

Global Timber & Sawmill Cost Benchmarking

Softwood sawmills around the globe incur EBITDA losses averaging US\$-12/m³ in 2008 – worsening in Q1 2009 Biggest losses seen in Canada -- especially in Eastern Canada

June 23, 2009 — Sawmills around the world experienced some of the worst losses in recent history during 2008 and early 2009. The global average losses (on an EBITDA basis) were US\$-12/m³ (net lumber basis) in 2008 and fell even further in Q1 2009 to US\$-14/m³. By comparison in 2006, the global industry showed a profit of US\$8/m³. These and other figures were released today in the comprehensive *Global Lumber/Sawn Wood Cost Benchmarking Report—2008 & Q1/2009*, a biannual study jointly prepared by International WOOD Markets Group, PricewaterhouseCoopers (PwC), and The Beck Group.

This report benchmarks timber and sawmilling costs in all major producing regions in the world and shows that the region with lowest EBITDA global earnings in 2008 for “average” sawmills was Canada. This poor performance was the result of the collapsing US market, the strength of the Canada dollar against the US dollar and the impact of Canadian export taxes on U.S. shipments. Average sawmills in Eastern Canada had horrific annual losses of US\$-37/m³ (US\$-58/Mbf – nominal count) in 2008 which dropped even further in the first quarter of 2009.

The regions with the highest EBITDA earnings for average mills in 2008 were in niche markets such as South Africa, China and Northwest Russia. While these regions were the most profitable, they were only marginally so at US\$3-\$4/m³.

There were several regional trends that emerged from the timber and sawmilling cost data that was compiled and analyzed on an apples-to-apples basis.

- During 2009-Q1, the returns on timber stumpage (or receipts to timber owners) were highest in Europe and the Southern Hemisphere and lowest in Russia and Canada.
- During 2009 Q1, delivered log costs were lowest in Western Canada and Russia and highest in Europe.
- For the full year 2008, average mills in the Baltics, Central Europe, Chile and Brazil had the lowest sawmilling costs when compared to the other regions. During the same time period, the highest sawmill costs were incurred in Australia, South Africa, New Zealand, Russia, and Eastern Canada.
- From a profitability perspective (EBITDA basis), the region with the best earnings during 2008 were the countries in the Southern Hemisphere. During 2009 Q1, Russia joined the Southern Hemisphere as a top performing region – both regions benefited from weak currency exchange rates.
- From a profitability perspective (EBITDA basis), the regions with the worst earnings during 2008 and 2009 Q1 were Europe and Canada.

“It is clear from the survey results that much of Canada and Europe were the big financial losers in 2008 and so far in 2009, mainly from weak markets, over-capacity and cost structure issues,”

explained Russell Taylor of the WOOD Markets Group. “Despite being more-or-less off the radar screen, the best earnings results from the survey were again seen in the Southern Hemisphere countries, with the major exception of Brazil.” Staying in the middle of the earnings pack were most US regions in both 2008 and Q1 2009.

Sawmills around the world vary in scale, technology, flexibility, log size and product/markets strategies, so it is not surprising that global sawmilling operating costs (before considering capital costs or depreciation) also show significant variances. From a global perspective, the costs at average sawmills in 2008 ballooned to US\$75/m³ (US\$120/Mbf – nominal count) from a much lower level in 2006. Much lower operating rates and higher energy costs were the main cost drivers. In the first quarter of 2009, global sawmill costs were somewhat lower due to increased cost cutting and improved currency exchange rates relative to the US dollar.

Aside from China, the lowest sawmilling costs (excluding logs) at average mills in 2008 occurred in the Baltic States, Brazil and Chile - all these regions benefited from below-average labour costs but were disadvantaged by currency rates.

With respect to log costs in 2008, the global average annual delivered log cost to sawmills was US\$69/m³. According to the study results, the average delivered log cost to sawmills was approximately US\$10/m³ lower in Q1 2009 as market prices for logs and lumber dropped in parallel to the weakening market conditions. The current level is modestly lower than that reported in the 2006 report.

The lowest delivered log costs in 2008 occurred in Russia (for companies with their own forest licences, where logs are “at cost”) with some regions below US\$40/m³. The next lowest-cost region in 2008 was the Canadian Prairies followed by Chile, where logs were in the US\$42 - 50/m³ range.

The highest delivered log costs in 2008 were seen in China for mills that used a combination of imported and domestic logs. The next highest-cost regions were in Europe, led by Germany, Finland and Austria with log costs ranging from US\$105 to \$120/m³, or almost three times the cost of logs available in Russia and the Canadian Prairies.

“Of course, the more interesting results from the survey were found at “top-quartile” or best mills,” indicated Bill Mitchell of The Beck Group. “But because of such tough business and market conditions, many countries in Europe as well as in Eastern Canada had negative earnings even at top-quartile mills in both 2008 and Q1 2009. It was truly a tough period to be in the sawmilling business, but it did depend on where you were located, as the detailed survey results clearly show.”

According to Dave Thompson a Partner with PwC’s Forest, Paper and Packaging Group, “In today’s globally competitive and oversupplied market, it is essential all parts of an organization strive to achieve best in class performance levels and identify cost variances and market opportunities in relation to other producing regions. Given the expectation that lumber demand will be weaker and the market even more competitive for the rest of 2009, using detailed cost and revenue information on an apples-to-apples basis between competing regions is a critical part of any company’s marketing, operational and strategic plan.”

Global Lumber/Sawn Wood Cost Benchmarking Report—2008 & Q1/2009, was produced by International WOOD Markets Group Inc. with strategic input and/or cost data supplied by

PricewaterhouseCoopers LLP (PwC), and the Beck Group (Beck). This global benchmarking report covers more than 29 countries or regions on six continents and is based on log and sawmilling cost data collected from mills in all countries or regions.

About International WOOD Markets

International WOOD Markets Group (www.woodmarkets.com) comprises wood products industry, market and business consulting services for industry and government clients. The firm maintains a global data-base and also offers numerous industry or market specific multi-client reports, including its landmark *WOOD Markets Monthly International Report*.

Strategic business assessments of matching the timber resource to the global commodity and specialty wood products market coupled with our feasibility analyses of timber processing options are trademark skills of the firm. Our ability to conduct in-the-field investigations coupled with our global network of contacts and comprehensive data-base delivers strategic results for clients looking to review or expand their domestic or global business or in evaluating investments.

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