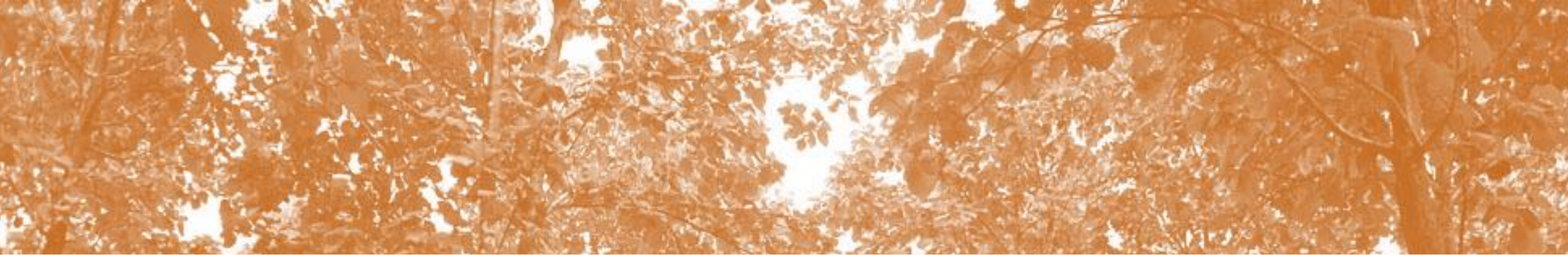

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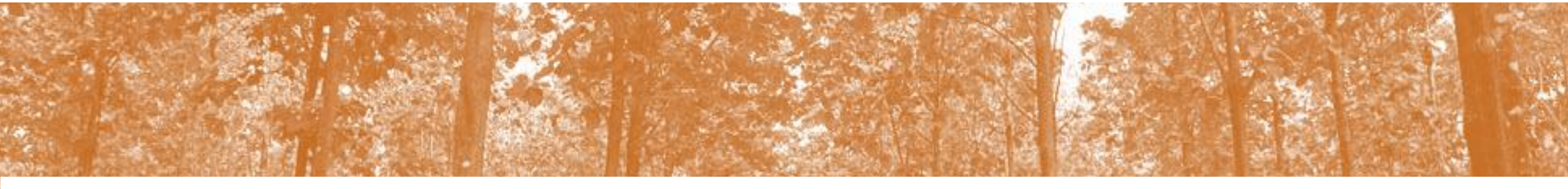

Insights into the Teak Market from a Latin American Perspective

Guayaquil, May 2015

Introduction to Aron Global

One of the three dominant teak traders in the Latin America to Asia trade flow

Procurement Offices

- **Latin America & Caribbean**
  - -Panama
  - -Costa Rica
  - -Ecuador
  - -Guatemala
  - -El Salvador
  - -Trinidad & Tobago

Singapore Head Office

Sales Offices

- **India**
  - -Kandla / Mundra
  - -Chennai
  - -Mumbai
  - -Tuticorin
  - -New Delhi
- Significant sales reach across **Vietnam** and **China**

Sales partner of Floresteca, Brazil in Asia
Aron Global & Floresteca together are the biggest suppliers into the World Market

Asian Teak – Past & Present

Natural Teak / High quality Plantations – Past Status	Current Status
• Burma/India - 1800s / early 1900s – British control. Cash cow.	• Huge teak plantations available.
• Burma/India – Mid 1900s to date – Government control.	• Environmental sensitivities.
• Low cost structure. Commercials?	• Forest cover sensitivities.
• Good demand. Burma/WW2/85%	• Little commercial pressures.
• Seller's market.	• Low supplies. Thank the Govts!
	• Still a Seller's market.

African Teak – Past & Present

Mostly Medium Quality Plantations – Past Status	Current Status
• First half 1900s – Plantations established by colonial powers. • Mostly exploited in late 1900s post independence by Govts. • Major supplier from 1990-2010. • Low cost structure. No commercial pressures. • **Seller's market always.**	• Mixed bag - Overexploited countries, Underexploited countries. Overall volumes down. • Concerns leading to nil or low plantation investments. • Good quality supplies are low. • **Still a Seller's market for medium quality teak like Sudan, Benin, Ivory Coast.**

Lat Am Teak – Past & Present

Low to Medium Quality Plantations – Past Status	Current Status
• Started in 1980s. A mixed bag of plantations. • Tall promises plantations. • Tax savings. Government grants. • Burma Teak comparison driven. • Small/Medium holder 'unsure economics'. • Planned commercial plantations. • **Seller's Market.**	• Plantings at a lower pace since the 2008 financial crisis. • TIMOs in the house since 2000s. • **300-325,000 hectares planted area. Largely 1995-2008 vintage.** • **Is this a Seller's market? Just about. A big change is coming about after 200 years.**

Current Plantation Teak Market

The traded plantation teak market worldwide is around 1.25 million geometric cbm per year. Of this Lat Am is 0.75 million cbm.

What Vietnam AND China import in a year is what India imports every two weeks. Other countries do not even move the needle.

In effect, 95 percent of the plantation teak market is India.

- Burma Teak going away is not as relevant as we think. Rolls Royce TG versus a Hyundai TG.
- China fed on an easy diet of cheap cross border Burma Teak. Plantation teak an experiment.

India – Pictorial Representation

Massive
1.25 Billion. 2 Trillion GDP

Fragmented.
600 Customers across 7 ports

Purchase
Spot. Credit Terms.

Unreliable
Difficult Customers

Complex.
Region wise preferences.

Likely Growth
60-70% China. Still Good.

India’s Teak Future

By 2030 India will have a GDP of ~ US$ 5.5 trillion. **Equivalent to Lat Am.**

There is a high correlation between GDP and Timber Usage

Malaysian hardwoods ‘owns’ the India timber space. On a secular decline.

Teak is no more than 15 percent of India’s timber imports. Headroom exists.

Eventually GDP led growth and replacement growth will both be seen.

The Lat Am Problem Years

Latin American Teak supply is a fraction of potential capacity. Changing fast.

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2007 – 30 percent Latin Teak / 70 percent African Teak

2015 – 60 percent Latin Teak / 40 percent African Teak

2020 – 80 percent Latin Teak / 20 percent African Teak

Encouraging. But …

300-325k hectares. 3-3.25 million cbm supply. On top it not linear.

40-65 cm thinnings / Clonal thinnings / Late thinnings? / Final harvest??

From a Seller's to a Buyer's market due to oversupply for the next 5-7 years.

Way forward for Lat Am Producers

Recognize reality. Reality different across girths, qualities and countries.

Create own sales network in Asia or forge long term relationships with quality traders.

New forms. Squares, sizes, decking, flooring, chips, thermal treated wood.

Certification? Focus on Lat Am/Asia. Niches available. US/EU/AF?

Focus on sales as a key business activity. Prepare for a difficult marketplace. **Be prepared for price volatility and liquidity volatility**.

The future is still bright. The time to plant is perhaps now. The <u>low cost</u> and <u>proactive</u> producer will reap the benefits after these few years of turmoil.

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Thank You