



International WOOD MARKETS Group Inc.

Suite 603, 55 E. Cordova Street, Vancouver, BC CANADA V6A 0A5
Tel +1 604-801-5996 Fax +1 604-801-5997 www.woodmarkets.com

PRESS RELEASE

North America, led by the US South, achieved highest global sawmilling earnings in 2012 and Q1/2013; lower earnings were more equally recorded at top-quartile mills in the US West, Western Canada and Eastern Canada.

Global Cost Benchmarking Report on delivered logs, sawmilling and lumber in 32 countries and regions reveals global winners and losers as some markets improved modestly in 2012 and Q1/2013, but weak lumber prices and/or rising log costs had the greatest drag on other regional earnings.

August 13, 2013 — Vancouver, BC

In 2012 and especially in Q1/2013, U.S.-based sawmills led all 32 global countries and regions surveyed in financial earnings, mainly from improved demand, a run up in lumber prices and from low log costs. This also meant that North American mills (including Canada) achieved the highest global earnings for both 2012 and Q1/2013 as compared to Europe, Russia and the Southern Hemisphere.

Since 2008, sawmills in the U.S. South have attained the highest EBITDA earnings in North America: in 2012 this advantage widened as delivered log costs remained flat since 2010 while other regions had log supply issues and/or rising costs. All three regions surveyed in the U.S. South placed in the top five spots for global earnings in 2012 and were the top three regions in global earnings in Q1/2013. Sawmills in the U.S West performed well but earnings were much lower than the U.S. South; however, they still edged out Western Canada mills.

Overall, the highest global sawmill earnings in 2012 were achieved in South Africa, who led all top-quartile mills and have placed in the top 3 spots in all WOOD MARKETS' surveys since 2002! The ranking of earnings and operating results, including detailed pro-formas of log and sawmill costs for both "average" and "top quartile" (or best) sawmills, are part of the comprehensive *Global Timber / Sawmill / Lumber-Sawnwood Cost Benchmarking Report—2012 & Q1/2013 (sixth edition)*, a biannual study researched and published by International WOOD MARKETS Group (in association with The Beck Group) that was released this month.

North American Mills Rise to the Top

The six regions surveyed in Canada had much better results in 2012 as compared to the previous five years where it had consistently achieved the lowest global average EBITDA (earnings before interest, taxes and depreciation allowance) of all global "average" sawmills. Canada's stronger performance was due to a rebounding U.S. market, soaring demand in China, higher U.S. and export lumber prices, and from mill improvement investments made at many sawmills across Canada," explained Russell Taylor, President, WOOD MARKETS and the project leader. "Canada's results at "average" sawmills were dragged down by

Eastern Canada, but results there are improving and almost into the black.” By comparison, the “top-quartile” earnings at sawmills in Eastern Canada crept up very near to the levels of Western Canada mills.

The six U.S. regions surveyed collectively achieved the best global results in 2012 and again in Q1/2013 at “average” mills - with earnings at five times the global average. Similar results occurred at “top-quartile” mills – they were also in the “top three” with earnings double the global average. “North America’s earnings (12 regions in total) achieved the highest global results in 2012, with earnings in Q1/2013 going right off the charts,” said Gerry Van Leeuwen, Vice-President, WOOD MARKETS. One region in the U.S. South achieved more than 50% EBITDA results in Q1/2013 – an extremely unusual windfall. Another region that performed extremely well was the U.S. Inland region – as a result of favourable log costs, its 2012 and Q1/2013 earnings at both “average” and “top-quartile” mills placed it in all top five lists.

For “top-quartile” mills, Alberta emerged with the highest earnings in Canada, edging out the B.C Interior as well as Ontario. B.C. Interior mills are struggling with log quality issues due to the mountain pine beetle outbreak and log costs are rising. Ontario’s few top-quartile mills matched the B.C. Interior for the first time ever, capitalizing on favourable log costs and soaring prices.

European & Russian Mills Struggle; Southern Hemisphere Mills Perform Well

The poorest results in 2012 and Q1/2013 occurred in Europe (eight countries) and Russia (three regions) at both “average” and “top-quartile” mills – a result of the debt crisis, recessionary market conditions and high log costs. The Baltic States achieved the best results in Europe where “top-quartile” mills did well but “average” mills were in the red.

The Southern Hemisphere regions surveyed (Australia, New Zealand, Chile, Brazil and South Africa) achieved the second highest “regional” earnings after North America at both “average” and “top-quartile” mills. However, while South Africa achieved the best global earnings results in 2012 at “top-quartile” mills, Brazil and New Zealand recorded more modest results with Australia and Chile in the middle.

Special Cost Analyses

A previous report analysis has been updated to highlight China’s ability to outbid U.S. west coast mills for sawlogs. “China has a need to fill its widening supply gap with imported logs to furnish the world’s lowest cost sawmills - China’s own sawmills have about one-quarter the cost of the next lowest cost global sawmilling region. But it continues to pay some of the highest prices in the world for saw logs,” explained Gerry Van Leeuwen. “The analysis shows that until global lumber prices increase significantly to improve the ability of domestic mills in the U.S. and New Zealand to pay more for local sawlogs, China will remain a competitive threat to sawmills along the U.S. west coast and in New Zealand (not to mention the B.C. Coast).”

A repeat of a second special cost analysis was conducted for “top-quartile” mills to assess how six different regions compete on a delivered lumber cost basis to the U.S. Gulf region, based on Q1/2013 dimension lumber prices and sawmill costs. “The analysis shows that four regions (the B.C. Interior, the U.S. Pacific Northwest, the U.S. Inland and Eastern Canada) have somewhat similar margins on a delivered cost basis to the Gulf,” commented Russell Taylor. “The exception was the U.S. South, as the region’s log cost

remained depressed, offering superior returns to sawmills. European mills have the highest log costs in the world (outside of China) and must also absorb the highest freight costs to access the U.S. market. Consequently, European mills were the least competitive in the U.S. market (and still need substantial price increases before becoming competitive).”

The results for the same 32 continents/regions were compiled for both “average” and “top-quartile” sawmills for both 2012 and Q1/2013. The best benchmark is always “top-quartile” mills as they are larger, have more economies of scale, are more export-oriented, and can therefore achieve higher revenues and earnings. The global average EBITDA earnings for “top-quartile” sawmills was more than four times higher than for “average” sawmills in 2012, as it was in 2010.

The 2013 edition of the *Global Timber / Sawmill / Lumber-Sawnwood Cost Benchmarking Report* benchmarks log and sawmilling costs, lumber and by-product revenues, and EBITDA margins in 2012 for 32 producing countries and/or regions around the world, and includes an update for Q1/2013 for both “average” and “top-quartile” sawmills. This 265-page report is available by subscription and a summary of the report appears in the August issue of *WOOD Markets Monthly International Report*.

For further information, please contact:

International WOOD Markets Group –	(+1) 604-801-5996 or e-mail:
Russell Taylor	retaylor@woodmarkets.com
Gerry Van Leeuwen	gvl@woodmarkets.com

For further information, please contact info@woodmarkets.com or visit <http://www.woodmarkets.com/>