



SEALASKA
TIMBER

ITC Branding and Marketing Symposium
Presentation
March 2, 2011

Log Export Presentation

- Review of 2010 activities in log exports
- Review of Key Factors for exporting programs
- Outlook for 2011
- Questions

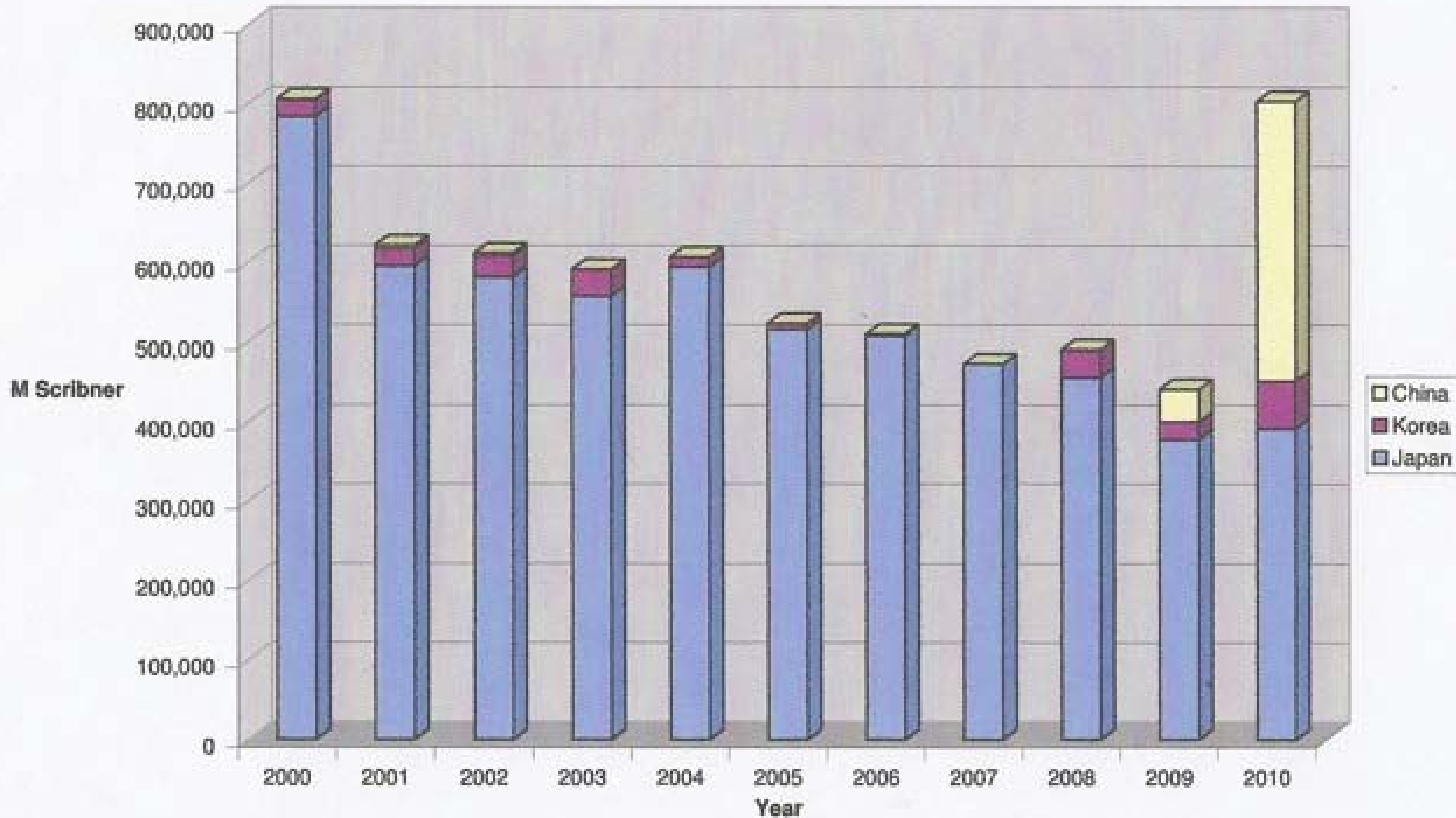


Log Exports 2010

- Break bulk log exports from OR and WA increased 804 MMbf (up 82% from 2009)
- Ports of Astoria and Coos Bay reopened up for log exports (Korea/China)
- Log exports from British Columbia 591MMbf (up 151% from 2009)
- China led growth in breakbulk in excess of 351MMbf (+ 758% from 2009)
- Key factors – Low US Housing starts, container avail, decrease Russian exports, strong India market for NZ supply.



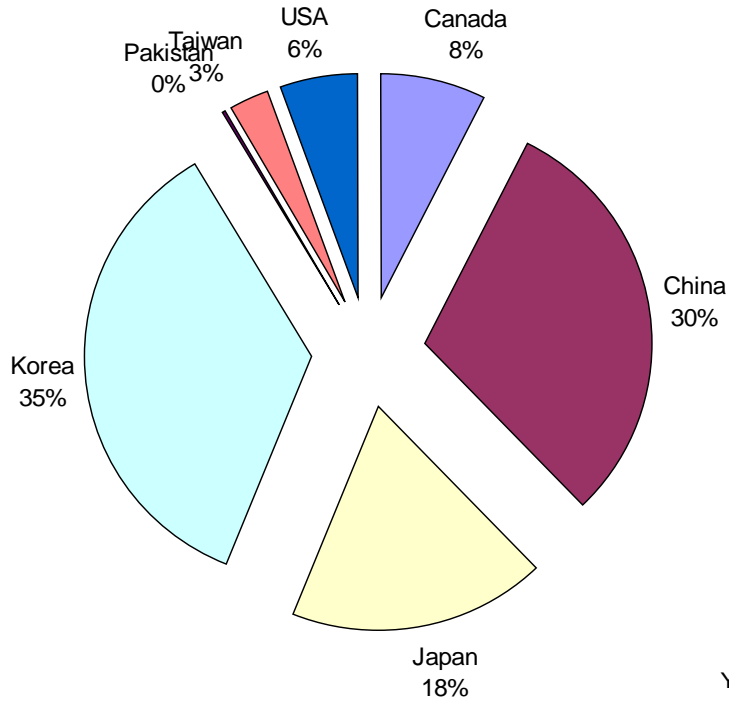
Oregon And Washington Breakbulk Log Exports 2000 to 2010



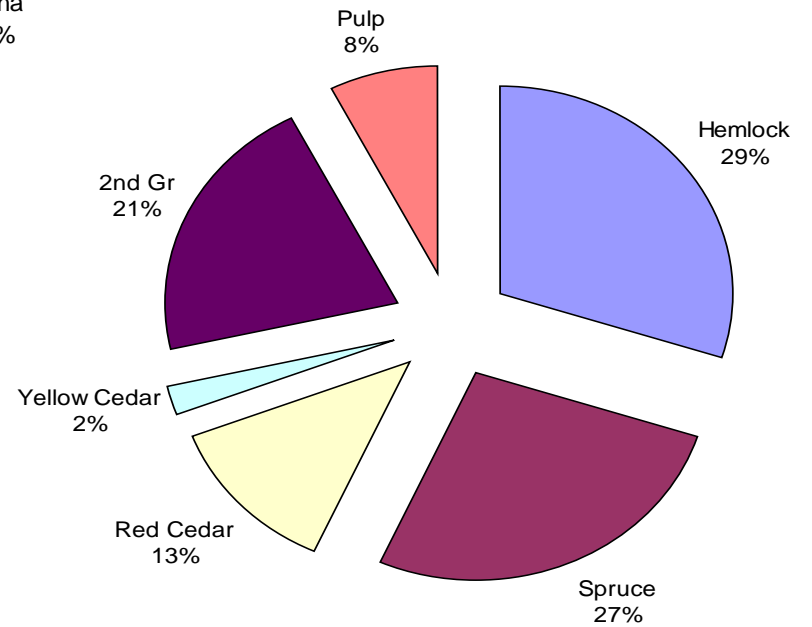
STC 2010 Sales

2010
STC Sales
Summary

2010 Sales by Country 68.8 mmbf



2010 Sales by Species 68.8 mmbf



Log Export Shipping Methods

Shipping methods to Asia

- Break Bulk Ship – Volumes of 5.5 to 6 MMBF
- Container- Small volumes of 3500 bf – 6500bf/container (smaller customers with smaller ports – Specialty)



ITC Export -Operational

Second Growth:

- When cutting second growth timber, close to all of the preferred and required bucking can be done in the woods.
- Preferred lengths 36, 32 & 24
- Top diameter exportable to 6”
- Size sorts 6-12”, 13-21 and 22”+

Old Growth

- When you are in old growth with high defect, it usually takes a coordinated effort in both the woods and sort yard to manufacture a log for the highest value.
- There is no such a thing as “producer vs purchaser” in cutting for value. You cut for the purchaser. Producing logs is no different than any manufacturing process. You look for ways to maximize your profits and still meet the needs of the customer. The highest value you are going to get for any log is when that log is manufactured to the customer specifications.
- Remember, the price of the log is determined both by quality and quantity of the lumber recovered.



Export Harvesting Activities and Costs

- Must have a total production cost that is competitive or have better quality to offset production costs. Little differentiation in second growth
- Lower quality wood can fit if the harvesting costs are lower via mechanized harvesting. Higher quality wood can have higher harvesting cost via manual harvest methods or selective helicopter programs.



Import Standards

- Japan does not require inspection or treatment of logs prior to importing to Japan as that process is handled internally by log customers.
- Korea requires hemlock logs to secure a phyto-sanitary certificate to be issued prior to importation. All logs require treatment but not prior to landing. Korean customers arrange for their own logs to be fumigated in Korea and pay for that service themselves.
- China requires all importers to debark or fumigate their logs prior to shipping. All logs must have a phyto-sanitary certificate issued prior to arrival in China.



Log Export 3rd Party Certification

- In practical terms, Asian importers do not place much value on FSC or third party certification for their log purchases. It is not a consideration in the region and does not bring any additional premiums by having that qualification for the log supply.
- We do as a course of business supply a certificate of origin from local Chambers of Commerce to our customers. This ensures our production originated from that area. Japan does require us to write an annual letter stating ownership for our products.
- FSC and third party certification is only an issue when dealing with domestic sawmills in the US



Export Payment Terms:

- Export payment can be delayed while accumulating volume and awaiting shipping times. All sales are paid by letter of credit in US dollars before actually being shipped to overseas customers. While domestic sales to local mills typically have short turns for cash in comparison.



Market Outlook 2011 – Key Stats

- China
 - Inflation (4.9% in Jan)
 - Trade surplus shrank to 50% of Dec's \$13.1B (cost of imports rising)
 - GDP growth projected at 9%
- India
 - Industrial growth slowed to a 21 month low in Dec (1.6% over last year)
 - GDP growth projected at 9%
 - Inflation 9.7% in Jan
- Japan
 - GDP growth projected at 1.9%
 - Inflation latest - nil
- South Korea
 - GDP growth projected at 3.9%
 - Inflation latest 4.1%



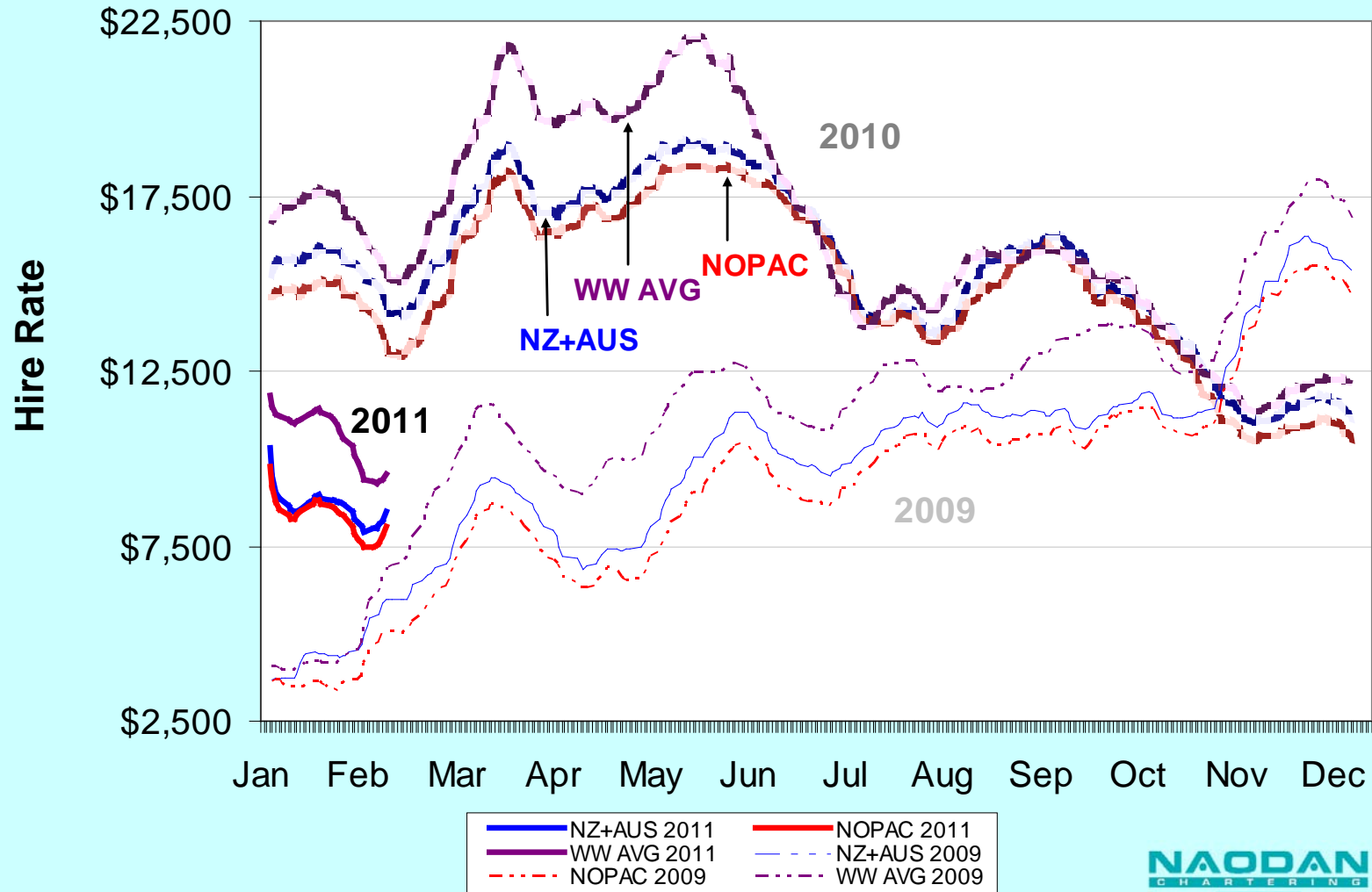
Market Outlook 2011

- Japan
 - Customers anxious for production to start
 - 2010 was first year that Old Growth Spruce supply shrunk below demand
 - Continued demand for mid to high grade Hemlock due to favorable exchange rate and short supply of Russian wood
 - There are very few sawmills still in business that cut Hemlock logs
- South Korea
 - Log demand is still driven by packaging and crating
 - The sawmills are in a pinch between paying “China” price to get logs and a low current lumber prices
 - February and March are big negotiation months for annual packaging contracts between sawmills and the major in country exporters
 - Consensus that lumber prices must come up with concern that it will not cover raw material costs
 - Shortage of High Grade benefits the Korea mills cutting lumber for Japan
- China
 - Government continues to try to cool the mid-high priced housing market by raising interest rates, increasing down payments, and disallowing third house purchases
 - Government encouraging affordable housing though demand may slow as customers wait for policy against speculators to lower cost
 - These factors may lead to a less robust China market during the summer months versus last year



28,500dwt Imabari / Baltic Handysize Pacific and Worldwide T/C Rates

2009 - 2011



ITC Log Export Considerations:

- Your location, species, and volumes
- Comparative returns and risk of domestic versus export markets
 - Transportation
 - Market knowledge
- Export markets
 - Dynamic, affected by global economic conditions and currency exchange rates
 - Ability to deliver to take advantage of market opportunities
 - Involve import standards
 - 1st time exporters should engage log trading company to help secure customers, handle logistics, and administer financial transactions.

