Global sawn timber market from SCA point of view

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SCA Timber

Is anything really happening in the timber market – apart from Karlstad price discussions in the pubs ?

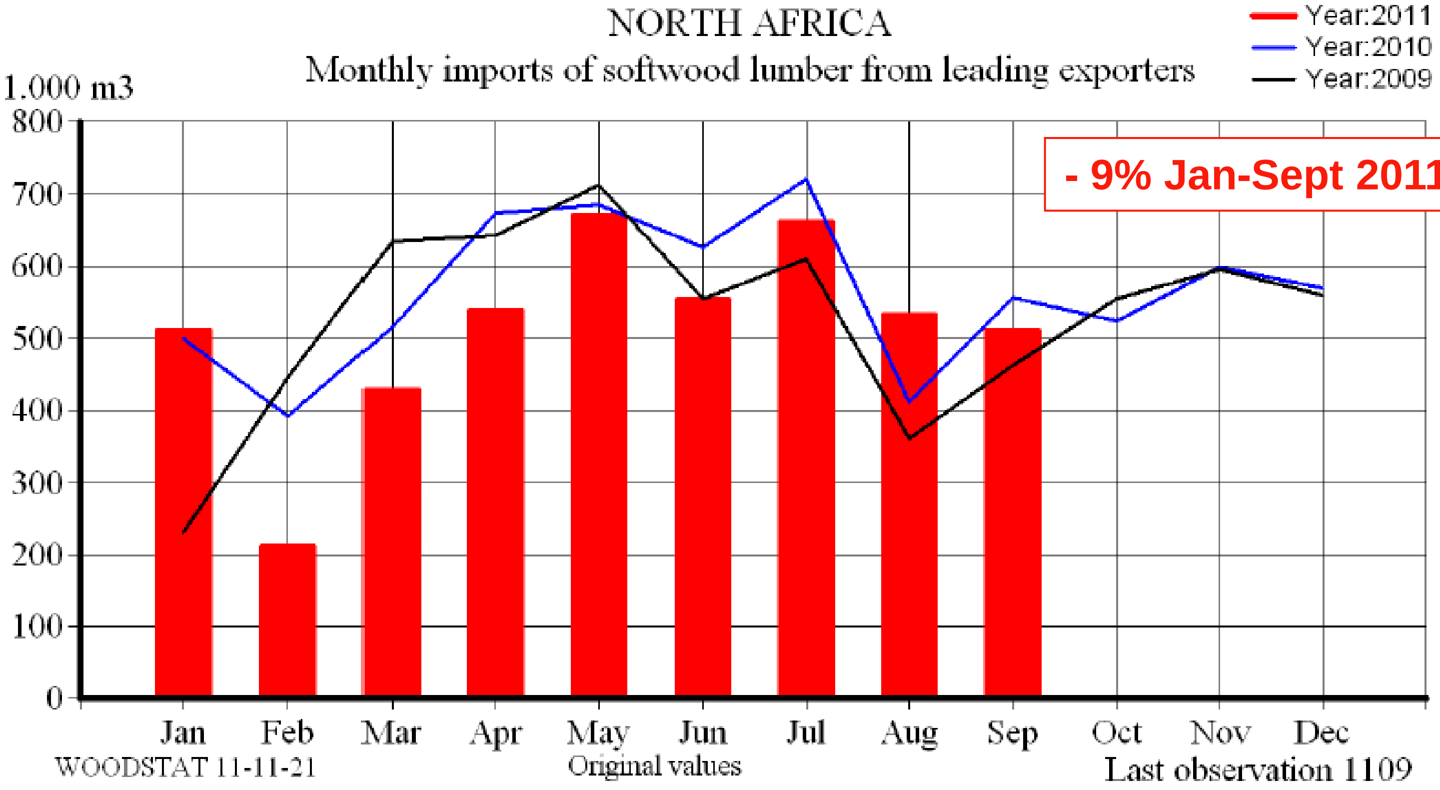
Is the business changing ?
Has it already changed ?

- 2011 = Year of crisis. How is the timber business influenced ?
- Longer term trends
    - Company consolidation
    - Competitiveness in the longer run
- The material wood – only positive news?

A humble view from one that has not managed to escape timber sales for 22 years.

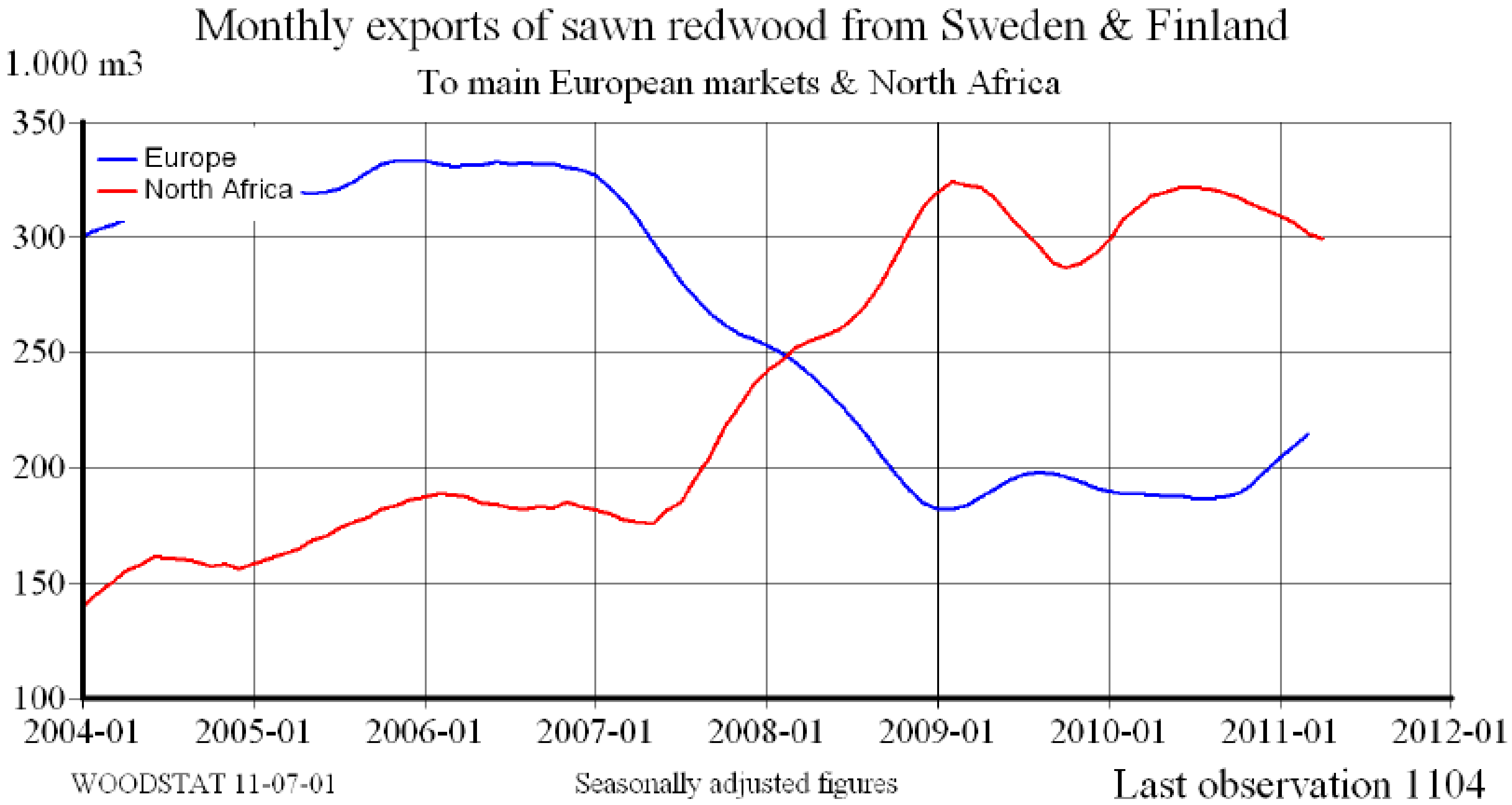
Part 1:
The Year of Crisis

1. 2011 Jan/Feb crise area was North Africa



- 9% Jan-Sept 2011 yoy

North Africa and Middle East markets are becoming more and more important



Monthly exports of sawn redwood from Sweden & Finland

To main European markets & North Africa

WOODSTAT 11-07-01

Seasonally adjusted figures

Last observation 1104

Med Europa avses importen av sågad fura till: Storbritannien, Danmark, Holland, Belgien, Frankrike, Tyskland, Spanien och Italien

Med Nordafrika avses importen av barrträvaror till: Algeriet, Marocko, Tunisien & Egypten.

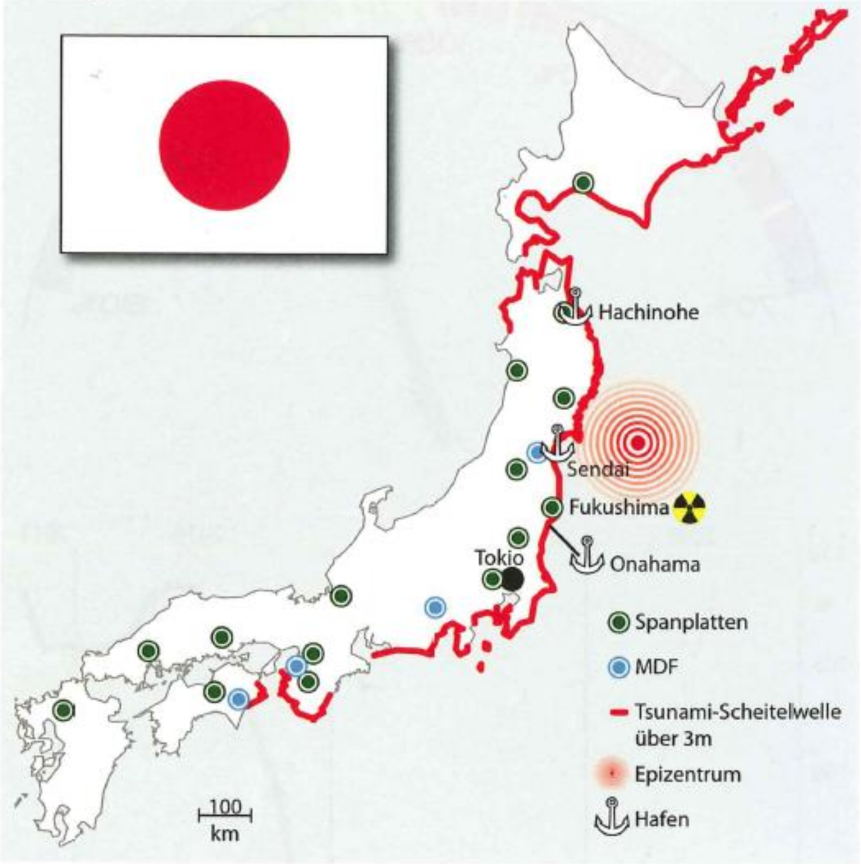
Middle-East and North Africa
Demographics bring both opportunities and risks

Country	Population	Aver. age	Pop. growth	Life exp.	Jobless rate <25 yrs	GDP / PPP	GDP growth
Morocco	34,7 mio	27 yrs	1,2%	71	16%	4.160 $	4,3%
Algeria	34,1 mio	27 yrs	1,5%	72	46%	6.200 $	0,5%
Tunisia	10,4 mio	30 yrs	1,0%	74	27%	7.500 $	4,6%
Lybia	6,3 mio	24 yrs	2,0%	74	27%	12.050 $	
Egypt	82,9 mio	24 yrs	1,8%	70	26%	5.900 $	5,2%
Jordan	6,3 mio	22 yrs	3,2%	72	39%	5.100 $	4,5%
Lebanon	4,0 mio	29 yrs	0,8%	72	21%	12.750 $	7,7%
Syria	20,1 mio	22 yrs	2,5%	74	20%	4.400 $	2,6%
Iraq	28,9 mio	19 yrs	2,5%	68		3.500 $	
Saudi	28,6 mio	25 yrs	2,0%	72	26%	21.100 $	2,4%
Yemen	24,0 mio	18 yrs	2,9%	62	29%	2.300 $	1,0%
Kuwait	2,8 mio	26 yrs	2,4%	77	23%	51.700 $	2,6%
Bahrain	0,7 mio	29 yrs	2,1%	75		24.200 $	4,1%
Qatar	0,9 mio	30 yrs	12,0%	75		74.100 $	
Oman	3,4 mio	24 yrs	2,1%	75		22.800 $	
U.A.E	2,7 mio	31 yrs	2,7%	77		33.750 $	5,7%
	290,8 mio	**24 yrs**	**2,0%**	**70**		**8.000 $**	

2. 2011 March crise area was Japan

PLATTENINDUSTRIE JAPAN 2009

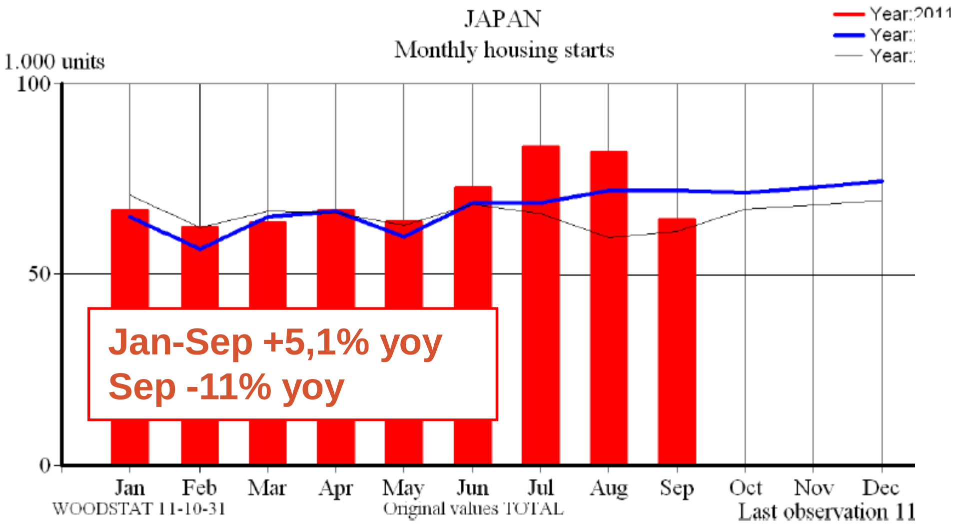
MDF- und Spanplattenproduktionen in Japan, Tsunamigebiete mit Scheitelwellen über 3 m Höhe sowie wichtige Holz-Verladehäfen im Krisengebiet



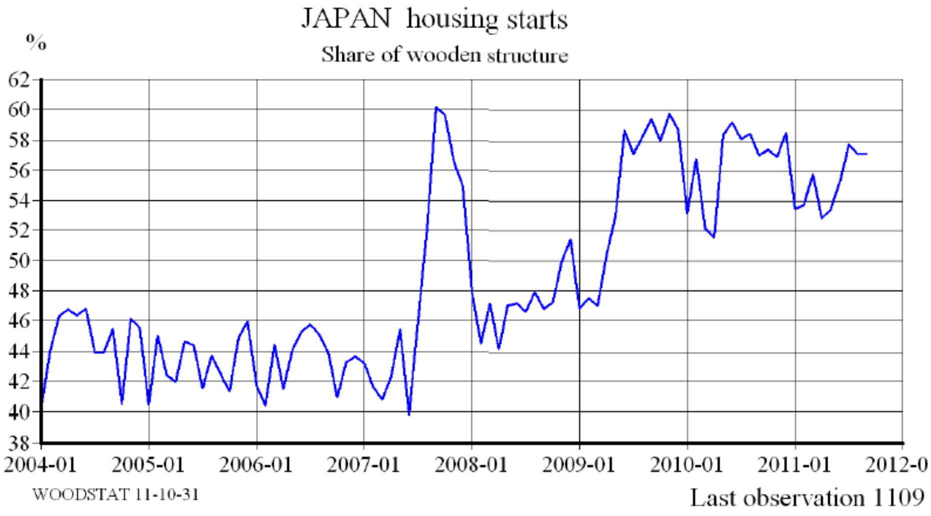
Quelle: European Panel Federation, Japan Meteorological Agency, eigene Erhebungen

Holzkurier © 2011

Japan house starts slowly increasing – and ”wooden structure” has higher share



Jan-Sep +5,1% yoy
Sep -11% yoy



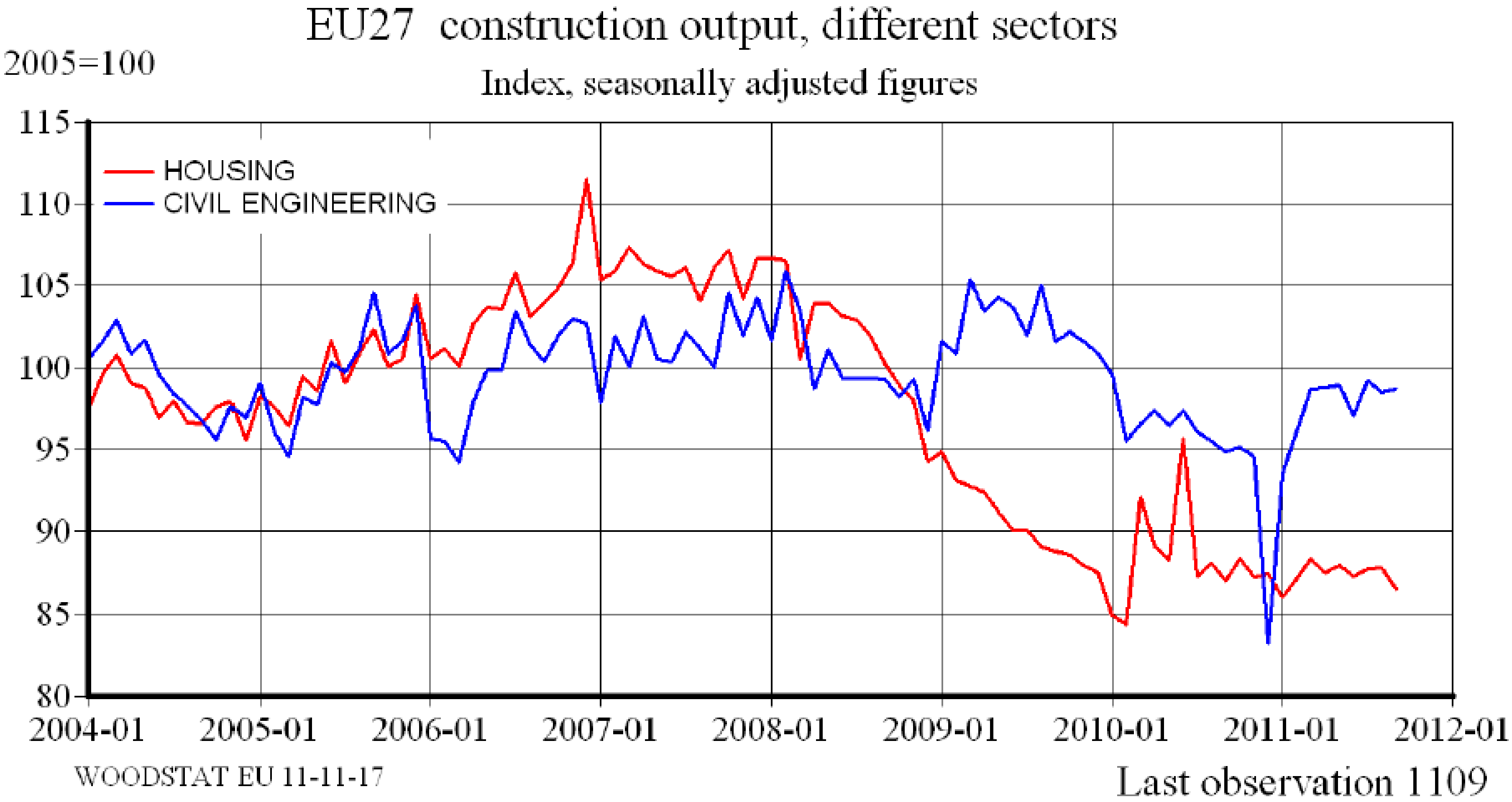
Import av barrträvaror 1.000 m3

Från	2011 Jan-aug.	2010 Jan-aug.	%
Nordamerika	1.836	1.810	+1
Europa	1.763	1.485	+19
Ryssland	627	513	+22
Totalt	4.848	4.376	+11

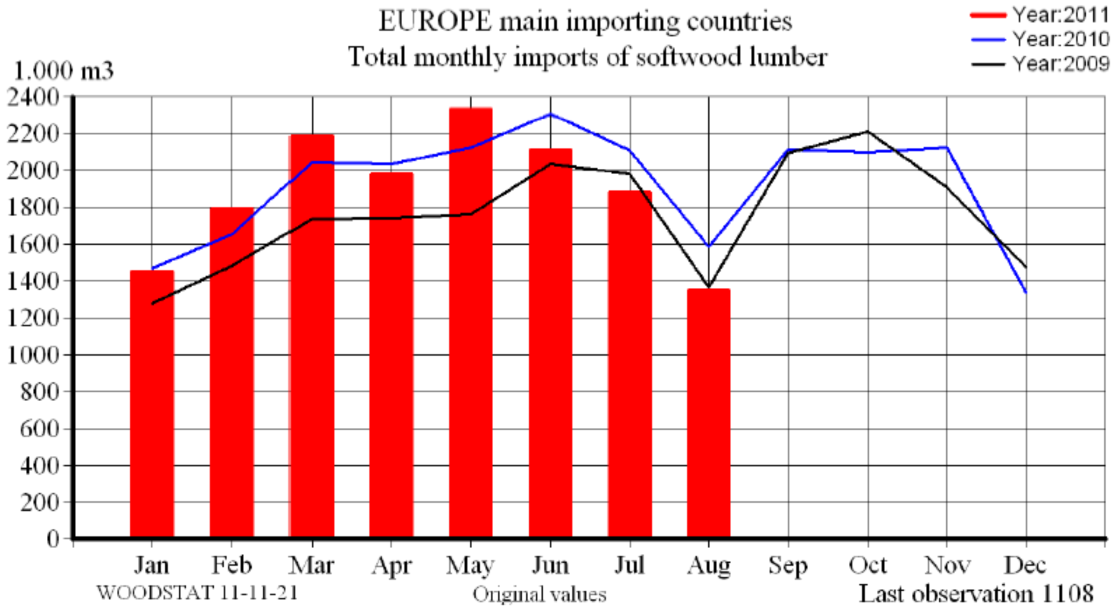
3. 2011 Q3, and beyond, crise area is Europe

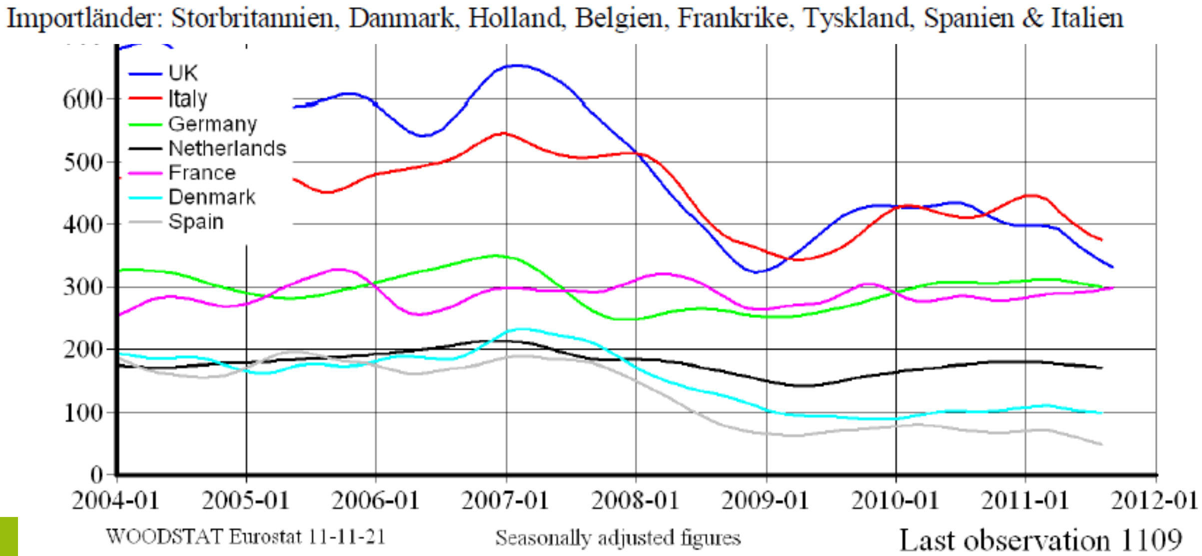
Panicked traders looking for the next eurozone victim turned on Spain pushing bond yields above 6pc for the first time in three months. Photo: EPA/AP

House construction in EU shows weak development

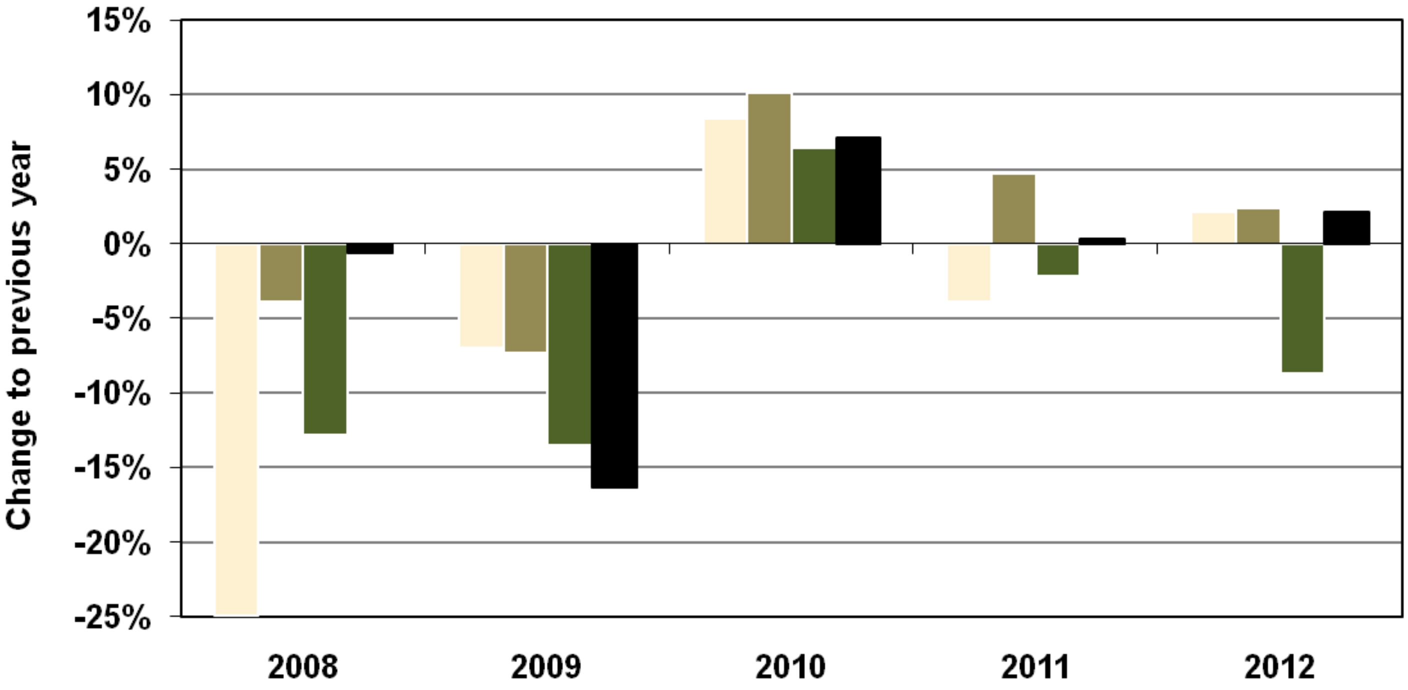


European softwood imports has shrunk by 20% from 2003-2005 level – now heading down again





Softwood sawnwood demand by main countries



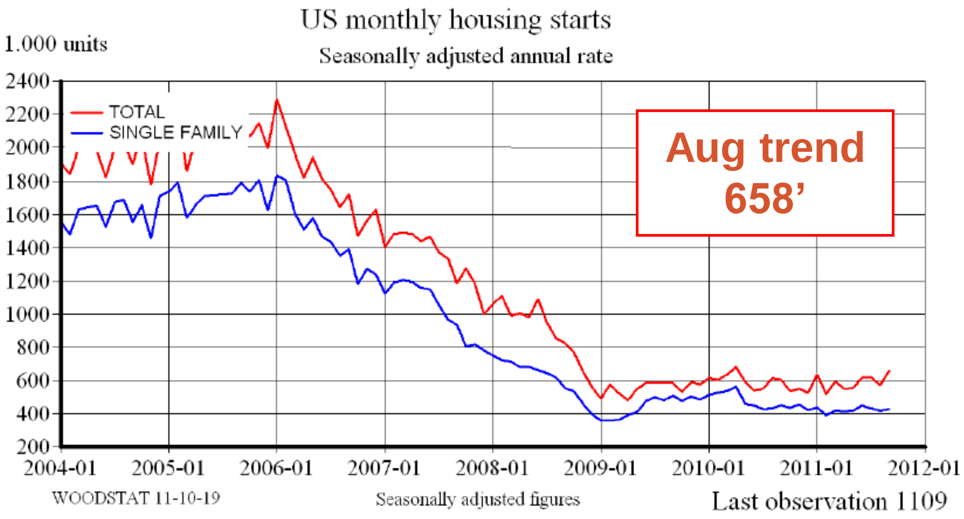
	2010 M3
UK	8.1
Germany	18.2
Italy	5.8
France	9.7
	41.8

Western Europe

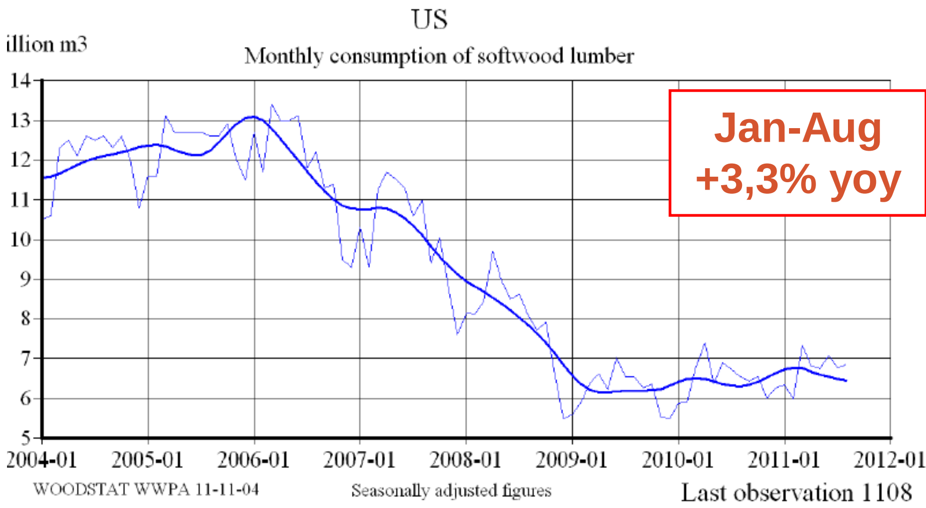
Change to Prev year, m3	-7.7	-10.1	+5.0	+0.5	+0.6
Total volume, m3	75.4	65.3	70.2	70.8	71.4

Source: Softwood Conference October 2011

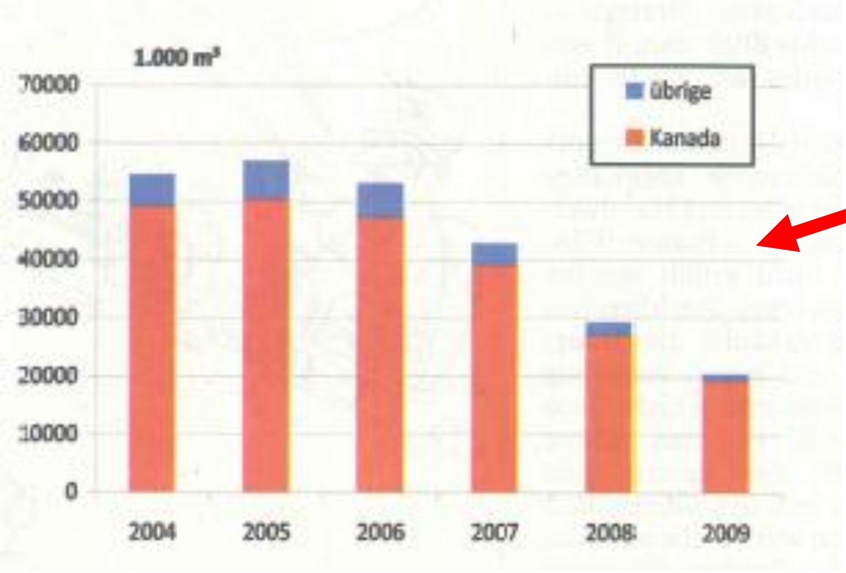
4. ”Permanent crise” ?? US house build and demand is staying flat – lower than expectations



Aug trend 658’

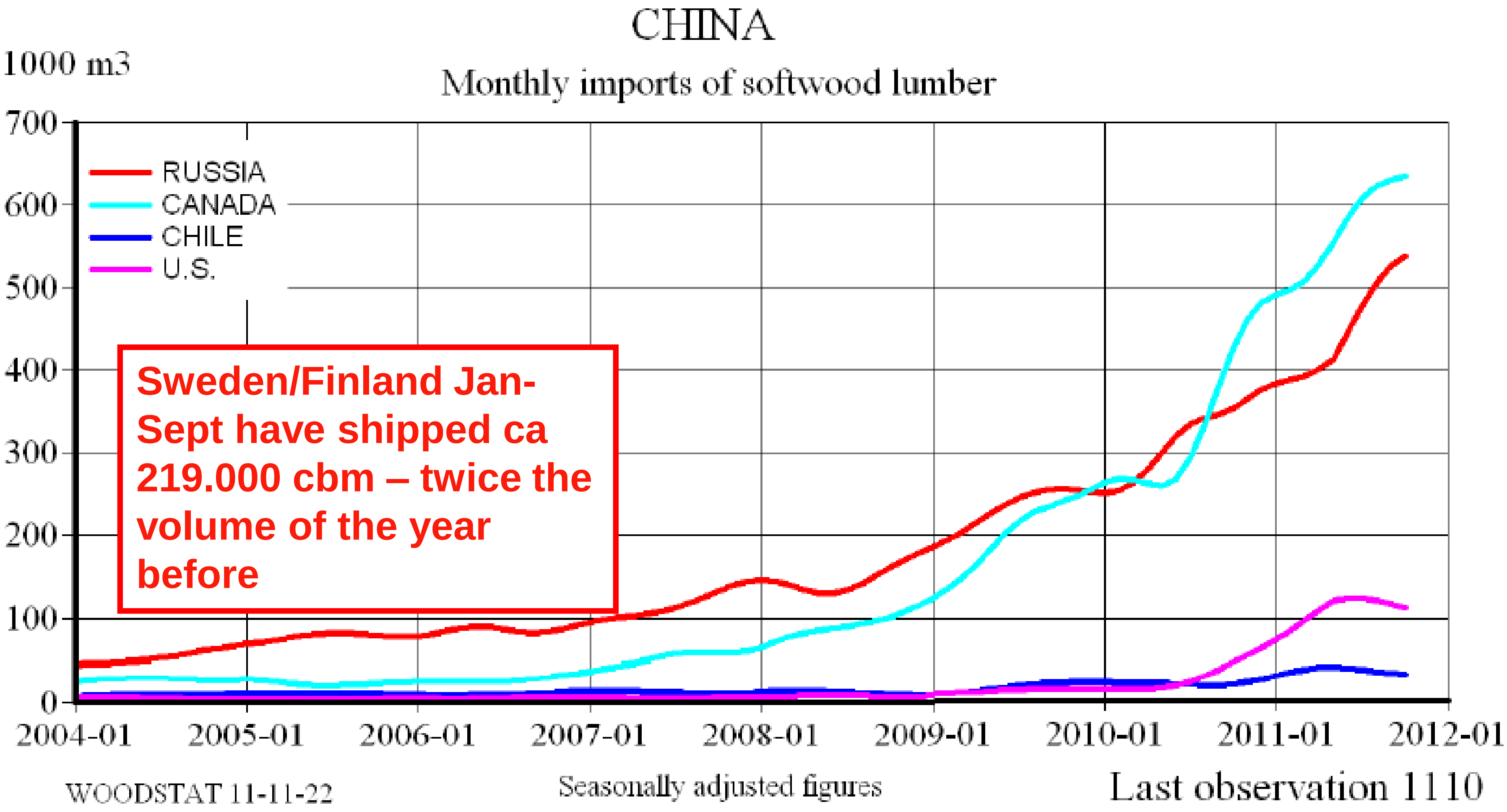


Jan-Aug +3,3% yoy



2006-09 US import volume shortfall > Total Scandinavia production

5. No crise. China now established as the world second largest softwood import market



CHINA

Monthly imports of softwood lumber

Sweden/Finland Jan-Sept have shipped ca 219.000 cbm – twice the volume of the year before

WOODSTAT 11-11-22

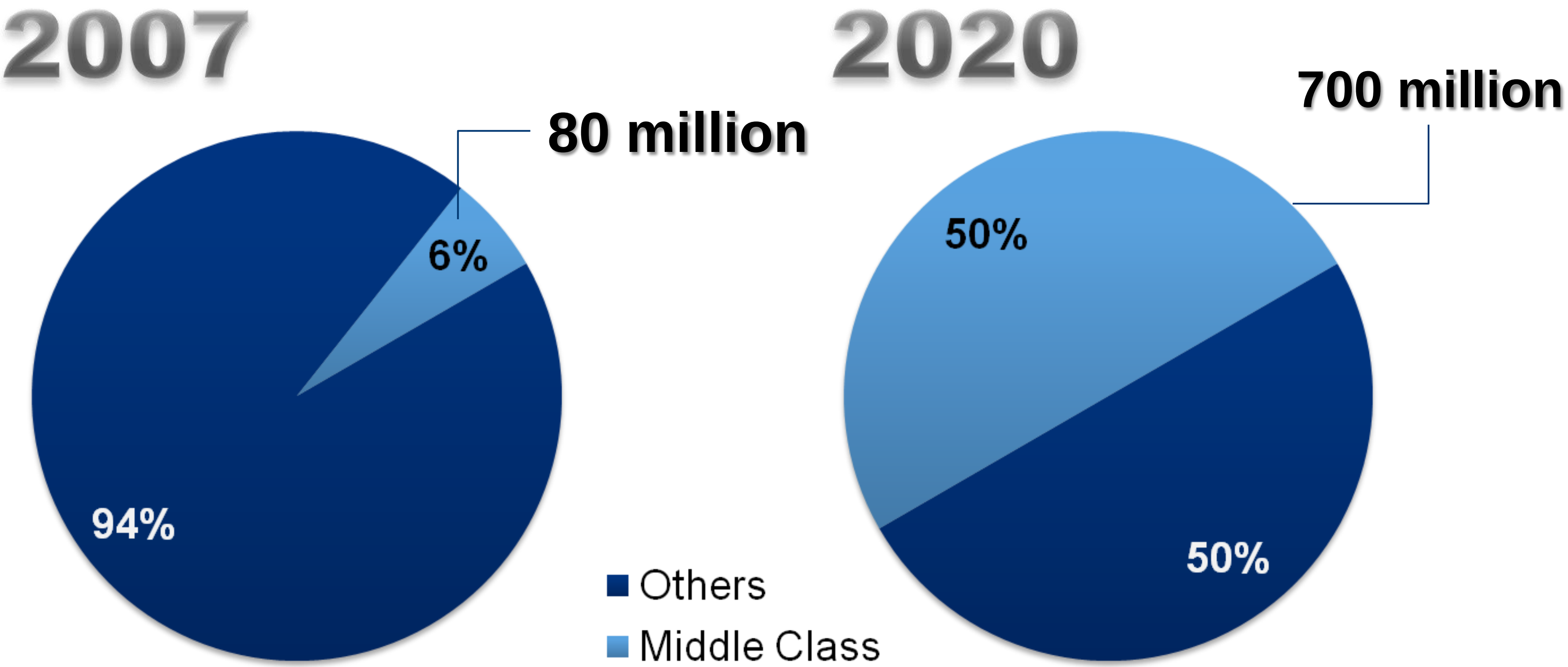
Seasonally adjusted figures

Last observation 1110

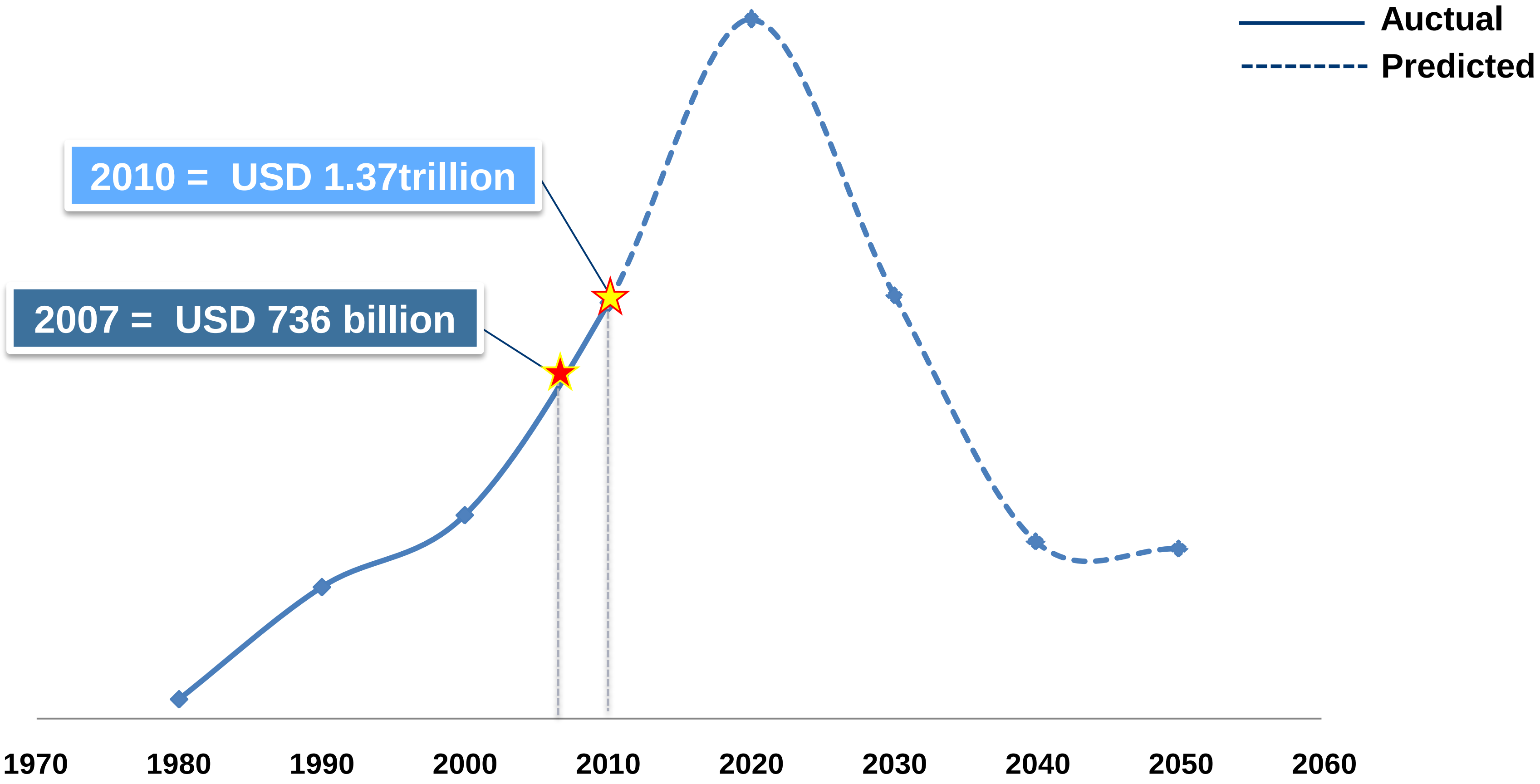
China Macro – The Middle Class

- China's middle class is growing **FAST**!

  (60,000 yuan to 500,000 yuan income)



Effects of rising middle class Chinese building construction trends



2011 Consumption conclusion, in relation to last years …….

How big a consumption problem do we really have recorded at this date ?

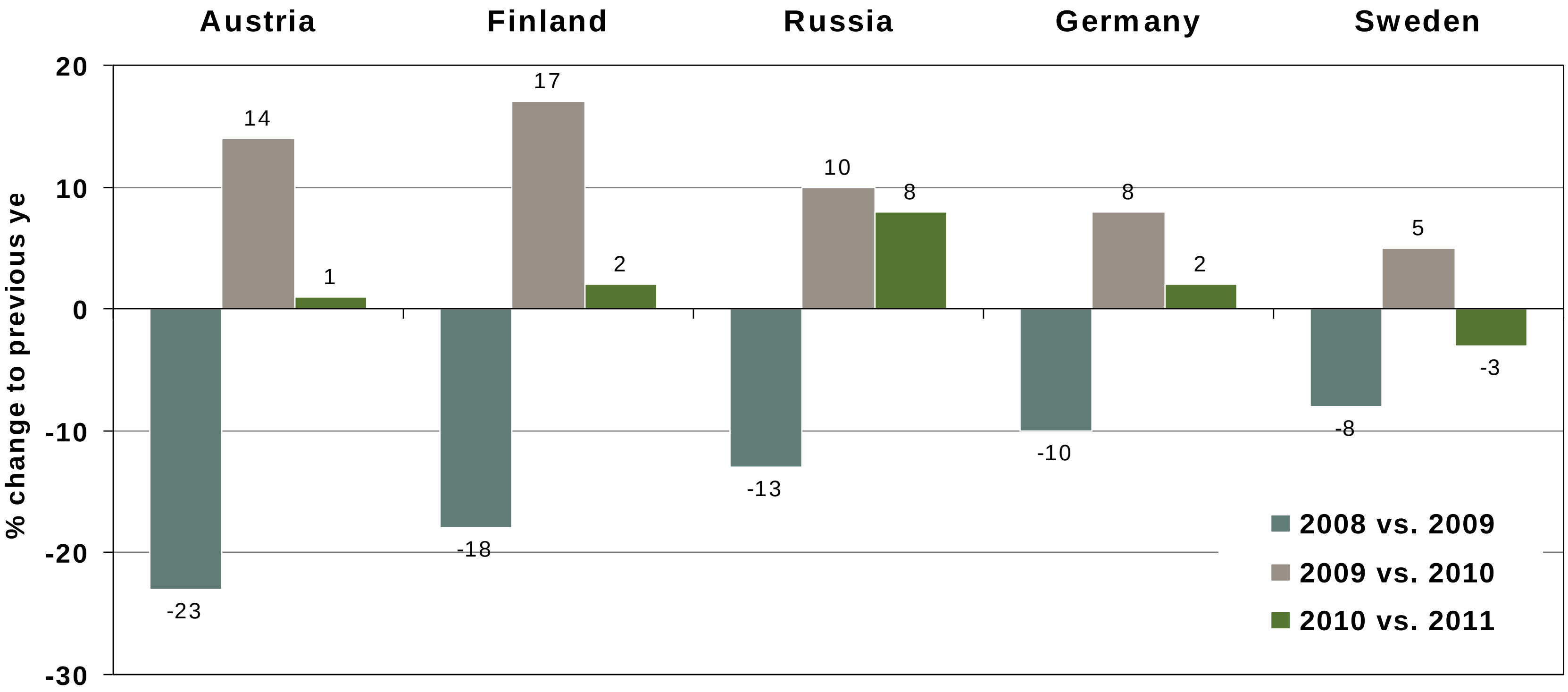
How big a consumption problem do we fear we will have – and how have everyone positioned for that ?

The balance that makes the market

Production has been boosted up

– although still clearly below the high mark of 2006-2007

Softwood sawnwood production in key European countries – 2008-2011



Sources: Softwood Conference / ECE Timber Committee
Note 1: Russian output 2011 is projection based on 1H 2011 development
Note 2: German output for 2011 based on 2010 ECE figures

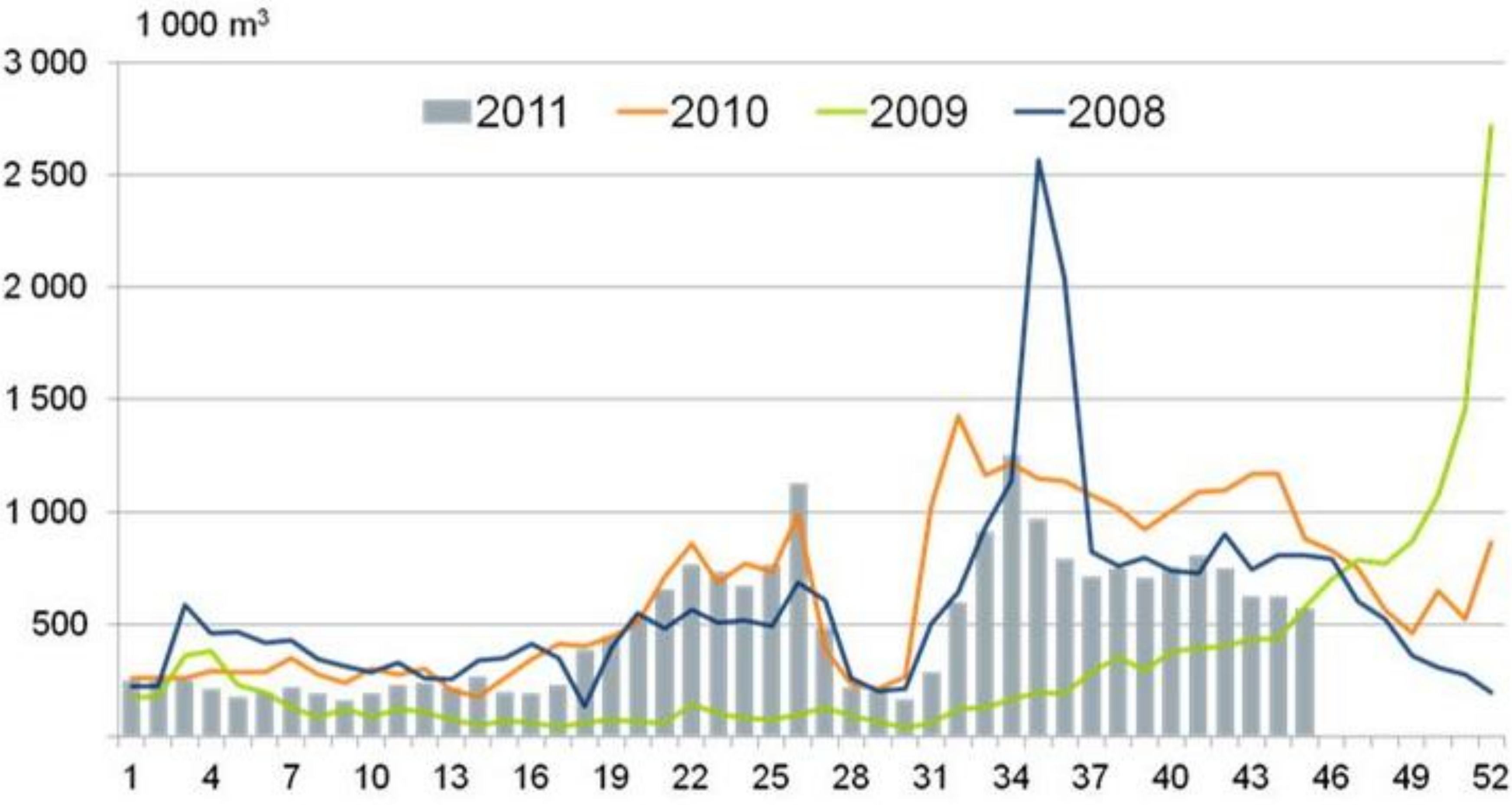
Production per country

2011 Production speed first and second half year (to Oct)

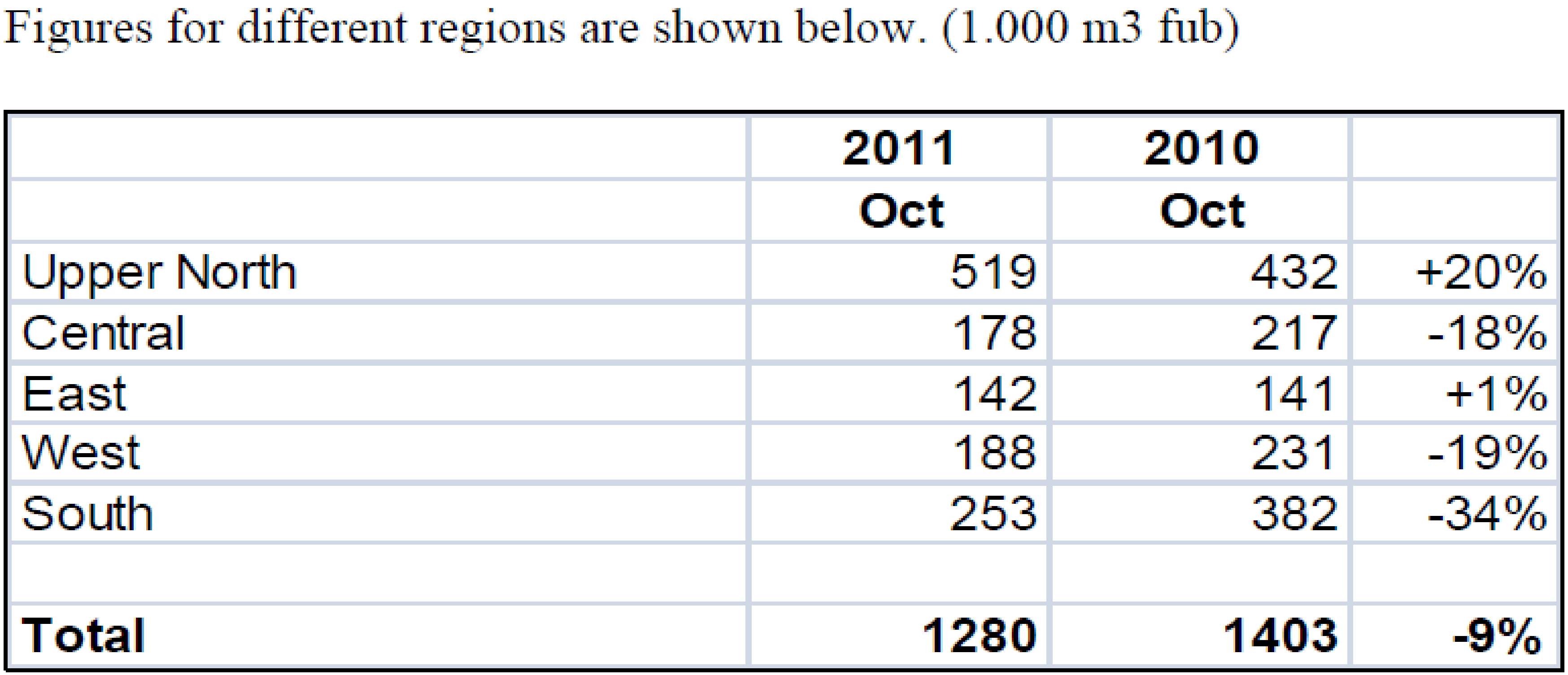
	2010	2011 est*	2011 Jan-June	2011 July-Oct	
Austria	9,5	9,6 +1%	+10%	-10%	
Germany	21,2	21,6 +2%	+ 5%	- 3%	To Sept
Finland	9,4	9,6 +2%	+ 9%	+ 5%	
Sweden	17,0	16,5 -3%	- 1%	- 3%	
Russia	16,7	18,0 +8%	+9%	no data	
TOTAL	**73,8**	**75,3**			
		+2,0%	**+7%**	**-3%** **(excl Russia)**	

* Estimate from Softwood Conference

Roundwood sales Finland (covers 85% of roundwood sales from private owned forests)



Swedish log supply situation



Figures for different regions are shown below. (1.000 m3 fub)

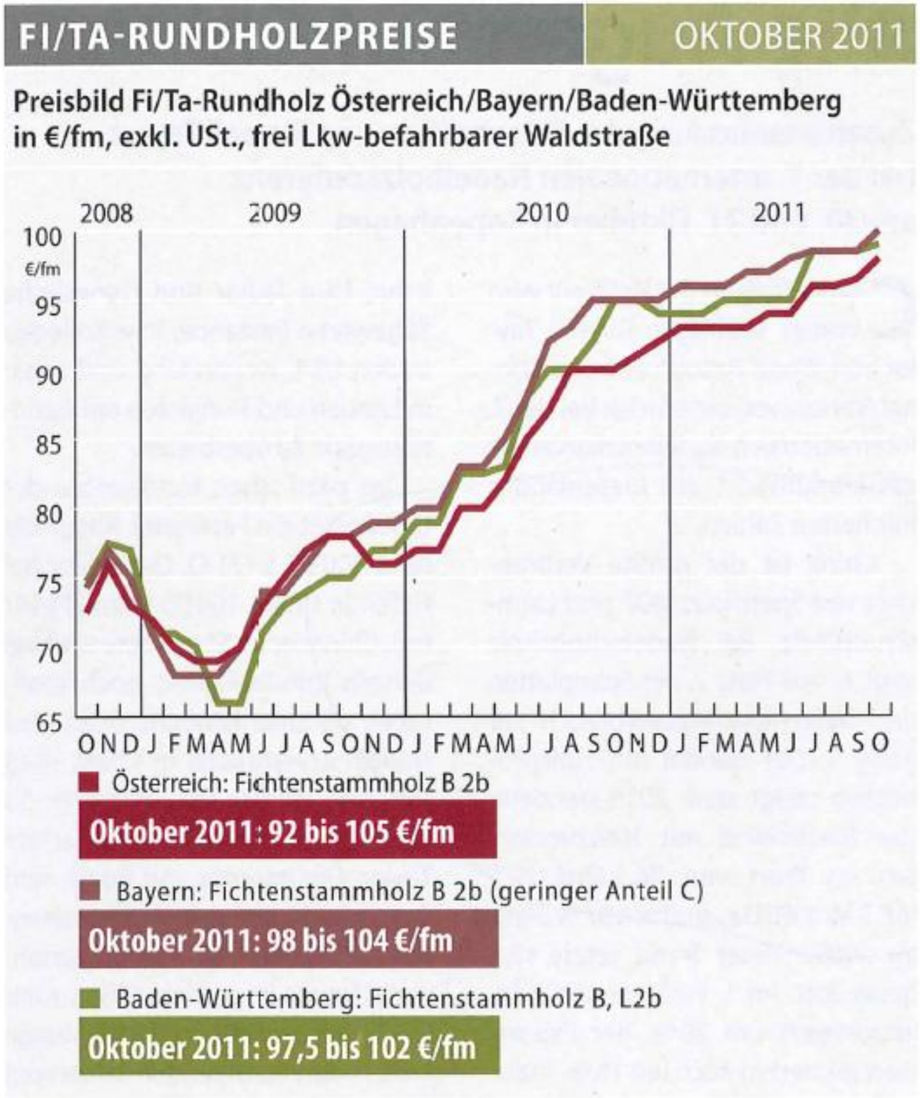
	2011	2010	
	Oct	Oct	
Upper North	519	432	+20%
Central	178	217	-18%
East	142	141	+1%
West	188	231	-19%
South	253	382	-34%
Total	**1280**	**1403**	**-9%**

Announced or otherwise communicated production curtailments 2011 – 2012 spring

- Sweden
  - XXX 40.000 cbm. Cut down nov-dec, incl complete stop w52 – planning further reductions
  - XXX 90.000 cbm. Cutback at 3 spruce mills Q4/Q1 plus complete stop w52
  - XXX 40.000 cbm. Stop w44 (2 mills) and w52-1 (6 mills)
  - XXX 30.000 cbm. Reduced shifts and Dec-Jan stop weeks.
  - XXX 20.000 cbm. 3w stop mill XXX.
  - XXX 20.000 cbm. 1 week Christmas stop
  - XXX 15.000 cbm. One shift mill XXX Q4. 1 week Christmas stop

- Finland
  - YYY 100.000 cbm. Two shift, Fridays closed, w52 closed
  - YYY 90.000 cbm. Closed w52+w1 ”and some more”
  - YYY 70.000 cbm Mill YY1 closed Jan-Feb, Mill YY2 strong reduction
  - YYY 50.000 cbm. One shift 2 mills Q4+spring. All mills stopped w52
  - YYY 50.000 cbm. Slow production Q4
  - YYY 20.000 cbm. Fridays closed + 2 week Christmas stop
  - YYY 12.000 cbm. 2 week Christmas stop
  - YYY 10.000 cbm. 3 weeks Christmas stop
  - YYY 10.000 cbm Reduced speed – cancelled spruce prod for rest of 2011

Austria / South Germany:
Prices for logs and sawnwood



FI/TA-RUNDHOLZPREISE OKTOBER 2011

Preisbild Fi/Ta-Rundholz Österreich/Bayern/Baden-Württemberg in €/fm, exkl. USt., frei Lkw-befahrbarer Waldstraße

🟥 Österreich: Fichtenstammholz B 2b

Oktober 2011: 92 bis 105 €/fm

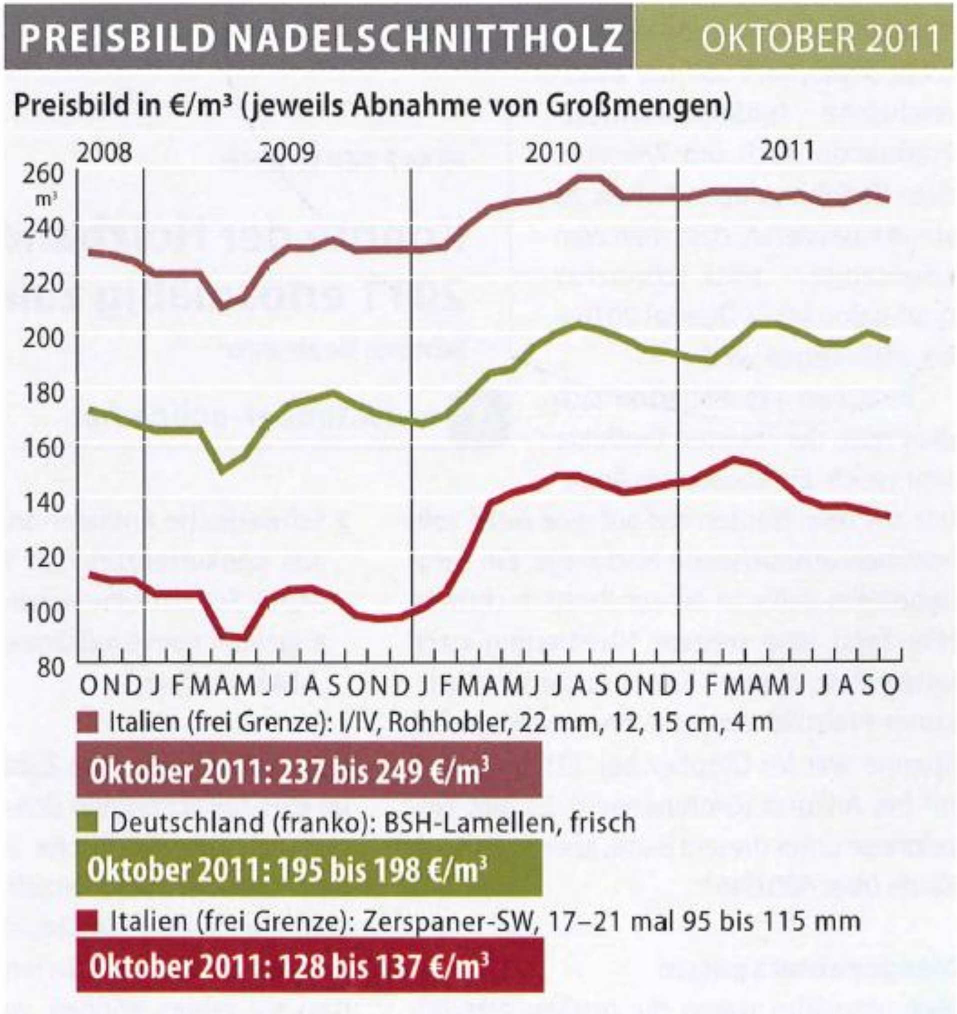
🟥 Bayern: Fichtenstammholz B 2b (geringer Anteil C)

Oktober 2011: 98 bis 104 €/fm

🟩 Baden-Württemberg: Fichtenstammholz B, L2b

Oktober 2011: 97,5 bis 102 €/fm

Quelle: Holzkurier-Markterhebung



PREISBILD NADELSCHNITTHOLZ OKTOBER 2011

Preisbild in €/m³ (jeweils Abnahme von Großmengen)

🟥 Italien (frei Grenze): I/IV, Rohhobler, 22 mm, 12, 15 cm, 4 m

Oktober 2011: 237 bis 249 €/m³

🟩 Deutschland (franko): BSH-Lamellen, frisch

Oktober 2011: 195 bis 198 €/m³

🟥 Italien (frei Grenze): Zerspaner-SW, 17–21 mal 95 bis 115 mm

Oktober 2011: 128 bis 137 €/m³

Part 2:
Longer term trends

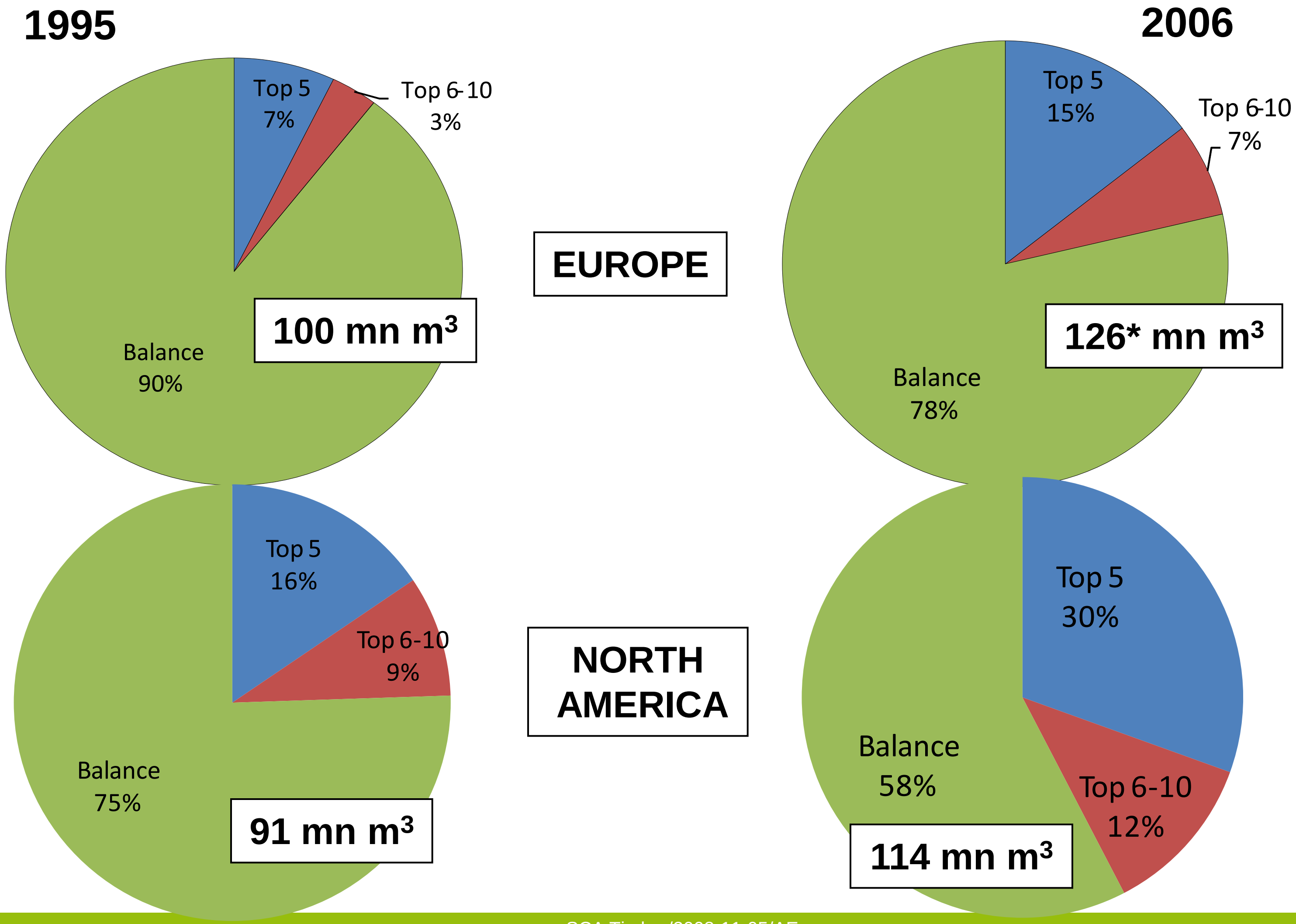
Wood products customers becoming larger and sometimes also more global

Wood products customers becoming more global

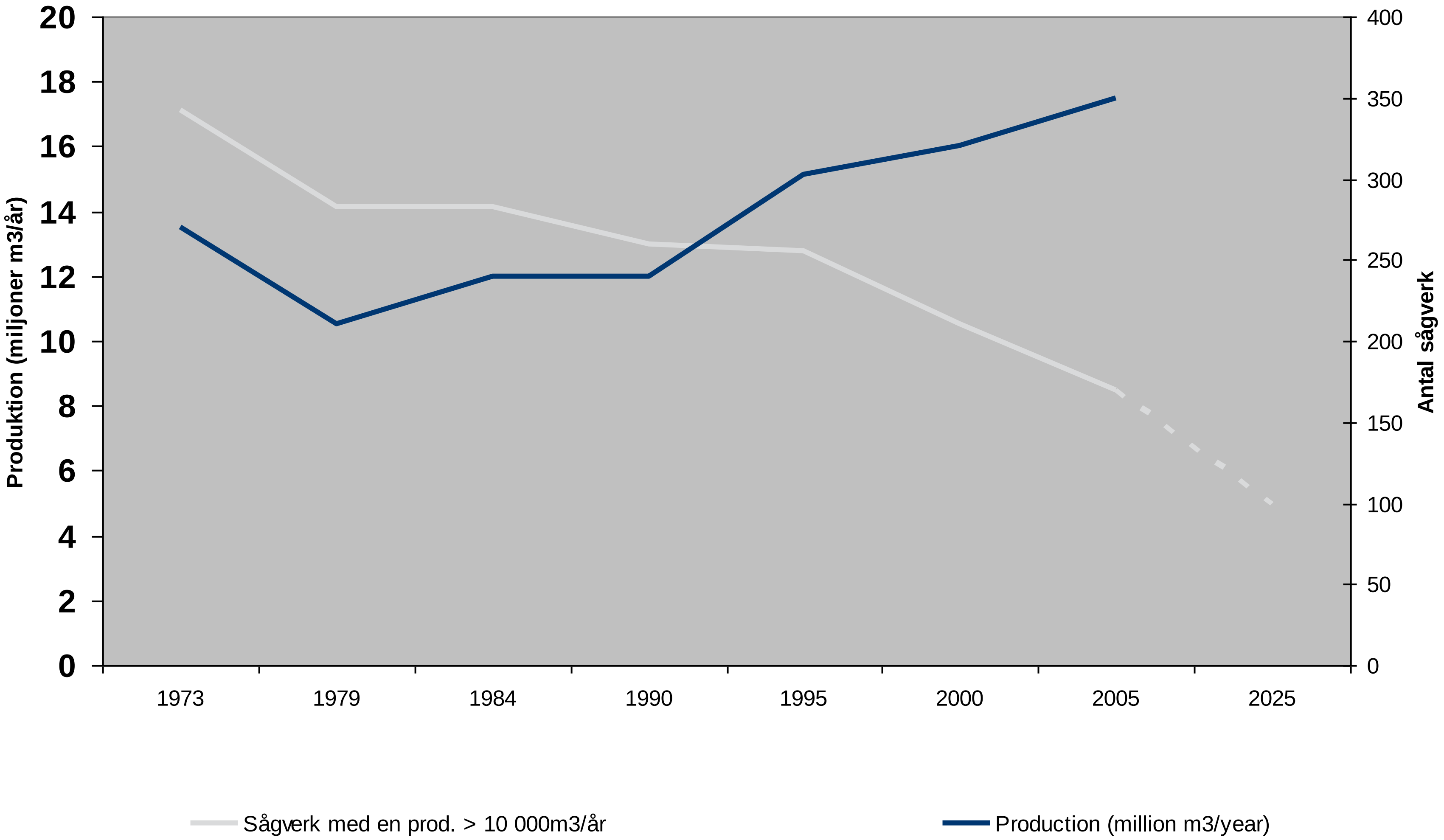
BUT STILL ”LOCAL” TIMBER SUPPLY

Consolidation of European and North American sawmill industry 1995-2006

Industry Structure, Sawmill Companies



Number of Swedish sawmills has been halved in the last 30 years



EUROPAS TOP-20-SÄGEWERKE 2008–2011

Rang 2011	Rang 2010	Unternehmen	Land	Standorte	Output je Standort	Produktion in 1000 m3 2008	2009	2010	Plan 2011	Diff. in % 2010 auf 2011	
1	1	Stora Enso Wood Products	FI	22	232	5.900	4.800	5.057	**5.100**	1	+
2	6	SCA Timber	SE	8	275	1.700	1.700	2100	**2.200**	5	+
3	4	Moelven	NO	19	104	1.942	1.712	1.817	**1.975**	9	+
4	3	Mayr-Melnhof Holz	AT	4	475	1.900	1.900	2.100	**1.900**	−10	––
5	6	Setra-Gruppe	SE	10	185	1.853	1.562	1.562	**1.850**	18	++
6	8	Holzindustrie Pfeifer	AT	5	360	1.750	1.500	1.700	**1.800**	6	+
7	9	UPM-Kymmene	FI	7	247	2.132	1.497	1.729	**1.729**[1]	0	±
8	5	Södra Timber	SE	10	170	1.600	1.800	1.700	**1.700**	0	±
8	10	Rettenmeier-Holding	DE	5	340	1.700	1.380	1.450	**1.700**	17	++
10	11	Metsäliitto-Finnforest	FI	9[2]	178	1.700	1.500	1.500	**1.600**	7	+
11	13	Holzindustrie Schweighofer	AT	2	750	850	1.100	1.400	**1.500**	7	+
11	–	Ilim Timber Industry	RU	2[3]	750	–	–	935	**1.500**	60	+++
13	12	Klenk Holz AG	DE	3	450	1.800	1.200	1.250	**1.350**	8	+
14	17	ante-holz	DE	2	600	1.170	926	926	**1.200**	30	++
15	14	Vida	SE	7	157	1.500	1.200	1.000	**1.100**	10	++
15	15	Holzindustrie Binder	AT	2	550	1.000	950	1.000	**1.100**	10	++
15	19	BSW Timber	UK	8	138	700	550	990	**1.100**	11	++
18	15	Ziegler Holzindustrie	DE	1	1000	830	1.000	1.000	**1000**	0	±
19	20	Rörvik Timber	SE	7	136	812	347	414	**950**	129	+++
20	2	Klausner-Gruppe	DE	2	440	4.100	2.695	2.173	**8801**	−60	–––
Mittelwert/Summe				**135**	**246**	**34.939**	**29.319**	**31.803**	**33.234**	**4**	**++**

Anmerkungen: Angaben in 1000 m³, Quelle: Firmenangaben, Geschäftsberichte

1) Holzkurier-Schätzung. Bei Einschätzung für 2011 geht man von gleicher Produktion wie 2010 aus.

2) Ein Sägewerk der Gruppe (Karihaara/FI) ist gegenwärtig stillgelegt.

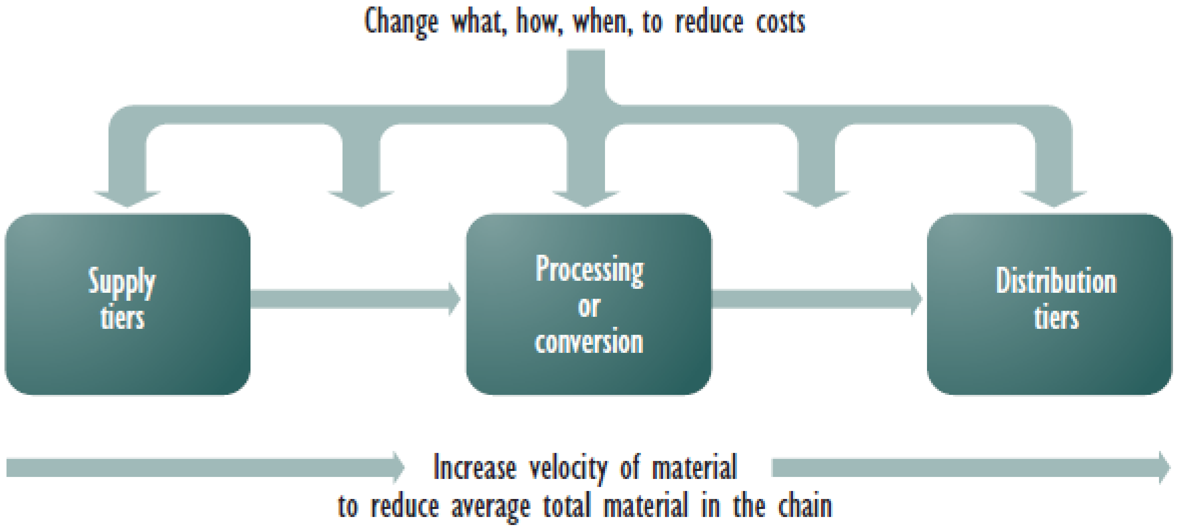
3) nur europäische Werke berücksichtigt

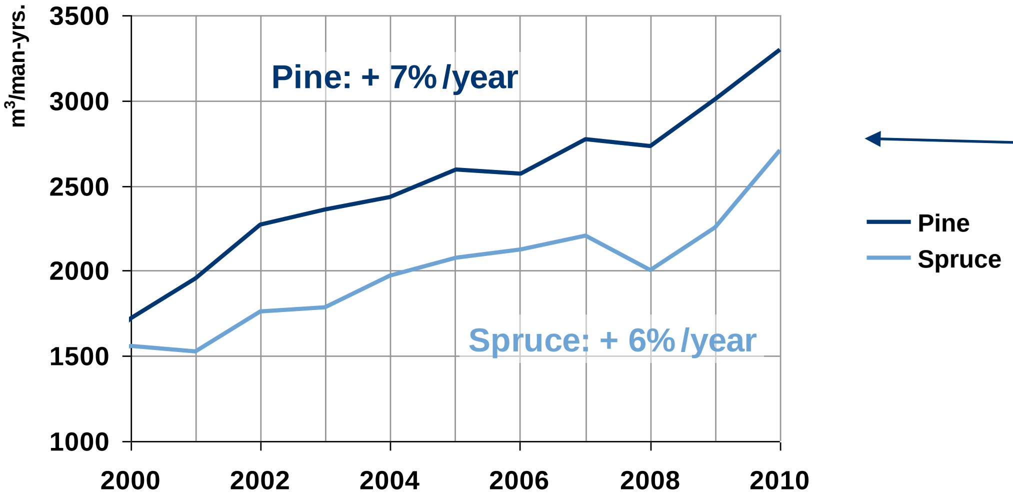
Holzkurier © 2011

Timber business competitiveness

1. Supply Chain Cost reduction
2. Innovation, Development and Adaptation

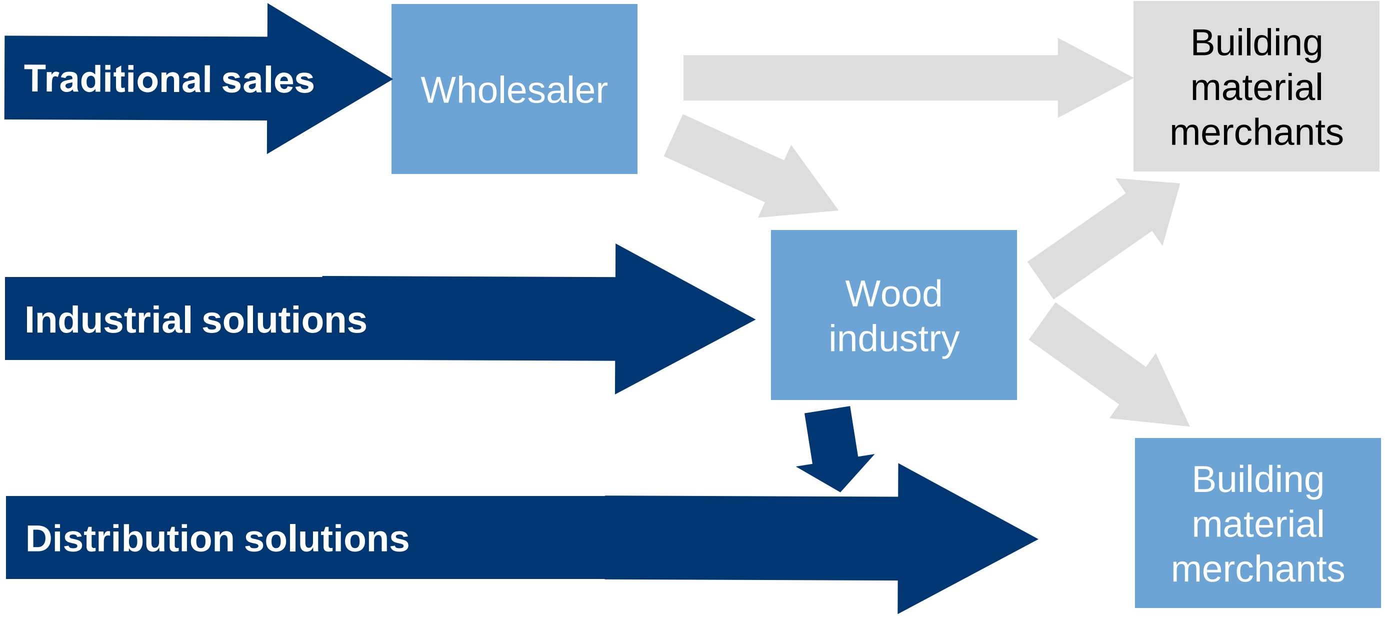
Programs for reducing Site costs and Supply Chain costs





Example SCA

Example SCA: Adding value to Living With Wood supply towards Industrial and Distribution value chains



Traditional sales

Wholesaler

Building material merchants

Industrial solutions

Wood industry

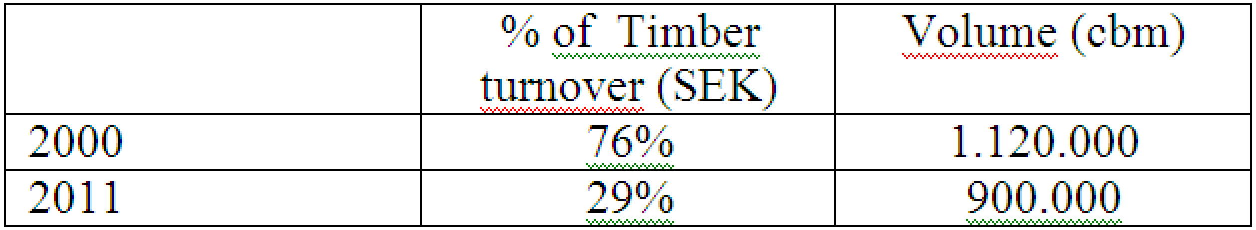
Distribution solutions

Building material merchants

- Long-term relationship, through focused growth with Priority customers.
- Higher product value.
- Knowledge, service and information supplement product in the complete customer offer.
- Cutting costs out of the supply-chain.

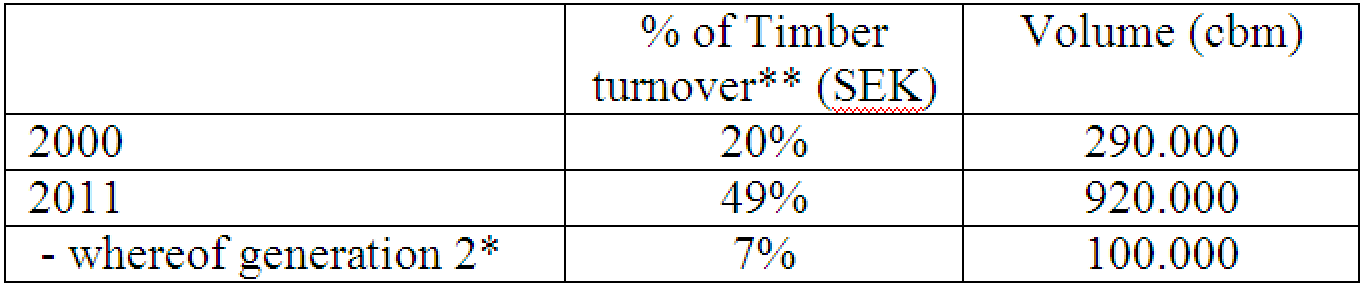
Over time development

Traditional sales



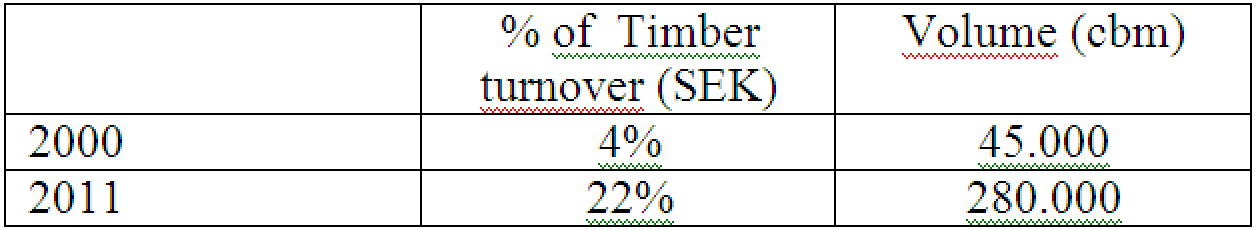
	% of Timber turnover (SEK)	Volume (cbm)
2000	76%	1.120.000
2011	29%	900.000

Industrial solutions



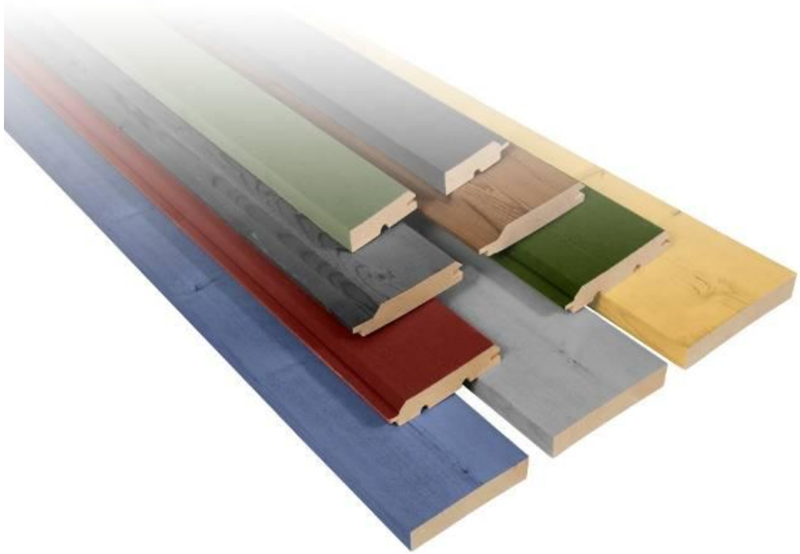
	% of Timber turnover** (SEK)	Volume (cbm)
2000	20%	290.000
2011	49%	920.000
- whereof generation 2*	7%	100.000

Distribution solutions



	% of Timber turnover (SEK)	Volume (cbm)
2000	4%	45.000
2011	22%	280.000

New timber products………but is innovation speed for timber products good enough ?



accoya modified wood

Leverantör till möbelkedja

En internationell möbelkedja behövde en leverantör för tillverkning av sin populära lagerhylla. SCA Timber fick uppdraget att leverera en miljon hyllor per år. SCAs partner TräTeam, familjeföretaget i Kramfors, investerade i skräddarsydd produktionsanläggning och fler medarbetare.

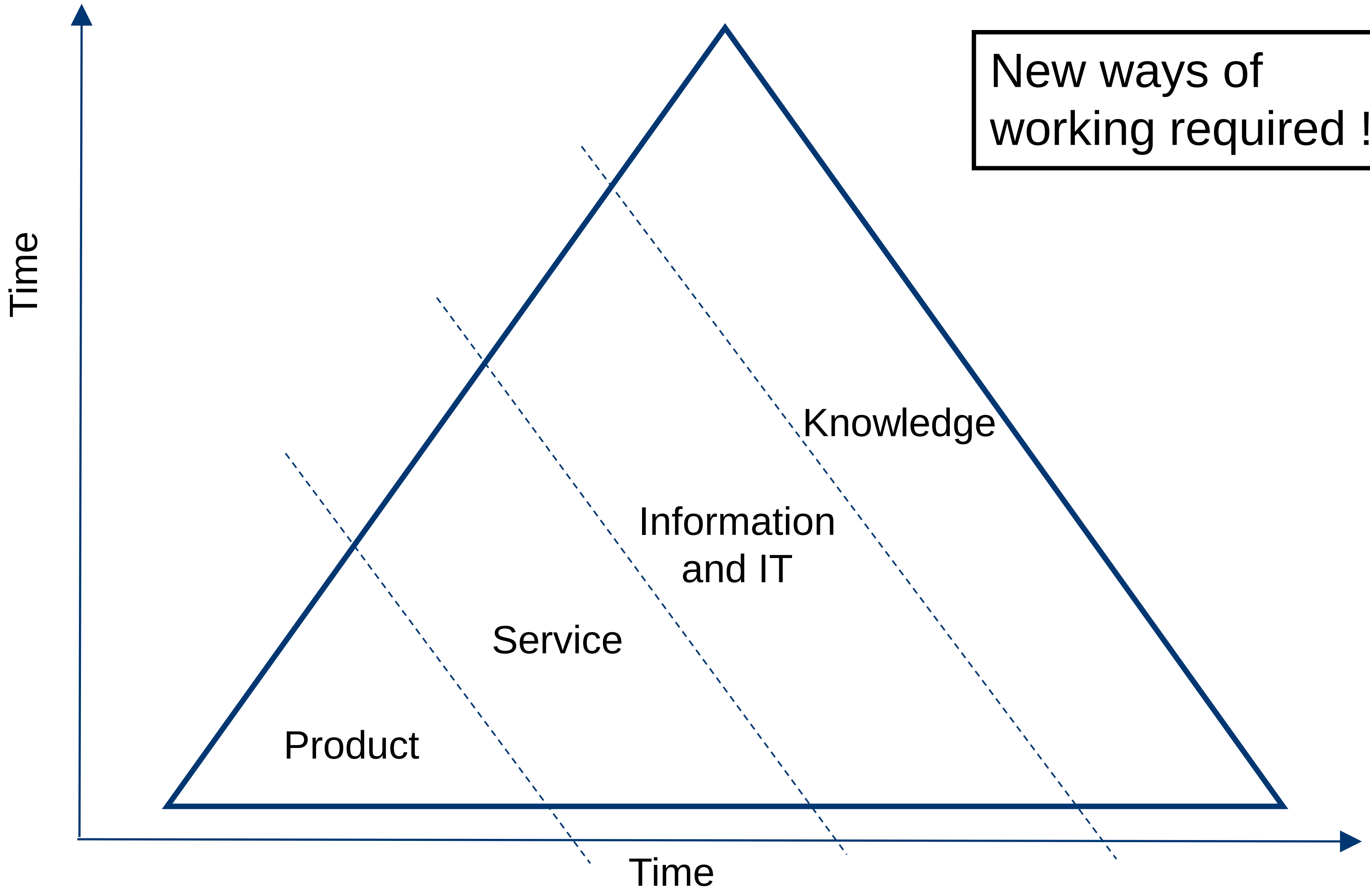
Tillsammans med våra kunder utvecklar vi produkter och tjänster.

Leverantör till byggvaruhandeln

Från våra distributionscentraler levererar vi trävaror till den skandinaviska och brittiska byggvaruhandeln. Produktsortimentet omfattar bland annat golv, tryckimpregnerat virke, ytbehandlade paneler för interiör och exteriör användning samt bygg- och konstruktionsvirke.

Tillsammans med våra kunder utvecklar vi produkter och tjänster.

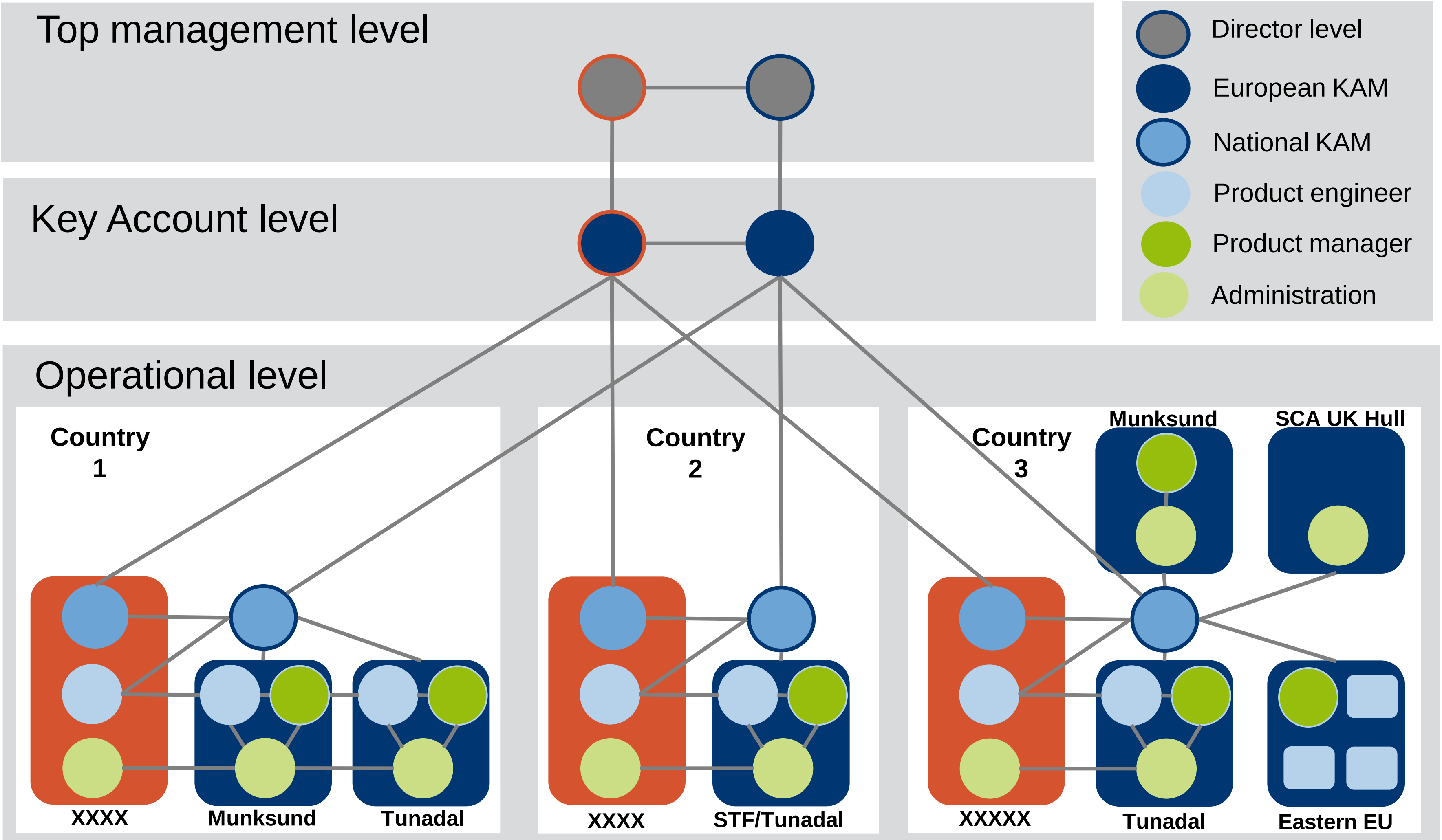
Customer value needs to grow over time – if timber supply shall fight off competition



New ways of working required !!

Qualified and specialised competence skills required…..

KAM set-up XXXX



The Disappearing Middle Market

Product based strategies in the bite zone

But…
don't get caught in the bite zone!

Everyone's talking about the fading 'Product' segment. It may still represent the largest sector for company strategies globally but in mature markets, it's disappearing fas We've all seen the m that occu in pay ma ge in sales of pr goods. In business mark s, combined with the use of e-commerce, it's led to on-li exchanges that d reasing numb ket osing basic vices at bargain prices. en customers need something special, with a perceived value that's genuinely higher than the cost, they go to the growing number of 'product plus' specialists.

WARNING !

The material wood

Wood – ”has a good story to tell”

Certified wood contributes to a better climate

Wood for sustainable development

Renewable!

Energy efficient!

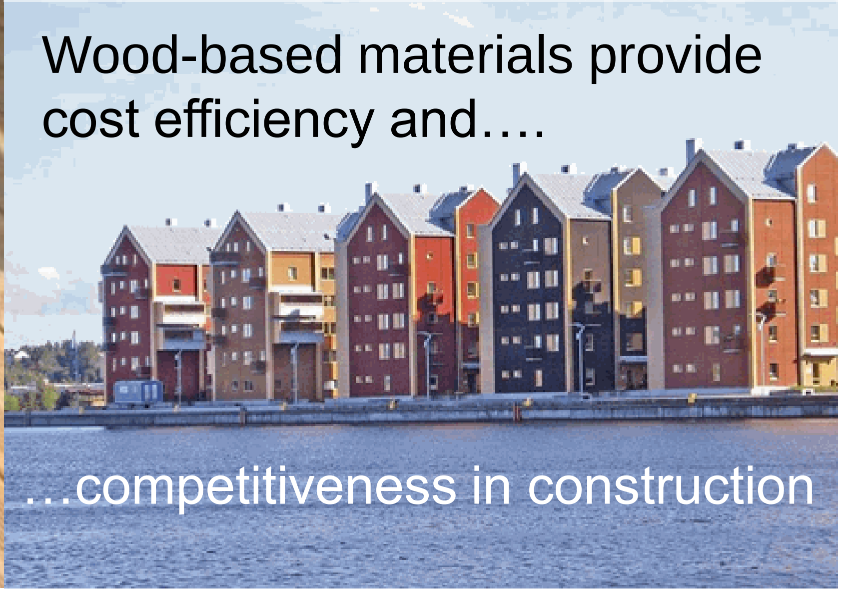
Recycle!

Wood is natural

Feels pleasant

Attractive structure

“Feel good “experiences



Wood-based materials provide cost efficiency and….

…competitiveness in construction

33 kg
+distribution

Emissions

250 kg

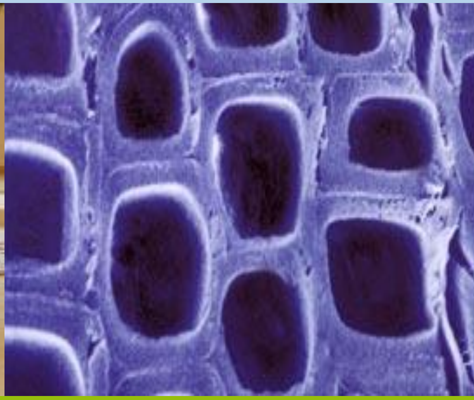
Sequestration

100 kg

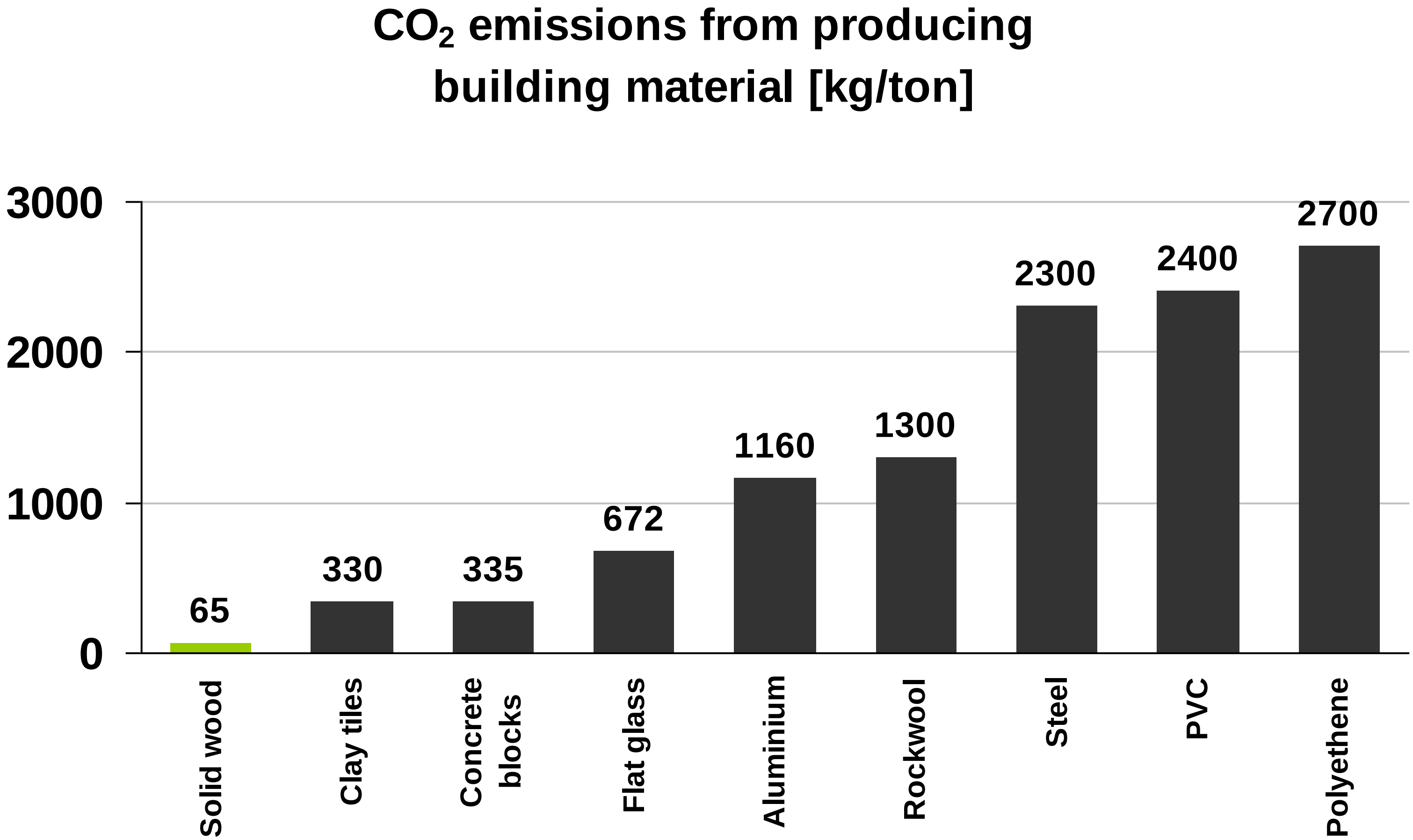
Substitution

740 kg

Storage



Wood is a green building material



Sources: Wood for good UK, Building Research Establishment UK, The steel construction institute UK, The Building Information Foundation Finland, The Association of Plastics Manufacturers in Europe, SCA Timber Sweden.

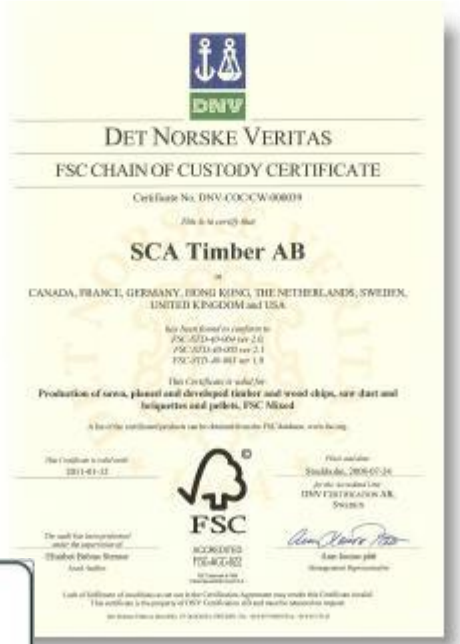
But do not underestimate the competition…

Pantheon, Rome
Still used for religious purposes, as planned by Emperor August in year 80
No certification
No energy consumption
Very low maintenance cost
Structure - concrete

Certified Timber

SCA

- SCA’s forestry operations are certified in accordance with both FSC and PEFC.
- All the units within SCA Timber have traceability certificate Chain of Custody Controlled Wood (CoC and CW).



DNV

DET NORSKE VERITAS

FSC CHAIN OF CUSTODY CERTIFICATE

SCA Timber AB

CANADA, FRANCE, GERMANY, HONG KONG, THE NETHERLANDS, SWEDEN, UNITED KINGDOM and USA

Production of sawn, planed and developed timber and wood chips, saw dust and briquettes and pellets, FSC Mixed

FSC

FSC

www.fsc.org

FSC® C023232

The mark of responsible forestry

PEFC™

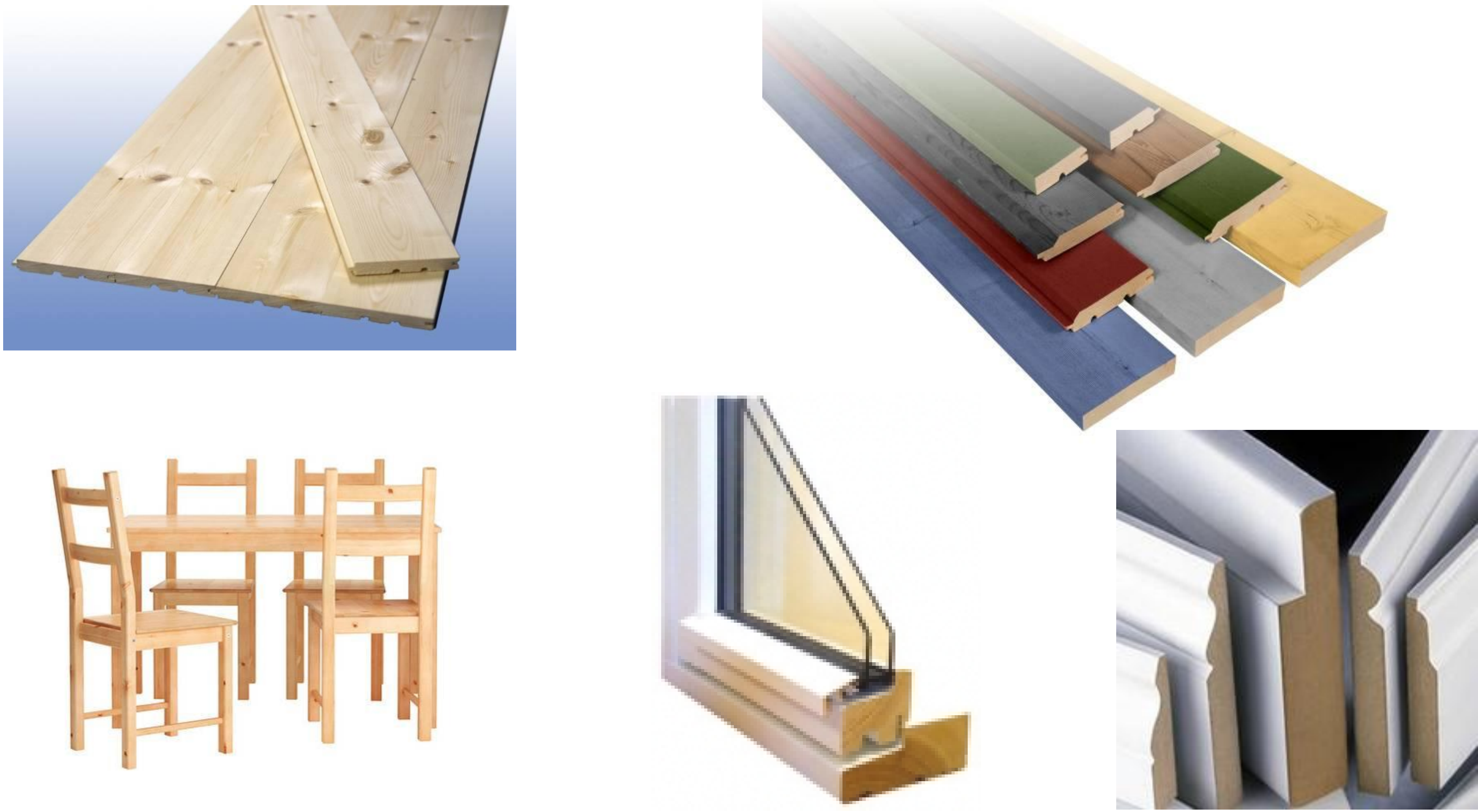
PEFC/16-1-1

Building with wood

BO KLOK®

Skanska och IKEA tillsammans

Living with wood ↘ → ↗ ?



For additional information please visit

www.scatimber.com