



HAWKINS WRIGHT

Pulp Market Outlook

PricewaterhouseCoopers, Vancouver

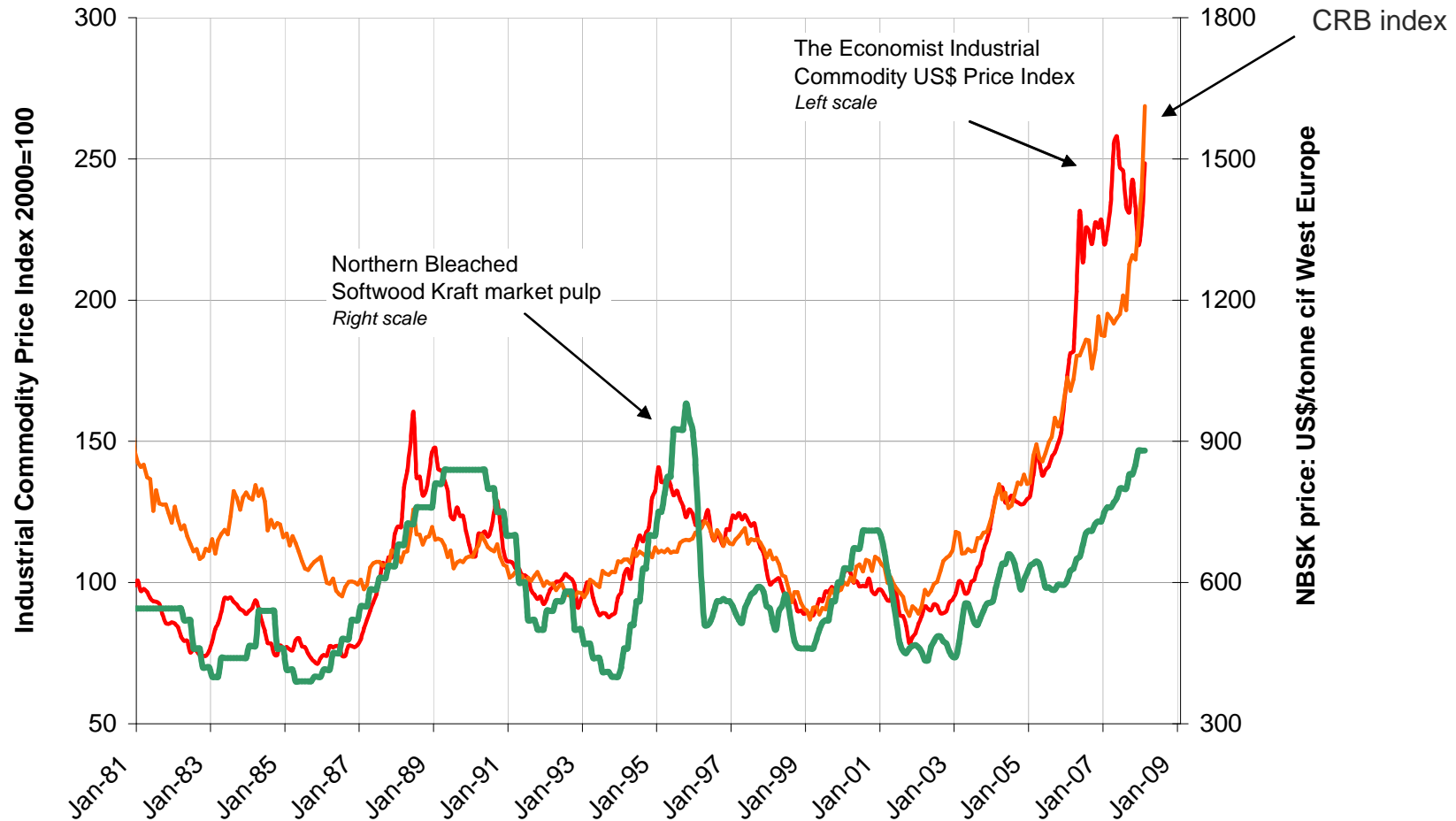
May 8th 2008

Pulp market themes



- Macro-economic influences
- Fibre availability
- Paper market restructure
- Supply & demand
 - > China
 - > Price differentials
 - > Substitution trends

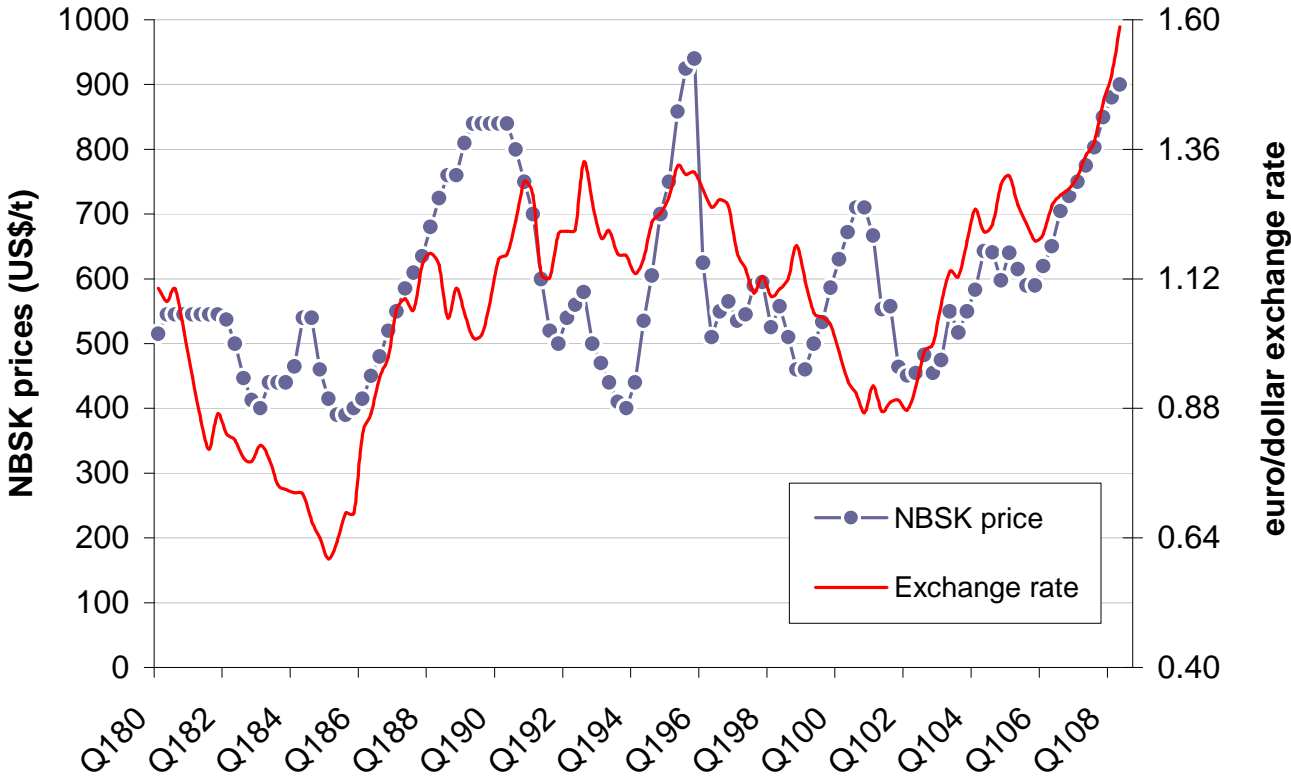
Pulp versus other commodities



Sources: The Economist (commodity price index); Hawkins Wright (pulp prices)

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NBSK v euro/dollar

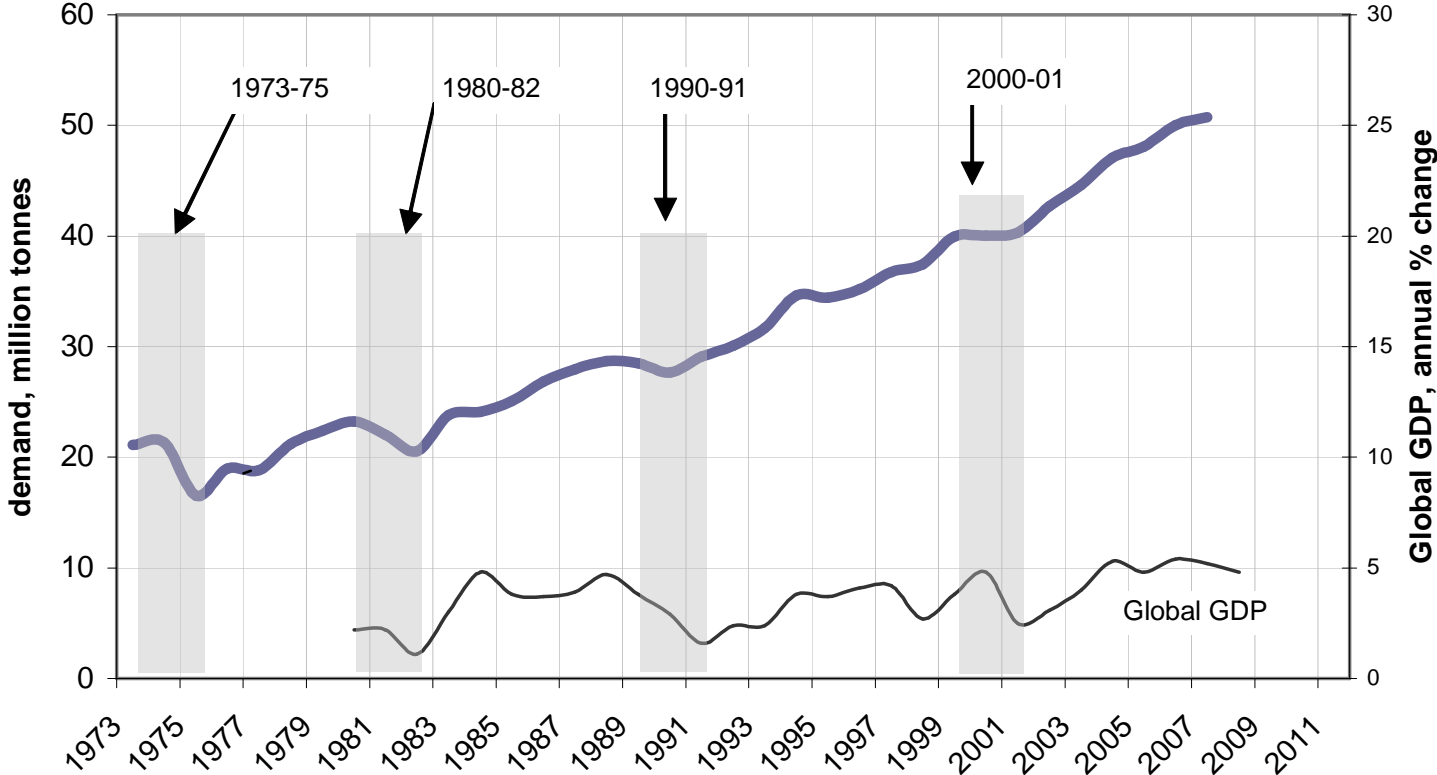


Recessions

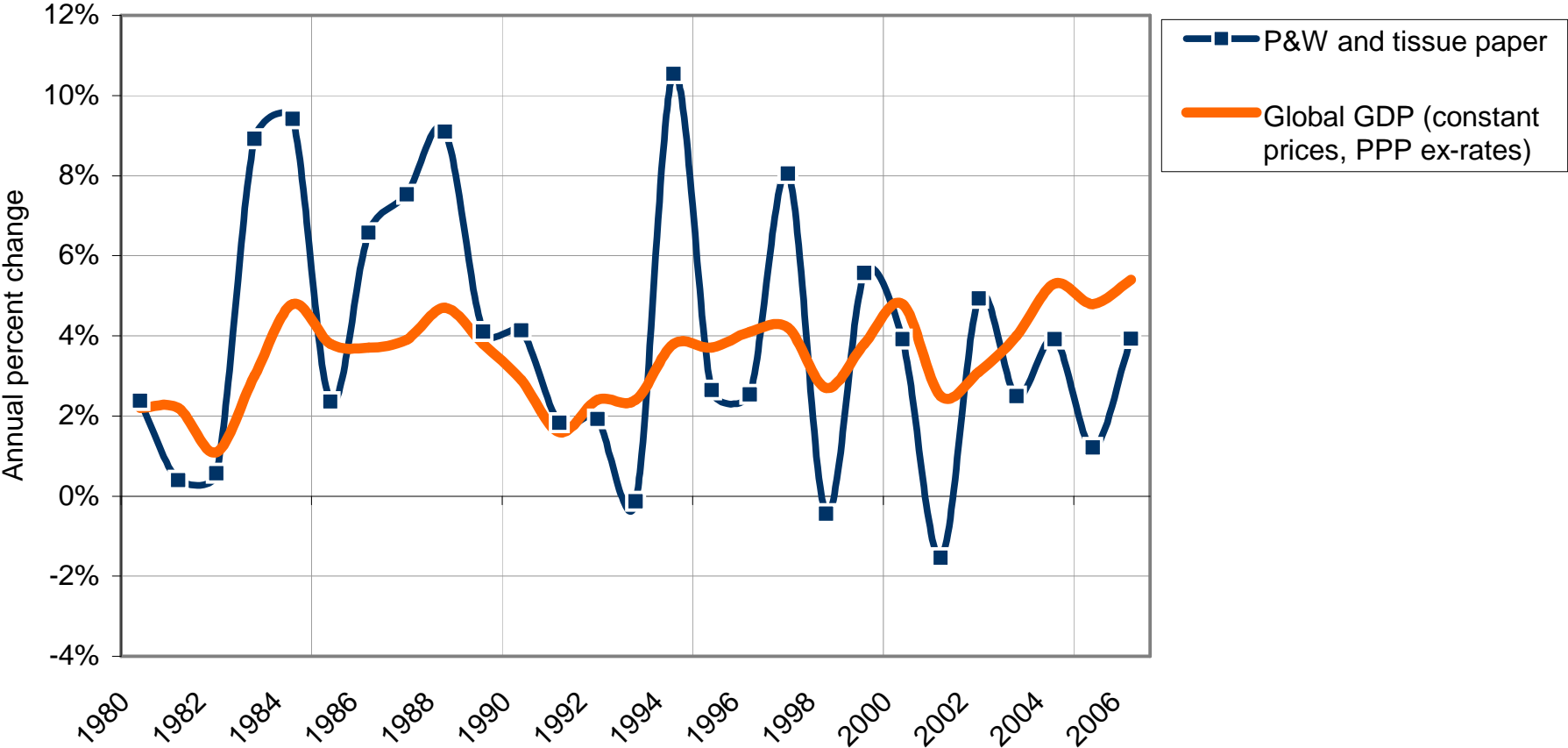


- Four recessions since 1973
- Affected both prices and volumes of market pulp and paper sales

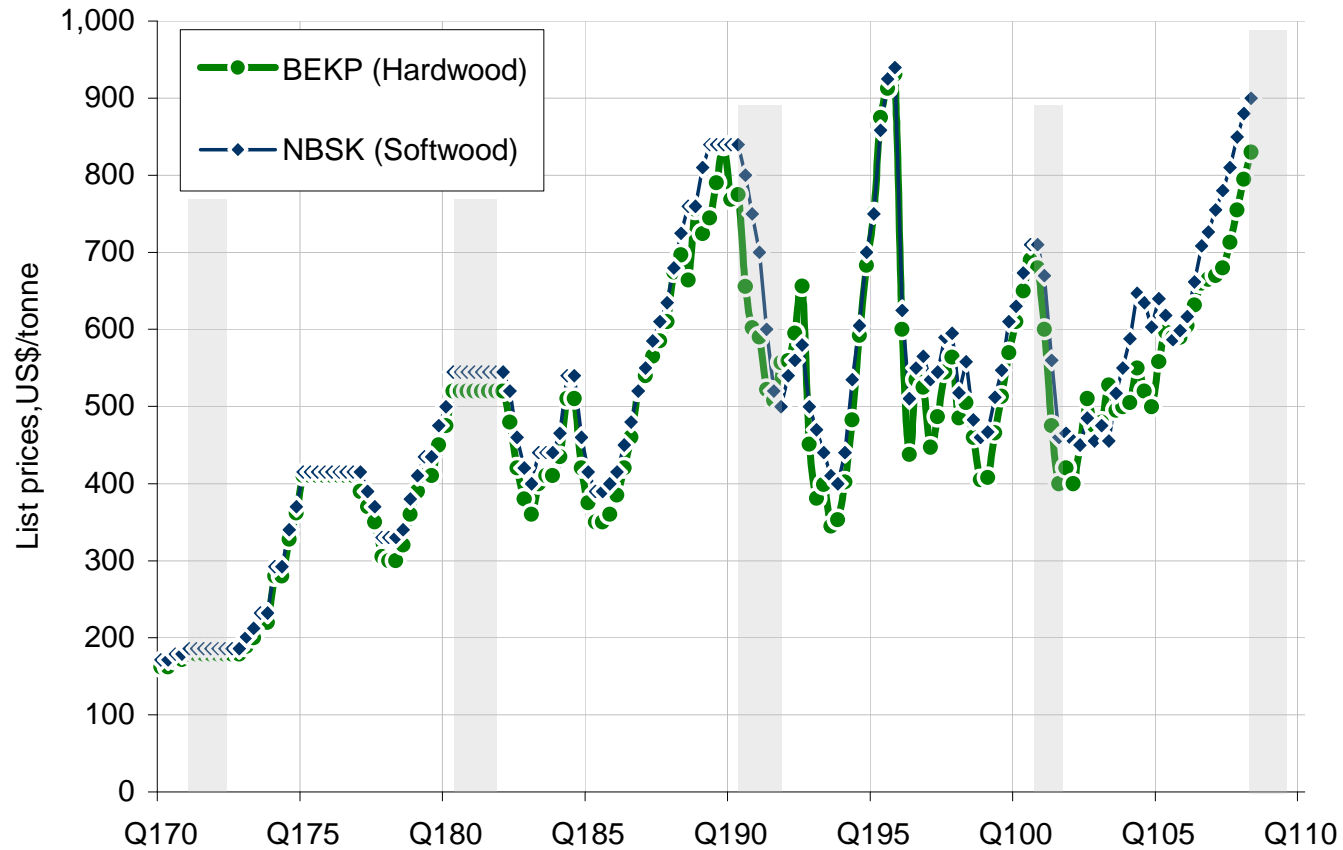
Recessions and BCP demand



World P&W/tissue demand and global GDP



Recessions & Prices (nominal)

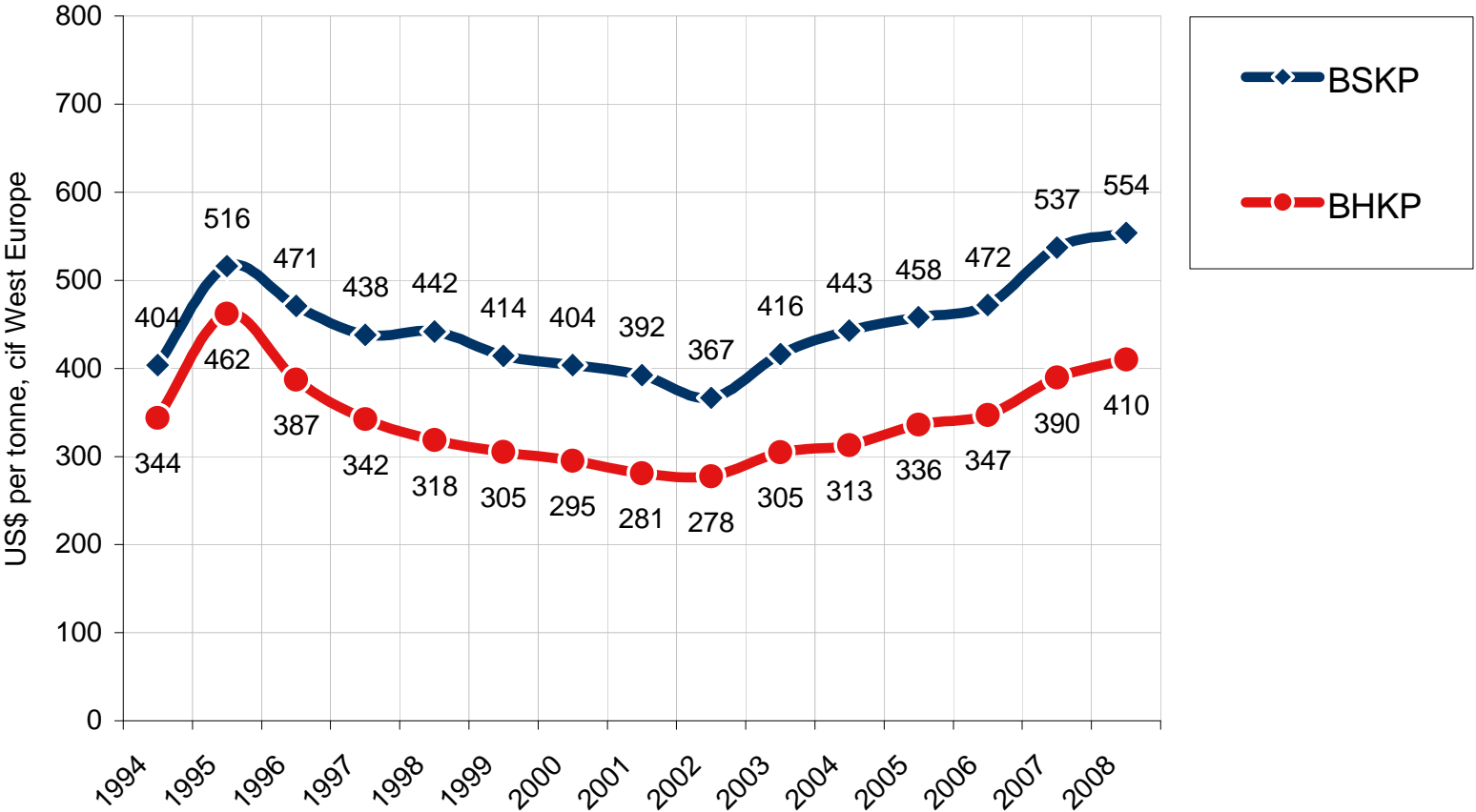


(2) Fibre constraints



- North America – lumber markets, (pine beetle, AAC, etc.)
- Europe – Weather, Russian export taxes, bio-energy competition
- Asia – illegal logging in Indonesia, lack of mature plantations in China
 - > China, Japan, Taiwan, Korea all fibre importers

Global Weighted average costs of production



(3) Paper market restructuring



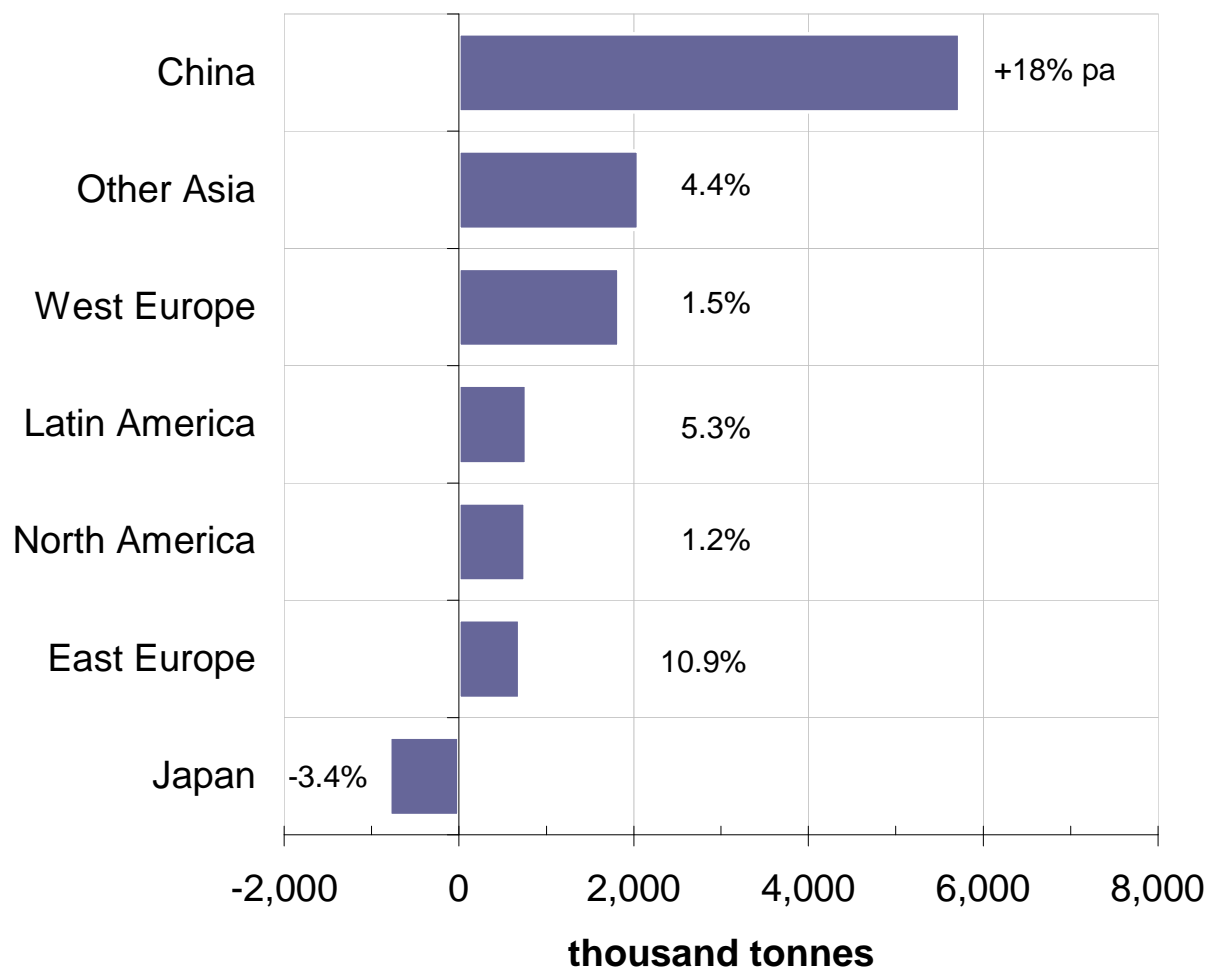
- Flat demand, rising costs, falling prices
- A recognition that this a trend, not part of a cycle
- Smaller non-integrated companies close
- Integrated companies are divesting non-core businesses, rationalising capacity
- 3.8 million t/y European P&W capacity (excl. newsprint & tissue) closes 2005-08
- 6.2 million t/y North American P&W capacity closes 2005-08
- More closures to come, limiting fibre consumption

(4) Supply & Demand for pulp



- Demand
- Supply
- Differentials and substitution trends

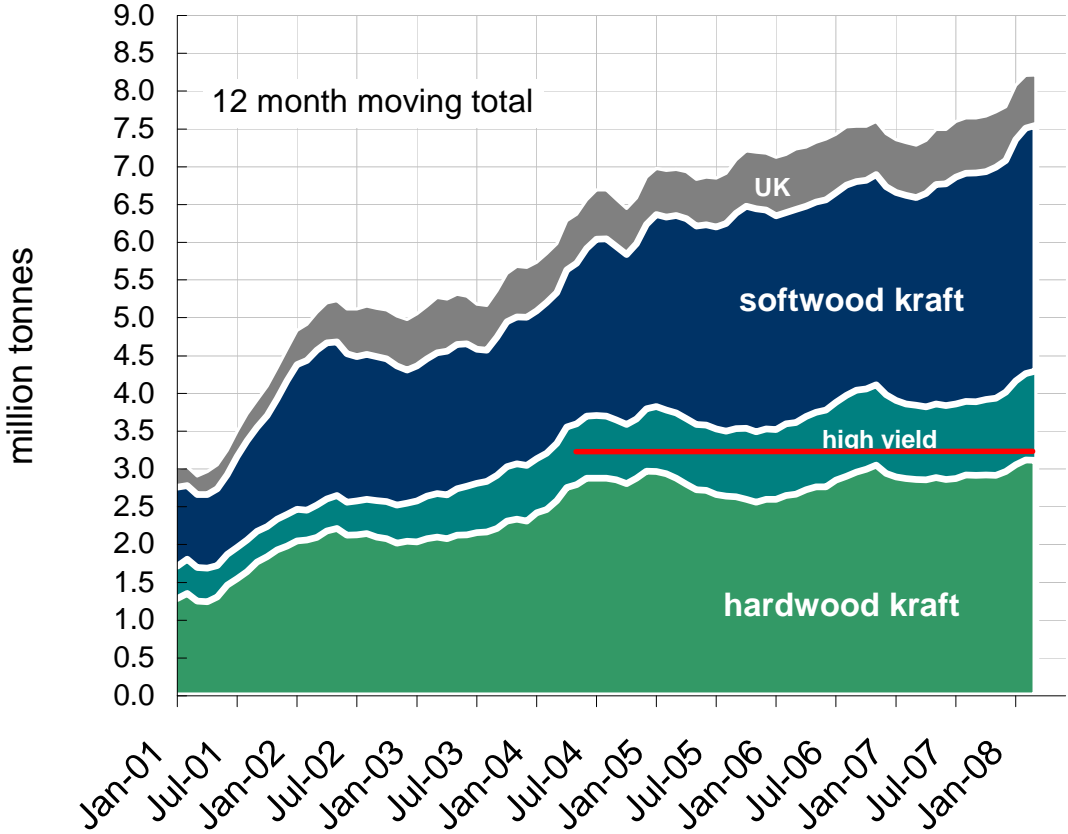
Global pulp* demand growth 2000-07



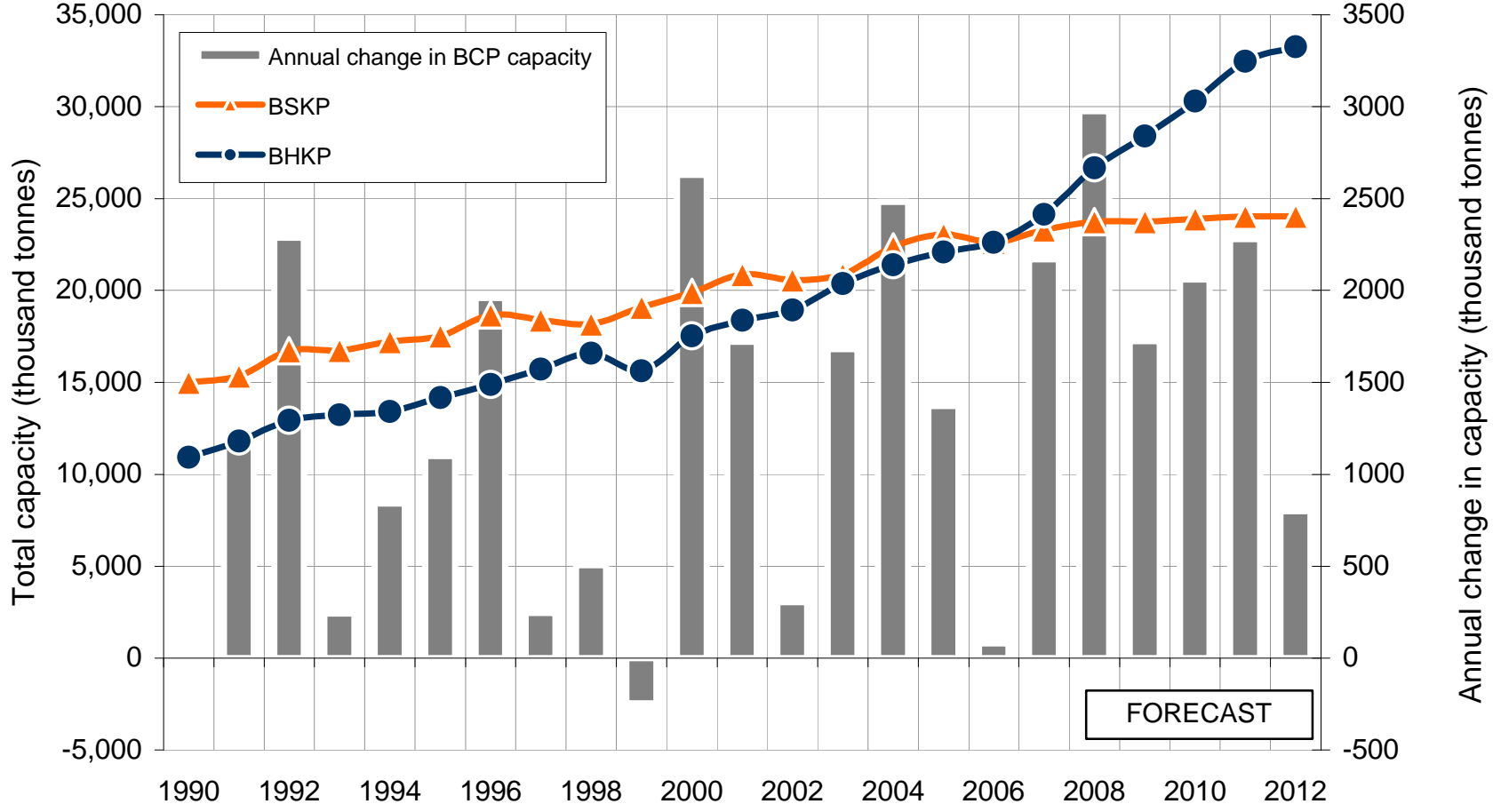
- Chinese demand includes 550,000t domestic BHKP production
- Korea, Taiwan, Thailand, Indonesia are mature or supplied domestically
- Most growth in Europe and North America is re-classification of affiliated shipments to market, or displacement of integrated pulp
 - > Real growth restricted to tissue and fluff

*Includes UKP & high-yield

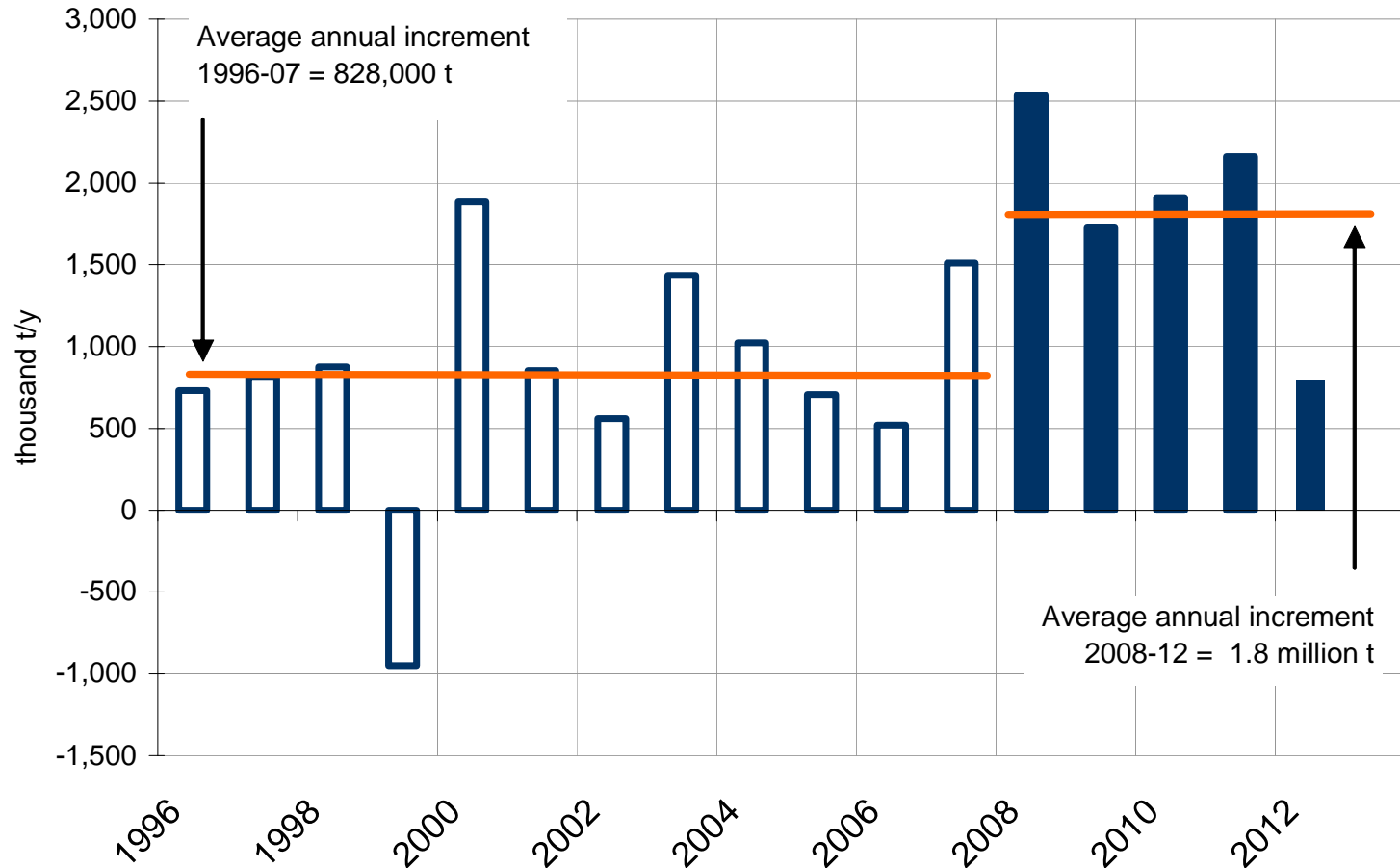
Chinese pulp import growth



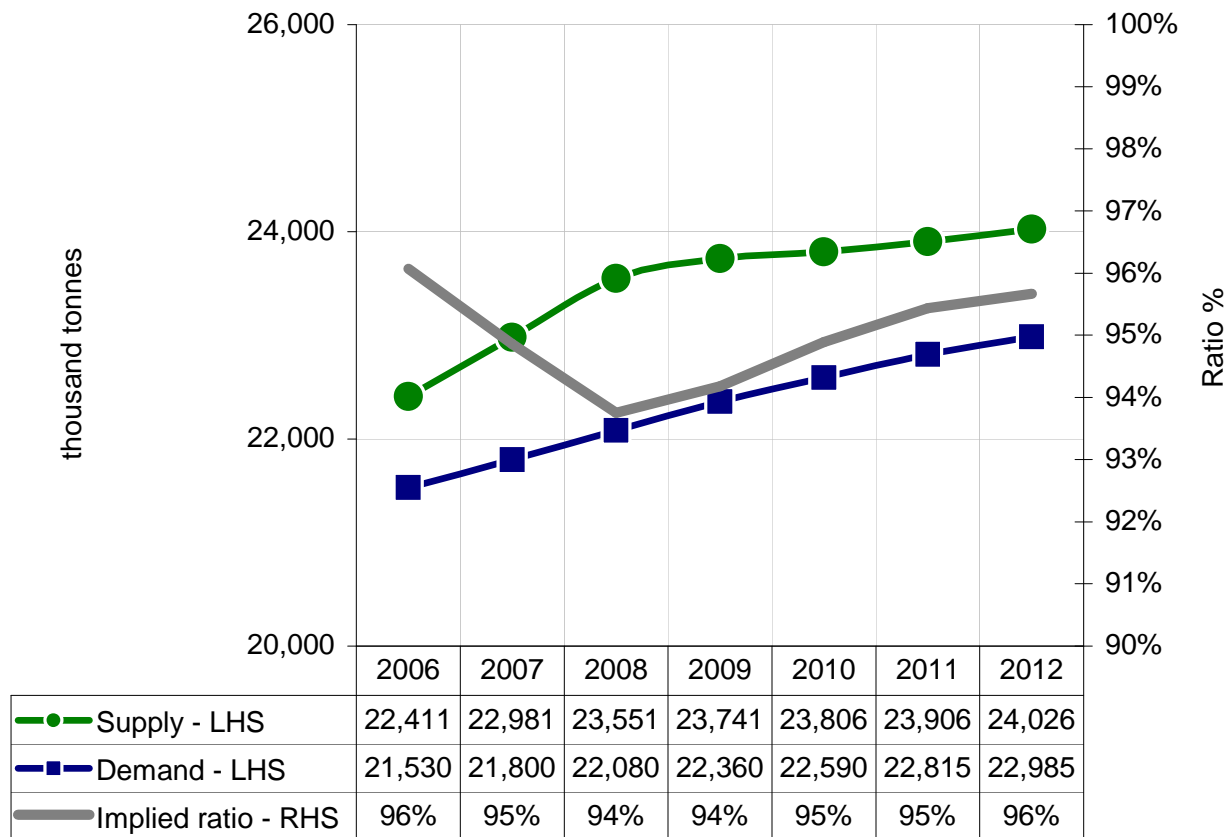
Market pulp capacity



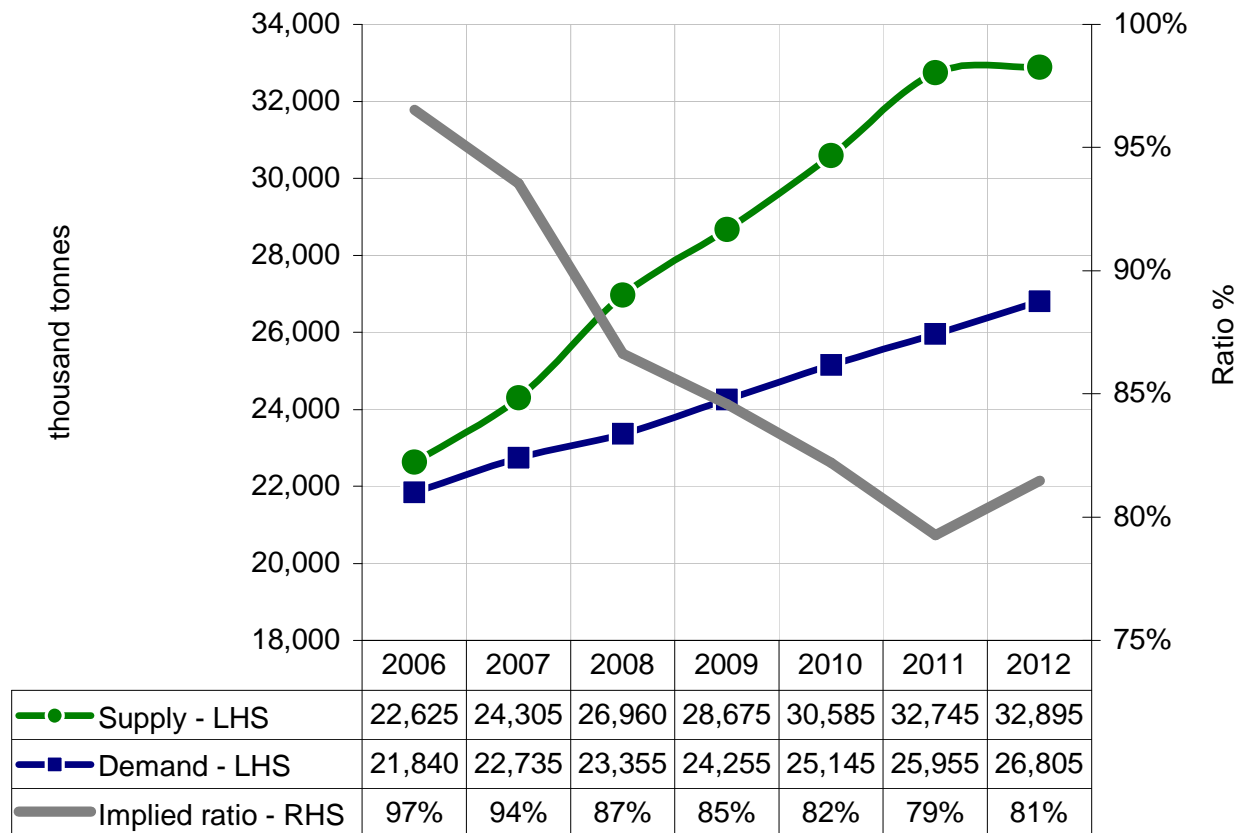
BHKP capacity growth



Supply/demand BSKP - *theoretical*



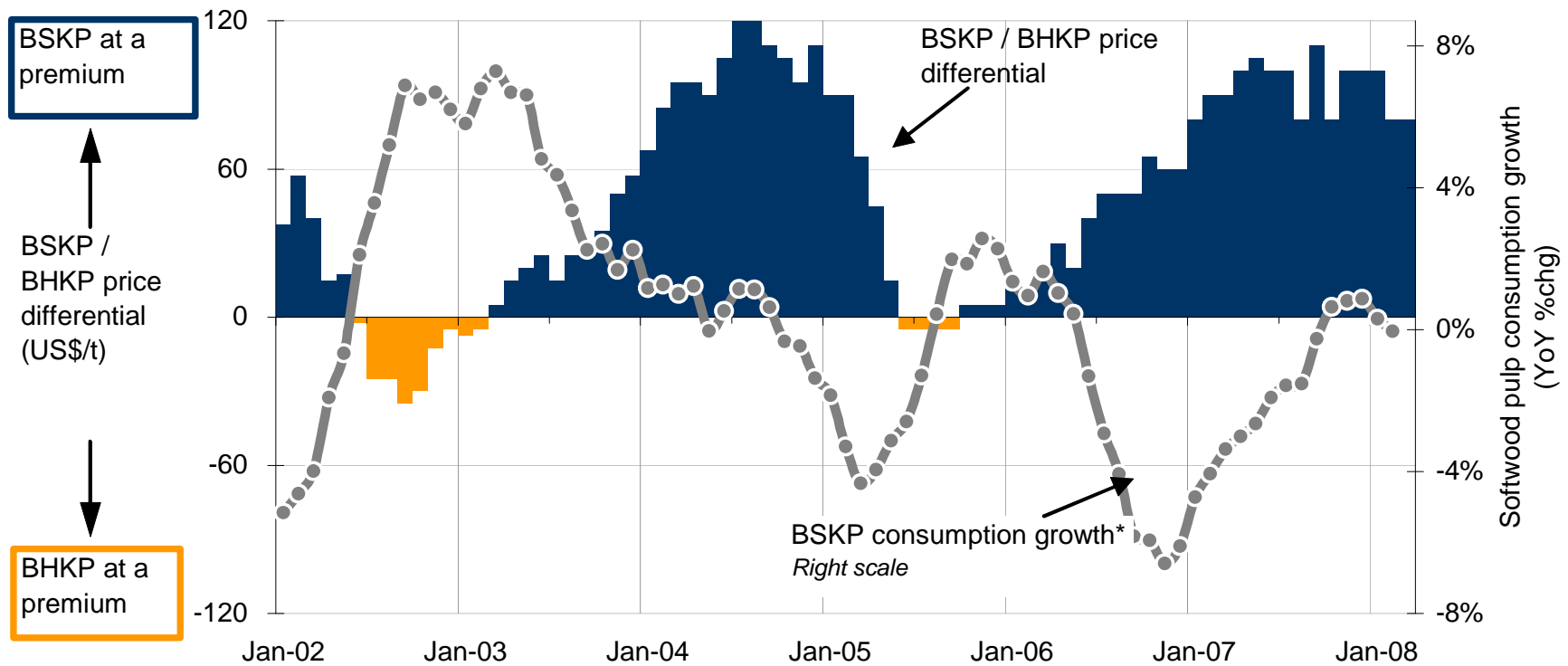
Supply/demand BHKP - *theoretical*



Substitution



European price differential v softwood consumption growth



* Consumption data based upon 6-month moving average

Source: Hawkins Wright Research/Utimpulp



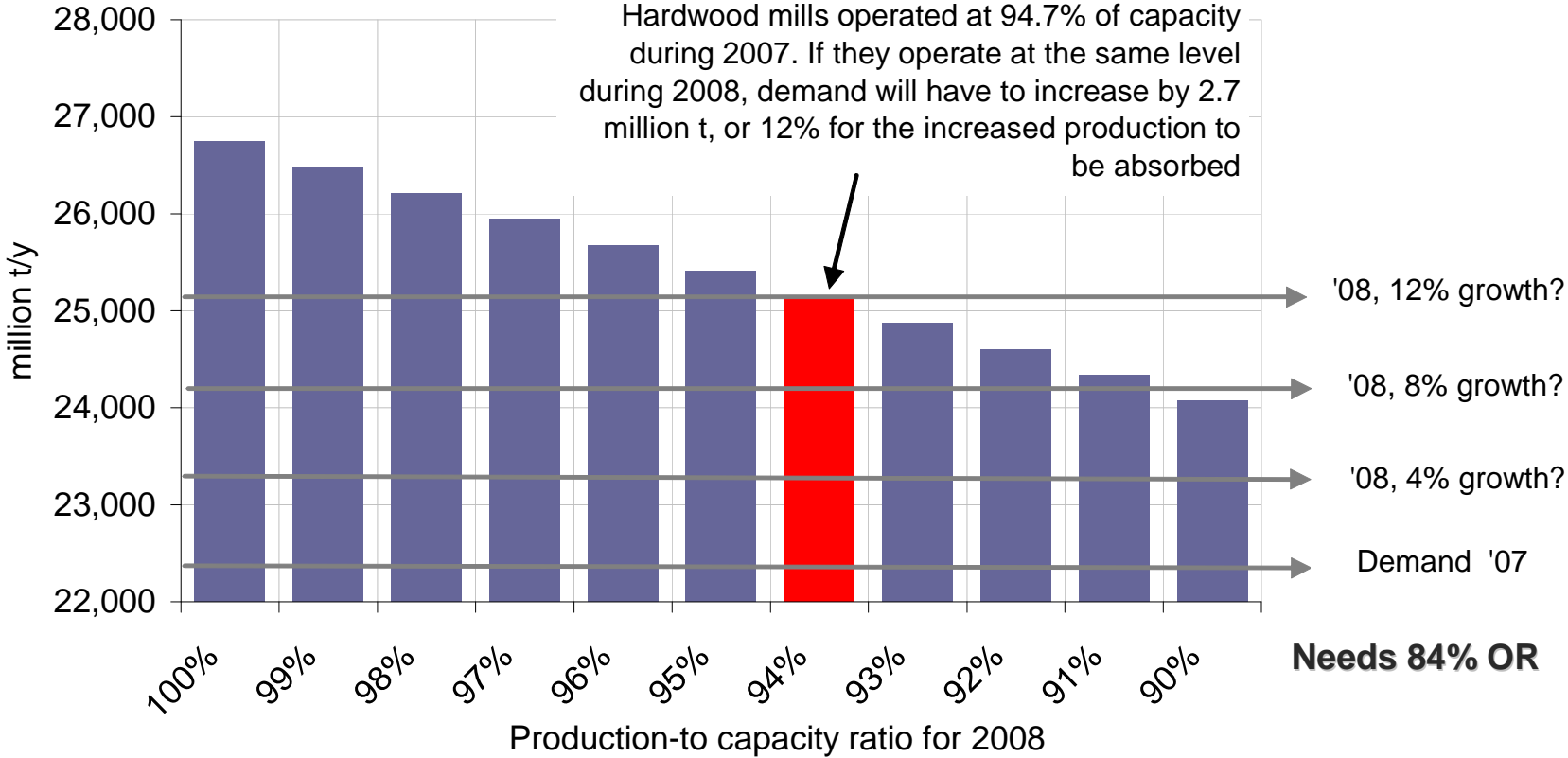
The short-term outlook...

- Softwood v hardwood prices
 - > Wide variations in price differentials between Europe, USA and Asia are largely a function of discounts, freight rates and propensity for substitution
- Weakness in softwood likely to be short-lived
 - > Further closures and curtailments are on the horizon
 - > Stronger SW demand in Asia due to substitution
 - > P&T acquisition...??
- Hardwood remains solid but for how long?
 - > Inventories reached 36 days
 - > Indonesia...??



Scenario Analysis

Hardwood production/shipments, 2008





Future considerations

- Unpredictables...
 - > The weather
 - > Exchange rates
 - > Mill closures, industrial action
 - > Trade legislation (Russia, China etc)
 - > Environmental legislation
 - > Freight bottlenecks – are they now the norm?
- However, based on what we know today, times will remain “challenging” and for most...
- “...winning strategy = survival strategy”