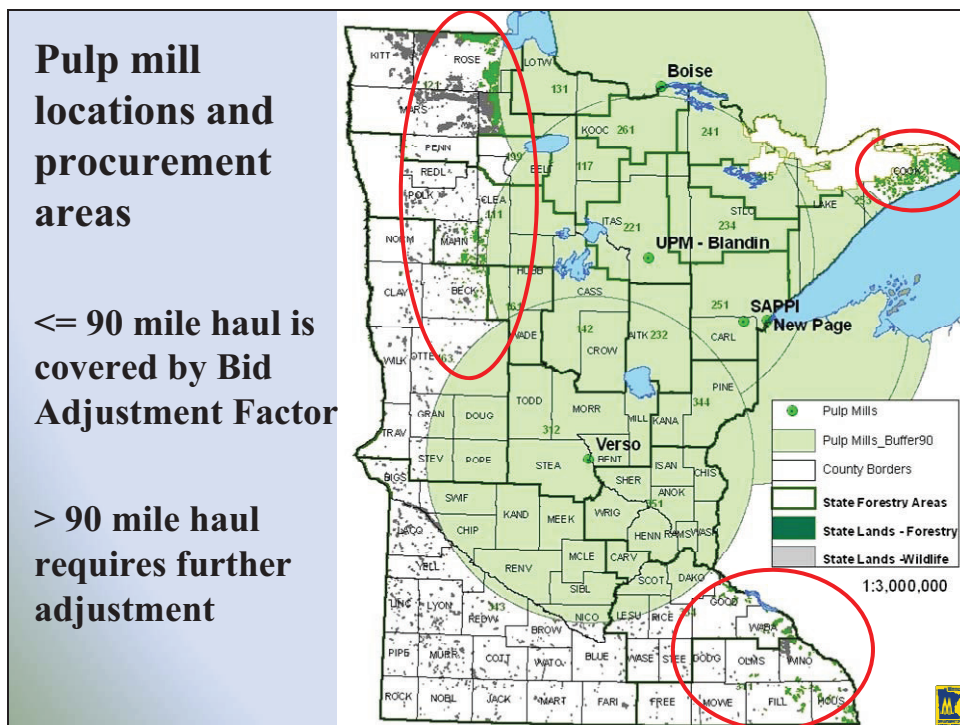


Localized Market Issues

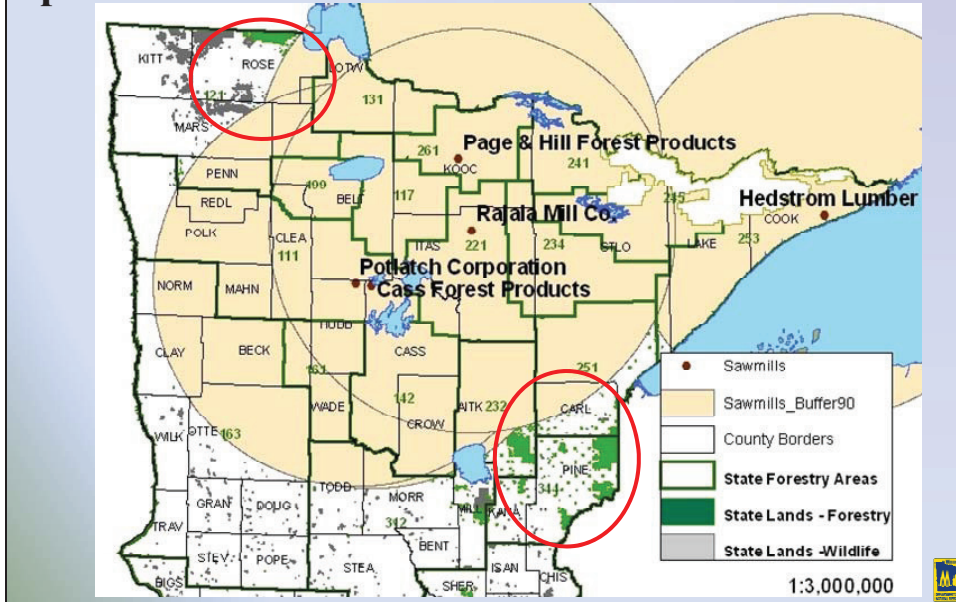
- Wood surplus creates tradeoffs between the desire / need to treat stands and the need to receive a fair price to fund next year's forest management activities.
- Struggling sectors (e.g. OSB) and new sectors (bio-energy) put political pressure on pricing.
- Haul distance dead zones exist in all DOF regions.



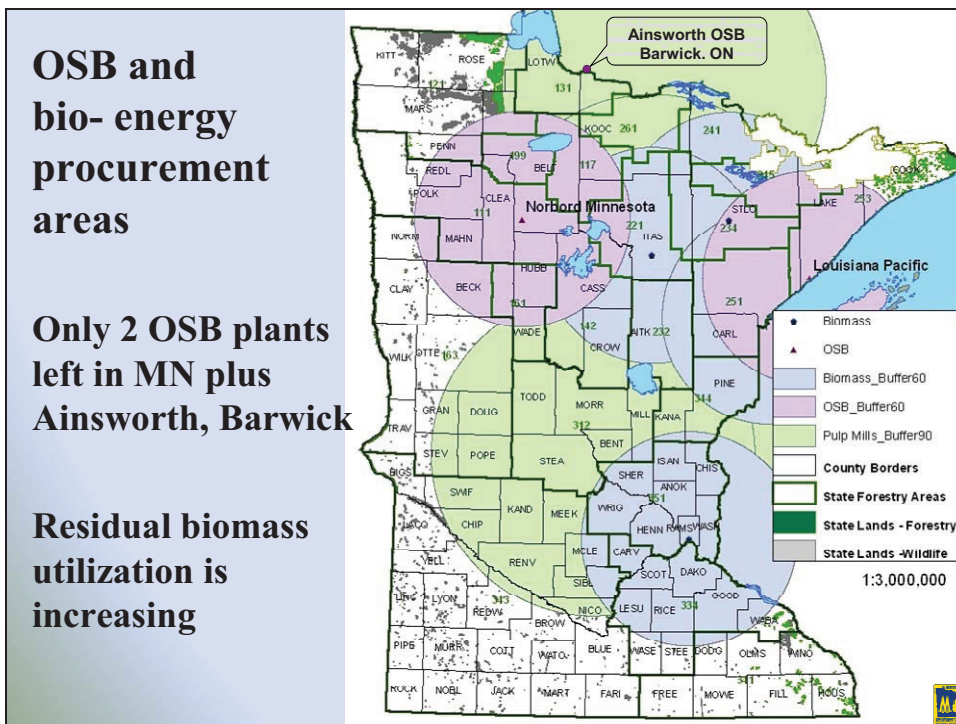
Bid Adjustment Factor only works within the normal range of haul distance, <90 miles for pulpwood.

I am working on a haul distance appraisal adjustment to address this problem.
ISSUE: WHERE TO DRAW THE LINE?

Northern MN sawmill locations and procurement areas - includes mbf and sawbolts



Dead zones vary depending on the species / product combination. For example, softwood sawtimber and sawbolt procurement areas are different than pulpwood procurement areas. Pine county is a prime procurement area for pulpwood but outside the normal haul range of the state's larger sawmills.



Due to large product price differentials, the remaining OSB plants cannot compete with pulp & paper for the same wood. Basically, they are left to scavenge on what the paper companies do not utilize.

Large gaps in bio-energy market areas still exist in the NW, SE, and far NE.

Wood pellet mfg locations

2009 capacity:

MI = 349,000 mt

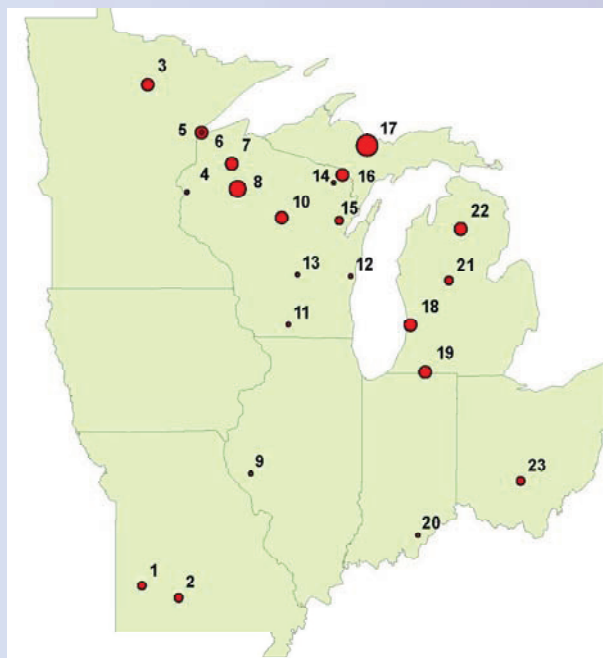
MN = 54,000 mt

MO = 82,000 mt

OH = 23,000 mt

WI = 193,000 mt

Delivered prices competitive with mid-range pulpwood



Source: Spelter, H. and D. Toth. 2009. USDA Forest Products Lab.



Minnesota is lagging behind MI and WI in fuel pellet manufacturing capacity.

PELLET PLANTS / LOCATION / CAPACITY

3. Valley Forest Products / Marcell / 55,000 tons

5. Elkhorn Industries / Superior, WI / 33,000 tons

Points to Ponder

- **Timber revenue pays timber salaries and supporting activities --- we are now selling wood that will be harvested in FY13.**
- **Our appraisal system is working reasonably well --- needs some fine tuning for haul distance adjustments.**
- **While Minnesota has incurred significant declines in OSB, engineered wood, sawmilling, and hardwood flooring --- the overall outlook is positive with a stable paper industry, improving economy, and new market opportunities.**



THE WORST IS OVER --- THE WORST IS YET TO COME

Most economic indicators point to improving product markets and stumpage pricing over the coming year. However, DOF is already sold through FY13 ---

OUR REVENUE RECOVERY WILL NOT BEGIN UNTIL AT LEAST FY14.