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INVESTMENTS IN ESTONIA

1

CHEMICAL INDUSTRY CLUSTER

Value proposition: Estonia has unique know-how and rich experience in the field of oil shale chemistry. Combined with an industry based on local raw material; a favourable geographical location; industrial areas with well-developed infrastructure; scientific potential and competent workforce, this creates suitable preconditions for the post-processing of local production to add maximum pre-export value by the chemical industry in Estonia. Chemical companies already active in Estonia have formed a considerable cluster, where each new addition creates additional synergies. Modern terminals handling oil products and chemicals at the three largest ports in Estonia coupled with an excellent logistics system ensure the regular availability of different components and production elements, while also contributing towards the cost-efficient transport of final products to destination markets.

Today's product portfolio: Estonia's oil shale industries VKG, Enefit and Kiviõli Chemical Industry produce shale oil (approximately 1 million tons per year); blacktop; semi-coke gas; oil and isotropic coke; total oil shale phenols; oil shale phenols Honeyol and Rezol; urea-formaldehyde resin UF-15 VL and liquid phenol-formaldehyde resin PF-3014; SF-281 resin (used in tyre and rubber -technical industry for preparing rubber mixtures to improve wear resistance of the automobile tyres and rubber-technical articles); polymer-bitumen resin B-130 (used as a binder in the production of fire-resistant materials and form mass). Fine chemical products include alkylresorcinols 2-methylresorcinol, 5-methylresorcinol and 5-methylresorcinol monohydrate; used in pharmaceutical products, perfumes, fungicides, cosmetics dyes, photochemistry and as additives for polymers.

The members of the Estonian Chemical Industry Association (EKTL) additionally also produce paints and varnishes, glues, construction chemical products, cement-based dry mixtures, fertilisers, ammonia, carbamides, acids, household chemicals, cosmetics products, candles, lead and lead alloys, rare earth metals. Additionally some companies perform organic synthesis.

The Estonian business register lists 162 companies whose main or auxiliary activities include the processing and sale of plastic and rubber. The largest enterprises include Greiner Packaging, Estiko Plastar, Talent Plastics, Promens Eesti, Tehnoplast, Pipelife Eesti, Norma and Plastone. Companies in Estonia are able to provide all the main plastic processing technologies. The main export countries include Latvia, Sweden, Finland, Lithuania and Russia. The main export articles are electronic products and car parts, bath tubs, office and school stationery supplies, furniture, boxes, crates and plastic covers. The plastic industry in Estonia is supported by a well-developed molding industry. The largest companies in this field all belong to the Estonian Association of Plastic Industry.

The Estonian Logistics and Transit Association's (LTA) members include specialised terminals at Muuga, Paldiski and Sillamäe deep-ports, who in addition to oil products and fertilisers also process the following liquid chemicals: UAN, ammonia, monoethylenglycol, methanol, toluene, acetic acid, alkali, dichloroethane, MTBE, xylene, isoprene, benzene, vinyl acetate, butyl acetate and oil gas condensates. Aviation fuel AVGA-Z100LL is also produced by blending carbon hydrate components and additives based on DEF STAN 91-90 issue 3.

Growth potential for adding value: Oil shale oil refinery: for producing Euro5 diesel fuel, crude gasoline and heating oil;
Petrochemical plants, which use naphtha from shale oil refinement as raw material;
Electrodes and anode mass plant, which uses shale oil coke as raw material;
Solar panels plant, which uses electrodes made of shale oil coke;
Graphite and graphene plant, using isotopic oil shale coke as raw material;
Carbon fibre syntheses plant based on oil shale. Due to its high nitrogen content, carbon fibre synthesised from oil shale has incredible adsorptive and catalyst qualities;
Polymer-asphalt resin plant, which produces fire-resistant materials, molding forms, noise-absorption materials in transport vehicles etc.
Rubber, plastic, fine chemicals, pharmaceutical, cosmetics and perfume industries, which partly use oil shale industry products as raw material;
Waste recycling industries, which use oil shale ash and semi-coke as raw material.

Estonia's key advantages in support of the chemical industry:
Estonia is the ideal location for distribution centres and industry clusters owing to its favourable geographical position and existing logistics system – Estonia could potentially serve an area of 300 million customers in Russia, CIS, Central Asia, Scandinavia and Eastern Europe.

Utilizing the special conditions allowed by Estonian free trade zones it is possible to trade with goods originating from or being shipped to third countries without any tax implications, there are no quota restrictions. Estonia's liberal economic environment, ease of doing business and its unique tax system work in favour of trade development.

Estonia's deep ports are accessible all year round and are capable of receiving and serving very large vessels (up to 18 m draught), resulting in the lowest transport costs per unit. Efficient land, railway, sea and air transport combinations, fast loading and terminal handling ensure the shortest delivery times in the region and thus also the lowest overall costs.

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Latest market entrants:

- Paint and varnish producer EMLAK (www.emlak.ru), based on Russian capital, laid the cornerstone to their production facility in the Narva Industrial Park in April 2014.
- The Russian natural cosmetics manufacturer Natura Siberica (www.naturasiberica.ru) will be launching its manufacturing in Estonia in October 2014 at the former Coca-Cola plant in Tallinn. The company has also acquired the Tõlluste manor complex in Pihtla, Saaremaa for ecologically clean herb farming and product development.

2

PALDISKI WIND TURBINE PLANT

Value proposition: The development of windfarms near Hiiumaa and Kihnu (islands in Estonia) creates the precondition for building a wind turbine factory in Paldiski. The open sea windfarm development projects already in progress in Estonia could provide the factory with sufficient workload for commencing operations. Experiences accumulated on the domestic market in turn facilitate successful export projects. The Paldiski wind turbine factory should primarily focus on large-scale and heavy details. Paldiski's ice-free deep sea ports and industrial parks provide the perfect logistical solution for a wind turbine factory.

It is possible to operate with very large special vessels in Paldiski. Ro-ro ramps make it convenient to process the loading of very long details. Regular ro-ro shipping line connections ensure the streamlined and cost-efficient logistics of imported production materials and exporting the final products. The ports in Paldiski already have considerable experience in the field of reloading and storing wind turbine components. The plant would also carry a strategic importance as the manufacturer of wind turbine components.

The factory would allow the manufacturing of complete windmills in Estonia, to reduce dependence on import and launch exporting services. The factory would create opportunities for Estonian companies to independently install windmills and turbines (at sea and on land) and also to provide versatile transport and storage services.

Possible product categories:

- Foundations
- Masts
- Turbine blades
- Turbine bodies

Potential customers: wind turbine manufactures, windfarm developers and managers

Estonia's key advantages: an important precondition to the success of a wind turbine plant in Paldiski is the development of Estonia's own open-sea windfarms, ensuring the necessary internal demand for launching the wind turbine plant in Paldiski. The experiences and references accumulated on the domestic market contribute towards export sales of wind turbines and the provision of logistics and installation services.

At the end of 2013, the total power capacity of seawind energy in Europe was 6562 MW, of this:

- 17% in the Baltic Sea (1143 MW)
- 16% in the Atlantic Ocean (1056 MW)
- 66% in the North Sea (4363 MW).

The European Wind Energy Association (EWEA) estimates that the total capacity of wind energy farms in Europe will increase by 64% between 2015 and 2020, adding 75 GW of wind turbines. The investment volume reaches approximately 124 billion euros. EWEA's wind energy sector forecast predicts that the total power capacity of wind energy in the European Union will reach 192.4 GW by 2020, of which 168.9 GW will be in mainland wind farms and 23.5 GW in open-sea wind farms. The prediction for Estonia sees an increase of wind energy from the current 300 MW to 550-1000 MW by the end of the decade, depending on a pessimistic or an optimistic scenario respectively.

Building open-sea wind farms in the Baltic Sea is more cost-effective than in the North Sea, thus the share of the Baltic Sea region is set to increase substantially. BASREC (Baltic Sea Region Energy Co-operation) considers the southern part of the Baltic Sea, the whole of the eastern cost (including the Gulf of Bothnia) and northern coast of the Gulf of Finland as the "golden" region of wind farming. The prevailing strong winds and the relatively smooth marine environment of the Baltic Sea make the region ideal for the production of wind energy. While the North Sea

is fit only for special sea turbines, then the Baltic Sea accommodates more cost-effective modified land turbines. The Baltic Sea has lower salinity and has shallower waves, allowing for the wind farms to be built closer to the shoreline and enabling easier access for mechanics, thus reducing the down-time of wind turbines. The winds are stronger on the North Sea, but the wind speed is ample for wind production in the Baltic Sea, whilst also being steadier. The only threat to open-sea wind farms in the Baltic Sea is pressure ice, which can be offset by the ice-proof gravitation foundations of the wind farms.

The total power output capacity of the planned wind farms in Estonia is 1500 MW. The wind farm developed by Nelja Energia in northwest Estonia will be built at least 12 km from the coast of Hiiumaa near the Apollo and Vinkov shallows. The open-sea wind farm is to have a 700-1100 MW power capacity, making it one of the largest in Europe. The number of planned wind turbines is ranging between 100-200 (depending on the power capacity of the turbines, 3,6-7 MW). The cost of building a 700 MW wind farm is approximately 2.1 billion EUR. Eesti Energia is developing another wind farm south of Kihnu island in the Gulf of Livland, with a planned capacity of 600 MW and also

PALDISKI WIND TURBINE PLANT

100-200 wind turbines depending on the capacity. The cost of this project is estimated at 1.5 billion EUR.

There are several companies producing wind turbine components in Estonia (ABB, BLRT, Konesko etc). Konesko launched the export of their 20 kW miniturbines TUGE 20 to Finland in 2014, these turbines are wholly manufactured in Estonia. The Estonian Wind Energy Cluster has been very active in promoting the component manufacturing and logistics of wind turbines using Estonian manufacturers and companies and also facilitating their integration into international supply chains.

Owing to its geographically favourable location and the already existing logistical set-up, Paldiski is a suitable location for a wind turbine export industry focusing on the Baltic Sea. It is possible to operate with very large installation vessels at Paldiski's ice-free port all year round. Regular ro-ro shipping line connections ensure the streamlined and cost-efficient logistics of imported production materials and exporting the final products. The ports in Paldiski already have considerable experience in the field of reloading and storing wind turbine components. The ports in Paldiski and their operators have extensive experience in handling oversized shipments by sea, road or rail - including wind turbine components. The wind turbine plant project already has the support of the Port of Tallinn, Paldiski City Government, the Paldiski Association of Entrepreneurs and Pakri Science and Industrial Park.

Similar project in the North Sea:

Siemens and Associated British Ports (ABP) are jointly investing 372 million EUR in new wind energy production facilities near the Humber estuary in Yorkshire, as was announced by Siemens in March 2014. The wind turbine manufacturer will invest 190 million EUR in a blades manufacturing unit and in an installation, logistics and service centre for wind turbines. ABP will invest 181 million EUR in developing the Green Port area in Hull. The total investment combined will immediately create 1000 direct jobs - 550 in blades manufacturing and 450 at Green Port in Hull. Additionally there will be hundred of auxiliary workplaces created in the region. The manufacturing of Siemens' 6 MW turbine blades will commence in 2016 and will reached its full capacity in mid-2017.

3

MUUGA SOYBEAN PLANT

Value proposition: Estonia is the ideal location for distribution centres and industry clusters owing to its favourable geographical position and existing logistics system – Estonia can serve an area of 300 million customers in Russia, CIS, Central Asia, Scandinavia and Eastern Europe. Cattle and poultry farming is rapidly developing in this region and requires animal feed based on American soy oil cakes, rich in vitamins. The deepest port in the Baltic Sea - the Port of Muuga with its grain terminal (with an annual output capacity of 5 million tons) and a well-developed railway infrastructure (1520 mm broad-gauge network) create excellent preconditions for establishing a soybean plant with an annual output capacity of at least 1 million tons.

The soybeans could be shipped to Muuga from the United States all year round in large consignments (50 000-100 000 tons), allowing to minimise logistics costs. The plant's modern flexible technology allows to use the seeds of other oleaginous plants as raw material in addition to soybeans. The plant's output would be crude soybean oil and oil cakes in a 1:4 ratio. The oil cakes could be used as raw material for the nearby Muuga animal feed plant. Crude soybean oil would serve as raw material for the Muuga cooking oil plant. It potentially could also be converted into biofuel. The integration of the plants in Muuga would allow adding maximum value to the raw material in Estonia and exporting the more expensive final product. The export of the final product could be handled by road, rail or by sea depending on the client and the final destination.

The Muuga soybean plant property is located in close proximity to the grain terminal, on a 4-hectare land plot between Koorma and Virna streets. The building title to the property was obtained by Russian concern Russkoje Maslo in 2005 from Transiidikeskus, remaining valid until 2057. The project has not been put into development yet, the building title has been pledged to Commerzbank AG.

Possible product categories:

- Crude soybean oil
- Soybean oil cakes

Potential customers: cooking oil producers, biofuel producers, animal feed producers.

Market potential of soybeans: Soy is often added to meat products for its high protein content as a low-cost increase of the meat's protein content and volume. 87% of the soybeans in the world are used for preparing animal fodder from the extracted protein, only 13% is used in the food industry.

A by-product of soybean processing is oil , of which 18% is used industrially. Although soybean oil, used in food, cosmetics and the chemical industry, is just a by-product of soybeans, it is still one of the most important edible oil products in the world – its market share is about 23%. Soybean oil is often sold in shops as simply vegetable oil, used for cooking and salads.

The lecithin extracted during the refinement of soy beans is used as an emulgator in the food industry: in confectionary products, baked goods, dairy products and fast foods, also in cannon fodder and cosmetics. Lecithin changes the consistence of the food to a gel-form and preserves water in the food.

Soy oil is an important base material for inks, paints and varnishes, also for soaps and lubricants. Soy oil has potential for replacing oil-based products, possibly even as a replacement for diesel-fuel.

EU is an important export destination for soy-producing countries – on an average, ¼-1/3 of the soy production of Brazil, Argentina and Canada is destined for the European market. Most of the soy oil processed in the EU is from Brazil (66%), followed by the US (17%), most of the fodder for producing soy flour also originates from Brazil (46%), but nearly a similar amount is imported from Argentina (41%). The animal fodder used in the EU includes 24,3% of soy on average.

Soybeans are becoming increasingly more popular in Estonian agriculture as well. The seed production of soybean (Glycine max (L.) Merrill) is regulated in Estonia by a decree of the Minister for Agriculture (decree number 53, 24.04.2006) .

Estonia's key advantages:

Muuga's deep port is accessible all year round and is capable of receiving and serving very large vessels (up to 17 m draught), resulting in the lowest transport costs per unit. The soybean plant would be located next to the existing grain terminal with an annual capacity of 5 million tons, allowing the receipt and storage of soybean shipments arriving by sea or by rail.

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Efficient land, railway, sea and air transport combinations, fast loading and terminal handling ensure the shortest delivery times in the region and thus also the lowest overall costs.

Estonian Railways uses the same 1520 mm gauge as Russian Railways and other railways in the region. It is possible to haul all food products by rail via the Koidula border station between the EU and Russia. SMGS railway declarations allow for the smooth delivery of all goods in either containers or in wagons with a 72-ton bearing capacity across the 1520 mm gauge network to Russia, CIS and Central Asia and also the Baltics and Finland and Mongolia. There are regular container train routes to Russia and to Kazakhstan.

Utilizing the special conditions allowed by the Muuga free trade zone it is possible to trade with goods originating from or being shipped to third countries without any tax implications, there are no quota restrictions. Estonia's liberal economic environment, ease of doing business and its unique tax system work in favour of trade development.

Similar project in Kaliningrad:

Russian agriculture and trade group Sodrugestvo (http://www.sodrugestvo.com/our_business/processing), registered in Luxembourg, operated a soybean plants and logistics complex in Kaliningrad, located near the shoreline just as planned in Muuga. The complex has been expanded several times and it contains three soybean plants with a total annual output capacity of 2.8 million tons per year. The soybean plant is integrated with the cooking oil, lecithin and animal feed plants.

4

MUUGA COOKING OIL PLANT

Value proposition: The Muuga cooking oil plant's annual capacity could be 250 000 tons of quality oil, allowing the enrichment of the crude oil from the Muuga soybean plant. The cooking oil plant is integrated with the soybean plant. Soybean oil is one of the most important edible oil products in the world – its market share is approximately 23%. In the stores it is usually marketed simply as vegetable oil, used for cooking and in salads. A by-product of the oil refinement process is lecithin, which is an important raw material in the food industry. The Muuga soy bean plant would produce approximately 250 000 tons of crude soybean oil per year out of its 1 million ton total annual output capacity, this crude oil can be refined into quality cooking oil. The deep port in Muuga would also allow the cost-efficient delivery of raw oil from other plants. The location of the cooking oil plant in the port, in close proximity to the soybean plant, would ensure optimal logistics cost benefits. The crude oil would reach the plant's storage tanks via a pipeline. The final product could be exported utilizing all possible means of transport. The majority of the plastic containers needed for bottling could be produced locally in the plant. The packaged production would be stored in the warehouses of the logistics centre in the Muuga freezone, benefitting from the tax-free aspects of these operations.

Growth potential for adding value:

- Cooking oil produced from crude soybean oil
- Lecithin

Potential clients: retail chains, food industries, cooking oil producers (subcontracting)

Estonia's key advantages:

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Similar projects:

- The annual output capacity of the Sodrugestvo (http://www.sodrugestvo.com) complex in Kaliningrad is 438 500 tons of hydrated soybean oil, 130 000 tons of refined and deodorised soybean oil and 2400 tons of lecithin;
- An existing cooking oil plant in Paljassaare – Oilio (www.oilio.ee) – has an annual output of 30 000 tons.

5

MUUGA ANIMAL FEED PLANT

Value proposal: Muuga Port is the deepest port in the Baltic Sea and features, besides the depth, two important preconditions for establishing a combined animal feed plant with an annual output capacity of 1 million tons - the planned soybean plant with a potential 1 million ton annual output capacity, and access to the 1520 mm broad-gauge railway infrastructure. The animal feed plant project is integrated with the soybean plant and the grain terminal. The animal feed plant serves to add value to the oil cakes originating from the soybean plant. The oil cakes for the animal feed plant would be brought in from the nearby soybean plant, thus ensuring the high nutritional quality of feed mixtures and sufficient market demand for them. Additionally oil cakes could be imported from Russia and CIS countries for inclusion in the feed and supplement nutritional blends. This would allow the partial redirection of the by-product flows from Russia to North Africa via the Black Sea by adding value to it in Estonia and marketing more expensive ready-made fodder blends.

A major advantage would be the plant's location near the deep port, thus allowing the cost-efficient shipment of raw material from other continents, primarily from the US. The export of final products could (depending on the client and the destination) be handled by road or rail or by sea. Efficient logistics solutions and a positive economy-of-scale effect would contribute greatly towards the competitiveness of the plant's production in the Baltics, Russia, CIS, Central Asia, Scandinavia, Western Europe and North Africa.

Possible categories:

- Animal feed mixtures for dairy farms
- Animal feed mixtures for beef cattle
- Animal feed mixtures for horses
- Animal feed mixtures for sheep and goats
- Animal feed mixtures for pigs
- Animal feed mixtures for poultry farms
- Animal feed mixtures for fish farms
- Retail packages (25 kg/1000 kg big bags) for farmers

Potential clients: dairy producers, cattle farmers, poultry farmers, fish farmers, domestic farmers.

Estonia's key advantages to support the product concept: Currently Estonia's cattle and poultry farming volumes are substantially lower than during the peak times in the late 1980s, when the farming sector in Estonia had 3,3 times more beef than today, the number of pigs was 2,9 higher than today, the number of goats and sheep 1,8 times, the number of horses 2 times and the volume of poultry farming was 4,8 times higher than today. The decrease can be attributed to the collapse of the Soviet Union and its marketplace, unfavourable market conditions, EU quota restrictions and the fear of avian flu. This has consequently lead to a decreasing demand for quality animal feed.

Estonia's annual poultry consumption volume is 35 million kg and the local market supplies only 50% of it. Poultry company Tallegg launched a modernised production unit in Tabasalu at the end of 2013, allowing to double their production volumes. Poultry feed costs form about 65-75% of the unit cost, thus the availability of affordable quality poultry feed in Estonia would allow to double the volume of poultry products produced in Estonia. Tallegg's largest poultry farms are located within a 50 km radius near Muuga, the nearest only 9 km away. Poultry consumption is a rapidly growing trend in the world and also in Estonia, because of its price advantage and being the meat with the smallest ecological footprint.

Due to the European Union's dairy production quotas reaching their end in 2015, Estonian dairy producers are increasing their production capacity to maximise efficiency and are preparing for an abrupt increase in the number of dairy cows. Beef prices have been increasing during the past years and the possibility to sell bull calves to other countries has also contributed to revitalising this segment. Another positive factor that has contributed to beef production in Estonia is the introduction of nurse cow subsidies for beef cattle.

The internal market of Estonian aquaculture products (fish, crayfish, seafood) is estimated at 4000-4500 tons per year with a growth tempo of 5-7% per year. The sales volumes of Estonian fish farmers have remained at about 400 tons per year during recent times. At the same time the volume of aquaculture projects that have received EU funding support has surpassed 4300 tons, allowing for the assumption of a ten-fold increase in the coming years.

Year	Beef	Pigs	Sheep and goats	Horses	Poultry
1989	806,1	1080,4	140,2	9,6	6922,5
1985	840,2	1073,6	147,7	10,7	6911,5
1990	757,8	859,9	139,8	8,6	6536,5
1991	708,3	798,6	142,8	7,8	5538,3
1992	614,6	541,1	124,3	6,6	3418,1
1993	463,2	424,3	83,3	5,2	3226,1
1994	419,5	459,8	61,5	5,0	3129,7
1995	370,4	448,8	49,8	4,6	2911,3
1996	343,0	298,4	39,2	4,2	2324,9
1997	325,6	306,3	35,6	4,2	2602,0
1998	307,5	326,4	30,8	3,9	2635,7
1999	267,3	285,7	30,9	3,9	2461,8
2000	252,8	300,2	32,2	4,2	2366,4
2001	260,5	345,0	32,4	5,5	2294,9
2002	253,9	340,8	33,8	5,3	2096,3
2003	257,2	344,6	34,3	5,8	1945,2
2004	249,8	340,1	41,0	5,1	2183,0
2005	249,5	346,5	52,4	4,8	1878,7
2006	244,8	345,8	66,0	4,9	1638,7
2007	240,5	379,0	76,4	5,3	1477,6
2008	237,9	364,9	81,8	5,3	1757,3
2009	234,7	365,1	80,4	5,4	1792,2
2010	236,3	371,7	82,7	6,8	2046,4
2011	238,3	365,7	88,2	6,5	2032,9
2012	246,0	375,1	81,4		2170,9
2013	261,7	360,0	82,7		2042,1

Table 1. Number of animals as of 31.12 (in thousands)
http://www.etll.ee

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Similar project in Kaliningrad: The annual output capacity of a similar animal feed plant operating as part of a soybean plant complex in a port, Sodrugestvo (http://www.sodrugestvo.com), exceeds two millions tons.


Estonian
Logistics Cluster