March 14, 2007 12:30 ET

Stella-Jones Announces Significant Bottom Line Growth for the Fourth Quarter and 2006 Fiscal Year

- Fourth quarter sales increase 32.5% to $49.5 million · Fourth quarter earnings up 74.7% to $5.1 million · 2006 sales grow organically and through acquisition by 42.5% · 2006 earnings per share reach $1.81, a 64.5% increase

MONTREAL, QUEBEC--(CCNMatthews - March 14, 2007) - Stella-Jones Inc. (TSX:SJ) today announced solid fourth quarter and year-end financial results for the period ended December 31, 2006. The Company once again posted record sales and net earnings in 2006 as a result of strong utility pole and railway tie markets as well as recent acquisitions. These, combined with continued increases in efficiency, and economies-of-scale from the increase in overall volume in the Company's core markets also generated strong positive momentum in earnings during the period.

Sensible growth strategy, effective cost management and strong markets drive improvement

Sales in the fourth quarter totalled $49.5 million, an increase of 32.5% from the $37.4 million reported for the same period in 2005. Net earnings were $5.1 million, or $0.42 per share, compared to net earnings of $2.9 million, or $0.28 per share in the fourth quarter of 2005. Twelve-month sales for 2006 reached a record $223.9 million, up $66.8 million or 42.5% from the $157.1 million reported in the prior year. Net earnings for the year totalled $20.8 million, or $1.81 per share, compared to $11.5 million, or $1.10 per share, in 2005. This represents a year-over-year net earnings increase of $9.3 million, or 81.2% .

"Stella-Jones has concluded 2006 on a very positive note, with sales and earnings setting new record levels," said Brian McManus, President and CEO of Stella-Jones. "The successful integration of the Bell Pole assets acquired in July has already started to yield positive bottom line results. Solid market fundamentals in our principal product categories, combined with the strong operational performance posted by our plant network bode well for the future."

Sales growth for the fourth quarter and the full year was driven by the July 2006 acquisition of Bell Pole Company as well as legacy sales growth, with the two main categories -- domestic utility poles and railway ties-- once again accounting for the bulk of the improved performance. Utility pole sales benefited from strong demand for transmission poles and growth in demand for distribution poles in certain markets, while demand for railway ties has remained strong, driven again by maintenance requirements, installation of double-tracking and new siding construction. These reflect the strong performance of the rail transport sector, which continues to report record traffic levels. A strong piling market in Western Canada and steady demand from the marine market on the East Coast resulted in healthy industrial lumber sales growth. Sales in the consumer lumber treating category also posted an increase, with the Bell Pole operations accounting for most of the gain. A healthy North American repair and remodelling market also contributed meaningfully to consumer lumber sales growth in 2006. The additional contribution from a full year of sales from the Webster Wood Preserving Company ("Webster") acquisition in August 2005 also bolstered 2006 sales.

Gross profit posted a healthy increase in the fourth quarter and full year 2006, both in absolute terms and as a percentage of sales. Fourth quarter gross profit reached $11.4 million or 23.0% of sales in 2006, up from $7.8 million or 20.9% of sales in the same period last year. For the twelve-month period ended December 31, 2006, gross profit totalled $50.4 million, representing 22.5% of sales. This compares to $32.0 million or 20.4% of sales in 2005. The improvement in gross profit was a function of recent acquisitions as well as overhead cost containment, plant specialization, higher average selling prices and economies-of-scale from the increase in overall volume in the Company's core markets.

"Continued progress in operational efficiency and the positive impact of the implementation of best practices at our recently acquired facilities yielded a further widening of our margins in 2006," said George Labelle, Senior Vice-President and Chief Financial Officer. "With input costs remaining stable and with the continued integration of recent acquisitions, including Baxter, which was completed last month, we expect margins to remain strong in coming quarters."

Selling and administrative expenses for the fourth quarter of 2006 were $2.0 million, down from the $2.2 million reported in the prior year. For the full year 2006, these expenses increased to $12.5 million from the $9.7 million reported in the corresponding period in 2005. Notably, selling and administrative expenses have grown more slowly than sales levels and represented just 5.6% of sales in 2006, down from 6.2% in the prior year. These increases were the result of an increase in stock-based compensation expense, higher selling expenses related to acquisitions, increases under the Company's profit sharing plan as well as increased costs related to verifying and documenting the design effectiveness of the Company's internal controls. This more than offset reduced expenses related to the final year of an environmental compliance program.

Subsequent event

On February 28, 2007, the Company announced that the acquisition of the wood utility pole business of J.H. Baxter & Co. ("Baxter") had been completed. Assets acquired include the Baxter treating facility located in Arlington, Washington, its pole peeling operation in Juliaetta, Idaho as well as all inventories and accounts receivable relating to its wood pole business. The Arlington facility has become Stella-Jones' 10th treating plant. This acquisition establishes Stella-Jones' second manufacturing facility in the United States and provides greater access to the U.S. treated wood utility pole market. For its last fiscal year ended December 31, 2006, Baxter's sales of wood utility poles were approximately US$30.0 million. The transaction will be immediately accretive to Stella-Jones' earnings.

Outlook

"The Company started 2006 on a strong note and this positive momentum carried through to the end of the year," said Mr. McManus. "I am pleased to report that we are entering 2007 on an equally sound footing. Our core markets are continuing to enjoy strong fundamentals and we are optimistic about further potential for organic and external growth in 2007. The market for utility poles remains strong and the acquisition of Baxter's utility pole business will allow the Company to leverage these market opportunities. We are also looking forward to a full-year's contribution from the Bell Pole Company assets acquired at the beginning of the third quarter. In railway ties, we are responding to favourable market fundamentals by expanding the Bangor, Wisconsin, facility with an additional treating cylinder that is scheduled to go into production in May of this year."

"Going forward, we remain focused on expanding our customer base in Canada and the U.S. We intend to realize the full potential of our recent acquisitions by leveraging the opportunities offered by economies of scale -- notably in the customer service area. We will also continue to pursue potential strategic acquisitions in the railway tie and utility pole markets that offer synergistic opportunities and allow us to add value to Stella-Jones shareholders," concluded Mr. McManus.

ABOUT STELLA-JONES

Stella-Jones Inc. (TSX:SJ) is a leading North American producer and marketer of industrial treated wood products, specializing in the production of pressure treated railway ties as well as wood poles supplied to electrical utilities and telecommunications companies. Other principal products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company also provides treated consumer lumber products and customized services to lumber retailers and wholesalers for outdoor applications. The Company's common shares are listed on the Toronto Stock Exchange.

Visit our website: www.stella-jones.com

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

NOTICE

The interim unaudited consolidated financial statements of Stella-Jones Inc. for the fourth quarter ended December 31, 2006 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle, Senior Vice-President and Chief Financial Officer

Montreal, Quebec, March 14, 2007

CONSOLIDATED BALANCE SHEETS

as at December 31, 2006 and December 31, 2005	2006 ($)	2005 ($)
ASSETS		
CURRENT ASSETS		
Accounts receivable	32,113,553	21,059,721
Inventories	117,441,115	77,316,420
Prepaid expenses	2,325,219	1,611,755
Future income taxes	356,000	550,000
	152,235,887	100,537,896
CAPITAL ASSETS	59,925,656	37,003,106
OTHER ASSETS	1,088,343	-
FUTURE INCOME TAXES	425,000	

		350,000
	213,674,886	137,891,002

LIABILITIES

CURRENT LIABILITIES		
Bank indebtedness	42,286,469	21,311,735
Accounts payable and accrued liabilities	22,299,399	17,452,438
Income taxes	2,964,247	2,227,785
Current portion of long-term debt	3,797,096	4,061,370
Current portion of asset retirement obligations	922,929	-
	72,270,140	45,053,328
LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES	28,096,118	22,404,874
FUTURE INCOME TAXES	5,960,036	4,646,000
ASSET RETIREMENT OBLIGATIONS	414,635	-
EMPLOYEE FUTURE BENEFITS	1,112,177	978,649
	107,853,106	73,082,851

SHAREHOLDERS' EQUITY

CAPITAL STOCK	45,473,435	26,174,801
CONTRIBUTED SURPLUS	2,416,650	53,499
CUMULATIVE TRANSLATION ADJUSTMENT	(72,679)	(201,646)
RETAINED EARNINGS	58,004,374	38,781,497
	105,821,780	64,808,151
	213,674,886	137,891,002

See accompanying Notes

CONSOLIDATED STATEMENTS OF EARNINGS

	three months ended Dec. 31,		twelve months ended Dec. 31,	
	2006	2005	2006	2005
	($)	($)	($)	($)
	unaudited	unaudited		

SALES	49,512,301	37,363,273	223,853,026	157,128,551
EXPENSES				
Cost of sales	38,145,121	29,553,835	173,489,937	125,100,344
Selling and administrative	1,976,854	2,164,961	12,488,487	9,704,612
Foreign exchange loss (gain)	217,149	(301,966)	(213,619)	(150,768)
Amortization of capital assets	905,588	873,221	3,363,474	3,277,093
(Gain) loss on disposal of capital assets	(51,149)	17,383	(77,932)	17,383
	41,193,563	32,307,434	189,050,347	137,948,664
OPERATING EARNINGS	8,318,738	5,055,839	34,802,679	19,179,887
INTEREST ON LONG-TERM DEBT	296,504	325,487	1,802,882	1,005,647
OTHER INTEREST	740,703	317,105	1,810,443	940,379
EARNINGS BEFORE INCOME TAXES	7,281,531	4,413,247	31,189,354	17,233,861

PROVISION FOR INCOME TAXES	2,157,586	1,479,689	10,343,398	5,729,000
NET EARNINGS FOR THE PERIOD	5,123,945	2,933,558	20,845,956	11,504,861
NET EARNINGS PER COMMON SHARE	0.42	0.28	1.81	1.10
DILUTED NET EARNINGS PER COMMON SHARE	0.41	0.28	1.76	1.08

See accompanying Notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

for the years ended December 31, 2006 and 2005	2006 ($)	2005 ($)

BALANCE - BEGINNING OF YEAR	38,781,497	28,330,148
Net earnings for the year	20,845,956	11,504,861
Dividends on common shares	(1,623,079)	(1,053,512)
BALANCE - END OF YEAR	58,004,374	38,781,497

See accompanying Notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	three months ended Dec. 31,		twelve months ended Dec. 31,	
	2006	2005	2006	2005
	($)	($)	($)	($)
	unaudited	unaudited		
CASH FLOWS FROM OPERATING ACTIVITIES				

Net earnings for the period	5,123,945	2,933,558	20,845,956	11,504,861
Adjustments for				
Amortization of capital assets	720,417	873,221	3,363,474	3,277,093
(Gain) loss on disposal of capital assets	(51,149)	(14,698)	(77,932)	17,383
Employee future benefits	2,281	1,269	133,528	106,269
Stock-based compensation	83,447	370,955	2,338,808	1,283,955
Future income taxes	397,000	246,000	(163,000)	(215,000)
	6,275,941	4,410,305	26,440,834	15,974,561

CHANGE IN NON-CASH WORKING CAPITAL COMPONENTS				
Decrease (increase) in				
Accounts receivable	9,853,127	4,022,217	(3,760,105)	(5,217,107)
Inventories	(16,807,026)	(5,036,604)	(13,485,127)	(11,280,636)
Prepaid expenses	(232,178)	(1,222,828)	(300,901)	(746,628)
Increase (decrease) in				
Accounts payable and accrued liabilities	(1,888,481)	(1,957,981)	570,060	2,921,435

Income taxes	282,751	693,371	765,468	452,868
	(8,791,807)	(3,501,825)	(16,210,605)	(13,870,068)
	(2,515,866)	908,480	10,230,229	2,104,493
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	6,322,172	(4,067,674)	16,421,513	9,890,975
Increase in long-term debt	391,727	14,213,013	13,393,582	20,379,008
Repayment of long-term debt	(1,288,823)	(10,025,213)	(6,687,317)	(12,826,522)
Decrease in asset retirement obligations	(835,934)	-	(835,934)	-
Proceeds from issuance of common shares	835,961	106,450	19,275,977	5,254,453
Dividends on common shares	(968,274)	(541,394)	(1,623,079)	(1,053,512)
	4,456,829	(314,818)	39,944,742	21,644,402

INVESTING ACTIVITIES				
Increase in other assets	(163,539)	-	(446,289)	-
Business acquisition	(1,540,263)	(121,332)	(46,023,314)	(17,953,798)
Purchase of capital assets	(751,059)	(578,453)	(4,272,982)	(6,107,522)
Proceeds from disposal of capital assets	330,768	24,698	379,998	231,000
	(2,124,093)	(675,087)	(50,362,587)	(23,830,320)
EFFECT OF TRANSLATION ADJUSTMENT	183,130	81,425	187,616	81,425
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	-	-	-	-
CASH AND CASH EQUIVALENTS -- BEGINNING AND END OF THE PERIOD	-	-	-	-

SUPPLEMENTAL DISCLOSURE

Interest paid	1,014,462	567,645	3,415,273	1,770,887
Income taxes paid	2,285,305	538,757	10,533,807	5,168,398

See accompanying Notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

unaudited

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared following the same accounting policies as the December 31, 2005 audited consolidated financial statements adjusted for the following changes resulting from the business acquisition described in Note 3 below. These unaudited interim consolidated financial statements and notes should be read in conjunction with the Company's latest annual consolidated financial statements.

Principles of consolidation

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., Stella-Jones Corporation since August 31, 2005, and since July 1, 2006 (Note 3 below) the consolidated accounts of Bell Pole Canada Inc. ("Bell Pole"), using the purchase method. The consolidated accounts of Bell Pole include the accounts of a 50% interest in Kanaka Creek Pole Company Limited, a joint venture which is accounted for under the proportionate consolidation method of accounting.

Capital assets

Roads, timberlands and cutting rights are recorded at cost less accumulated amortization. Amortization is provided on the basis of timber cut.

Asset retirement obligations

(i) Reforestation obligations:

The British Columbia Forest Act and the Alberta Forest Act require the industry to assume the costs of reforestation on certain harvest licences. Accordingly, the Company records the fair value of the cost of reforestation in the period in which the timber is harvested, with the fair value of the liability determined with reference to the present value of the estimated future cash flows. Reforestation costs are included in the costs of current production.

(ii) Site remediation obligations:

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the legal obligations of restoring the environmental integrity of certain properties acquired in the Bell Pole Company acquisition. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with accretion costs on existing obligations, in other expenses.

NOTE 2 - EMPLOYEE FUTURE BENEFITS

For the three months ended December 31, 2006, the benefit cost recognized for employee future benefits was $171,650 (2005 - $4,080). For the twelve months ended December 31, 2006, the benefit cost recognized for employee future benefits was $302,897 (2005 - $122,041).

NOTE 3 - BUSINESS ACQUISITION

Effective July 1, 2006, the Company, through a wholly-owned subsidiary, acquired substantially all of the assets and operations of Bell Pole Company, a Canadian manufacturer of wood utility poles based in western Canada. Bell Pole Company was also involved in the remanufacturing and treating of dimensional lumber in Alberta. Assets acquired include a treating plant located in Carseland, Alberta, peeling facilities located in the province of British Columbia, as well as all inventories and accounts receivable. Assets acquired also include cutting rights in British Columbia and Alberta. The Company also assumed certain liabilities including accounts payable and accrued liabilities and asset retirement obligations.

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as of the acquisition date. The results of operations of Bell Pole have been included in the consolidated financial statements from the acquisition date.

The following is a summary of the net assets acquired at fair values;

Assets acquired	$
Accounts receivable	7,264,996
Inventories	26,370,676
Prepaid expenses	394,643
Capital assets	22,665,988
Other assets	642,054
	57,338,357
Liabilities assumed	
Bank indebtedness	4,553,221
Accounts payable and accrued liabilities	3,763,180
Asset retirement obligations and other liabilities	2,607,498
	10,923,899
	46,414,458
Consideration	
Bank debt paid at closing on behalf of Seller	8,126,152
Cash, including transaction costs of $2,368,556	37,897,162
Reserve amount for transaction costs, included in accounts payable	

391,144

46,414,458

Financing for the transaction was provided by the private placement of 1,060,000 subscription receipts issued on May 2, 2006 for a total consideration of $18.0 million. Following the closing of the acquisition, the subscription receipts were exchanged into common shares of the Company, on a one-for-one basis. The remainder of the purchase price was financed by a $10.0 million debenture to the Fonds de solidarite des travailleurs du Quebec (F.T.Q.), as well as additional debt funding under existing and new bank facilities.

NOTE 4 - SHARE INFORMATION

As at December 31, 2006, the capital stock issued and outstanding consisted of 12,298,015 common shares (10,880,840 as at December 31, 2005). On July 1, 2006, the Company exchanged 1,060,000 previously issued subscription receipts for an equal number of common shares to partially fund the business acquisition described in Note 3 above.

NOTE 5 - SEASONALITY

The Company's domestic operations follow a seasonal pattern, with pole, tie and industrial lumber shipments strongest in the second and third quarters to provide industrial end users with product for their summer maintenance projects. Consumer lumber treatment sales also follow the same seasonal pattern. Inventory levels of railway ties and utility poles are typically highest in the first quarter in advance of the summer shipping season. The first and fourth quarters usually generate similar sales.

NOTE 6 - SUBSEQUENT EVENT

On February 28, 2007, the Company announced that its wholly-owned US subsidiary, Stella-Jones Corporation, had completed the acquisition of the wood utility pole business of J.H. Baxter & Co. ("Baxter"). Assets acquired include the Baxter production plant located in Arlington, Washington, its pole peeling facility in Juliaetta, Idaho as well as all inventories and accounts receivable relating to its wood pole business. The purchase price totalled US$22.3 million, of which approximately US$12.0 million was for inventory and receivables. Financing for the transaction was provided by a subordinated vendor note of US$8.0 million as well as additional debt funding under existing and new bank facilities. The new bank facilities are comprised of an increase of US$5.0 million in the operating line of credit of Stella-Jones

Corporation as well as a new 5-year term loan of US$4.0 million, both arranged with its existing US bankers.

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