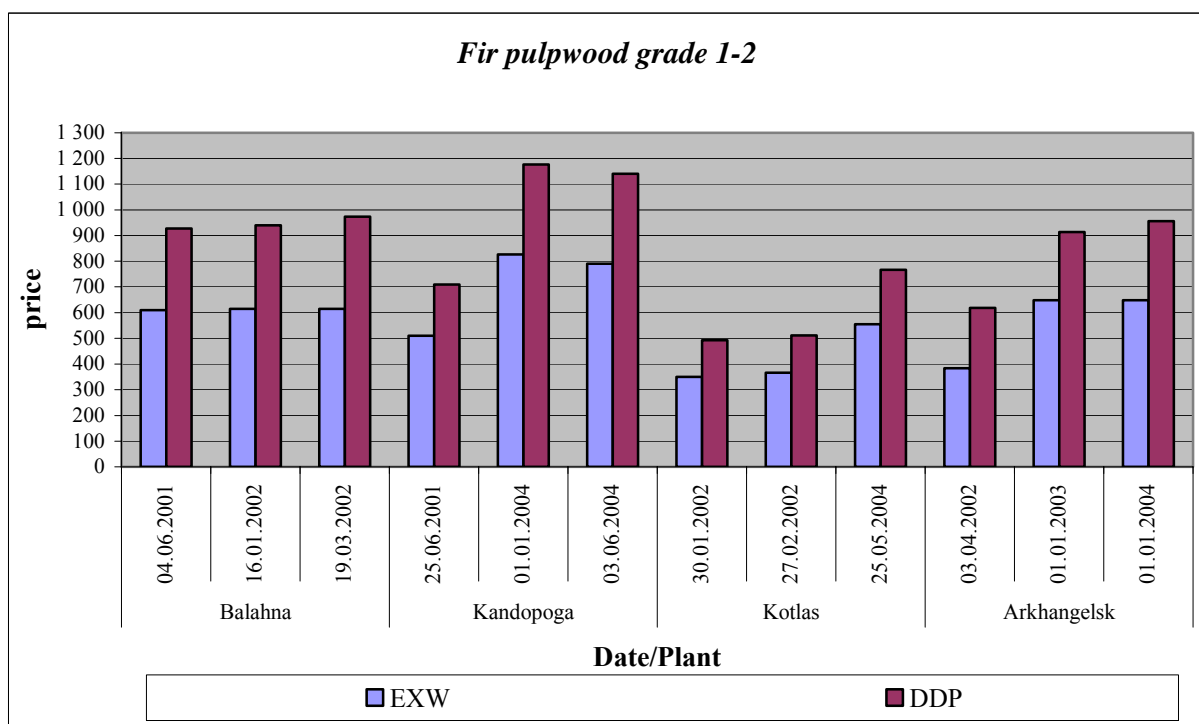
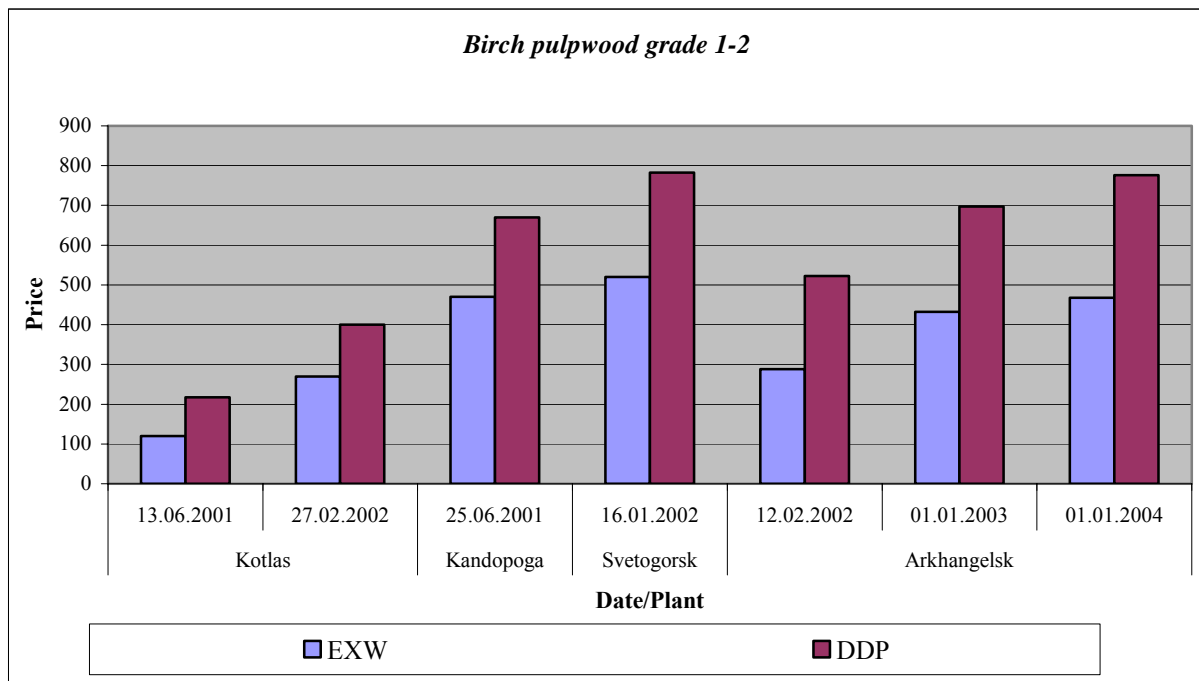
Difference in rates between coniferous and deciduous pulpwood cost increase is explained by technology of cellulose manufacture. Production of high-quality cellulose from deciduous raw material requires reorganization of technology and re-equipment of the majority PPM. In this connection growth of demand for deciduous pulpwood is slower.

The middle Europe price on pulpwood makes about 45.00 US dollars or about 1 350.00 roubles for cubic meter. But in connection with far not optimum ratio of shipping costs and value of sales on the European market export volume of pulpwood from Russian Federation is not very big and continues to reduce. The decrease of export volumes is connected directly with already mentioned general downswing of wood raw material in the country and stable rise in prices on raw material for cellulose on a home market.

By now most of PPMs aspire to ensure their own raw base. In this connection logging enterprises located within striking by car distance (the optimum variant) or on rather small distances from railroads are bought up. But the majority of purchased lespromchozes is on the verge of bankruptcy or are the bankrupts because of completely obsolete equipment and extremely out-of-date technology of woodcutting. Reorganization and reequipment of such enterprises and also training of the personnel will require serious financial expenditure and temporal costs.

As in the present moment the majority of pulp and paper milks can supply itself with raw material only on 30-40% and the rest is bought up in addition at the free suppliers, and also because of the mentioned difficulties, which are necessary for overcoming for increase of

own production efficiency, the tendency of rise in prices on a home market of pulpwood will be kept at the worst on an extent of two years more. However it is necessary to mean the fact that the price will not reach the European level, 'cause in that case manufacture of cellulose will become unprofitable on account of technological gap of Russian PPMs.



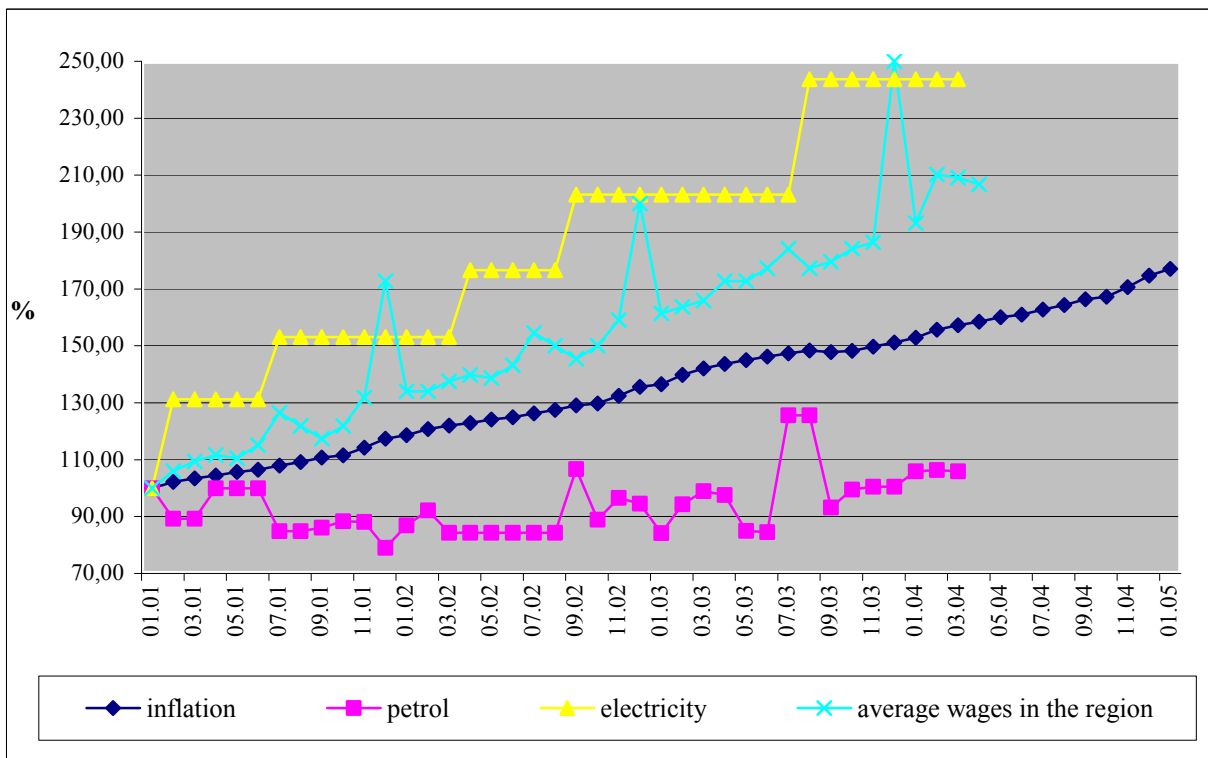
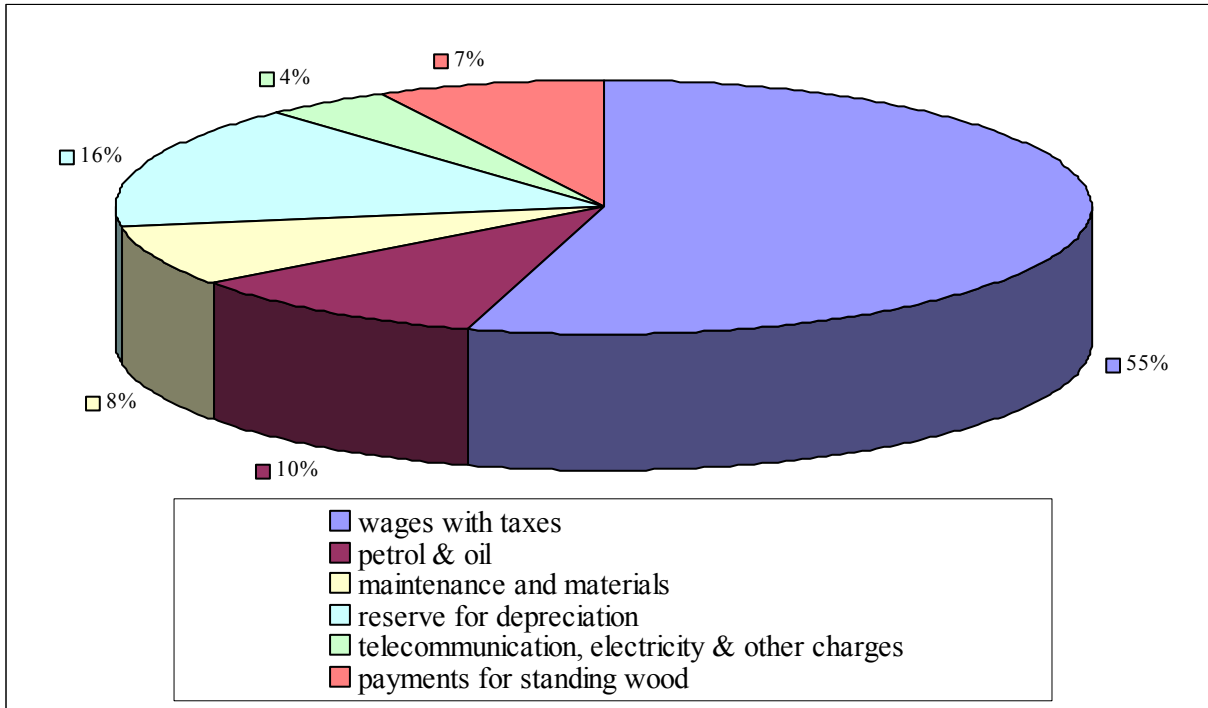
Price level on raw material and firewood.

For last years the price level on technical raw material and firewood did not and will not change. The specified commodity outputs are not profitable for transportation categorically. In this connection the given kinds of the goods are sold locally. As a rule their consumers are the local state structures (bodies of authority at the local area, railroad departments and etc.), using them for heating and other economic needs. Actually at general unprofitableness of these products their selling serves to maintain friendly relations with the

bodies of the local authority, which allow referring to participation in the social policy of the region.

Price level on resources

For successful business dealing it is necessary to understand how the prices for production, labour and other resources change in time. Typical for Russian lespromchoz structure of the cost price is given below. It is necessary to pay special attention on shares of wages and their growth rate.



On the following diagram the growth curves of average wages in the region and on the enterprise are given. As in the beginning of work the enterprise was practically on the verge of bankruptcy the growth of wages is higher, but at the same time the level of the average salary in republic is not achieved yet.

