

ESG SERIES: TIMBER, PULP AND ESG RISK

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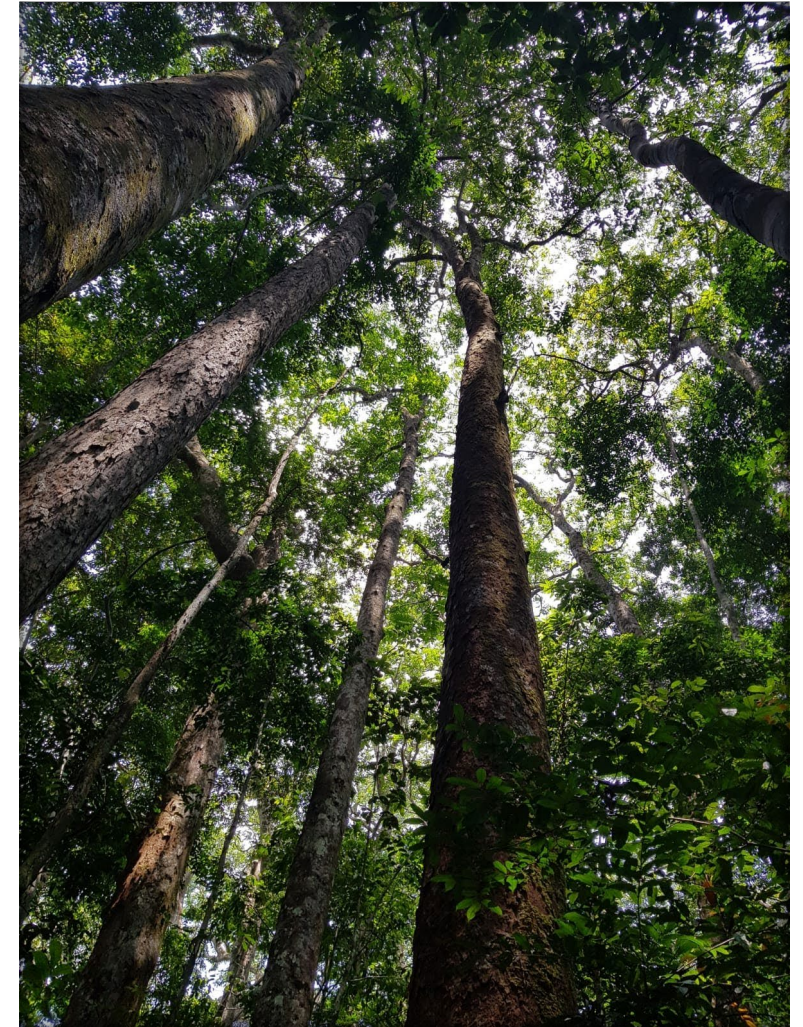
Introducing SPOTT

Tracking transparency, supporting sustainability

SPOTT.org @ZSLSPOTT

TIMBER AND PULP – the Facts

- Forests are often referred to as the ‘lungs of the earth’ – they regulate our weather patterns and store enormous amounts of carbon.
- Tropical rainforests cover around 10% of the Earth’s surface, but host over two-thirds of the world’s biodiversity. Globally, about 1.15 billion ha of forest is managed primarily for the production of wood and non-wood forest products. In addition, 749 million ha is designated for multiple use, which often includes production.
- **Deforestation** - Annual CO2 emissions from tropical tree cover loss are equal to the total GHG emissions of the European Union. (2019). Between 2014-2018, the world lost tropical forest cover at an alarming rate - on average an area the size of the UK each year
- Tropical forests provide a home and livelihoods to over 300 million indigenous peoples, who depend on forests for fuelwood, non-timber forest products such as cork, nuts and rubber
- This timber may come from **natural forest** (existing primary and secondary forests harvested for timber) or **timber plantations** (often single-species or “**monoculture**”) which are grown by humans to maximise production
- Timber is one of the oldest construction materials and has many uses – harvested in a sustainable way, it is a powerful tool in the fight against climate change



Do your investees have exposure?

Timber

- Producers and traders
- Biomass
- Construction
- Railways
- Furniture/decoration
- Flooring
- Musical instruments

Wood Pulp

- Producers and traders
- Paper companies
- Packaging companies
- Paper and packaging buying companies
- Fashion (cellulose)
- Food industry (additive)

What is SPOTT?

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What is SPOTT?

- SPOTT is a free online platform dedicated to supporting transparency amongst upstream commodity producers
- The **SPOTT team** assesses (>200) the world's largest producers and traders of palm oil, timber & pulp and rubber
- Companies are assessed on the public disclosure of their policies, operations and commitments across 10 ESG categories
- Used by financial institutions and supply chain companies to inform investment & purchasing decisions



What is SPOTT?

- Over 1000+ dashboard users as of August 2020
- Our data is open to all, so many more than 1000 users use our platform.
- Our [Supporter Network](#) includes some of the world's largest asset managers and banks, who support SPOTT's mission "*We support SPOTT's call for increased transparency in commodity sectors to promote sustainable production and trade.*"
- Most recent assessment of 100 timber and pulp producers and traders, released in July 2020.

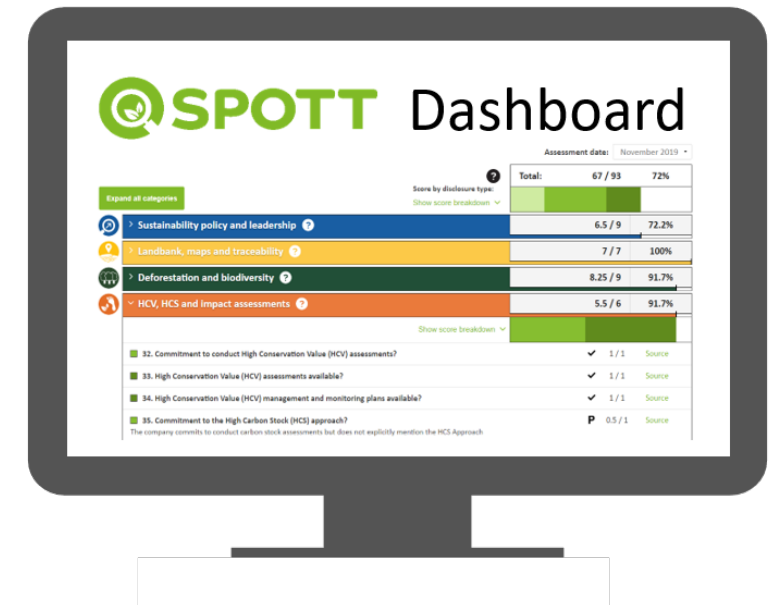


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How does SPOTT assess companies?

- Total of 100+ indicators grouped into 10 categories
- These indicators assess information published by companies:
 - On their websites
 - In reports
 - On other trustworthy websites or sources
- These indicators cover:
 - Information on company operations
 - Policies and commitments
 - Targets for improvement
 - Self-reported and audited progress reporting



How does SPOTT assess companies?

- Process relies on regular, constructive engagement between the SPOTT team and assessed companies
- Opportunity for companies to understand industry expectations, respond to ZSL, and potentially improve disclosures ahead of the final review and publication on SPOTT
- Supporters increase the incentive for companies to meet industry expectations and improve their transparency



What is SPOTT not?

- SPOTT does **NOT** carry out field audits of companies in the field
- SPOTT is entirely voluntary – companies are not compelled to engage or participate.
- Media monitor adds more qualitative information for buyers and investors on whether companies are implementing their commitments in the field
- SPOTT should be seen as the first step in a due diligence process which should include engagement with a company, and where possible, a field-audit of the company's operations





SPOTT Timber and Pulp assessments 2020

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SPOTT Timber & Pulp – 2020 assessments

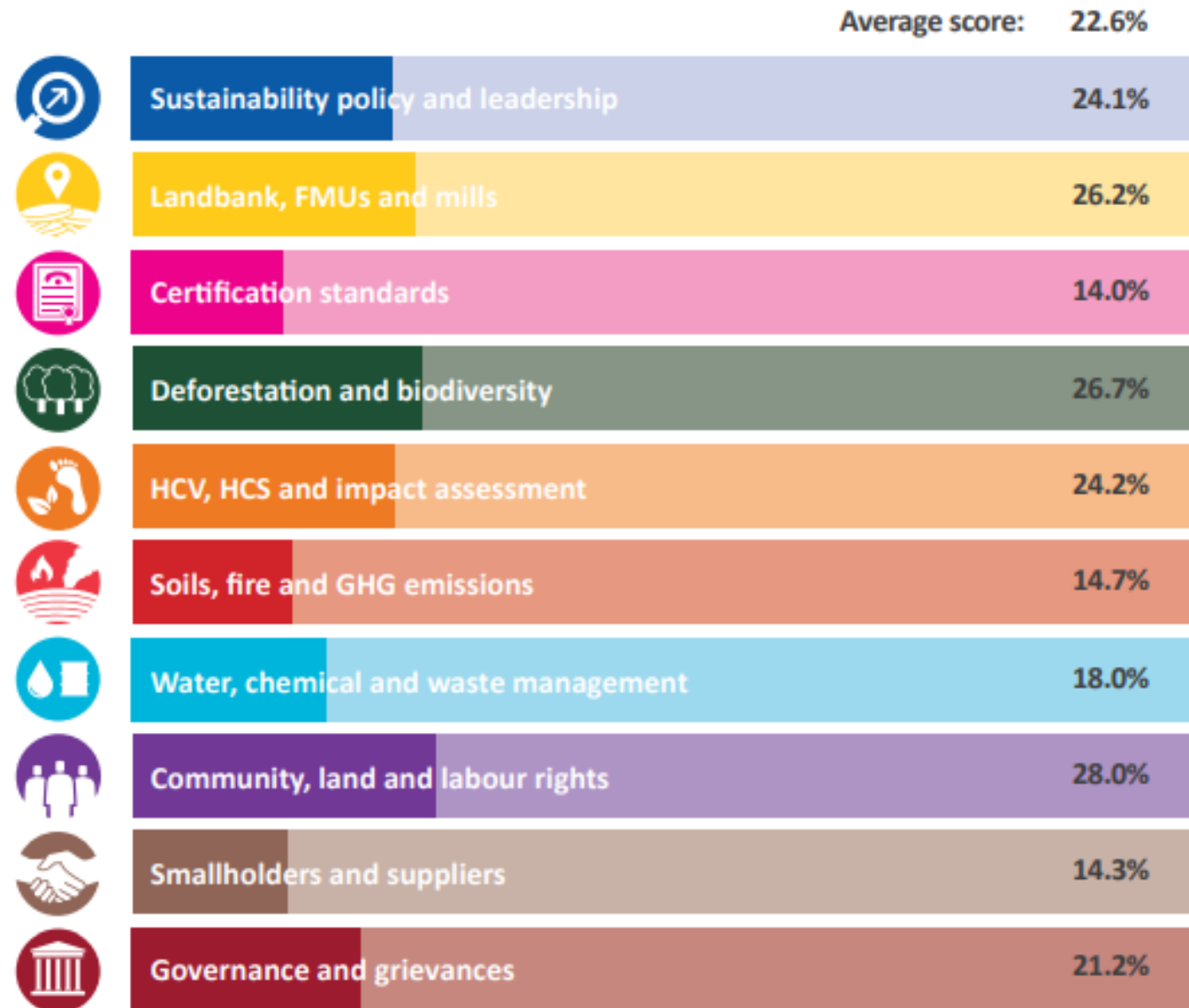
- Most recent results published in July 2020.
- 100 companies assessed against 175 indicators.
- The average score of companies is 22.6% in July 2020, compared to 20.4% during the last assessment of timber and pulp companies in July 2019.
- The average score of 94 companies also assessed in 2019 is 22.5% compared to 20.4% last year.
- There is clear room for improvement for many companies – the T&P sector is behind other commodities (such as Palm Oil) in terms of transparency and disclosure.
- As producers, plantation forest companies tend to be more transparent than natural forest based companies – and traders assessed on SPOTT score very low.



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SPOTT Timber and Pulp Assessments 2020 – Scores by category





Timber and pulp: ESG policy transparency assessments

Latest update: July 2020 | Next scheduled: July 2021

[Download data \(CSV\)](#) | [View summary \(PDF\)](#)

SPOTT assesses multiple timber and pulp producers and traders on the public disclosure of their policies... [Show more](#) ▾

[Modify score weighting](#)

[Add filter\(s\)](#)

Disclosure types: ☐ Organisation ☒ Policy ☐ Practice [?]

[Show overview](#) ▾

Company	Rank	Total score	Change	Disclosure	Engaged	Headquarters	Landbank	Market cap	Media
Interholco	1	90.7% 	-4.0% ▼			Switzerland	801.7 KHa	Private co.	18
Precious Woods	2	89.1% 	+11.7% ▲			Switzerland	1,103.5 KHa	Private co.	6
Woodbois	3	75.9% 	+6.4% ▲			United Kingdom	337.5 KHa	\$17.6M	3
Duratex	4	75.8% 	+10.2% ▲			Brazil	139.2 KHa	\$1,870.8M	8
Klabir	5	73.6% 	-4.9% ▼			Brazil	257.0 KHa	\$4,316.3M	11
Compagnie des Bois du Gabon	6	73.3% 	+5.8% ▲			Gabon	568.5 KHa	Private co.	4
Olam International	7	70.8% 	-7.6% ▼			Singapore	2,200.0 KHa	\$3,206.4M	24
▲ APP (Asia Pulp and Paper)...	8	69.9% 	-4.5% ▼			Indonesia	1,082.8 KHa	Private co.	228
Maderacre	9	69.5% 	+2.1% ▲			Peru	209.1 KHa	Private co.	0
▲ APRIL	10	62.9% 	-10.7% ▼			Singapore	445.7 KHa	Private co.	113



SPOTT categories and key ESG issues and risks

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Environmental issues and SPOTT assessments

- **Deforestation** – which is not just cutting down trees but clearing forest for other land uses (commercial plantations, agricultural commodities, cattle grazing, mining, infrastructure)
- **Degradation** - Selective logging in natural forests also has impacts (e.g. carbon leakage) – such as when trees are felled and logging roads created
- **Fire**
- **Biodiversity**

Timber and pulp
assessment 2020

**40/90 (44%) of
companies have no
zero-deforestation
commitment**

**41/90 (46%)
companies
have a clear
commitment
to biodiversity
conservation**

**Only 33/90
(37%) companies
that control land
provide some examples
of species or habitat
conservation
management on their
concessions**

**Only 12/50
companies have a
system to monitor
deforestation in
their entire
operations**

Social risks

- Indigenous rights
 - FPIC
- Workers' rights
 - International Labour Organisation
- Anti-harassment and gender policy
- Corruption and commitment to ethical conduct

Only
49/93 (53%)
companies
Are committed to
respecting indigenous
and local communities'
rights

53/100 (53%)
companies clearly
commit to all eight
fundamental
International Labour
Organization (ILO)
Conventions.

Just 8/93 (9%)
have a full
commitment to
obtain free, prior and
informed consent
(FPIC) prior to all new
developments

SPOTT Timber & Pulp – risks

- Financial (loss of key markets, boycotts, disassociation from certification schemes)
- Operational (moratoria, export bans, roadblocks, stranded assets)
- Legal (litigation)
- Reputational (due diligence and screening)



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Mitigating risk

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TIMBER AND PULP – voluntary certification

- FSC, founded in 1993, awards certification against 10 principles covering environmental, social and governmental issues. It has three chambers – Economic, Environmental and Social – that come together to make decisions.
- PEFC is an industry focused certification scheme. Both FSC and PEFC certify natural and plantation forest.
- FSC's principles are strong, covering worker's rights, indigenous rights and the preservation of high conservation values. PEFC is not as strong on environmental or social issues.
- ZSL SPOTT considers FSC to be the strongest voluntary certification system, although not the last word in sustainable forest management.
- **The average score of companies with some or all of their landbank Forest Stewardship Council (FSC) Forest Management (FM) certified or Programme for Endorsement of Forestry Certification (PEFC) FM certified is 48.6% compared to 8% for companies lacking such certification.**



Call to action



- Look into your direct and indirect exposure (see our scorecards and individual company assessments on www.SPOTT.org)
- Benchmark your own policies against other FIs on www.SCRIPT.finance
- Join engagements to address ESG issues in commodity supply chains – PRI has palm oil and deforestation working groups and collective engagements.
- CA100+ also engages pulp companies
- Engage companies directly or send them our way
- Get in touch!

Join our Supporter Network

“ *We support SPOTT’s call for increased transparency in commodity sectors to promote sustainable production and trade* ”

www.spott.org/supporter-network/

or

Charlie.hammans@zsl.org



Developed by the Zoological Society of London (ZSL), SPOTT is a free, online platform supporting sustainable commodity production and trade. By tracking transparency, SPOTT incentivises the implementation of corporate best practice.

SPOTT assesses commodity producers and traders on the public disclosure of policies, operations and commitments related to environmental, social and governance (ESG) issues. Investors, buyers and other key influencers can use SPOTT assessments to inform stakeholder engagement, manage ESG risk, and increase transparency across multiple industries.

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Woodbois





Market Overview & ESG
Certification from a Company view

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High growth proposition in an increasingly important sector

Company Overview

- Woodbois Limited, is a forestry and timber company involved in the production, processing, manufacture and supply of sustainable African hardwood and hardwood products
- c.400,000ha of forestry concessions in Gabon and Mozambique and **US\$117m of net assets on balance sheet**
- **Significant asset investment** including a veneer factory completed and modern European processing equipment installed at sawmill
- The Company has **raised cUS\$12m of receivables and inventory** financing from both institutional investors and HNW individuals
- **The Company has grown revenues from US\$0.6m in 2016 to cUS\$20m in 2019**

Principal Activities

	Activities	Commentary
GABON	 SAWMILL & KILN	Sawmill - 2,000m ³ per month Kilns - 2,000m ³ per month
	 VENEER FACTORY	670m ³ per month
TRADING	 TRADERS & OPERATIONS TEAM	Trading function with extensive pan-Africa network
MOZ.	 SAWMILL	1,000m ³ per month



(1) Does not include 17 entities that are Mozambique shell-concession entities, dormant or are in the process of being liquidated
 (2) As of 22nd June 2020

Targeting 20x revenue growth from developed and frontier markets

1

A US\$4.0 billion fragmented **sector ripe for consolidation by player with access to capital and innovative tech**

2

Timber is a natural resource unrepresented on global exchanges or capital markets

3

Sustainability, transparency and ESG lies at the heart of Woodbois' strategy – see SPOTT table

4

Experienced team and proprietary technology in place to scale Woodbois' trading business

5

Recent CAPEX **focused on maximizing returns from high margin** production assets

6

Ambition to achieve leadership status in profitability and sustainability

Overview of forestry business - Gabon

Established processing business in Gabon augmented by new kilns and sawmilling equipment in 2019

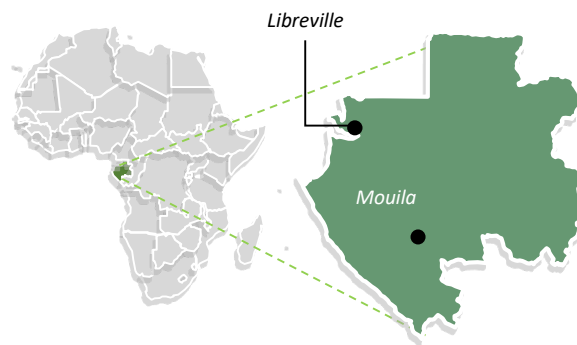
Overview

- Woodbois, through the business of its subsidiary, has been active in the Gabonese forestry sector for the last 25 years
- With over 95,000ha of forestry under management Woodbois Gabon is a significant player in the Country
- The Company owns significant harvesting equipment, a sawmill factory with kiln capacity as well as a veneer factory. All located in and around Mouila

Harvesting and Processing



Location



- The sawmill and veneer factory are both located in Mouila, c50km away from our forestry concessions
- The close proximity of WBG assets to the forest is a major competitive advantage that separates us from our competitors who locate their production assets in Libreville
- This lowers transport and salary costs whilst also providing local benefit- creating jobs in a less developed area of the Country

Veneer Factory



Overview of trading business

Experienced team comprised of timber specialists supplying sustainable timber to a global customer base

Overview

- Trading operations headquartered in Denmark with team of ex-DLH staffers
- Woodbois responsibly sources and trades products mainly from the Congo basin region

Key Highlights & Woodbois Competitive Advantage

The global hardwood timber market is worth US\$40bln annually but is not traded on any exchange

Trades are arranged via voice with margins ranging from 4 to 20%

Reliable empirical pricing data is very hard to access

Trade finance capital for the African export market is expensive and difficult to access for the majority of players.

Extensive barriers to entry as most supplier – buyer relationships are built face-to-face over time

Woodbois proprietary in-house-developed technology captures, stores and presents data, providing a matching engine to build scale as well as developing a database of empirical data to optimise trading opportunities

Woodbois has long standing, personal relationships with suppliers, progressively built over a 30 year period



Sustainable harvesting is at the core of the Woodbois business model

Sustainable harvesting with low impact in the forest

Forest management plans are developed in partnership with local communities and approved by multiple government agencies



Harvesting plans are based on a 23 year rotation cycle. Via the forest management plan – Woodbois harvests a section of its concession area over 3 years – after this period the same area cannot be entered for 20 years



These plans ensure the selective cutting of commercial species, by quantifying and locating appropriate trees allowing for low-impact logging plans

Key Takeaways

c1 tree harvested per hectare in 2019

16,000ha of conservation area

Only trees between 70 cm and 110 cm in diameter can be harvested

One of the largest formal employers in Mouila, Gabon

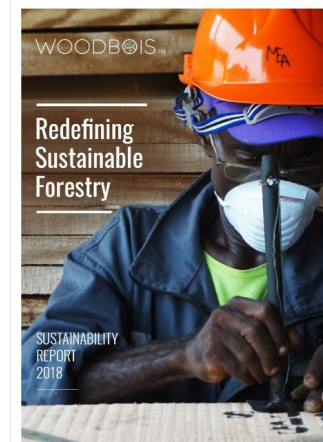
Providing manufacturing jobs in predominantly raw-material exporting country

Transparent, sustainable timber operations

- Zoological Society of London SPOTT 2019/2020 – 100 Timber Companies Transparency Ranking

Company	Rank	Total score	Change	Disclosure	Engaged	Headquarters
Interholco	1	90.7%	-4.0%		✓	Switzerland
Precious Woods	2	89.8%	+12.4%		✓	Switzerland
Woodbois	3	75.9%	+6.4%		✓	United Kingdom
Duratex	4	75.8%	+10.2%		✓	Brazil
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▲ APRIL	10	62.9%	-10.7%		✓	Singapore
Veracel	11	60.7%	-1.8%		✓	Brazil
Pallisco	=12	60.4%	+17.9%		✓	Cameroon
Toba Pulp Lestari	=12	60.4%	+27.4%		✓	Indonesia
Bracell	14	55%	+0.7%		✓	Hong Kong
Marubeni	15	53.3%	+0.6%		✓	Japan

- The Zoological Society of London ranks timber companies by the level of transparency of their operations – Woodbois ranked 3rd out of 100 companies
- Woodbois' Annual Sustainability Report enhances transparency by providing data relating to the economic, environmental and social impacts of our operations

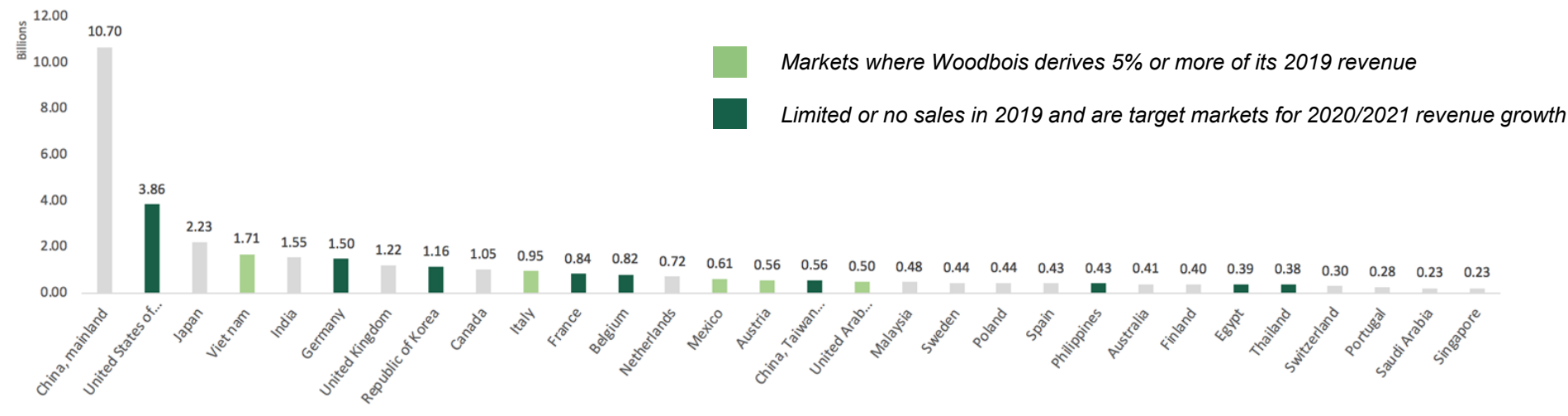


- Woodbois strong sustainability ethos will position the Company to become the partner of choice for Governments, local communities, suppliers, purchasers and investors within the Forestry sector.

Demand driven by global megatrends

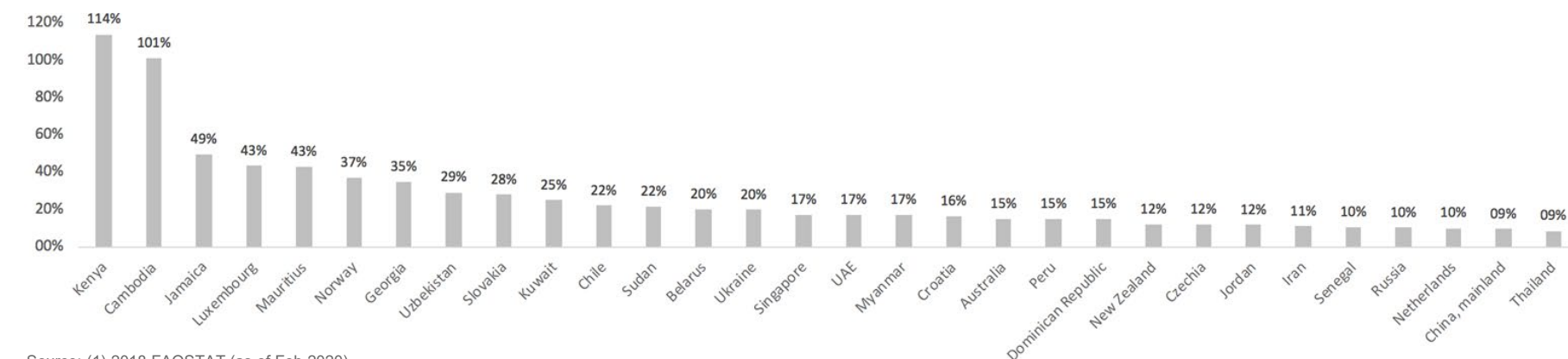
Import Value by Market – Top 30 Global Importers (US\$bln)⁽¹⁾

• Size of Woodbois' relevant categories; non-coniferous roundwood, sawnwood, veneer sheets and plywood



CAGR of Volume Imported by Market (minimum of 50,000m3 import threshold) – Top 30⁽²⁾

• Size of Woodbois' relevant categories; non-coniferous roundwood, sawnwood, veneer sheets and plywood

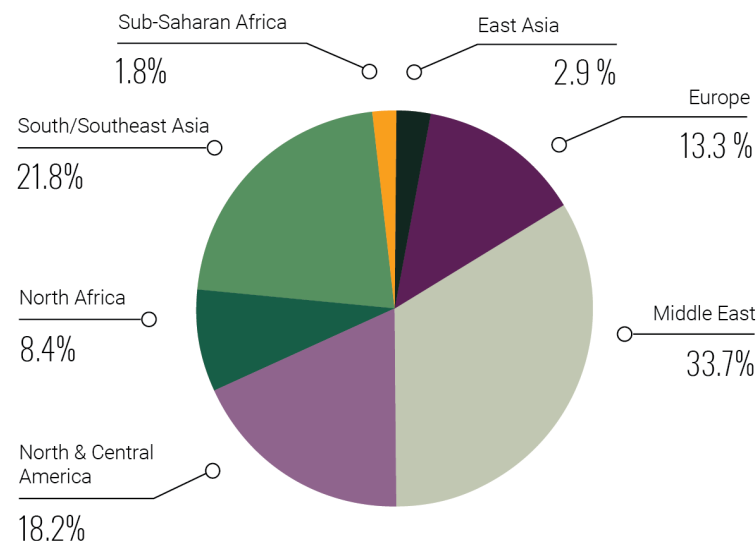


Source: (1) 2018 FAOSTAT (as of Feb 2020)

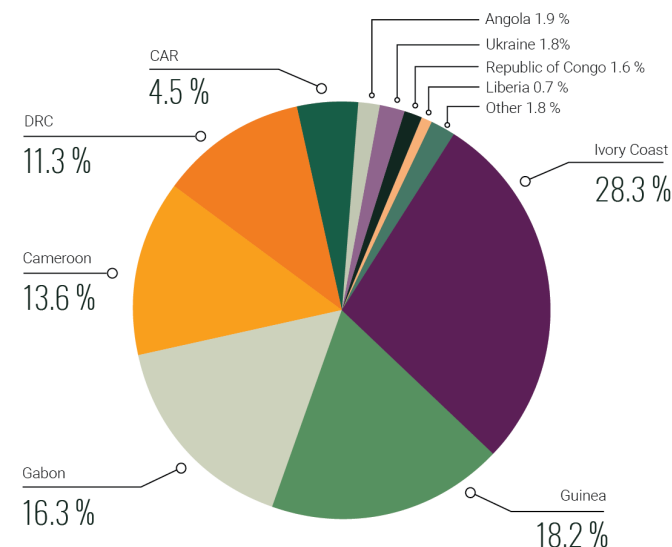
Note: (2) Markets that have imported more than 50,000m3 in 2018, CAGR 2016-2018

Diversified customer & supply base

Sales by region - 2019



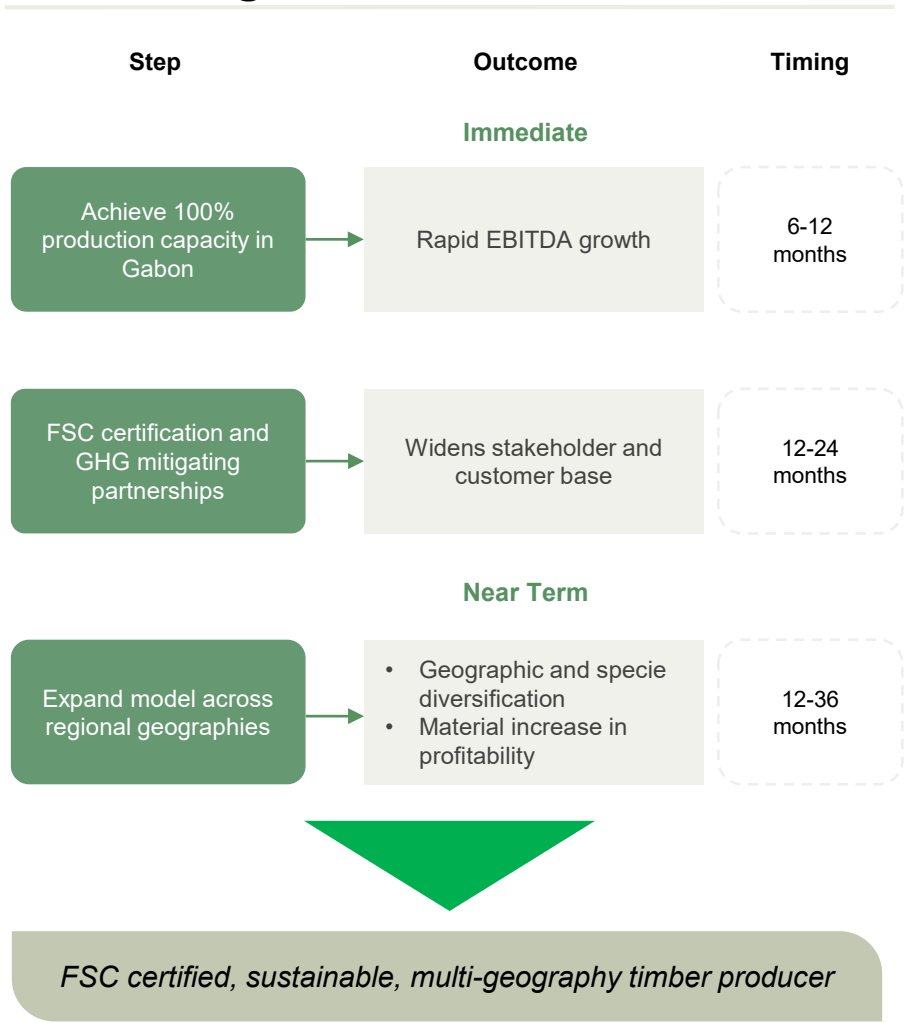
3rd party supply by country - 2019



- **High barriers to entry – decades of relationship building with suppliers across entire Congo basin and buyers in more than 50 countries**
- In 2019 the Business sold to 40 different countries
- East Asia remains a small portion of the business, there is significant demand from China, Taiwan and Korea for the Company's timber
- Consistent global demand and notable growth from Middle East and North Africa
- 3rd party supply also remains diverse with only Ivory Coast marginally above 25% for 2019
- Liberia and the Republic of Congo were a very small % of the Group's supply in 2019, the Business expects significant growth going forward from these countries

Pathway to sector leadership position

Future Targets



Challenges of ESG implementation & certification

Full implementation of health and safety procedures isn't just simply policy amendments but a change in habit that requires consistent training

Health and safety procedures need to be tailored for sectors and markets, they cannot be simply lifted

Certification is an expensive process

Tends to be little price difference between certified and uncertified product

Lack of penetration / success of secondary timber species

THANK YOU !

