

Helsinki 2008
3rd International Softwood
Conference
North American Lumber Industry

AGENDA

A. PRODUCTION TRENDS

- Recent curtailments
- Environment and Certification
- Softwood Lumber Agreement

B. MARKET DEVELOPMENT & TRENDS

- US Downturn
- Recent Market Changes
- North American Strategies for 2009 and Beyond

PRODUCTION TRENDS

1. RECENT CURTAILMENTS

2. ENVIRONMENT AND CERTIFICATION

- FSC
- LEED
- Government Policies
- CE Marking

3. SLA

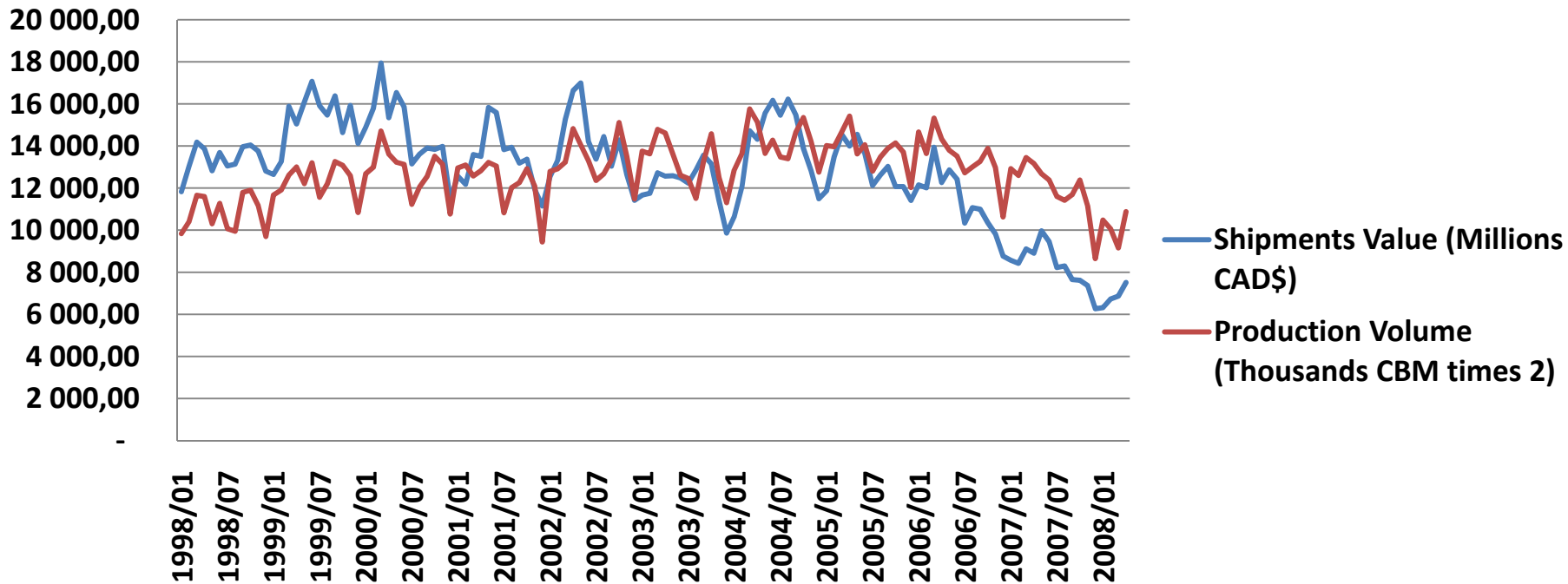
- Impacts
- Mitigation

PRODUCTION TRENDS: CURTAILMENTS

- LAG IN MILL CLOSURES IN CANADA DUE TO:
 - Differences in cost structures between Western and Eastern Canada
 - Log cost: Pine Beetle & Govt presence
 - Presence of “Megamills” in B.C.
 - Constant hope in price turnaround
 - Not a culture of change
 - Industry’s status as part of heritage
 - Fear of losing employees to other industries

PRODUCTION TRENDS: CURTAILMENTS

Comparison: Lumber Shipments vs Production Volume



Production curtailments lag the drop in shipments value

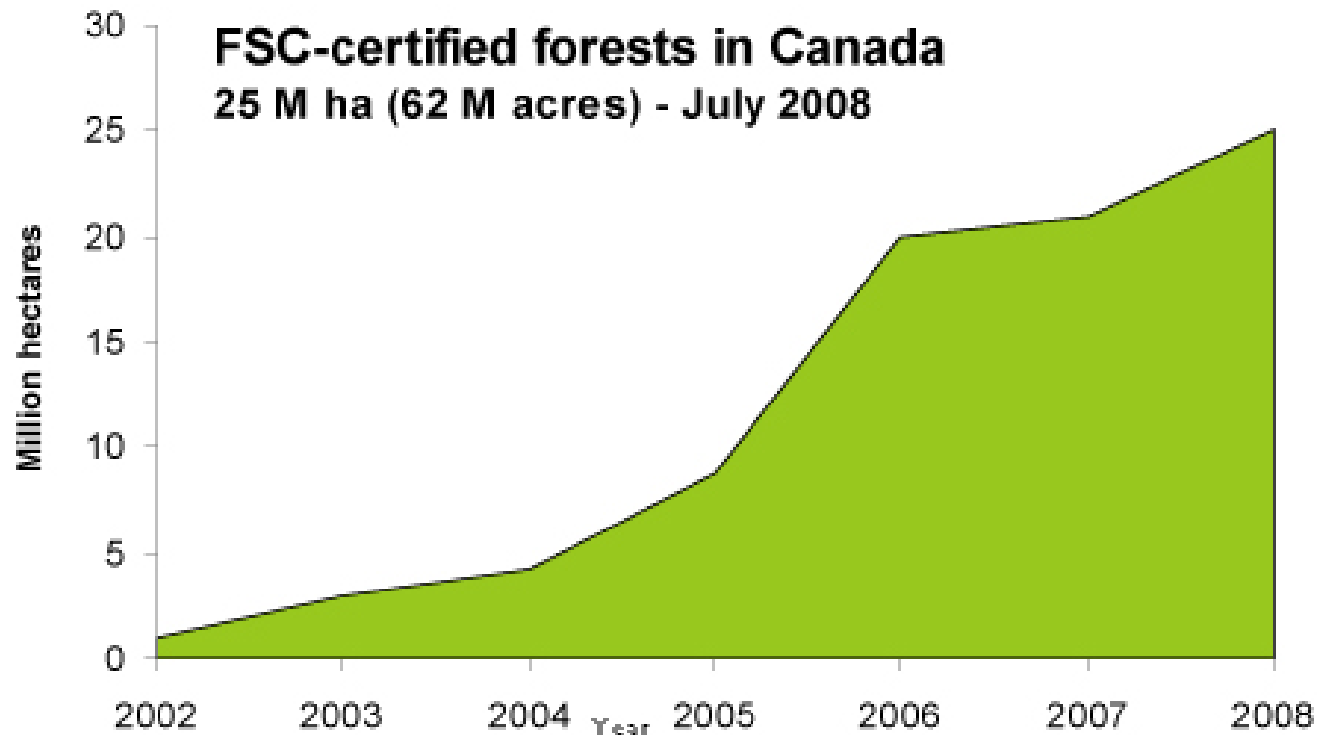
Source: Statistics Canada

PRODUCTION TRENDS: ENVIRONMENT AND CERTIFICATION

- **FSC: THE PREDOMINANT OPTION**
 - Endorsed by major N.A. retailers
 - Lowes, Home Depot, etc
 - Chosen by major manufacturers
- **LEED**
 - Values transport/energy input in materials
 - Recognizes FSC's impact
 - Growing trend amongst commercial and industrial constructions
- **GOVERNMENT POLICIES**
 - BC & Quebec governments to choose wood over other materials in institutional constructions
 - Municipal regulations not yet adapted
- **CE MARKING**
 - Awareness is low but agencies are ready for their members



FSC-CERTIFIED FORESTS IN CANADA



Source: www.fscscananda.org

SOFTWOOD LUMBER AGREEMENT

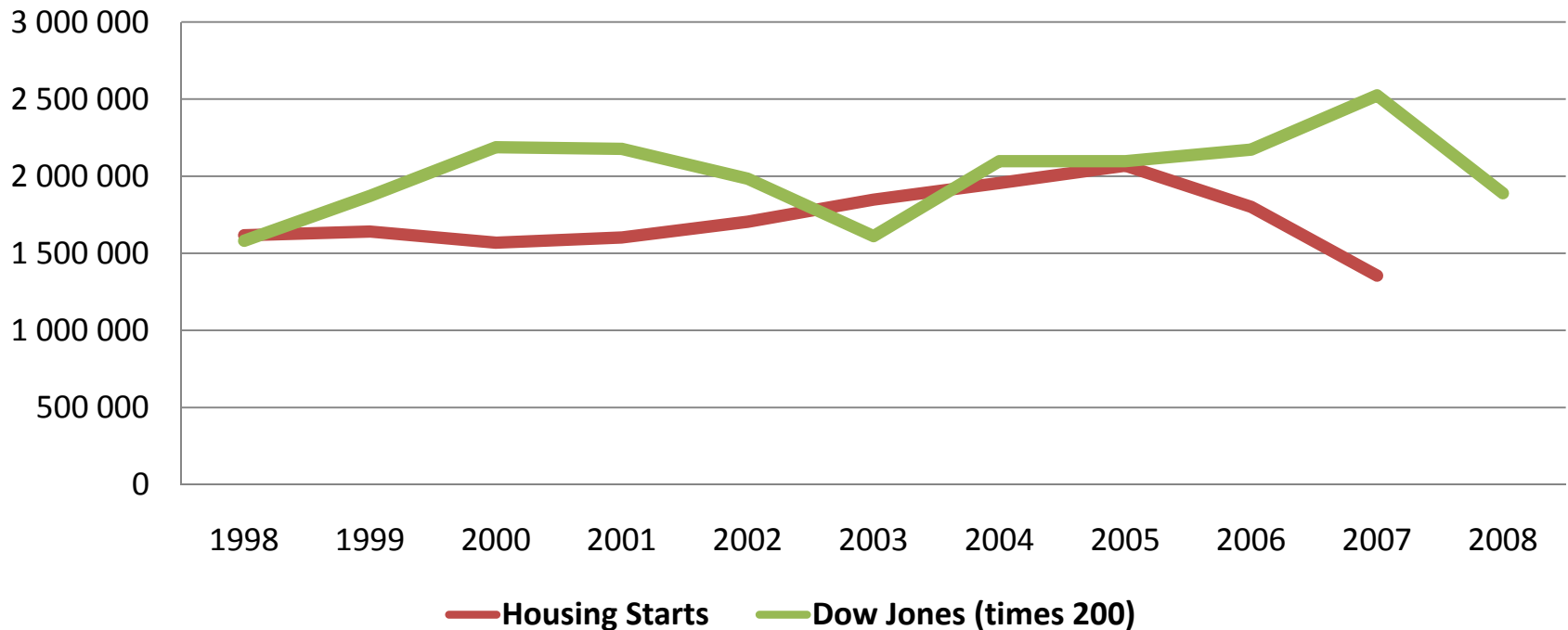
- IMPACTS
 - Already accounted for in current state of supply
 - Small in scale compared to market changes:
 - US Downturn
 - CAD to USD exchange rate changes
- MITIGATION
 - Large players are leveling the fields
 - Geographical integration across North America
 - Using transnational M&A as hedge to politics
 - Lumber market becoming increasingly global

MARKET DEVELOPMENT AND TRENDS

- US DOWNTURN
 - General market's lag over housing trends
 - Feelings our customers
- RECENT MARKET CHANGES
 - Advantages become barriers
- NORTH AMERICAN STRATEGIES FOR 2009 AND BEYOND

MARKET DEVELOPMENT AND TRENDS: US DOWNTURN

Housing Starts vs Dow Jones

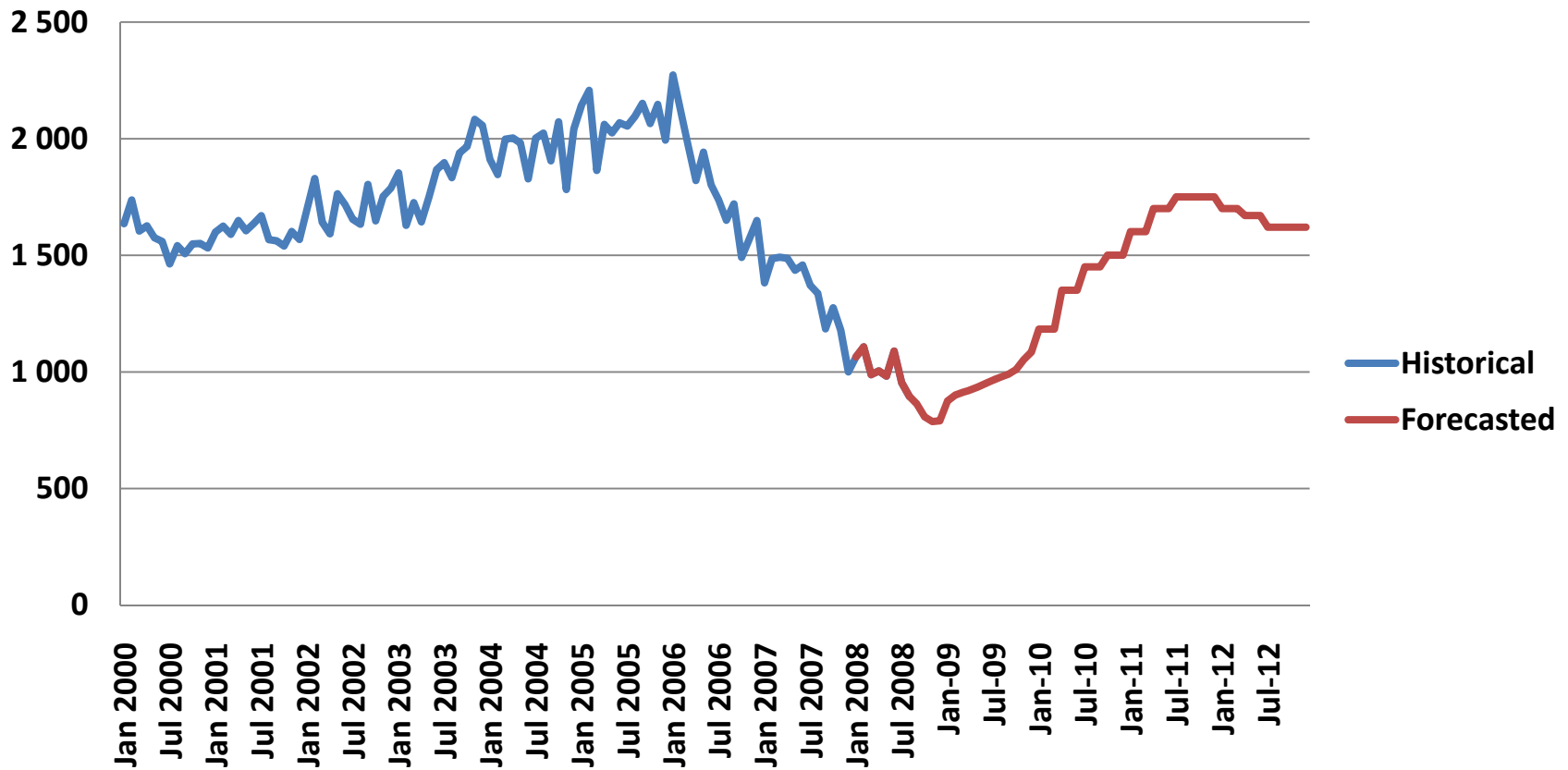


Construction leads the economy

Source: US Census Bureau, Yahoo! Finance

MARKET DEVELOPMENT AND TRENDS: US DOWNTURN

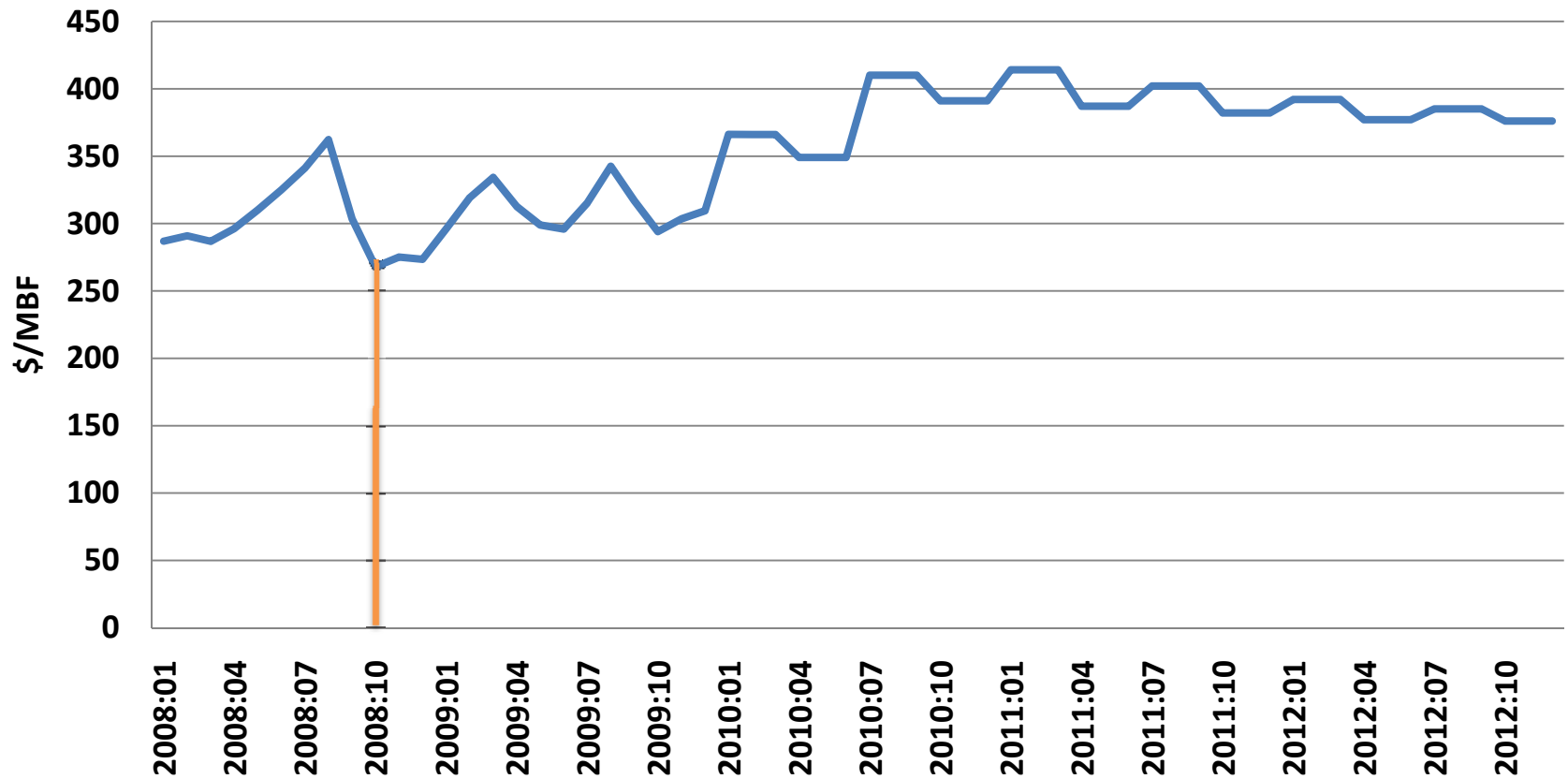
Housing Starts



Source: US Census Bureau, RISI Forecasts

MARKET DEVELOPMENT AND TRENDS: US DOWNTURN

Price Forecast - SPF 2x4 KD RL



Source: RISI Forecasts

MARKETING DEVELOPMENT & TRENDS: FEEL FROM CUSTOMERS

- INVENTORY RESTRICTIONS
 - Reduced inventory by customer
 - Supplier forced to hold inventory
 - Lack of credit availability
- NUMBER OF PLAYERS
 - Consolidation wave at its peak
 - Bankers will force customers to sell assets to pay down debt

MARKETING DEVELOPMENT & TRENDS: FEEL FROM CUSTOMERS

- CREDIT ISSUES:
 - Terms
 - Insurance restrictions
 - Bankruptcies
 - Examples:
 - Centex

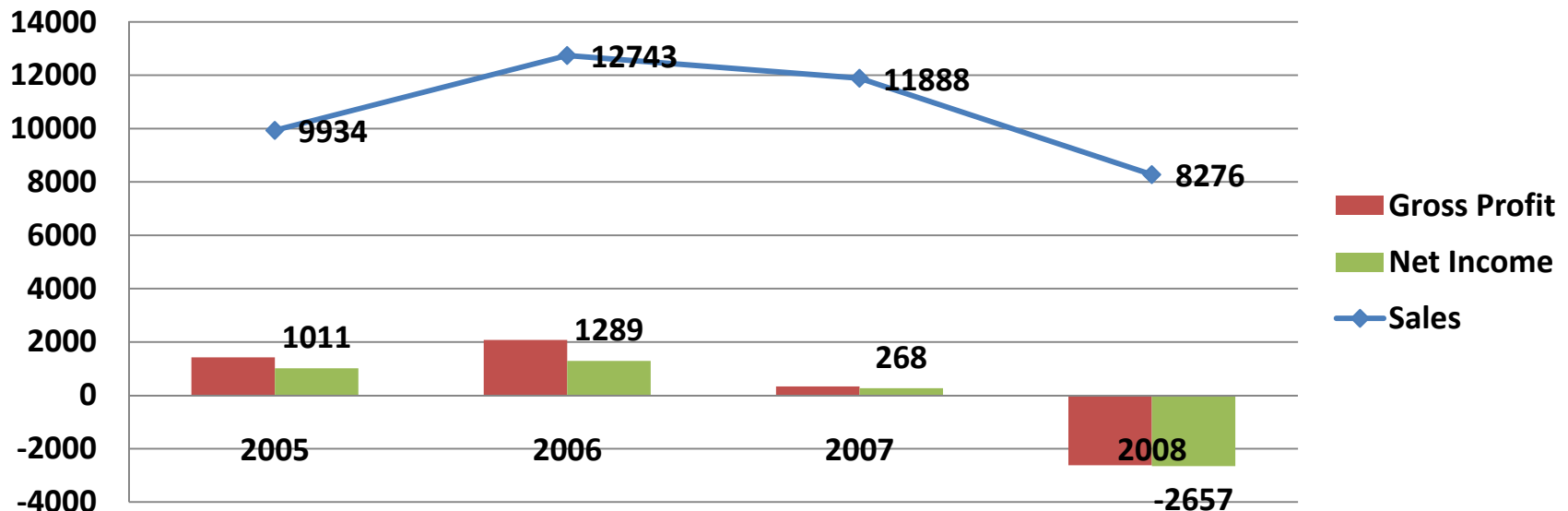
MARKETING DEVELOPMENT & TRENDS: FEEL FROM CUSTOMERS – FINANCIAL DIFFICULTY

- Centex:

- 4th largest US Homebuilder
- Built approx. 40,000 homes in 2006

**CENTEX
HOMES**

Financial Results 2005 to 2008



Amounts quoted in Millions USD
Source: Google Finance, Centex.com

MARKETING DEVELOPMENT & TRENDS: LOCAL MARKET CHANGES

- EUROPEAN WOOD'S PERCEIVED VALUE VS NORTH AMERICAN'S
- COMPETITIVE ADVANTAGES TURNING INTO COMPETITIVE DISADVANTAGES
 - Creation of “Megamills” to process excess supply
 - Positioning of Canada:
 - Quantity producer for small # of products vs quality producer
 - Result: Excess supply floods local market

Source: NAHB & Yahoo! Finance

MARKETING DEVELOPMENT & TRENDS: LOCAL MARKET CHANGES

- USE OF FUTURES AND OTHER DERIVATIVES
 - Predominant, mainstream
 - Why Western mill survived?
 - Time value in back end months futures pricing
- 2009 OUTLOOK: SIMILAR TO 2008
 - However, be ready for a quick turnaround

MARKETING DEVELOPMENT & TRENDS: NORTH AMERICAN STRATEGIES

- DISTRIBUTION
 - Sales oriented
 - Production oriented
 - Size of mill
- PRICING
 - Random Length Index vs Specific customer products
- GLOBALIZATION
 - Trades will flow in many directions
 - Supply
 - Exchange rates
 - Freight charges
 - Market expertise
- PRODUCT
 - Flexibility vs commodity

MARKETING DEVELOPMENT & TRENDS: NORTH AMERICAN STRATEGIES

- COMPANIES THAT WILL SURVIVE AND PROSPER:
 - Flexibility to adapt to changing demand
 - Drive toward customer-based product
 - Partner with the right distributors/customers
 - Financially sophisticated

Thank You!

Questions?