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**From:** McInnally, Vicki  
**Sent:** Monday, May 01, 2000 2:59 PM  
**To:** Ringma, R.S. (Richard)  
**Cc:** Norgren, Ray; Fisher, Del  
**Subject:** NWH Hardwood Lumber IDS 2000 Extract for BC Coastal

**Importance:** High



BC Coastal  
Extract.ppt

Here are all NWH IDS 2000 slides related to BC positioning, including implications for Coastal BC. Please review and contact Del or me if you have any comments or concerns about the information.

I will be arranging Strategy Dry Runs sometime during May 9-11 in Corporate area (targeting 5/11 am). This is a good opportunity to review strategy with timberlands partners. Please reply if you are interested in participating.  
Thanks, Vicki McInnally (on behalf of Del Fisher)

**EXHIBIT**

CV 03-0551 PA

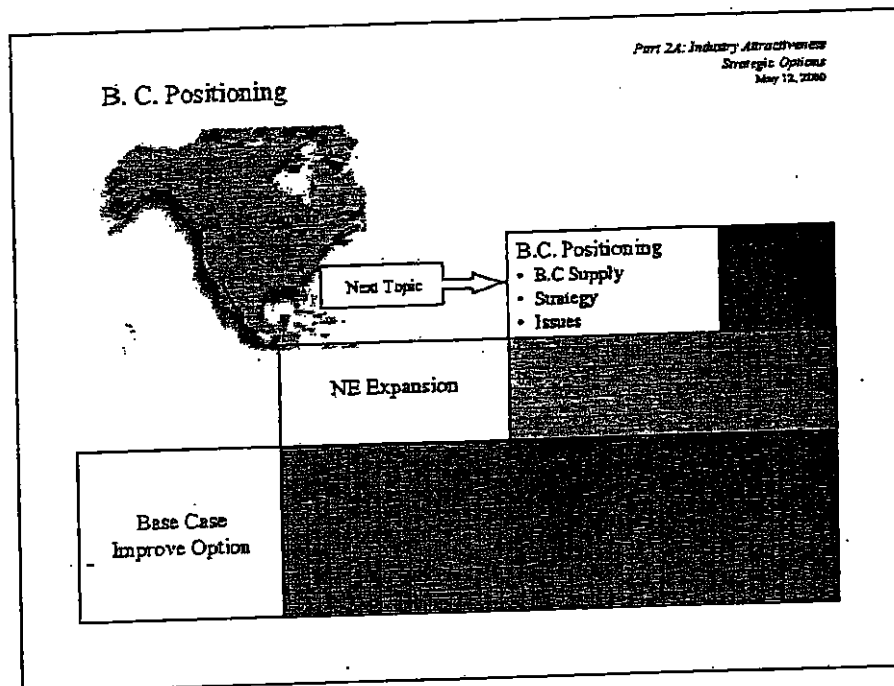
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# Hardwood Lumber IDS 2000

-DRAFT ONLY-

Extract of B.C. Strategy Elements

- 1) Industry Attractiveness
- 2) Strategy Execution & Implications for Coastal B.C.



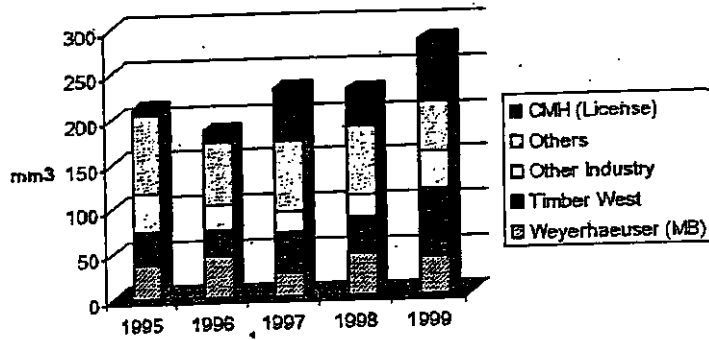
Our third strategic option is Western Growth - aimed at establishing a strategic position in British Columbia.

Since the Hardwood industry in BC is not developed (one manufacturer), we describe industry attractiveness in terms of supply, our options for establishing a converting position, and current issues.

We have covered the market for Alder in our base case.

### Supply - Alder Harvest History

- B.C. harvest increased 35% since 1995 with upside potential (280mm<sup>3</sup>)
- Coast Mountain Hardwoods (Delta, B.C.) is the only major consumer (220+ mm<sup>5</sup>)

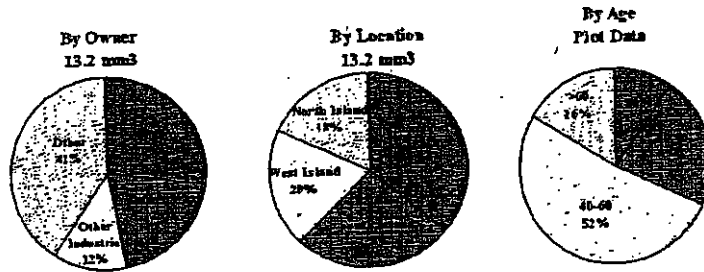


280 mm<sup>3</sup> log volume = 41 mm<sup>3</sup>/log = 53 mm<sup>3</sup>/lumber  
Source: Ministry of Forests, 1999 update

1. CMH ☒ targeted acquisition target

### Supply - Standing Inventory

- 2000 GIS study indicates sawlog inventory over 13Mm<sup>3</sup>; WY 3.6
- 64% of volume on Vancouver Island controlled by large industrials
- Age distribution requires accelerated harvest: 68% is 40 years+
- 48% large logs (10"+); cruise indicates high percent of high grade (50%+)



Source: 2000 GIS study - TIS, Strategic Planning & BC Coastal

### Supply - Annual Sourcing

- 10-year sourcing outlook supports facility of 165 - 205 mm<sup>3</sup> annually; 50% WY
  - Assumes CMH is competing for supply
  - Successful purchase of CMH would add 30 mm<sup>3</sup> from CMH license plus potential incremental supply from Timber West (220 - 240mm<sup>3</sup>)

	<u>mm<sup>3</sup></u>	
Weyerhaeuser:		
South Island	25 - 30	
North Island	15 - 20	
West Island	20 - 25	
Stillwater	<u>30 - 35</u>	
	90 - 110	← WY
Timber West	25 - 30	
Other Industrial	20 - 25	
Others (Native/Small)	<u>30 - 40</u>	
<b>Total</b>	<b><u>165 - 205</u></b>	<i>Economically sized facility</i>

Source: 2000 GIS study, Discussions with large suppliers and MCF, Joint effort with Coastal D.C.

### 1. Option based on the unsuccessful acquisition of CMH

Upside to this volume if we purchase

### 2. Financial results to follow

3. Lower volume than Washington/Oregon mill due to reduced pallet production (20% vs 38% in states)

### Strategy - Alternatives

- We are aggressively pursuing the CMH acquisition
- Both options would rapidly integrate into Western Alder business system

	Alternative A Complete CME Acquisition	Alternative B Build Mill With CMB Operating
Facility Description	Mill, Kilns & Planer	Mill & Kilns
Pace Phase	Phase 4	Phase 0/1
Completion Target	2000.3	2002.1
Location	Delta, B.C.	Delta/Vancouver B.C.
Fixed Capital Investment (3-yr)	\$23-25MM	\$20-26MM Dependent on land cost
Lumber Production (Mmbf)	42	30
Lumber Realization	Neutral/positive impact	Negative impact (if incremental)
Log Volume (mm <sup>3</sup> )	228	160
Log Cost (\$/m <sup>3</sup> )	\$45 - 50	\$55 - 60
DCF-ROI	15%	TBD in PACE Phase 1
Excluding internal log sales profits	Excluding internal log sales profits	

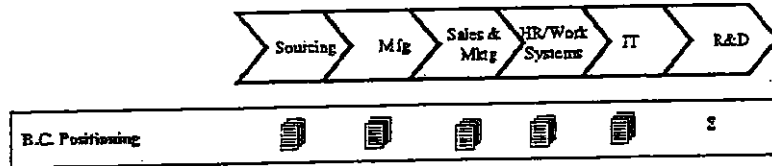
1. Alternative B will look different if we fail to acquire  
 CMH  finishing and grading done in SW




## Issues

- Claw Back Conditions
  - If unsuccessful with CMH, seek export blocking capability for hardwoods
  - Seek harvest flexibility in riparian zones for hardwoods
- Private Land Free Trade
  - If unsuccessful with CMH, should pursue hardwood exemption
  - Majority of Alder volume is on Crown land
- Alternative B - New Mill Project
  - Additional 160 mm<sup>3</sup> supply requirement will tension log prices
  - Competition likely to seek exclusive supply arrangements through Minister of Forests
  - Assess free trade impact
- Native Bands
  - Develop hardwoods relationship; important future supply

## Key Business System Changes

Part 3: Strategy Execution  
R.C. Fustling  
May 12, 2000



-  = Discussion Area
-  = No major change from 1999
-  = Does not apply/ Not a material impact at this time

As we pursue a growth strategy, we intent to continue emphasizing the same key leverages discussed earlier requiring business system changes in four areas (slide 33)

We will make some enhancements in our key business systems as shown in the areas above.

Supports our differentiated strategy and growth plans

-- We will cover each area, then summarize the feasibility of each.

## B.C. Positioning

### Investment Priority

- Integrated sawmill in B.C. accessible to raw materials and markets

### Alternatives

- A. Successful completion of Coast Mountain Hardwoods (CMH), Inc in Delta, B.C. negotiation
- B. Build new integrated mill in targeted area. Financialize free trade impact

### Execution Summary

1. Aggressive pursuit to complete board approved purchase of CMH in 2000.2
2. Prepare for Gate O/I in May/June as back-up plan; target mill completion in 2001.4
3. Capitalize on available internal resources (either alternative) for rapid integration into the existing Western Region business system and Coastal B.C.

### Value

- Both alternatives require \$20-25MM initial capital investment in fixed assets

### Feasibility & Integration Considerations

- No significant business system change expected; facility incorporated into Western Region (CMH KD lumber was marketed by NWH for 5 years up to 1999.4)
- Reference Coastal B.C. implications and CMH PACE implementation plan

## Implications for Coastal BC

### Implement Western Timberlands Value delivery principles

- Silvicultural guidelines
- Regeneration opportunities
- Understanding our Alder log specifications and delivery
- Value Delivery
- Gain exposure to Hardwood lumber business
- System business metrics

### Develop operations and marketing plans to accelerate alder harvest

- Complete 5 and 10-year harvest plan to pull forward older stands
- Optimize harvest planning to blend stumpage; minimize alder in variable retention
- Explore synergies across businesses to minimize costs and leverage log trades
- Identify procurement opportunities

### Establish core team and accelerate PACE effort for greenfield mill (Project Raptor)

- Participate in site selection for build option
- Determine opportunity for custom cut operations during transition
- Incorporate alder issues in clawback rationale

## Capital Requirements - B.C. Positioning

Part 3B: Capital Required  
B.C. Positioning  
May 12, 2000

- CMH capital requirements based on PACE Gate 3 analysis
- Alternative B is moving into Phase 1 as a back-up strategy - capital requirements will be refined and highly dependent on site costs

Capital Options	Capital (\$Nominal)			
	2000	2001	2002	2003
<b>Western Growth - All A CMH Purchase</b>				
Sustaining Capital	2.5	0.5	0.4	0.8
Strategic Capital	20.4	1.5		
<b>Total</b>	<b>22.9</b>	<b>2.0</b>	<b>0.4</b>	<b>0.8</b>

For Information Only

<b>Western Growth - Alternative B Build Mill</b>				
Sustaining Capital				0.5
Strategic Capital		12.0	12.0	
<b>Total</b>		<b>12.0</b>	<b>12.0</b>	<b>0.5</b>

Financial Outcome in Part 4 is based on the CMH alternative. Alternative B is for information only.

1.

### Synergies

#### **Cortland Mill → Titusville Yard**

- #1&Btr green lumber for drying & finishing
- 4/4 Red Oak
- 4/4 Cherry
- 4/4 Hard Maple

#### **Latrobe Yard → Titusville Yard**

- #1&Btr rough/dry lumber for finishing

#### **Green Lumber from WV/VA suppliers**

Flow to Latrobe Yard