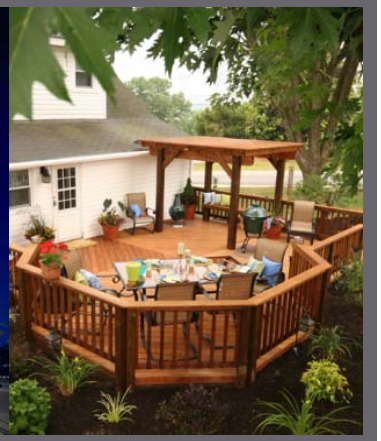
STATE OF IDAHO EORAC

JANUARY, 2013



PROMOTING SOFTWOOD LUMBER IN NORTH AMERICA AND THE WORLD

IDAHO FOREST GROUP

CHILCO | GRANGEVILLE | LACLEDE | MOYIE SPRINGS | LEWISTON

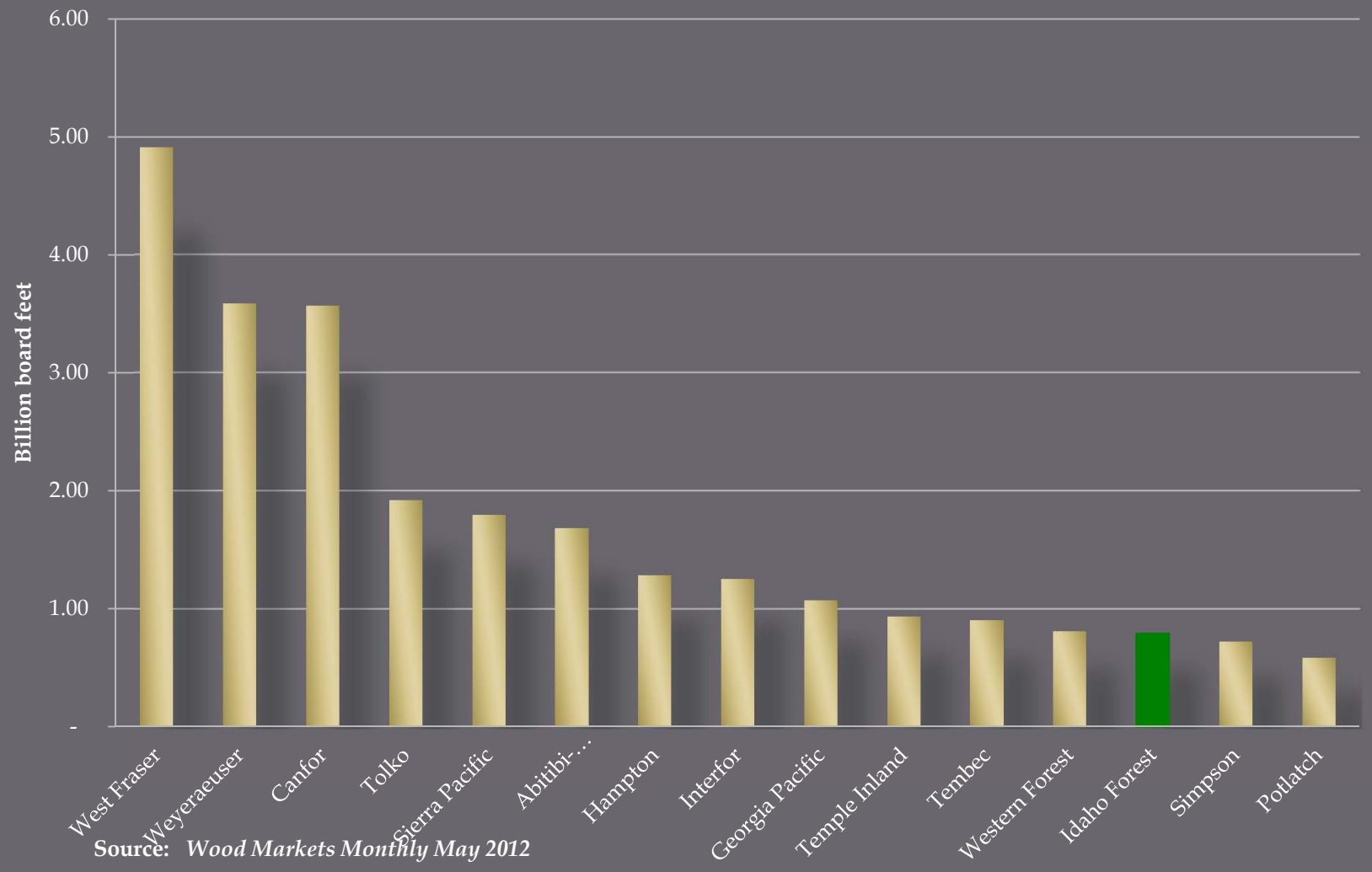
GROWN IN IDAHO

MANUFACTURED WITH EXCELLENCE FOR THE WORLD

IDAHO FOREST GROUP

- LARGEST PRODUCER IN THE INTERMOUNTIAN WEST
- 5 STATE OF THE ART MILLS
  - RECENT PURCHASE AND START-UP OF LEWISTON SAWMILL OPERATION
- FAMILY OWNED, FAMILY VALUES
  - STONG FINANCIAL PERFORMANCE
  - EDUCATED TEAM OF EMPLOYEES
- CONTINUED CAPITAL EXPENDITURES
- INTERNATIONAL PRESENCE
  - VALUE OF $ HAS BEEN HELPFUL
  - ASIA WANTS OUR PRODUCTS

15 Largest Producers in North America



Source: ***Wood Markets Monthly May 2012***

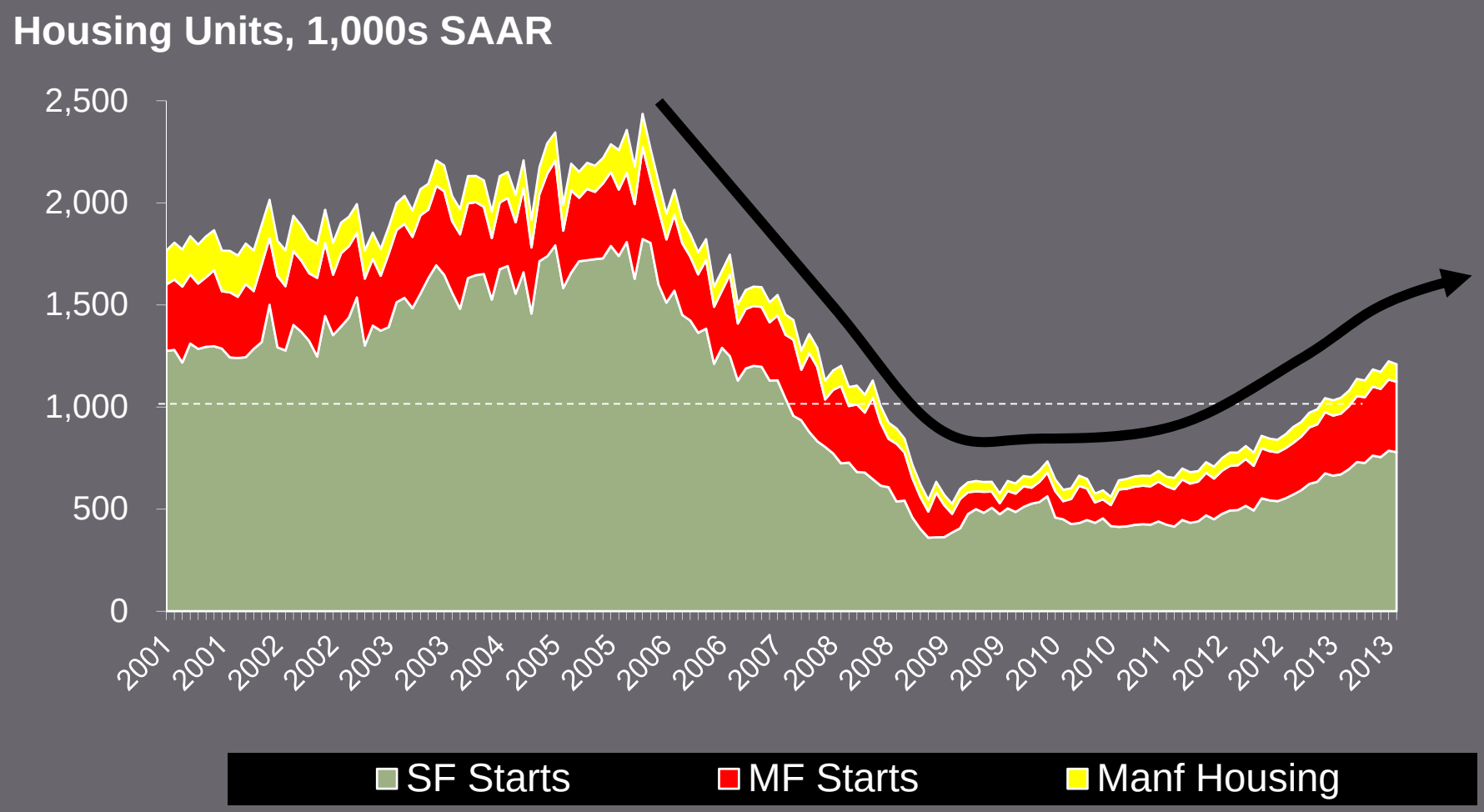
GREAT THINGS ABOUT FOREST PRODUCTS IN IDAHO

- SPECIE DIVERSITY OF OUR FORESTS
- STONG CONTRACTOR BASE
- A TALENTED GROUP OF EMPLOYEES
- STRONG MARKETS FOR RESIDUALS
  - CHIPS , SAWDUST AND SHAVINGS
- FIRST CLASS GOVERNMENT
  - BALANCED BUDGET
  - FOCUS ON GROWTH (COMMERCE DEPT)
- ABILITY TO WORK WITH ALL INTERESTS
  - FORESTS SHOULD BE CERTIFIED
  - TAKE THE IDL MODEL TO THE USFS LANDS

FOREST PRODUCTS IN IDAHO

- APPROXIMATELY 10,000 DIRECT EMPLOYEES, will increase in 2013
- APPROXIMATELY 8,000 INDIRECT EMPLOYEES, will increase in 2013
- WAGES ARE 40% HIGHER THAN AVERAGE WAGES FOR ALL IDAHO INDUSTRIES
- TOTAL REVENUE IMPACT APPROXIMATING $3.2 BILLION
- TIMBER RECEIPTS FROM IDL LANDS ARE $38,000,000, 59% OF THE K THRU 12 ANNUAL BUDGET

Home Construction Forecast



Sources: U.S. Census, WWPA

MARKET DRIVERS

- Market crash, problem loans and bank credit deterioration
- Household growth
  - Legal immigration
  - Family formation
- Job Growth
- Rising rental costs
  - Married couples in apartments
  - Occupancy rates are climbing

MARKET DRIVERS

- Mortgage availability
  - Non-current mortgages
  - Lending restrictions
- Investors entering the market for residential housing
  - Attractive returns and appreciation upside
- Housing inventory at 30 year lows
- Price of building materials and labor increasing

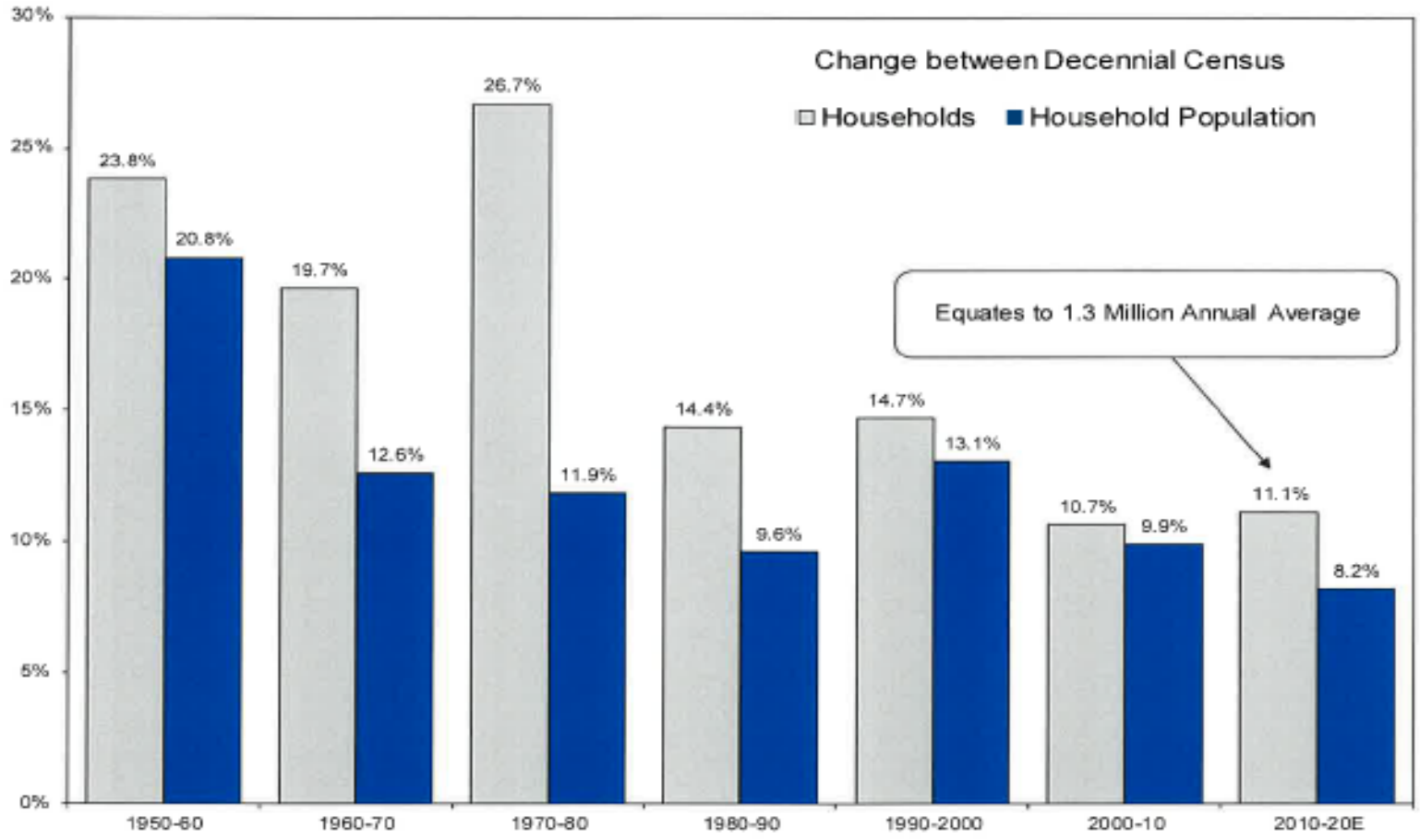
FANNY MAE–FREDDIE MAC

- TAKEN OVER BY A CONSERVATOR
- 95% OF ALL RESIDENTIAL LENDING (HAS BEEN AND STILL IS)
- WILL BE LIQUIDATED SOMETIME IN THE FUTURE
- DANISH MODEL CONSIDERED "PORTFOLIO LENDING" (MUST LEND THEIR OWN FUNDS AND RETAIN THE LOAN)

BOMMERANG BUYERS

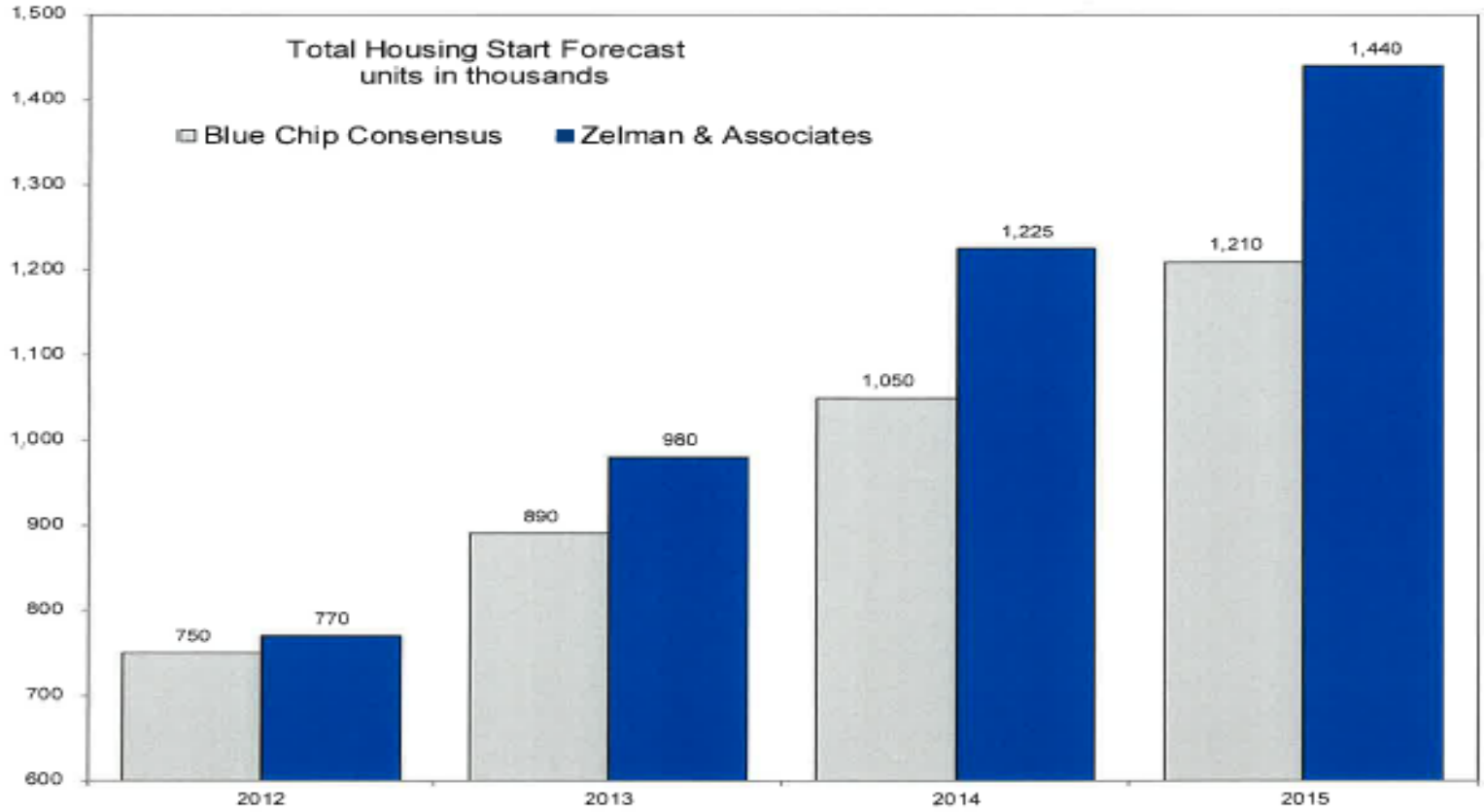
- A PERSON WHO HAS LOST THEIR HOME CAN REAPPLY FOR A GOVERNMENT MORTGAGE IN THE AMOUNT OF $285,000 3 YEARS LATER
- IN THE 2ND QUARTER OF 2012, 795,000 FORECLOSED FAMILIES BECAME ELIGIBLE
- FORECAST TO INCREASE TO 1.4 MILLION PER QUARTER IN 2014

HOUSHOLD GROWTH WILL EXCEED POPULATION GROWTH



Source: Census Bureau, Zelman & Associates analysis

VARIATION IN HOUSING START FORECASTS



Source: Blue Chip Economic Indicators, Zelman & Associates analysis

U.S. LUMBER DEMAND

Million Board Feet

Markets:	*2011*	*2012*	*2013*	*2014*	*2015*
New Homes	8,148	9,644	10,569	11,234	14,834
Rep/Remodel	14,025	15,082	15,292	15,735	16,758
Non-Res.	4,363	4,198	4,202	4,229	4,344
Ind./Other	7,591	7,480	7,290	7,455	7,848
TOTAL	34,127	36,404	37,354	38,642	43,785

IFG export business

- 2010 volume
  22mmbf = 4,300 truck loads
- 2011 volume
  28mmbf = 5,400 truck loads
- 2012 volume
  42mmbf = 8,200 truck loads

- Japan ~ 70%
- China ~ 10%
- Taiwan ~ 10%
- India ~ 5%
- Philippines ~ 5%

FURTHER SUPPORT OF MARKET IMPROVEMENT

- Bottom of the Market January 2012
- Existing Home Sales Up 8.5% - Aug 11 to Aug 12
  - Up 14 Consecutive Months
- Median Prices- Up 6.3% - Aug 11 to Aug 12
- New Homes- August starts up 28% YOY
- INVENTORY Down 29% - Aug 11 to Aug 12
  - Multiple offers
  - Increasing Sales To List Price Ratio
  - Decreasing Time on Market

STILL SIGNIFICANT HOUSING HEADWINDS

- Government still providing 95% of home lending
- 10 - 12 percent of all real estate deals fall thru
  - Delayed / Canceled Closings
  - Availability of Financing for Owner-Occupants
- Distressed Properties - 40% of all transactions
  - "4 million down and 4 million to go"
- Debt Relief Act
  - Governmental Tinkering with the system "FANNY MAE-FREDDIE MAC"

IDAHO'S MOST SIGNIFICANT ASSET

Timber volume & change factors

Idaho Timberland Data

- Growing stock volume:* 36.7 billion ft^3
- Forest change factors (2007)
  - Growth: 994 million ft^3
  - Mortality: 383 million ft^3
  - Removals: 246 million ft^3
  - Wood increment:† 748 million ft^3
- Sound dead volume: 5.0 billion ft^3

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* Wood volume in trees > 5" diameter

† Wood increment = Growth – Removals

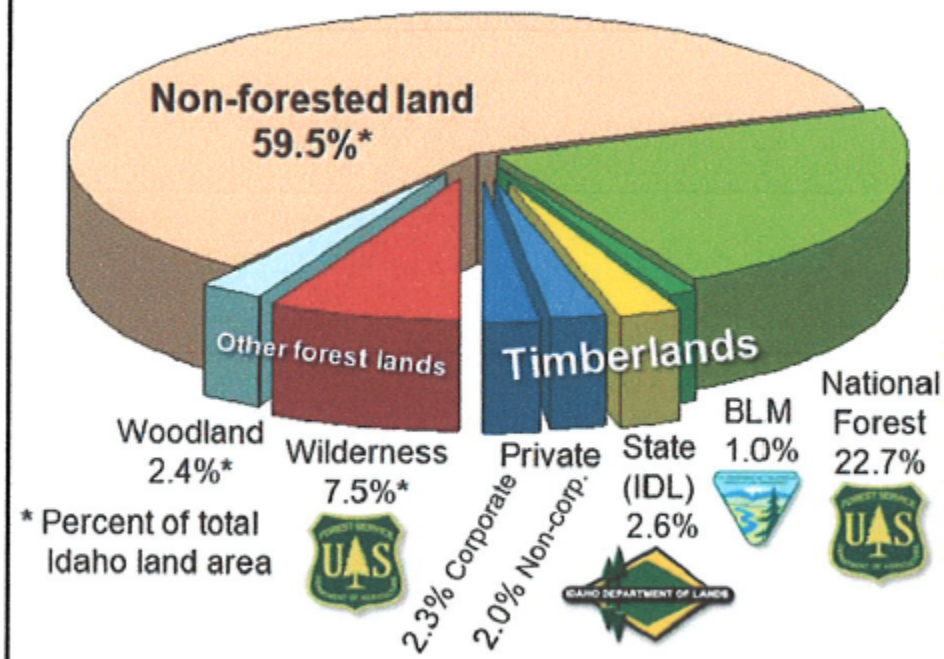
Data: *Forest Resources of the U.S., 2007* (U.S. Forest Service 2009)

University of Idaho
A LEGACY OF LEADING

IDAHO IS UNIQUE

Forest extent & ownership

- Forests cover 40.5% of Idaho
- Most forests are timberlands



Idaho National Forests

Data: *Forest Resources of the U.S., 2007* (U.S. Forest Service 2009)

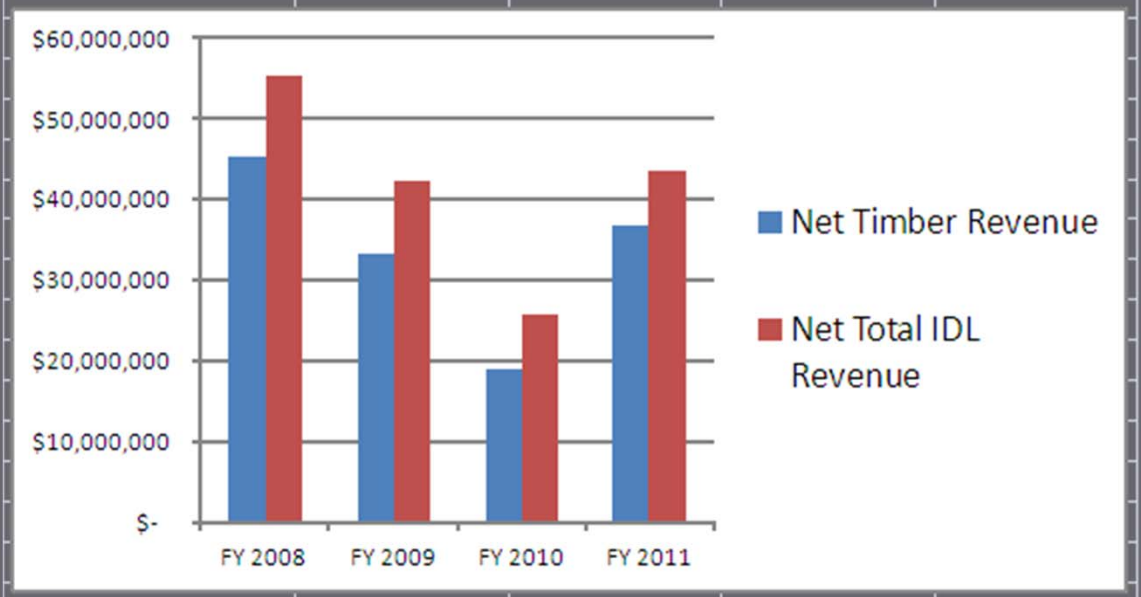
University of Idaho
A LEGACY OF LEADING

IDAHO TIMBER HARVEST BY OWNERSHIP

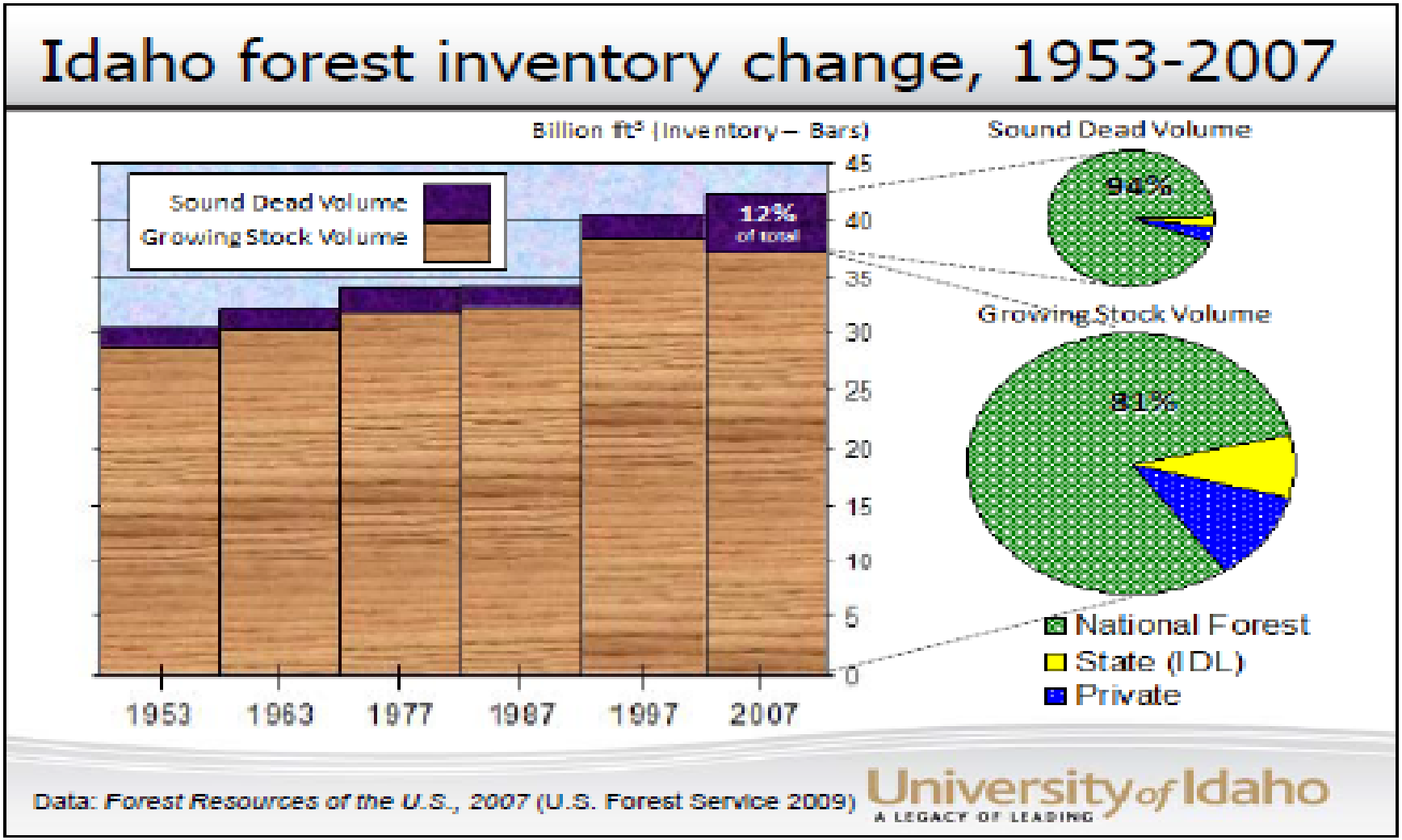
Year	Private	IDL	USFS	Total
2002	765,103	191,008	118,719	1,074,830
2003	727,142	190,615	106,002	1,023,759
2004	853,079	163,474	128,100	1,144,653
2005	811,467	178,905	136,623	1,126,995
2006	779,370	188,532	75,616	1,043,518
2007	735,286	203,047	103,676	1,042,009
2008	596,908	223,659	93,894	914,461
2009	486,058	186,656	73,405	746,119
2010	561,585	276,946	68,536	907,374
2011	615,542	342,932	111,310	1,069,784
2012	634,000	356,000	100,000	1,090,000

IDAHO DEPT OF LANDS REVENUE

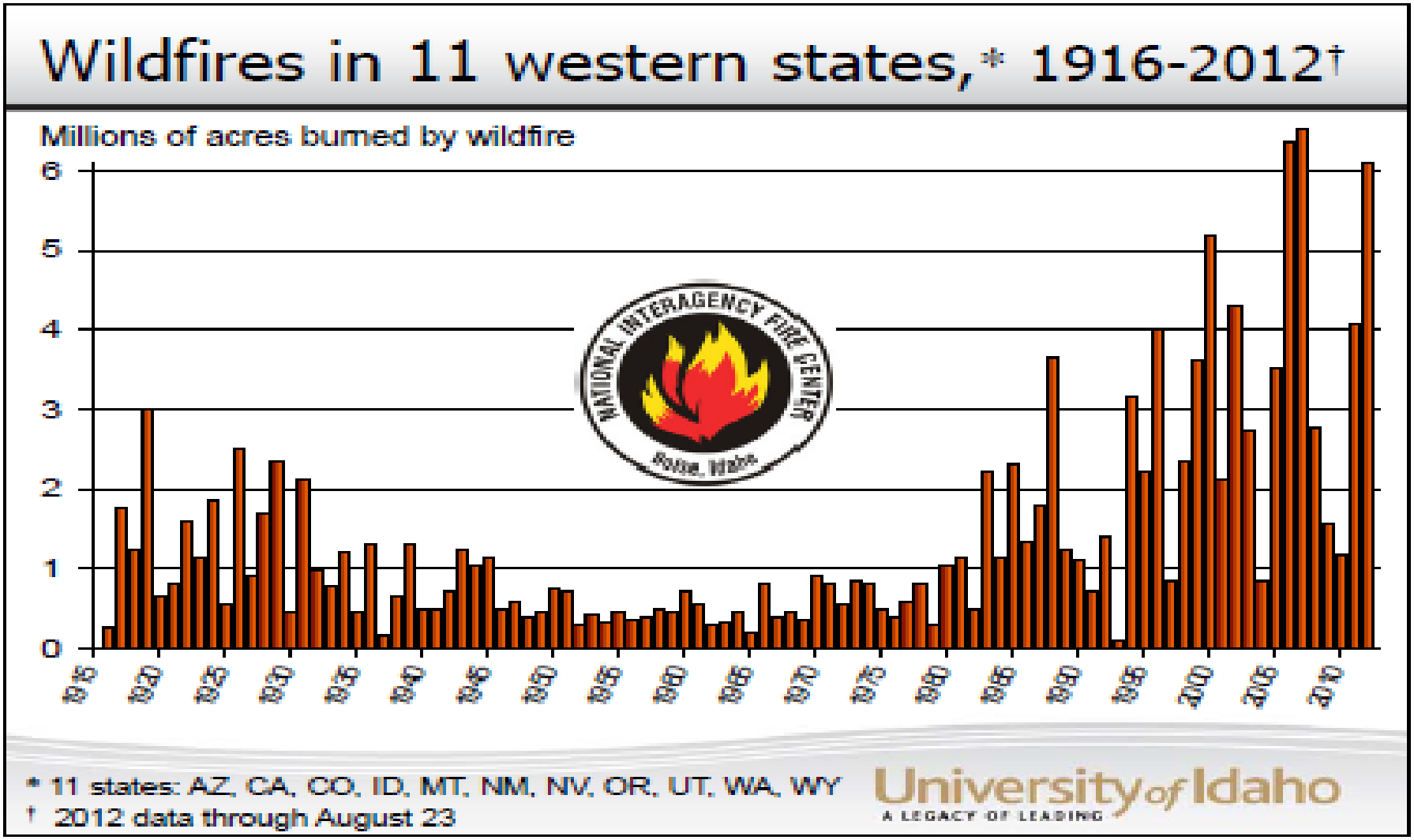
	FY 2008	FY 2009	FY 2010	FY 2011
Net Timber Revenue	$ 45,319,896	$ 33,226,115	$ 18,853,560	$ 36,760,140
Net Total IDL Revenue	$ 55,329,903	$ 42,452,954	$ 25,591,016	$ 43,671,156



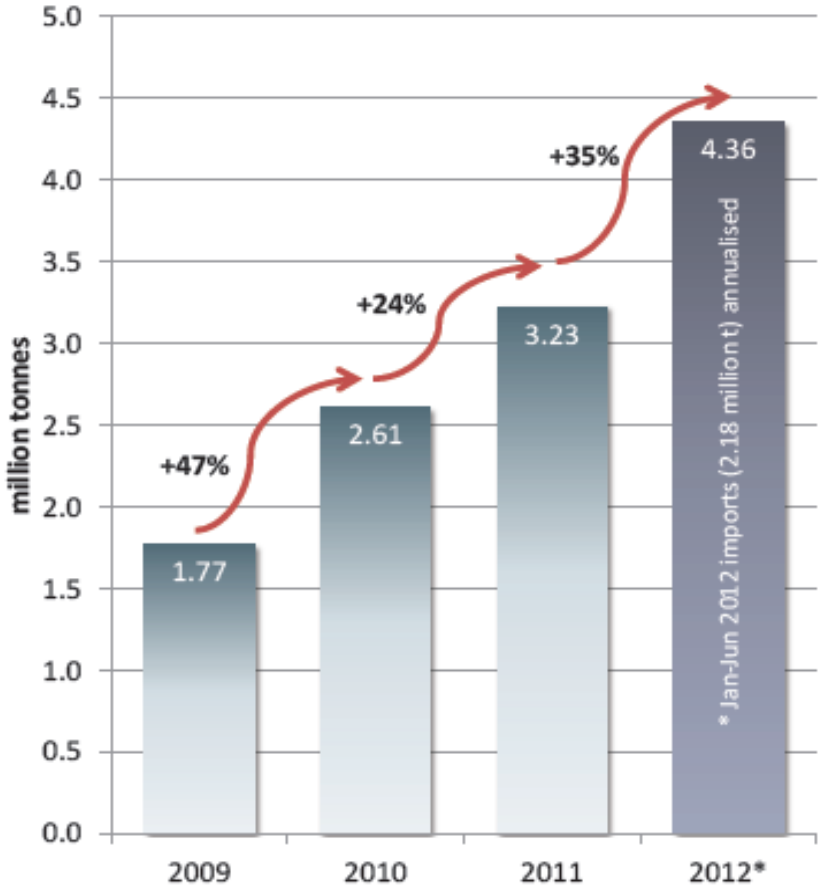
OPPORTUNITY FOR RURAL JOBS AND RURAL INVESTMENT

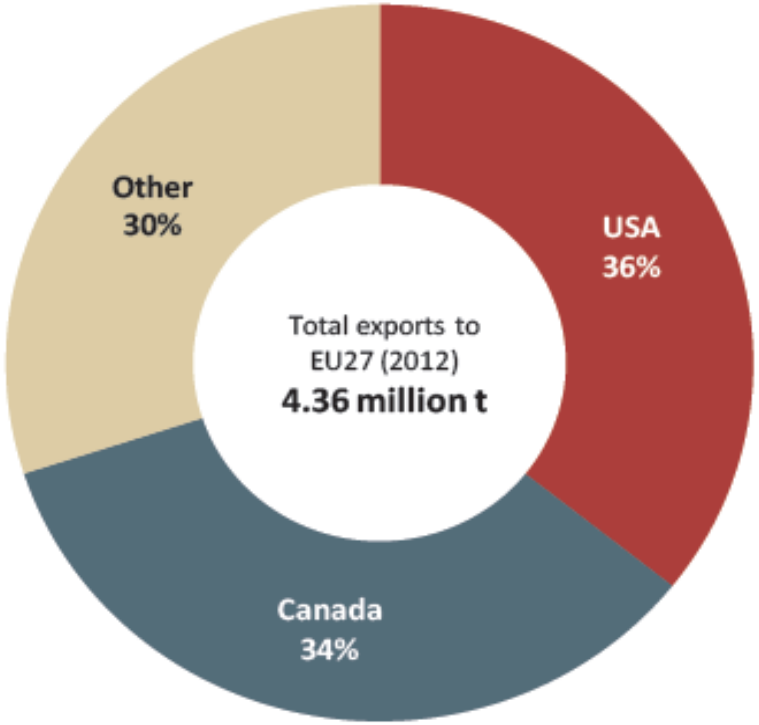


FIRE HISTORY WESTERN USA



EU imports of wood pellets





UK Carbon Price Floor

- Aims to provide greater certainty to investors in renewable electricity
  - Generators will pay for the carbon emissions of their fossil fuel feedstock
- The Carbon Price Floor starts in 2013 at **£16/tCO_2** and rises to **£30/tCO_2** in 2020 and potentially to £70/tCO_2 in 2030 (all at 2009 prices)
- Coal fired generators will pay a levy of **~£12/t of coal in 2013/14**, rising to **~£23/t in 2014/15**
- One effect will be to make most (all?) coal-fired electricity generation uneconomic within a few years unless they install CCS or convert to biomass

“In the long term, a sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained [carbon] mitigation benefit.”

Intergovernmental Panel on Climate Change (4th Assessment Report)