

West Fraser Announces 2018 First Quarter Results

VANCOUVER, April 25, 2018 /CNW/ -

- Earnings of \$197 million or basic EPS of \$2.53
- Adjusted earnings¹ of \$231 million or Adjusted basic EPS of \$2.98
- Adjusted EBITDA¹ of \$379 million or 27.8% of sales
- Reinvested \$104 million through capital expenditure and returned \$58 million to shareholders through share buybacks and dividends
- Transportation challenges were a significant headwind in the quarter

Results Compared to Previous Periods

(\$ millions except earnings per share ("EPS"))	Q1-18	Q4-17	Q1-17
Sales	1,364	1,376	1,189
Adjusted EBITDA ¹	379	341	245
Operating earnings	265	293	183
Earnings	197	207	123
Basic EPS (\$)	2.53	2.66	1.58
Adjusted Earnings ¹	231	201	134
Adjusted basic EPS (\$) ¹	2.98	2.58	1.71

1. In this News Release, reference is made to Adjusted EBITDA, Adjusted earnings and Adjusted basic EPS (collectively "these measures"). We believe that, in addition to earnings, these measures are useful performance indicators. None of these measures is a generally accepted earnings measure under International Financial Reporting Standards ("IFRS") and none has a standardized meaning prescribed by IFRS. Investors are cautioned that these measures should not be considered as an alternative to earnings, EPS or cash flow, as determined in accordance with IFRS. As there is no standardized method of calculating any of these measures, our method of calculating each of them may differ from the methods used by other entities and, accordingly, our use of any of these measures may not be directly comparable to similarly titled measures used by other entities. Refer to the tables in the section titled "Non-IFRS Measures" in our first quarter 2018 Management's Discussion & Analysis for details of these adjustments.

Operational results

Our lumber segment generated operating earnings of \$189 million (Q4-17 - \$232 million) and Adjusted EBITDA of \$282 million (Q4-17 - \$258 million). This quarter's results were unfavorably impacted by severe winter weather, significant transportation challenges and a full quarter of export duties. Both SPF and SYP production were higher than the prior quarter, but SPF production was slightly lower than the prior year.

Our panels segment generated operating earnings in the quarter of \$25 million (Q4-17 - \$20 million) and Adjusted EBITDA of \$28 million (Q4-17 - \$24 million). The plywood market was strong throughout the quarter with pricing well ahead of 2017 levels. Plywood shipments were held back by transportation challenges as well.

Our pulp & paper segment generated operating earnings of \$58 million (Q4-17 - \$48 million) and Adjusted EBITDA of \$70 million (Q4-17 - \$60 million). The major factors contributing to the increase in operating earnings were higher Canadian dollar pulp prices and an increase in NBSK shipments offset by lower BCTMP shipments, again due to transportation headwinds.

Outlook

"This was a challenging quarter operationally. Weather and transportation challenges were significant headwinds to production and shipments. I also want to congratulate Ray Ferris on taking on the role of President and Chief Operating Office. I look forward to working even closer with Ray as we continue to build upon the great efforts of all our employees," said Ted Seraphim, Chief Executive Officer.

We will continue to focus on operational improvements which should contribute to growing production in lumber and MDF versus the prior year. In the first quarter, results were adversely affected by transportation service disruptions resulting in a substantial increase in finished good inventory levels. We are uncertain when the backlog of shipments will be cleared and we will likely incur additional storage, freight and other distribution costs. Our pulp mills do not have any scheduled major maintenance shutdowns during the balance of 2018.

The Company

West Fraser is a diversified wood products company producing lumber, LVL, MDF, plywood, pulp, newsprint, wood chips and energy with facilities in western Canada and the southern United States.

Forward Looking Statements

This Report contains historical information, descriptions of current circumstances and statements about potential future developments. The latter, which are forward looking statements, are presented to provide reasonable guidance to the reader but their accuracy depends on a number of assumptions and is subject to various risks and uncertainties. Actual outcomes and results will depend on a number of factors that could affect the ability of the Company to execute its business plans, including those matters described in the 2017 annual Management's Discussion & Analysis under "Risks and Uncertainties", and may differ materially from those anticipated or projected. Accordingly, readers should exercise caution in relying upon forward looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by applicable securities laws.

Conference Call

Investors are invited to listen to the quarterly conference call on Thursday, April 26, 2018 at 8:30 a.m. Pacific Time (11:30 a.m. Eastern Time) by dialing 1-888-390-0546 (toll free North America). The call may also be accessed through West Fraser's website at www.westfraser.com.

West Fraser shares trade on the Toronto Stock Exchange under the symbol: "WFT".

West Fraser Timber Co. Ltd.

Condensed Consolidated Balance Sheets
(in millions of Canadian dollars, except where indicated - unaudited)

	March 31	December 31
	2018	2017
Assets		
Current assets		
Cash and short-term investments	\$ 125	\$ 258
Receivables	417	352
Inventories (note 4)	902	670
Prepaid expenses	24	11
	1,468	1,291
Property, plant and equipment	1,936	1,892
Timber licences	528	533
Goodwill and other intangibles	744	731
Export duty deposits	42	37
Other assets	30	27
Deferred income tax assets	2	6
	\$ 4,750	\$ 4,517
Liabilities		
Current liabilities		
Operating loans (note 5)	\$ 81	\$ -
Payables and accrued liabilities	475	441
Income taxes payable	30	104
Reforestation and decommissioning obligations	38	38
	624	583
Long-term debt	654	636
Other liabilities (note 6)	361	347
Deferred income tax liabilities	230	225
	1,869	1,791
Shareholders' Equity		
Share capital	545	549
Accumulated other comprehensive earnings	127	108
Retained earnings	2,209	2,069
	2,881	2,726
	\$ 4,750	\$ 4,517

Number of Common shares and Class B Common shares outstanding at April 25, 2018 was 77,324,432.

West Fraser Timber Co. Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity
(in millions of Canadian dollars, except where indicated - unaudited)

	January 1 to March 31	
	2018	2017
Share capital		
Balance - beginning of period	\$ 549	\$ 549
Common share repurchases	(4)	-
Balance - end of period	\$ 545	\$ 549
Accumulated other comprehensive earnings		
Balance - beginning of period	\$ 108	\$ 150
Translation gain (loss) on foreign operations	19	(5)
Balance - end of period	\$ 127	\$ 145
Retained earnings		
Balance - beginning of period	\$ 2,069	\$ 1,542
Actuarial gain (loss) on post-retirement benefits	(3)	11
Common share repurchases	(42)	-
Earnings for the period	197	123
Dividends	(12)	(5)
Balance - end of period	\$ 2,209	\$ 1,671
Shareholders' Equity	\$ 2,881	\$ 2,365

Condensed Consolidated Statements of Earnings and Comprehensive Earnings
(in millions of Canadian dollars, except where indicated - unaudited)

	January 1 to March 31	
	2018	2017
Sales	\$ 1,364	\$ 1,189
Costs and expenses		
Cost of products sold	778	740
Freight and other distribution costs	152	155
Export duties	43	-
Amortization	66	51
Selling, general and administration	55	49
Equity-based compensation	5	11
	1,099	1,006
Operating earnings	265	183
Finance expense	(9)	(7)
Other (note 9)	9	-
Earnings before tax	265	176
Tax provision (note 10)	(68)	(53)
Earnings	\$ 197	\$ 123

Earnings per share (dollars) (note 11)

Basic and diluted	\$ 2.53	\$ 1.58
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Comprehensive earnings		
Earnings	\$ 197	\$ 123
Other comprehensive earnings		
Translation gain (loss) on foreign operations	19	(5)
Actuarial gain (loss) on post-retirement benefits	(3)	11
Comprehensive earnings	\$ 213	\$ 129

West Fraser Timber Co. Ltd.

Condensed Consolidated Statements of Cash Flows
(in millions of Canadian dollars, except where indicated - unaudited)

	January 1 to March 31	
	2018	2017
Cash used for operations		
Earnings	\$ 197	\$ 123
Adjustments		
Amortization	66	51
Finance expense	9	7
Foreign exchange gain on long-term financing	(4)	(1)
Export duty deposits	(5)	-
Post-retirement expense	20	19
Contributions to post-retirement benefit plans	(29)	(14)
Tax provision	68	53
Income taxes paid	(132)	(36)
Other	14	21
Changes in non-cash working capital		
Receivables	(58)	(97)
Inventories	(228)	(164)
Prepaid expenses	(13)	(7)
Payables and accrued liabilities	38	11
	(57)	(34)
Cash provided by financing		
Proceeds from operating loans	83	110
Finance expense paid	(3)	(1)
Dividends	(12)	(5)
Common share repurchases	(46)	-
	22	104
Cash used for investing		
Additions to capital assets	(104)	(56)
Other	2	1
	(102)	(55)
Change in cash	(137)	15
Foreign exchange effect on cash	4	-
Cash - beginning of period	258	35

Cash - end of period	\$	125	\$	50
Cash consists of				
Cash and short-term investments	\$	125	\$	86
Cheques issued in excess of funds on deposit		-		(36)
	\$	125	\$	50

West Fraser Timber Co. Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(figures are in millions of dollars, except where indicated - unaudited)

1. Nature of operations

West Fraser Timber Co. Ltd. ("West Fraser", "we", "us" or "our") is a diversified wood products company producing lumber, LVL, MDF, plywood, pulp, newsprint, wood chips and energy with facilities in western Canada and the southern United States. Our executive office is located at 858 Beatty Street, Suite 501, Vancouver, British Columbia. West Fraser was formed by articles of amalgamation under the *Business Corporations Act* (British Columbia) and is registered in British Columbia, Canada. Our Common shares are listed for trading on the Toronto Stock Exchange under the symbol WFT.

2. Basis of presentation and statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board and using the same accounting policies and methods of their application as the December 31, 2017 annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with our 2017 annual consolidated financial statements.

We have reclassified certain prior-year amounts to conform to current-year's presentation.

3. Changes in accounting standards

IFRS 9 - Financial Instruments

We have adopted IFRS 9 effective January 1, 2018 using the full retrospective method. The new standard for financial instruments, IFRS 9, replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. IFRS 9 also contains new requirements on the application of hedge accounting.

The adoption of this standard had no significant impact on our consolidated financial statements and no retrospective adjustments were necessary.

IFRS 15 - Revenue from Contracts with Customers

We have adopted IFRS 15 effective January 1, 2018 using the full retrospective method. The new revenue standard, IFRS 15, replaces IAS 18 - Revenue, IAS 11 - Construction Contracts and the related interpretations. This standard addresses revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 requires that revenue is recognised at the 'transaction price' when certain contractual obligations are met but with any 'variable consideration' elements of the price recognised when it is 'highly probable' that there will be no reversal of that revenue.

The adoption of this standard had no significant impact on our consolidated financial statements and no retrospective adjustments were necessary.

4. Inventories

Inventories at March 31, 2018 were written down by \$7 million (December 31, 2017 - \$9 million; March 31, 2017 - \$5 million) to reflect net realizable value being lower than cost.

5. Long-term debt and operating loans

Long-term debt

	March 31, 2018	December 31, 2017
US\$300 million senior notes due October 2024; interest at 4.35%	\$ 387	\$ 376
US\$200 million term loan due August 2022; floating interest rate	258	251
US\$8 million note payable due October 2020; interest at 2%	10	10
Notes payable	4	4
	659	641
Deferred financing costs	(5)	(5)
	\$ 654	\$ 636

The fair value of the long-term debt at March 31, 2018 was \$653 million (December 31, 2017 - \$634 million) based on rates available to us at the balance sheet date for long-term debt with similar terms and remaining maturities.

Operating loans

Our revolving lines of credit consist of a \$500 million committed revolving credit facility which matures August 25, 2022, a \$32 million (US\$25 million) demand line of credit dedicated to our U.S. operations and an \$8 million demand line of credit dedicated to our jointly owned newsprint operation. In addition, we have demand lines of credit totalling \$59 million dedicated to letters of credit, of which US\$7 million is dedicated to our U.S. operations.

At March 31, 2018, our revolving credit facility was drawn by \$81 million (net of deferred financing costs of \$2 million). Letters of credit in the amount of \$47 million were also supported by our facilities, leaving \$469 million of credit available for further use. At December 31, 2017 there were no amounts outstanding under our revolving credit facility, as a result, the associated deferred financing costs of \$2 million was reported in other assets and our outstanding letters of credit were \$47 million.

Interest on the facilities is payable at floating rates based on Prime, Base Rate Advances, Bankers' Acceptances or LIBOR Advances at our option.

All debt is unsecured except the \$8 million joint operation demand line of credit, which is secured by that joint operation's current assets.

6. Other liabilities

	March 31, 2018	December 31, 2017
Post-retirement (note 7)	\$ 233	\$ 231
Reforestation	84	70
Decommissioning	25	25
Other	19	21
	\$ 361	\$ 347

7. Post-retirement benefits

We maintain defined benefit and defined contribution pension plans covering a majority of our employees. The defined benefit plans generally do not require employee contributions and provide a guaranteed level of pension payable for life based either on length of service or on earnings and length of service, and in most cases do not increase after commencement of retirement. We also provide group life insurance, medical and extended health benefits to certain employee groups.

During the quarter, we settled approximately \$145 million of our defined benefit obligation by purchasing annuities using plan assets.

The status of the defined benefit pension plans and other retirement benefit plans, in aggregate, is as follows:

	March 31, 2018	December 31, 2017
Projected benefit obligations	\$ (1,734)	\$ (1,864)
Fair value of plan assets	1,525	1,658
Impact of minimum funding requirement	(8)	(12)
	\$ (217)	\$ (218)
Represented by		
Post-retirement assets	\$ 16	\$ 13
Post-retirement liabilities (note 6)	(233)	(231)
	\$ (217)	\$ (218)

The significant actuarial assumptions used to determine our balance sheet date post-retirement assets and liabilities are as follows:

	March 31, 2018	December 31, 2017
Discount rate	3.50%	3.50%
Future compensation rate increase	3.50%	3.50%

For the three months ended March 31, 2018, we recognized in other comprehensive earnings a \$4 million loss (before tax) to reflect the changes

in the valuation of the post-retirement benefit plans. The loss reflects the estimate return on plan assets being lower than the expected return offset in part by the reduction of the estimated liability for the medical service plan costs in British Columbia.

The actuarial gain (loss) on post-retirement benefits, included in other comprehensive earnings, is as follows:

	January 1 to March 31	
	2018	2017
Actuarial gain (loss)	\$ (4)	\$ 15
Tax recovery (provision) on actuarial gain (loss)	1	(4)
	\$ (3)	\$ 11

8. Share Capital

During the quarter, we repurchased 534,089 Common shares under our normal course issuer bid at an average price of \$86.22 per share for a cost of approximately \$46 million.

9. Other

	January 1 to March 31	
	2018	2017
Foreign exchange gain (loss) on working capital	\$ 6	\$ (1)
Foreign exchange gain (loss) on intercompany financing ¹	21	(3)
Foreign exchange gain (loss) on long-term debt	(17)	4
Other	(1)	-
	\$ 9	\$ -

1. Relates to US\$600 million (Q1-17 US\$200 million) of financing provided to our U.S. operations. IAS 21 requires that the exchange gain or loss be recognized through earnings as the financing is not considered part of our permanent investment in our U.S. subsidiaries. The balance sheet amounts and related financing expense are eliminated in these consolidated financial statements.

10. Tax provision

The tax provision differs from the amount that would have resulted from applying the British Columbia statutory income tax rate to earnings before tax as follows:

	January 1 to March 31	
	2018	2017
Income tax at statutory rate of 27% (2017 - 26%)	\$ (71)	\$ (46)
Non-taxable amounts	(2)	(3)
Rate differentials between jurisdictions and on specified activities	4	(5)
Other	1	1
Tax provision	\$ (68)	\$ (53)

11. Earnings per share

Basic earnings per share is calculated based on earnings available to Common shareholders, as set out below, using the weighted average number of Common shares and Class B Common shares outstanding.

Diluted earnings per share is calculated based on earnings available to Common shareholders adjusted to remove the actual share option expense (recovery) charged to earnings and after deducting a notional charge for share option expense assuming the use of the equity-settled method, as set out below. The diluted weighted average number of shares is calculated using the treasury stock method. When earnings available to Common shareholders for diluted earnings per share are greater than earnings available to Common shareholders for basic earnings per share, the calculation is anti-dilutive and diluted earnings per share are deemed to be the same as basic earnings per share.

	January 1 to March 31	
	2018	2017
Earnings		
Basic	\$ 197	\$ 123
Share option expense	11	16

Equity-settled share option adjustment	(3)	(2)
Diluted	\$ 205	\$ 137
Weighted average number of shares (thousands)		
Basic	77,825	78,164
Share options	764	841
Diluted	78,589	79,005
Earnings per share (dollars)		
Basic and diluted	\$ 2.53	\$ 1.58

12. Segmented information

	Lumber	Panels	Pulp & paper	Corporate & other	Total
January 1, 2018 to March 31, 2018					
Sales					
To external customers	\$ 929	\$ 151	\$ 284	\$ -	\$ 1,364
To other segments	37	3	-	-	-
	\$ 966	\$ 154	\$ 284	\$ -	-
Operating earnings before amortization	\$ 241	\$ 28	\$ 68	\$ (6)	\$ 331
Amortization	(52)	(3)	(11)	-	(66)
Operating earnings	189	25	57	(6)	265
Finance expense	(6)	(1)	(2)	-	(9)
Other	3	-	3	3	9
Earnings before tax	\$ 186	\$ 24	\$ 58	\$ (3)	\$ 265
January 1, 2017 to March 31, 2017					
Sales					
To external customers	\$ 810	\$ 126	\$ 253	\$ -	\$ 1,189
To other segments	26	2	-	-	-
	\$ 836	\$ 128	\$ 253	\$ -	-
Operating earnings before amortization	\$ 191	\$ 15	\$ 40	\$ (12)	\$ 234
Amortization	(39)	(3)	(9)	-	(51)
Operating earnings	152	12	31	(12)	183
Finance expense	(4)	(1)	(2)	-	(7)
Other	-	-	1	(1)	-
Earnings before tax	\$ 148	\$ 11	\$ 30	\$ (13)	\$ 176

The geographic distribution of external sales is as follows:

	January 1 to March 31 ¹	
	2018	2017
Canada	\$ 286	\$ 254
United States	802	675
China	155	148
Other Asia	109	101
Other	12	11
	\$ 1,364	\$ 1,189

1. Sales distribution is based on the location of product delivery.

13. Countervailing ("CVD") and antidumping ("ADD") duty dispute

In November 2016, a coalition of U.S. lumber producers filed a CVD/ADD petition against Canadian softwood lumber producers who import lumber into the United States. The petition alleged that Canadian lumber producers are subsidized. CVD and ADD duties have been imposed against Canadian softwood lumber imports beginning in 2017. See Note 26 "Softwood lumber dispute" of our 2017 annual consolidated financial

statements included in the Company's 2017 Annual Report for additional information.

During the first quarter of 2018 we incurred duty deposits of \$34 million related to CVD and \$11 million related to ADD. We continue to recalculate the ADD rate for the current period of review using our reported results and the same calculation methodology as the U.S. Department of Commerce ("USDOC"). Based on our current data, we determined that the expected ADD rate will be substantially lower than the current ADD deposit rate and as such, we have recorded a long-term duty deposit receivable related to ADD for the difference.

During the quarter, the USDOC and U.S. International Trade Commission completed a preliminary investigation and assigned our jointly-owned newsprint mill a CVD rate of 6.53% and an ADD rate of 22.16%. This resulted in an expense of \$2 million in the quarter for our pulp & paper segment.

The duty rates are subject to change based on administrative reviews and appeals available to us. Notwithstanding the deposit rates assigned under the investigations, our final liability for the assessment of CVD and ADD will not be determined until each annual administrative review process is complete and related appeal processes are concluded.

	March 31, 2018		December 31, 2017	
Export duty deposits receivable - lumber	\$	42	\$	37

	January 1 to March 31			
	2018		2017	
Export duties expense - lumber	\$	41	\$	-
Export duties expense - pulp & paper		2		-
	\$	43	\$	-

SOURCE West Fraser Timber Co. Ltd.

View original content: <http://www.newswire.ca/en/releases/archive/April2018/25/c1856.html>

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