



Warm Springs Forest Products 1999 Annual Report



General Manager's statement . . .

1999 was a year of transition. Commencing the year on a cautionary note, gaining confidence by mid-year, to realization of the anticipated outcomes by late 1999.

The year started with the realization that 1998 ended with the first operation loss since 1991. Coupled with the lowest stumpage receipts to the Tribes in recent history, these two events caused much frustration and uncertainty within the Enterprise. This stumpage reduction also caused the departure from the normal Profit & Risk calculation process, which has the impact of eliminating capital required for mill improvements. Soon after the year began, a catastrophic wind occurrence created the "Big Wind Timber Sale." And soon after that, Rick Saunders, General Manager of WSFPI, gave notice of his departure for other employment.

By mid year, under the direction of Ralph Minnick, acting General Manager, the Enterprise began to demonstrate its strength and confidence by investing in training for the operators of the

new Big Log side of the sawmill. This training facilitated the opportunity to process a portion of the ponderosa pine timber from the Big Wind Sale. Other small, but strategic, capital investments were implemented during mid-year.

By fall of 1999, a new general manager was hired. The second shift at the Big Log side became operational. Production increased substantially from prior levels. This increased production led to the Board of Directors to approve the purchase of two additional dry kilns (the new kilns will be operational in April, 2000). New lumber products, Export Clears and vertical grain Douglas fir door stock were introduced late in 1999—and WSFPI ended the year with a respectable profit!

- Goals for 2000:
- Identify sources of timber off reservation.
 - Identify and implement new efficiency standards.
 - Increase the % of Tribal and Married Into the Tribe employees.
 - Define and implement new marketing strategies.

Plan of Operations

Resolution #8413, April 20, 1992

Plan of Operations Resolution #8413—April 20, 1992

The Enterprise—The Confederated Tribes of the Warm Springs Reservation of Oregon (the "Tribe") is a body politically organized under Section 16, Chapter 576 of the Act of June 18, 1934, passed by the Congress of the United States. As authorized under Section 17 of that Act, Warm Springs Forest Products Industries (the "Enterprise") was created in 1967 to operate as an enterprise fund of the Tribe with the following purposes, objectives and priorities, as modified, effective April 20, 1992:

- The first priority is to earn a

level of profit and economic return for the Tribe and its members consistent with that which an efficient and well-run forest products operation would earn under similar economic conditions so the Enterprise can fund long-term growth and increase tribal wealth.

- The second priority is to provide the Tribe and its members with employment opportunities and such social benefits as may flow therein.
- The third priority is to provide the Tribe and its members with education and training benefits and such social benefits as may flow therein.

Human Resources 1999 annual summary

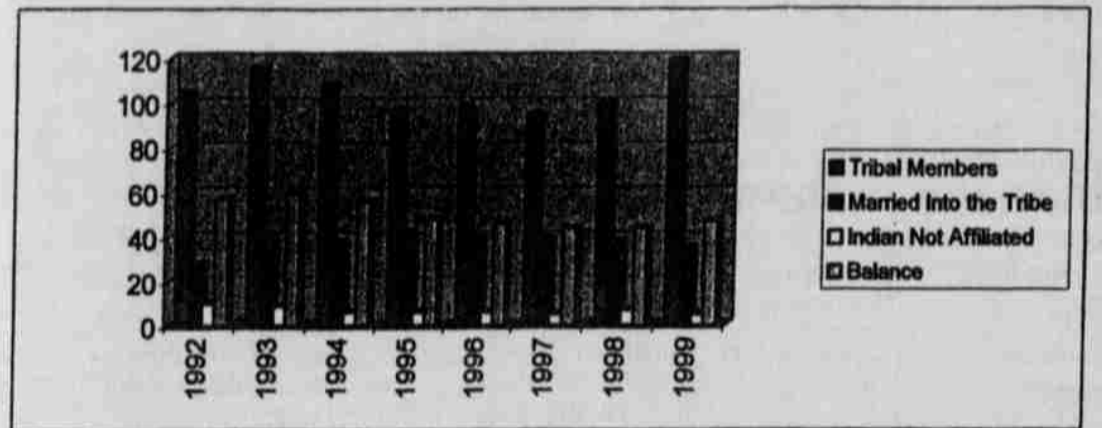
WSFPI's continued to increase its Tribal Member employee level in 1999; of the 206 employees 119 were Tribal Members, 35 were Married Into the Tribe, 5 were Indians Not Affiliated and 47 made up the balance. In 1998 the level of Tribal Members employed by WSFPI was 53%; ending 1999 the percentage increased to 58%. This percentage combined with the percentage of employees married into the tribe (17%) equals 75%; the largest percentage accomplished thus far.

Since the beginning of the training program WSFPI has provided skill building opportunities for 33 employees; 11-current participants, 18-completions, and 4-non-completions. Current trainees are: Ted Barney—7th period Apprentice Manufacturing Plant Electrician, Peter Brunoe—4th period Apprentice Millwright, Chico Holliday, Anthony Boise, Jesse Reese, Hector Torres—Saw Filer trainees, Ken Flores and Sam Kentura—3rd period Apprentice Boiler Operators, George Baldrige—Quality Assurance Trainee, Wayne Moe and Stacey Winishut—Student Graders.

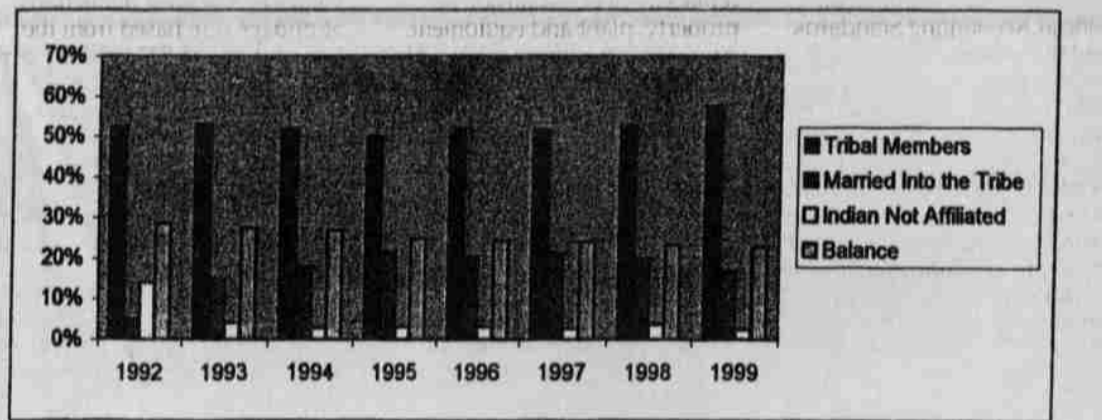
The Accident and Injury rate for 1999 increased from the previous year by 28 incidents. In 1999 WSFPI recorded 133 accident and incidents compared to 105 for 1998. The breakdown for 1999 is: 18 Lost time injuries, 33 medical only injuries, and 82 incidents. Across the board the increase in injuries caused an increase in the Workers Compensation program medical costs of \$52,900 from 1999 compared to \$19,524 in 1998.

Warm Springs Forest Products Industries
Annual Manning Comparison

	1992	1993	1994	1995	1996	1997	1998	1999
Tribal Members	105	116	108	97	99	95	100	119
Married Into the Tribe	28	33	38	42	39	39	38	35
Indian Not Affiliated	10	9	6	6	6	5	7	5
Balance	57	60	56	48	46	44	44	47
Total	200	218	208	193	190	183	189	206

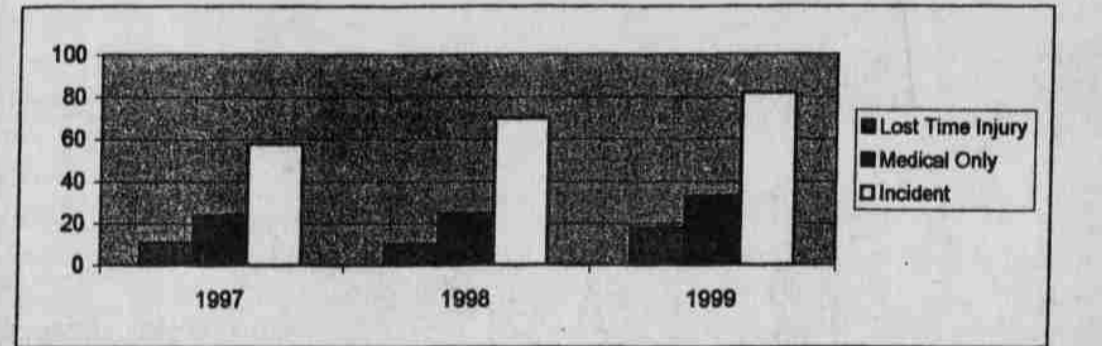


	1992	1993	1994	1995	1996	1997	1998	1999
Tribal Members	53%	53%	52%	50%	52%	52%	53%	58%
Married Into the Tribe	5%	15%	18%	22%	21%	21%	20%	17%
Indian Not Affiliated	14%	4%	3%	3%	3%	3%	4%	2%
Balance	28%	28%	27%	25%	24%	24%	23%	23%
Total	100%	100%	100%	100%	100%	100%	100%	100%



WSFPI's 1999
Accident/Injury and Worker Comp Cost Comparison

	1997	1998	1999
Lost Time Injury	11	10	18
Medical Only	24	25	33
Incident	58	70	82
Total	93	105	133



Workers Comp Costs \$	1997	1998	1999
	18,237	19,524	52,900

Lumber Division report

It is always interesting to recapture at years end, highlights from the previous twelve months of business history.

A surprise in January 1999, buying enthusiasm was strong and the demand was better than expected, giving Warm Springs Forest Products Industries an order file with muscle for that time of year.

Housing construction was unexpectedly strong. The question early on was whether or not the country could sustain the projected 1.5 million housing starts. The answer to that question developed into a sound yes as the year progressed.

The overall trend in demand and higher prices was on the upside, but not without a few ruts in the road. By mid-March, mill sales were on the slow side, but prices were much stronger compared to January. For example, 2x4 #2&BTR KD Douglas Fir was trading for \$335 per thousand board feet in January. By mid-March it had climbed to a \$390 trading level. The market continued to stair

step up to a peak in late June to mid-July. Random Lengths publication had reported the price of that same 2x4 at \$505. During this peak period of strong demand, WSFPI's finished product inventory was 4.3 million board feet. Of that, 3.9 million was sold ready to be shipped via rail or truck, leaving less than 500,000 BF available for sale. This had not been seen for many years.

In late September, WSFPI's Lumber Sales Manager, as a member of Western Wood Products Association Export Committee, attended the Japan Home Show in Tokyo. The nine day tour was enhanced by several key Japanese industry visits including an imported building materials warehouse, model home park, lumber yards, and a pre-cut housing plant.

This Japan opportunity was sponsored by the Western Wood Products Association, the Softwood Exports Council and funded under the U.S. Department of Agriculture, Foreign Market Development

Programs. Although Japan's housing industry has yet to fully recover from its four year slump, WSFPI exported to Japan approximately 2 million board feet of lumber. Most of the product shipped was domestic sized lam-stock. However, we did manufacture and ship over 500,000 board feet of special metric size 27mm x 127mm.

Production by Specie was almost an even split between Doug Fir and Hem Fir, with a small volume of Ponderosa Pine, totaling 78 million board feet through the Sawmill.

A total of 71 million board feet shipped out the door, 30 million board feet on 290 rail cars and 41 million on an estimated 1350 trucks. The average price for all products, all grades, all species, was \$400/m.

Warm Springs Forest Products Industries experienced many changes throughout the last year of the millennium. As usual, our employees have risen to the challenge of change and look forward to the century before us.

Timber Division report

Unfortunately, a natural disaster was the highlight for 1999. The Big Wind Salvage Sale (24.8 MM BF) was harvested in a little over two months. Excellent value was received for this wood and through quick response, blue stain was held to a minimum. The teamwork from everyone involved was exceptional. Particular thanks go to Mark Jackson and Tom Kathrein, who really put extra effort into this project. This sale destroyed our harvest plan, but did improve stumpage value because of the Ponderosa Pine.

Log Markets

Export
Doug Fir demand continues to fall and is under significant price pressure. The market did improve some late in the 4th quarter due to lack of supply. High grade sorts are rapidly becoming a thing of the past. Whitewood continues to

be sold domestic with no real export market.

Domestic

Large Ponderosa Pine prices held up well most of the year. However, there are some downward pressure in the 4th quarter. Doug Fir niche markets held up well with whitewood prices generally stable. The 4th quarter prices did improve some. Small logs continue to attract good prices on Doug Fir and Whitewood due to the increased milling capacity.

Pulp/Utility

Prices were stable most of the year. Several chip plants were off the market early in the year due to quotas. Improved pulp and paper markets have not improved chip log prices due to the large volumes of residual chips available from lumber and plywood producers.

Goals and Objectives

In addition to our standard objective to maximize the value of the Tribal timber, WSFPI will focus on the following:

- Continue to develop niche lumber markets for unique log types.
- Aggressively pursue outside purchase logs for the large and small log mills which have increased production significantly.
- Continue to evaluate projects and mandates to assure positive contribution to the Tribes.
- Work closely with BIA Forestry and Natural Resources to lower costs and improve efficiency.

From December 31, 1999 statement

Total \$ Stumpage:	\$13.5MM
Price Paid:	\$/M \$239
Total Harvest:	56.5MM

