RISI Paper Market Outlook: Mergers, Foreign Exchange, and Supply Management Impact the Markets

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GCIC

RISI

RISI Growth Projections for 2007 Presented to GCIC Last Year (11/06)

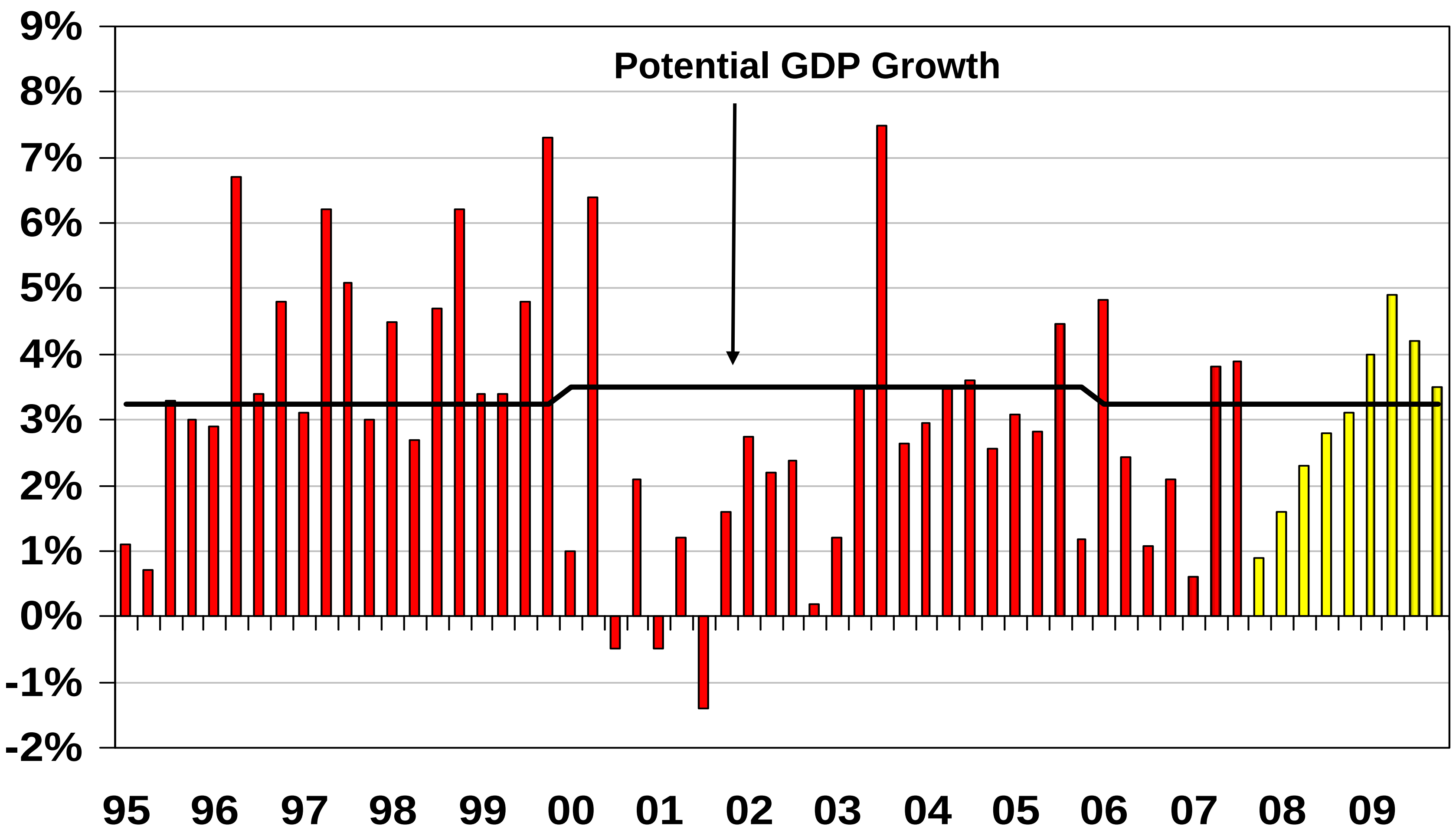
	Last Yr's Fcst.	Current Est.
GDP (U.S.)	2.4%	2.1%
Inflation – U.S. CPI	2.5%	2.8%
Paper Demand (North America)	0%	-4%
CFS	-1%	-10%
CGW	0%	3%
UFS	-1%	-5%
UGW	2%	0%
SC	3%	4%
U.S. Catalog Circulation	-1%	-1%

U.S. Economy Flirts With Recession

- U.S. Economic Growth Below 1% in 2 of the 4 quarters in 2007

- Economic growth to remain below trend through mid-2008
  - Over two years of Sub-par growth, but no recession

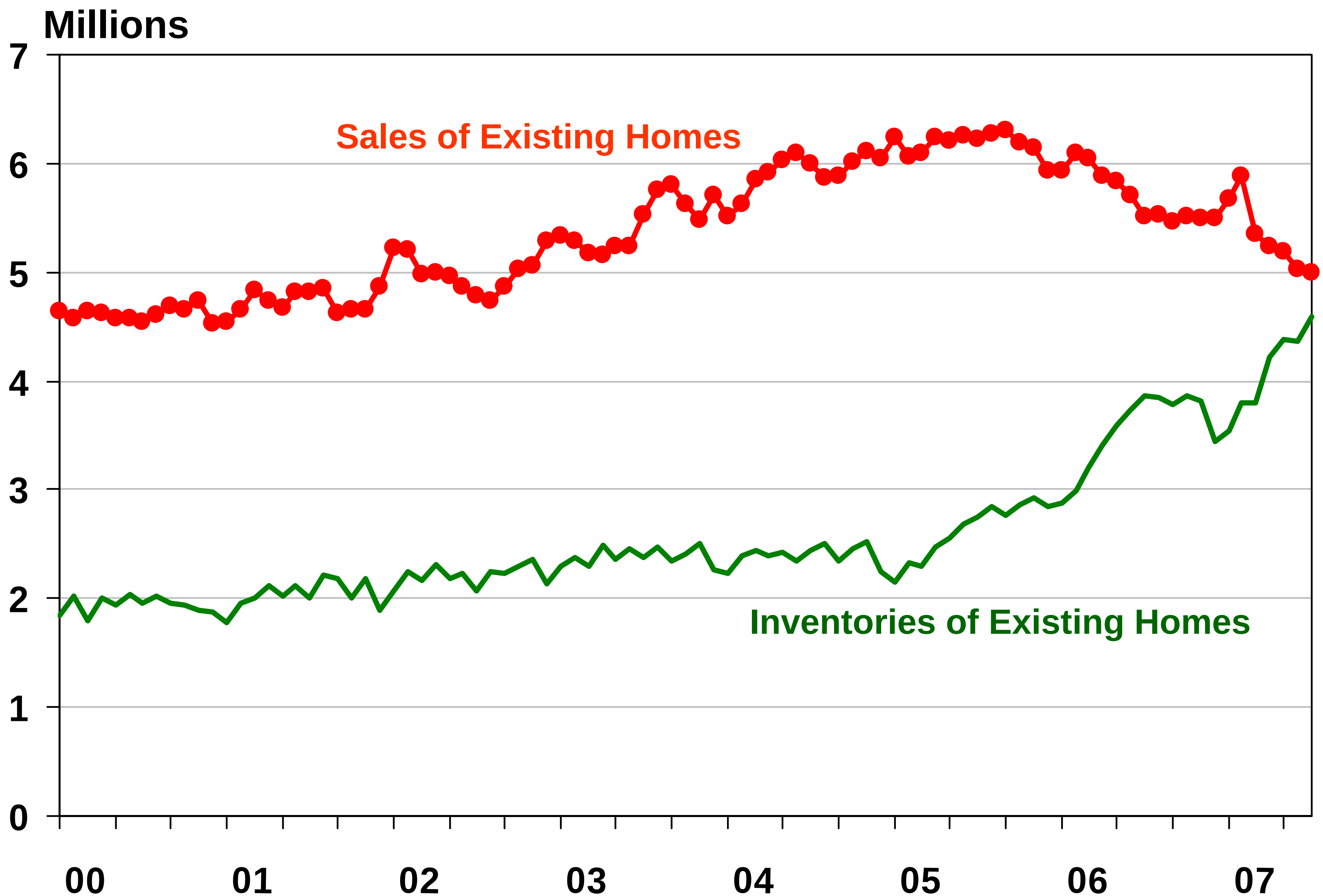
The U.S. Economy… Not Out of Trouble Yet
(Real GDP Growth, Annualized Percent Change)



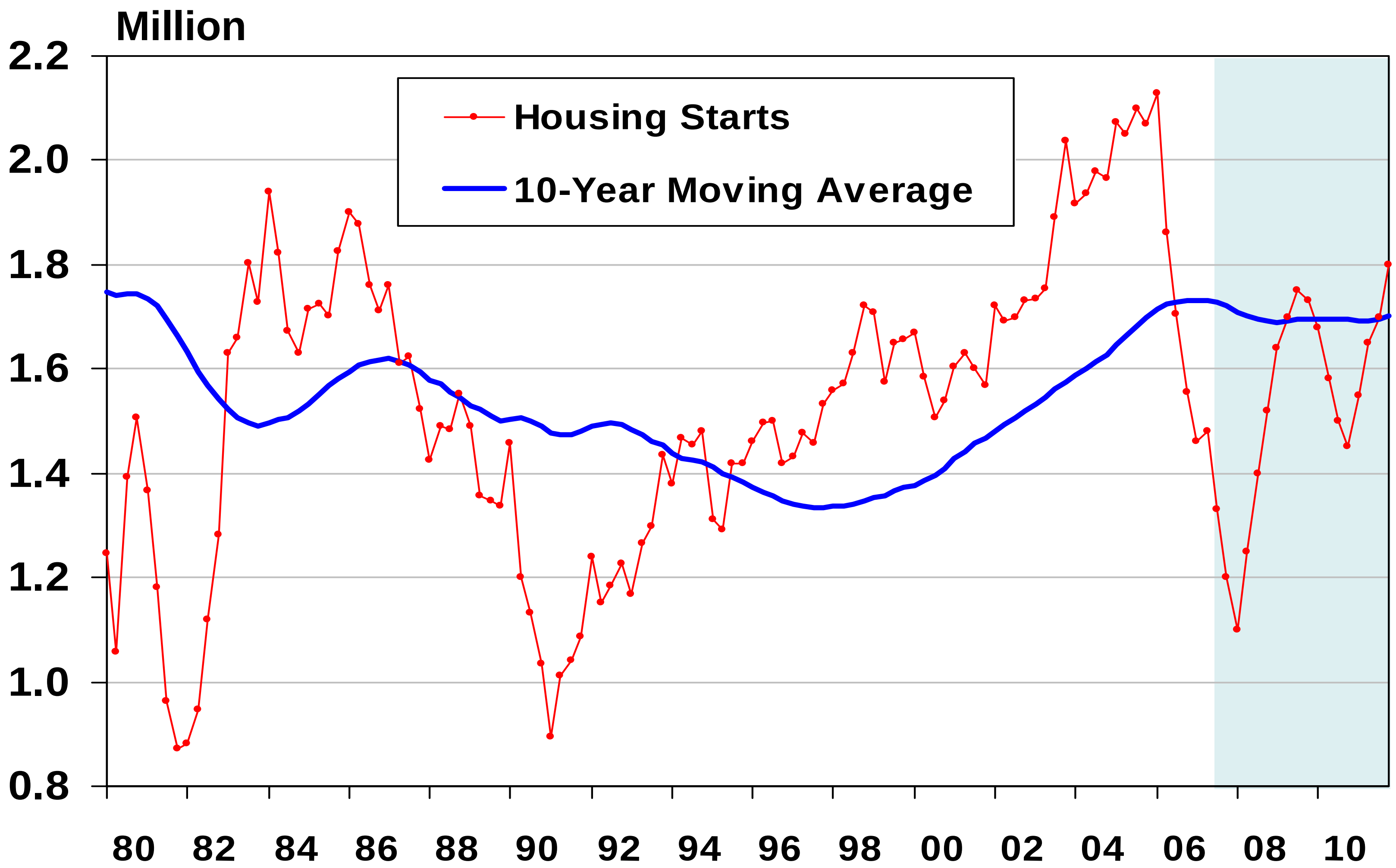
What Keeps Us Awake at Night?

- U.S. Housing slump could trigger consumer-led recession
  - Households are deeply indebted
- Energy prices have consistently defied optimistic forecasts
- Fixing global imbalances may require much weaker dollar
  - Against which currencies will it rise?
- Chinese hard landing?
  - Can consumption replace investment as key growth driver?

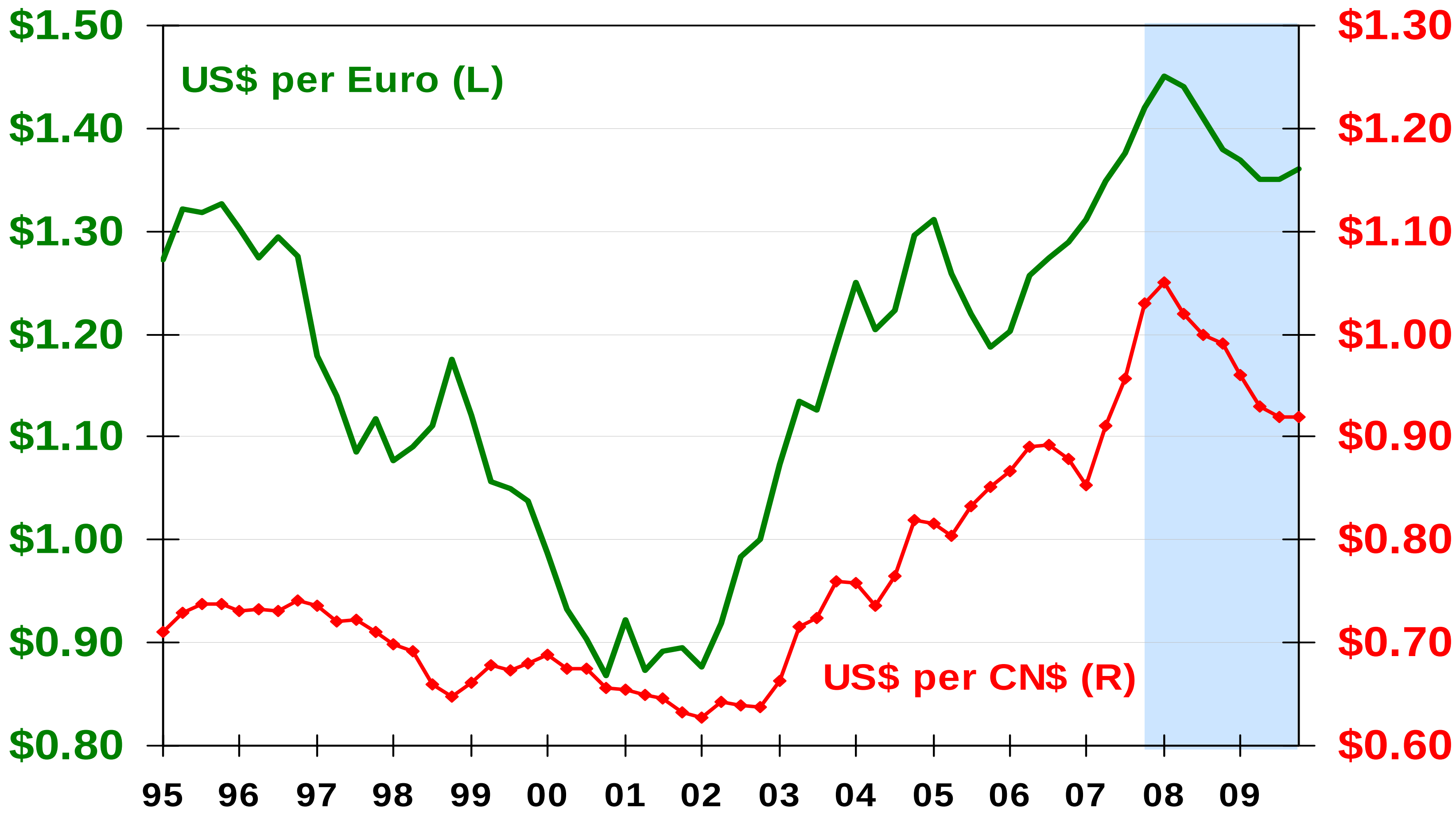
U.S. Real Estate Now a Buyer's Market



U.S. Housing Construction to Bottom in Early 2008



Euro and Canadian Dollar Will Remain Strong Against Key Paper Supply Regions, Limiting Supply from Those Regions in 2008



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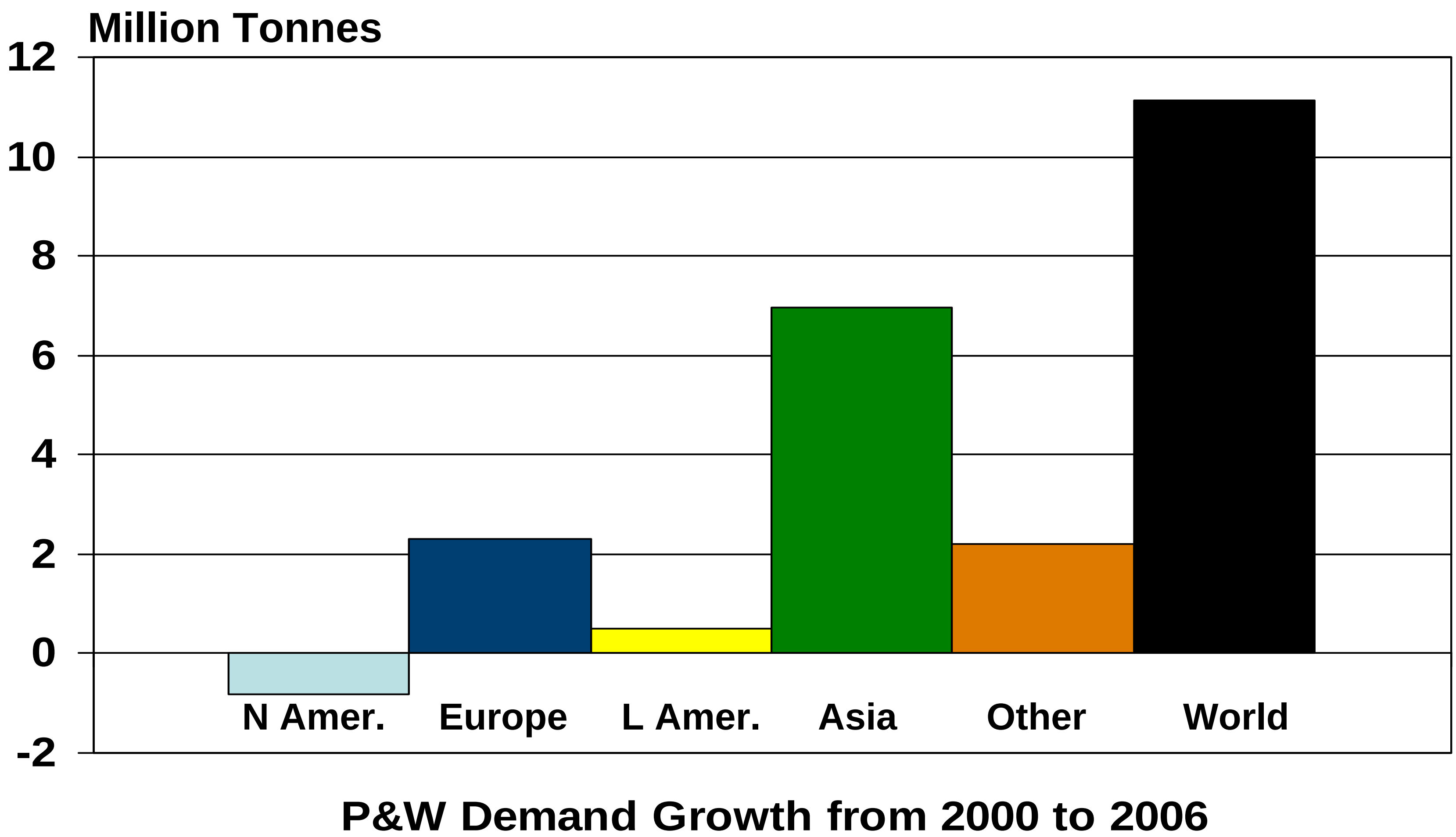
World Demand Growth from 2000 to 2006 Shows Decreasing Importance of North America



World P&W Demand by Grade

Million Tonnes, % Change

	2006	2007	2008	2009
Ctd. Woodfree	30.0	30.2	31.4	32.9
%ch	5%	1%	4%	5%
Ctd. Mechanical	17.6	17.9	18.5	19.1
%ch	3%	2%	3%	3%
Unc. Woodfree	53.0	53.5	54.6	55.9
%ch	3%	1%	2%	2%
Unc. Mechanical	14.6	14.8	15.3	15.9
%ch	2%	1%	3%	4%
Total	115.2	116.5	119.8	123.8
%ch	3%	1%	3%	3%
World GDP %ch	5.3%	5.0%	5.1%	5.2%

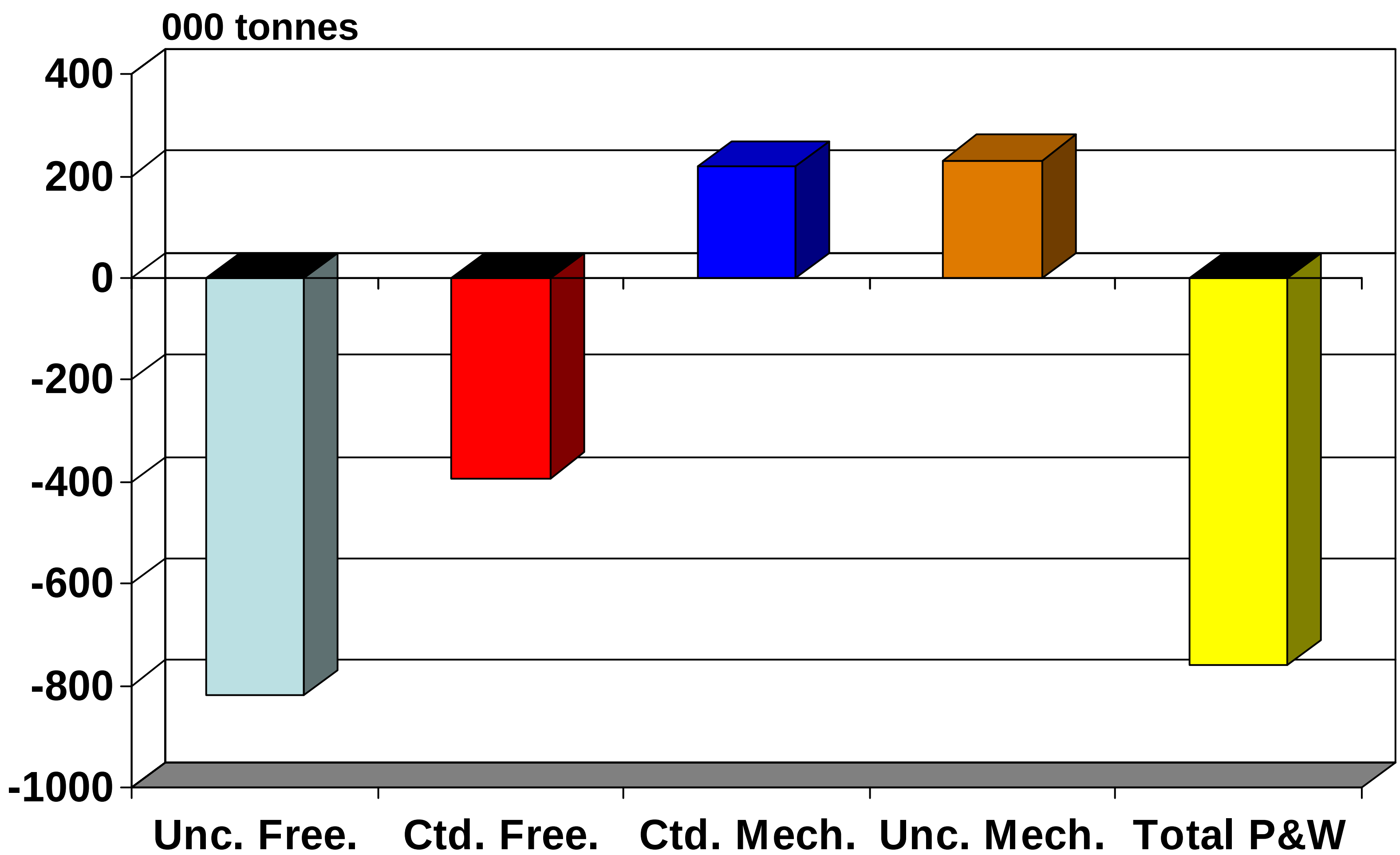
North American P&W Demand by Grade

Million Tonnes, % Change

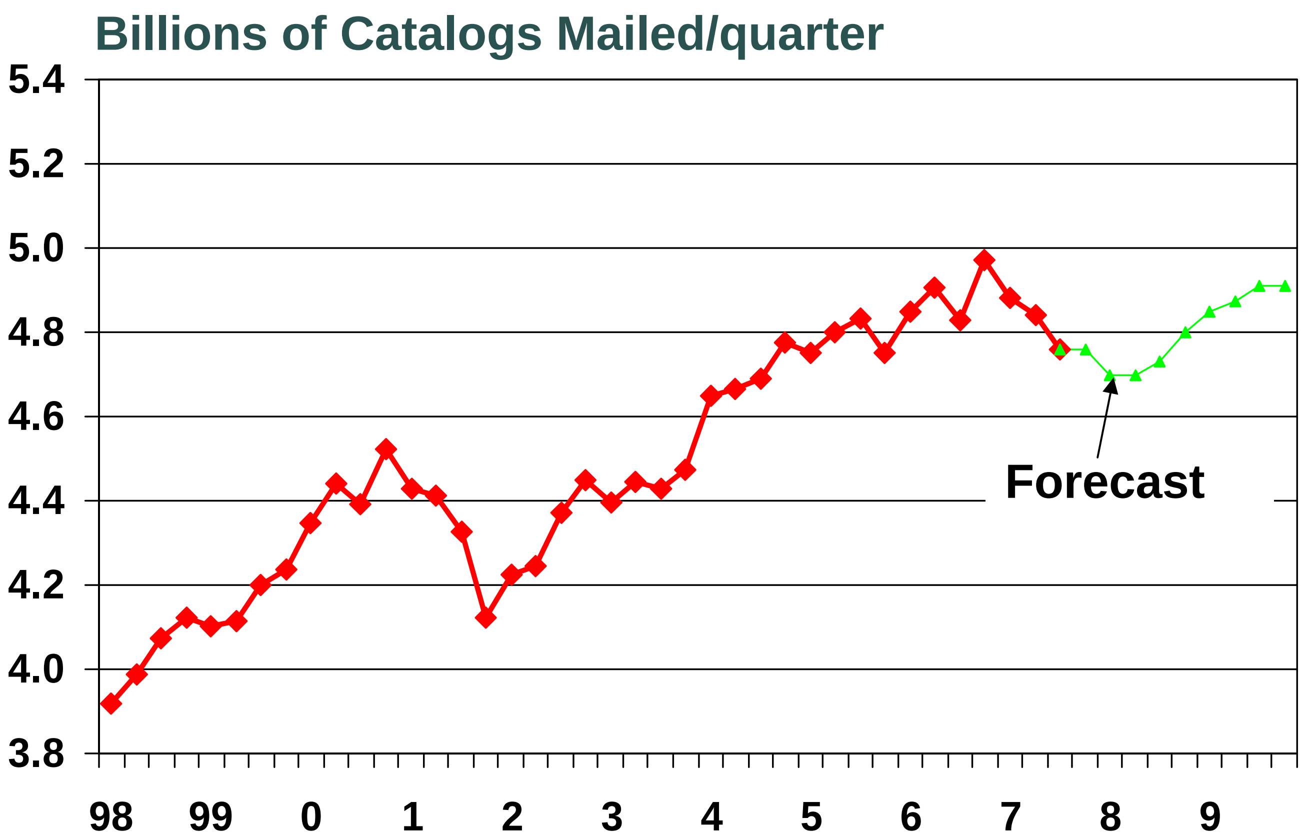
	2006	2007	2008	2009
Ctd. Woodfree *	6.6	6.0	6.0	6.2
%ch	8%	-10%	1%	3%
Ctd. Mechanical	5.9	6.0	6.0	6.1
%ch	1%	3%	0%	1%
Unc. Woodfree *	13.0	12.3	12.1	12.1
%ch	0%	-5%	-1%	0%
Unc. Mechanical	6.1	6.1	6.1	6.4
%ch	-1%	0%	0%	3%
Total	31.6	30.4	30.4	30.8
%ch	2%	-4%	0%	1%
US GDP %ch	2.9%	2.1%	2.3%	3.7%

*Includes bristols and cotton

Change in North American P&W Demand by Grade for Three Years During 2007 to 2009

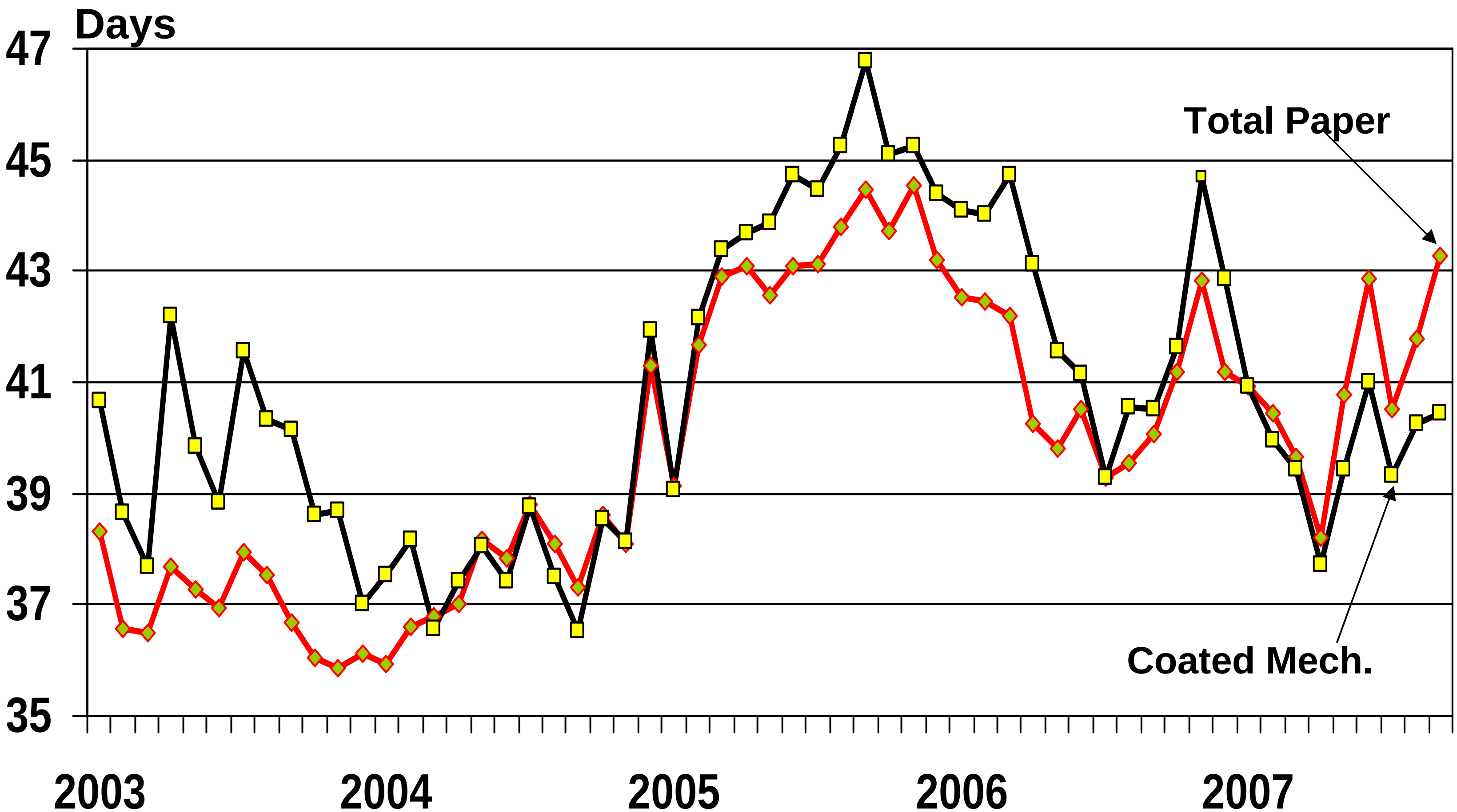


U.S. Catalog Circulation Declining Due to Cost of Paper & Postage…and We Have Yet to See the Full Impact…More Reductions in Store for 2008



Data: RISI estimates based on mail volume data and USPS Household Survey

Printer Inventories of Paper
(Days of Supply, seasonally adjusted)

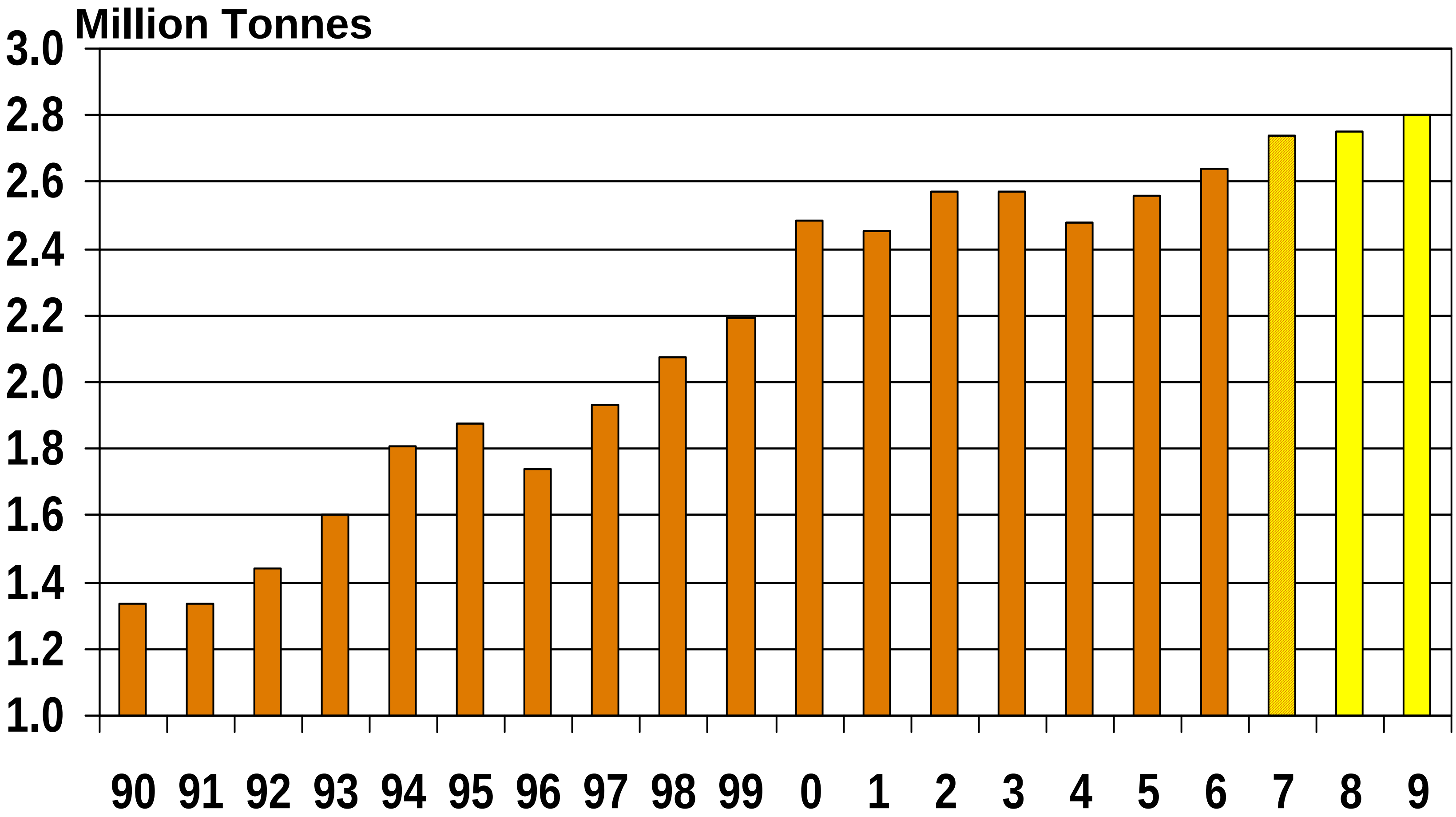


Data Source: Calculated by RISI from IDEAlliance data

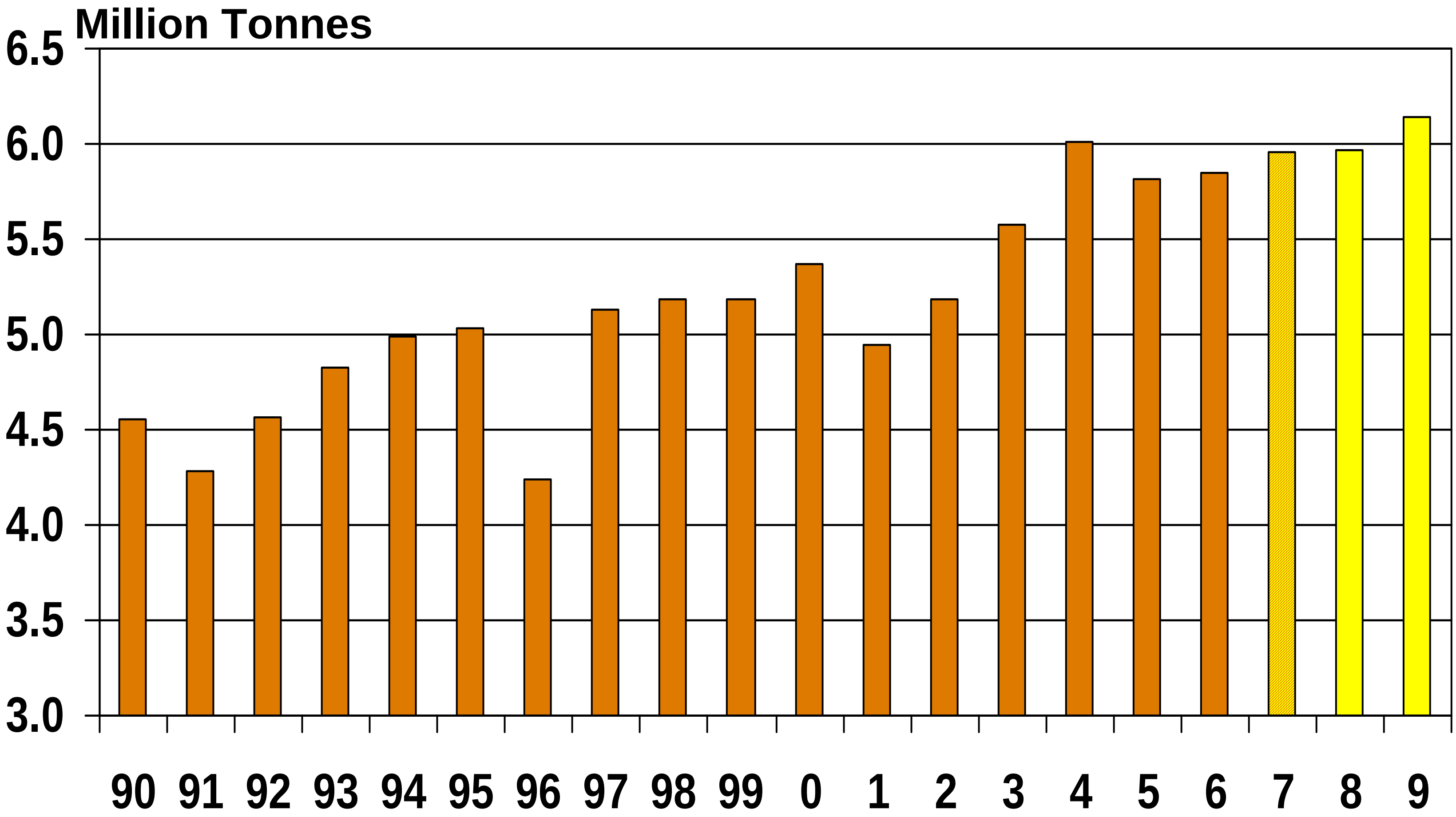
North American Demand for LWC, SC, and CFS

- LWC Demand Growing Modestly in 2007
  - But Could be Hurt in 2008 by Postal Costs, Higher Costs for Paper, Switch to SC, and Ongoing Loss to the Internet
- SC Showing Stronger Performance in 2007 and Will Also Outperform LWC in 2008
  - Preference for Cheaper Alternative to LWC Due to Rising Costs and Lack of Availability of LWC
- CFS Suffering from Supply Cuts (St. Francisville, Asian Imports) and Dubious Rise of Coated Mechanical Sheets from Asia

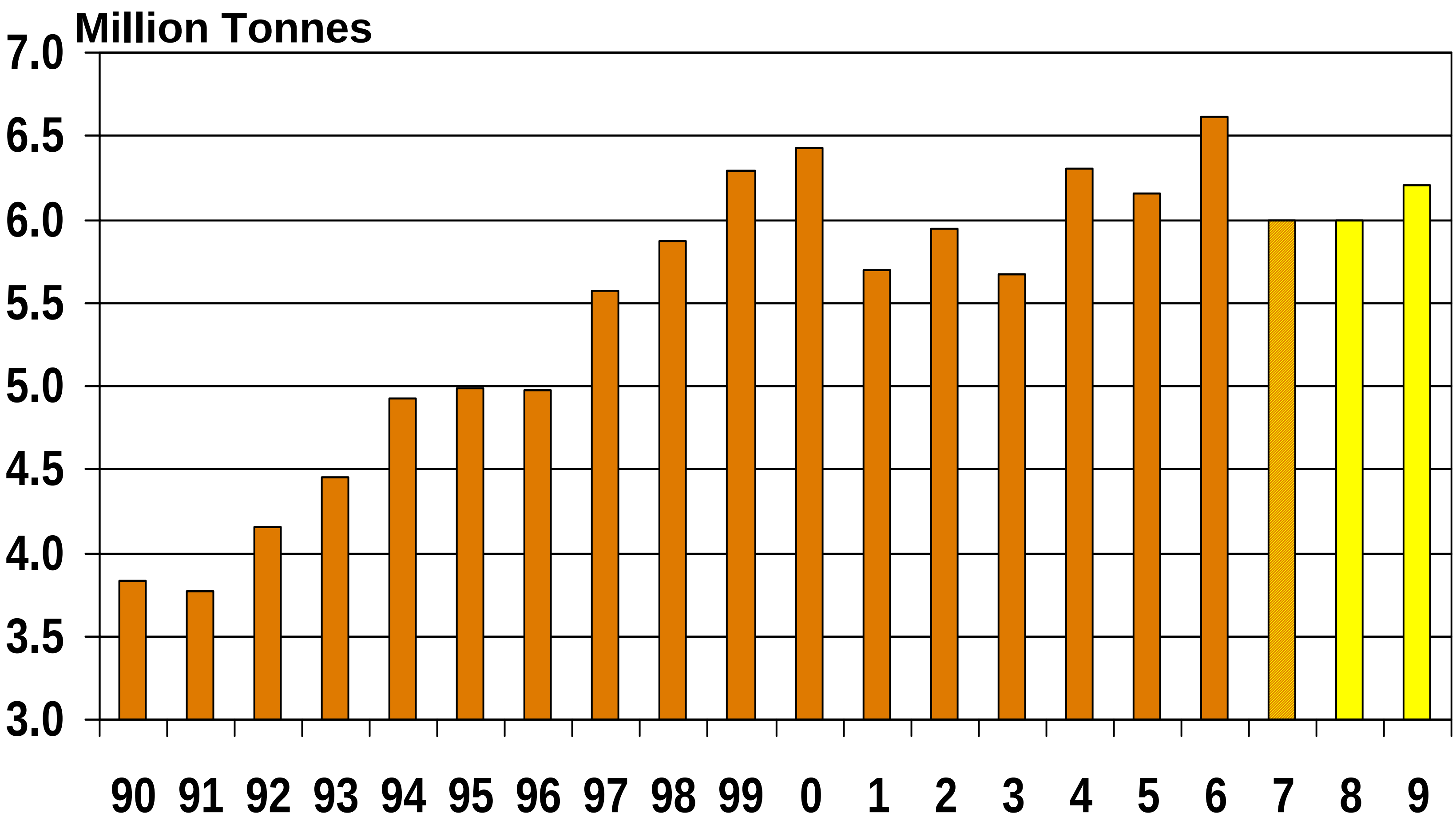
North American Demand for SC (High Gloss) Uncoated Mechanical



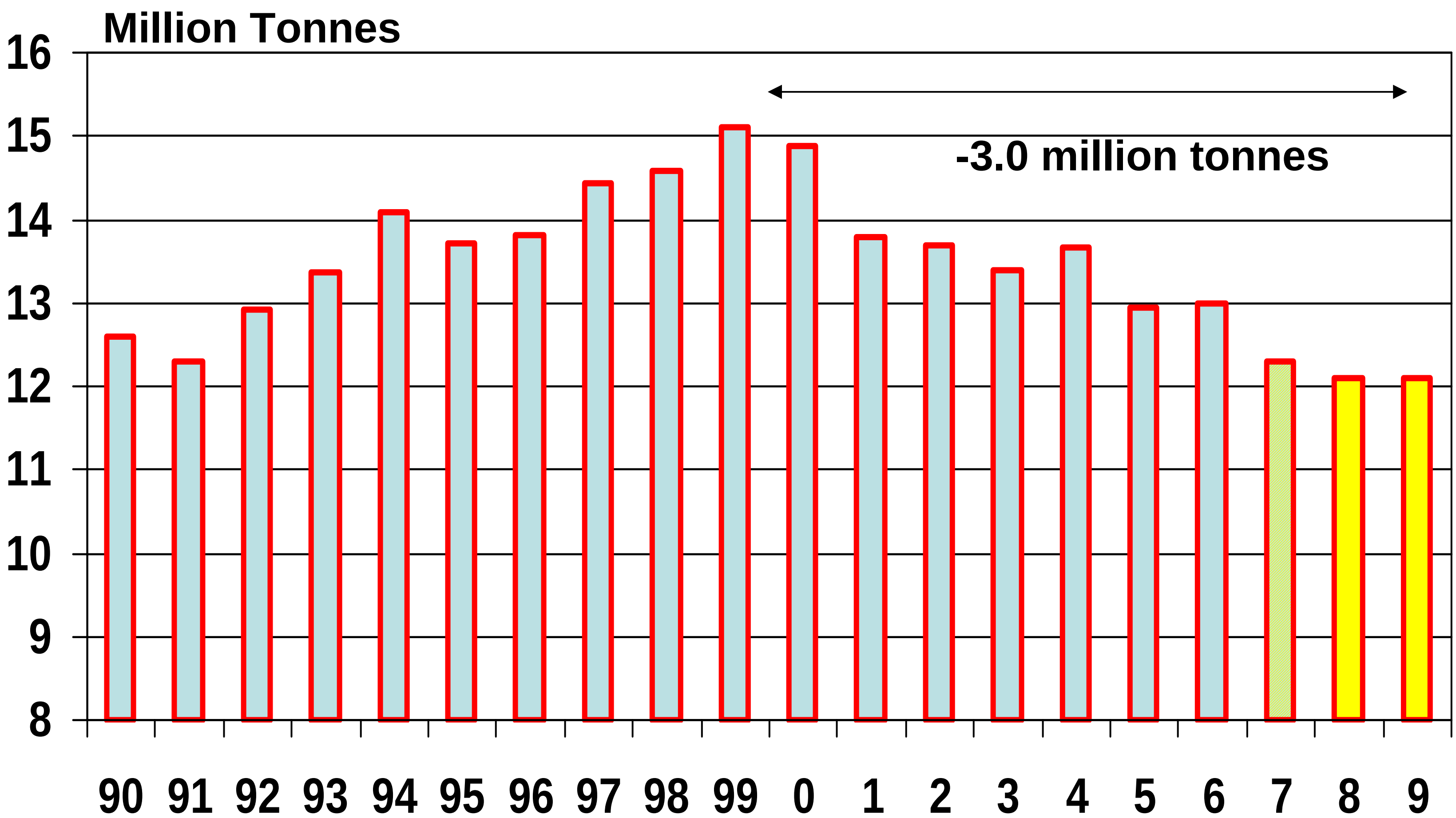
North American Demand for Coated Mechanical



North American Demand for Coated Freesheet



North American Demand for Uncoated Woodfree Is Declining



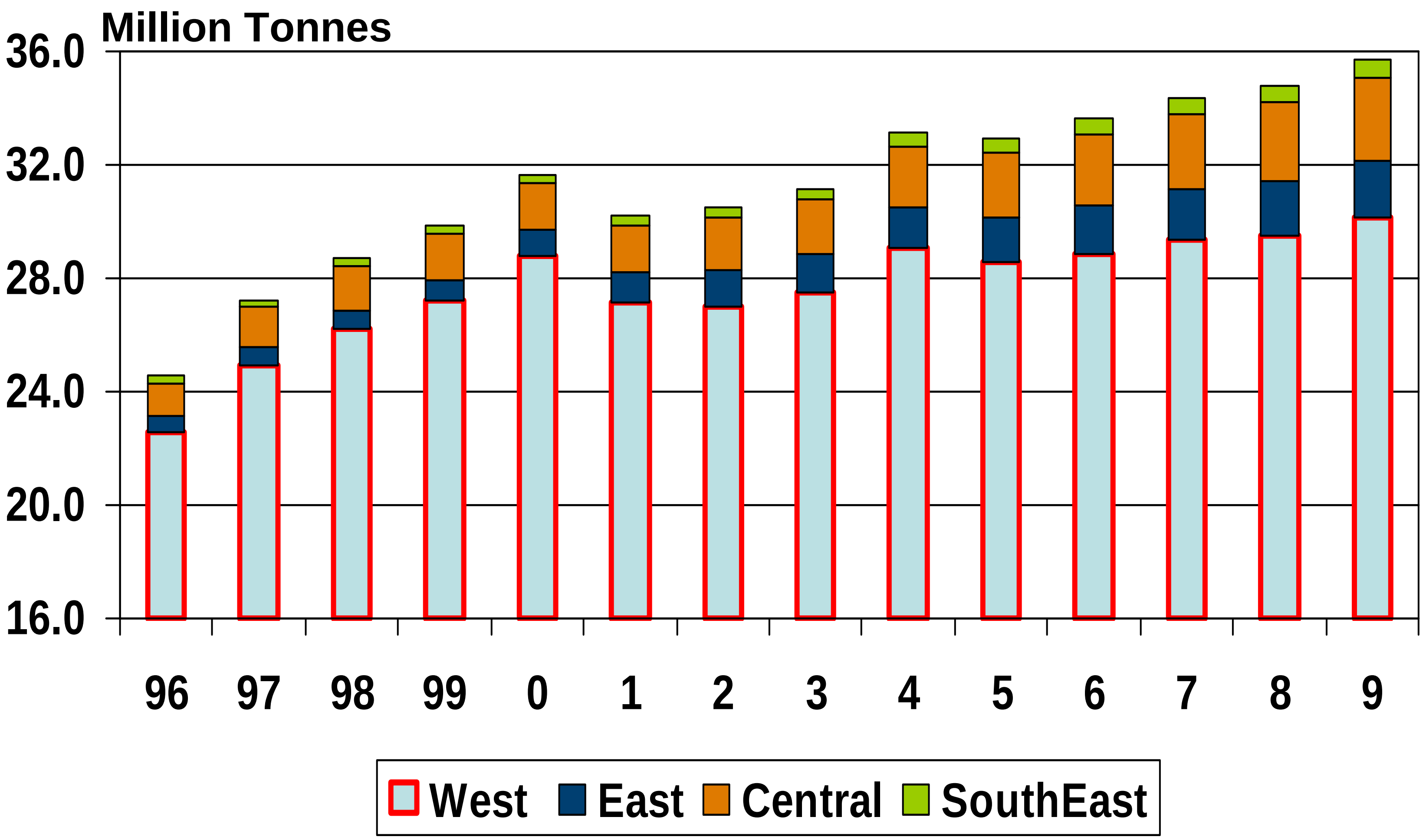
European P&W Demand by Grade

Million Tonnes, % Change

	2006	2007	2008	2009
Ctd. Woodfree	9.0	9.2	9.4	9.6
%ch	2%	2%	2%	3%
Ctd. Mechanical	7.6	7.9	8.0	8.2
%ch	1%	3%	1%	3%
Unc. Woodfree	11.4	11.6	11.7	11.9
%ch	1%	2%	0%	2%
Unc. Mechanical	5.6	5.7	5.8	6.0
%ch	5%	2%	1%	3%
Total	33.6	34.4	34.8	35.7
%ch	2%	2%	1%	3%
Euro Area GDP %ch	2.9%	2.5%	1.9%	2.8%
CESE %ch	7.0%	5.9%	5.7%	6.0%

Includes western, central, south eastern and eastern (CESE) Europe

European Demand for Printing and Writing Paper Supported by Growth in the East

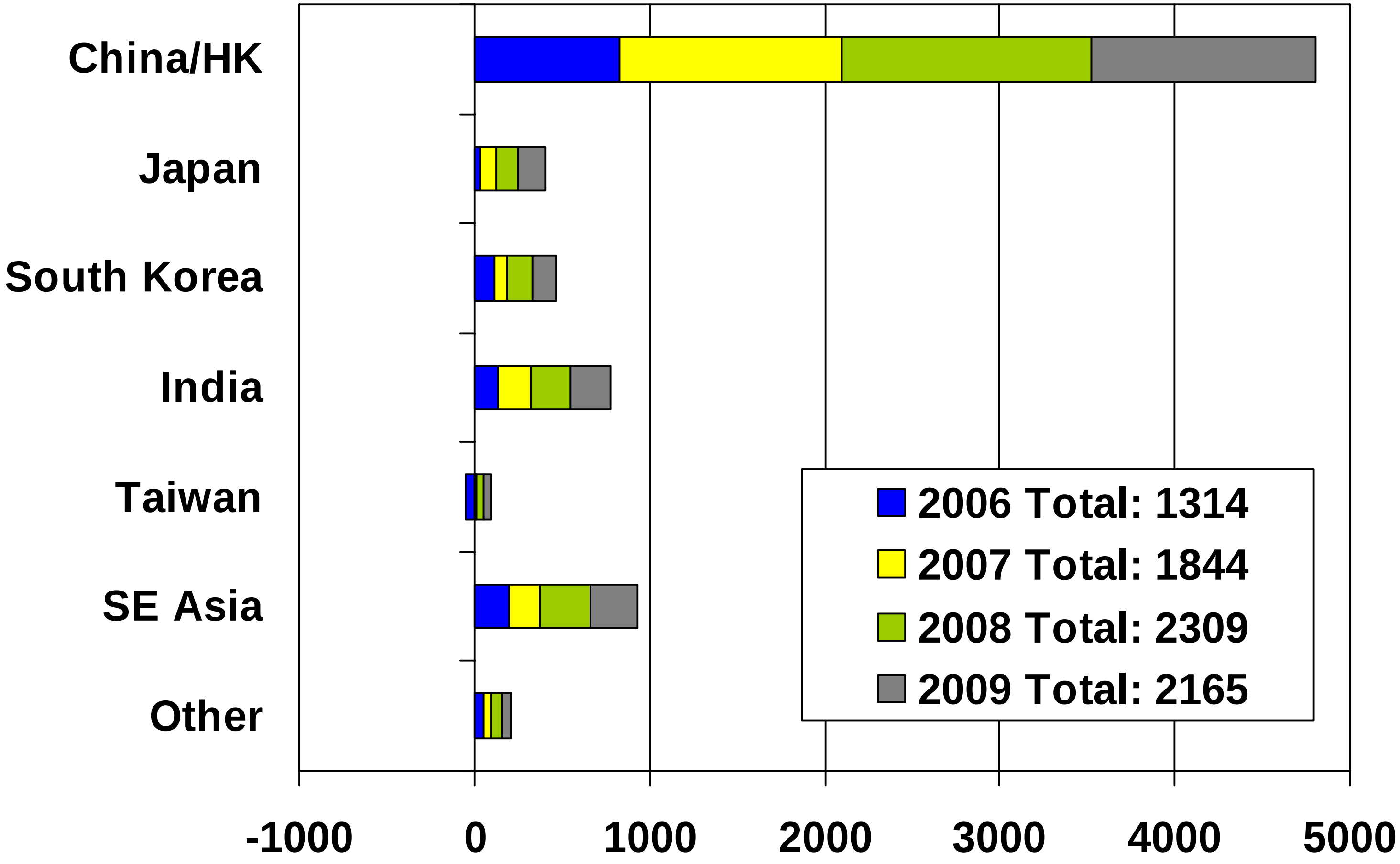


Asian P&W Demand by Grade

Million Tonnes, % Change

	2006	2007	2008	2009
Ctd. Woodfree	11.3	11.9	12.8	13.8
%ch	4%	5%	8%	8%
Ctd. Mechanical	2.8	3.0	3.3	3.5
%ch	7%	6%	10%	6%
Unc. Woodfree	21.6	22.5	23.4	24.3
%ch	4%	4%	4%	4%
Unc. Mechanical	1.7	1.7	1.9	2.1
%ch	-8%	1%	12%	11%
Total	37.5	39.1	41.5	43.7
%ch	4%	4%	6%	5%
GDP %ch	7.7%	7.3%	7.5%	7.0%

Asian P&W Paper Demand Growth by Country, 2006-2009 (Thousand Tonnes)



Supply Issues

- Mergers Yield Fewer Options for Buyers
- Capacity Declining Rapidly in North America and Europe
- European Mills Shun North American Market Due to Euro
- Asian Supply Impacted by Tariffs

Mergers Lead to Dominant Player in Each Sector

2007 North American Market Share of The Top Producer of Graphic Paper by Segment (Based on Capacity)		
Pre-Merger/Acquisition		
Newsprint	Abitibi	27.8%
Uncoated mechanical	Abitibi	27.3%
Uncoated freesheet	International Paper	25.6%
Coated mechanical	Verso	17.6%
Coated freesheet	SAPPI	22.0%
Post-Merger/Acquisition		
Newsprint	AbitibiBowater	46.5%
Uncoated mechanical	AbitibiBowater	41.0%
Uncoated freesheet	Domtar/Weyco	32.4%
Coated mechanical	NewPage/SENA	31.4%
Coated freesheet	NewPage/SENA	41.1%

N.A. Paper Mill/Machine Closures (000 Tonnes)

			CFS	CGW	UFS
2006	**Cascades**	**Thunder Bay**	**28**	**135**	
		St. Jerome			**9**
	Domtar	**Ottawa**	**27**		**31**
		Cornwall	**114**		**124**
		New West.	**120**		
	Glatfelter	**Neenah**			**112**
	Weyco	**Prince Alb.**			**250**
	Domtar	**Dryden**			**140**
	Bowater	**Benton Harbor**		**77**	
2006	**Totals**		**289**	**212**	**666**

N.A. Paper Mill/Machine Closures (000 Tonnes)

			CFS	CGW	UFS
2007	IP	Pensacola			318
	NewPage	Luke	90		
	GP	Wauna			100
	Boise	Wallula			220
	UPM	Miramachi		450	
	Tembec	St. Francisville	280		
	Domtar	Gatineau	90		23
	Dirigo	Gilman, Vt			64
	Fraser	Madawaska		82	64
	Domtar	Port Edwards			31
	Domtar	Baileyville			113
	Domtar	Dryden			285
2007	Totals		460	532	1,218

N.A. Paper Mill/Machine Closures (000 Tonnes)

			CFS	CGW	UFS
2008	IP	Bastrop			227
	Wausau	Groveton			95
	More to come?				
2008	Totals				322

Mill Restarts: Newton Falls Fine Paper, September, 2007, approximately 70,000 tonnes of 45-103 lb. matte coated freesheet for books

N.A. Paper Mill/ Temporary SC Closures That May Become Permanent(000 Tonnes)

			SC		
2007	Kruger	Three Rivers	150		
	Kruger	Wayagamack	65		
	Totals		215		

European Paper Mill/Machine Closures (Tonnes)

			CFS	CGW	SC
2006	Burgo	Marzabotto		70,000	
	UPM	Voikka		400,000	
		Kymi	150,000		
	Stora Enso	Corbeham		250,000	
		Varkaus	100,000		
	Scheufelen	Scheufelen	15,000		
	Klippan	Molndal	45,000		
2007	UPM	Jamsankoski		110,000	
	M-Real	Sittingbourne	210,000		
		Gohrsmuhle	100,000		
	Myllykoski	Dachau		230,000	
	Stora Enso	Reizholz			215,000
	Totals		**620,000**	**1,060,000**	**215,000**

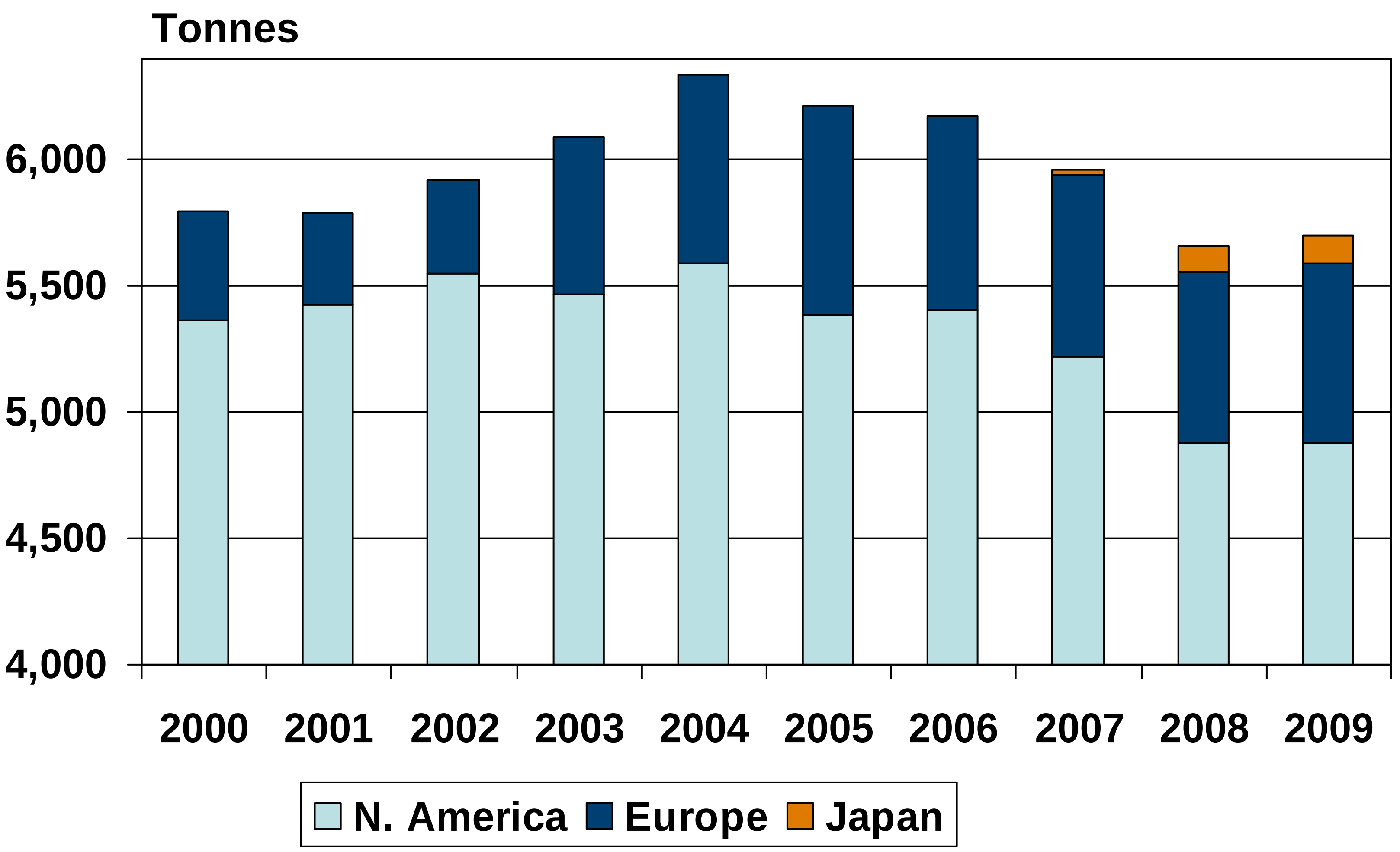
European Paper Mill/Machine Closures (Tonnes)

			CFS	CGW	SC
2008	Stora Enso	Summa/Anjala			80
	M-Real	Kangas		100	
	Stora Enso	Anjala		155	
	Totals			**255**	**80**

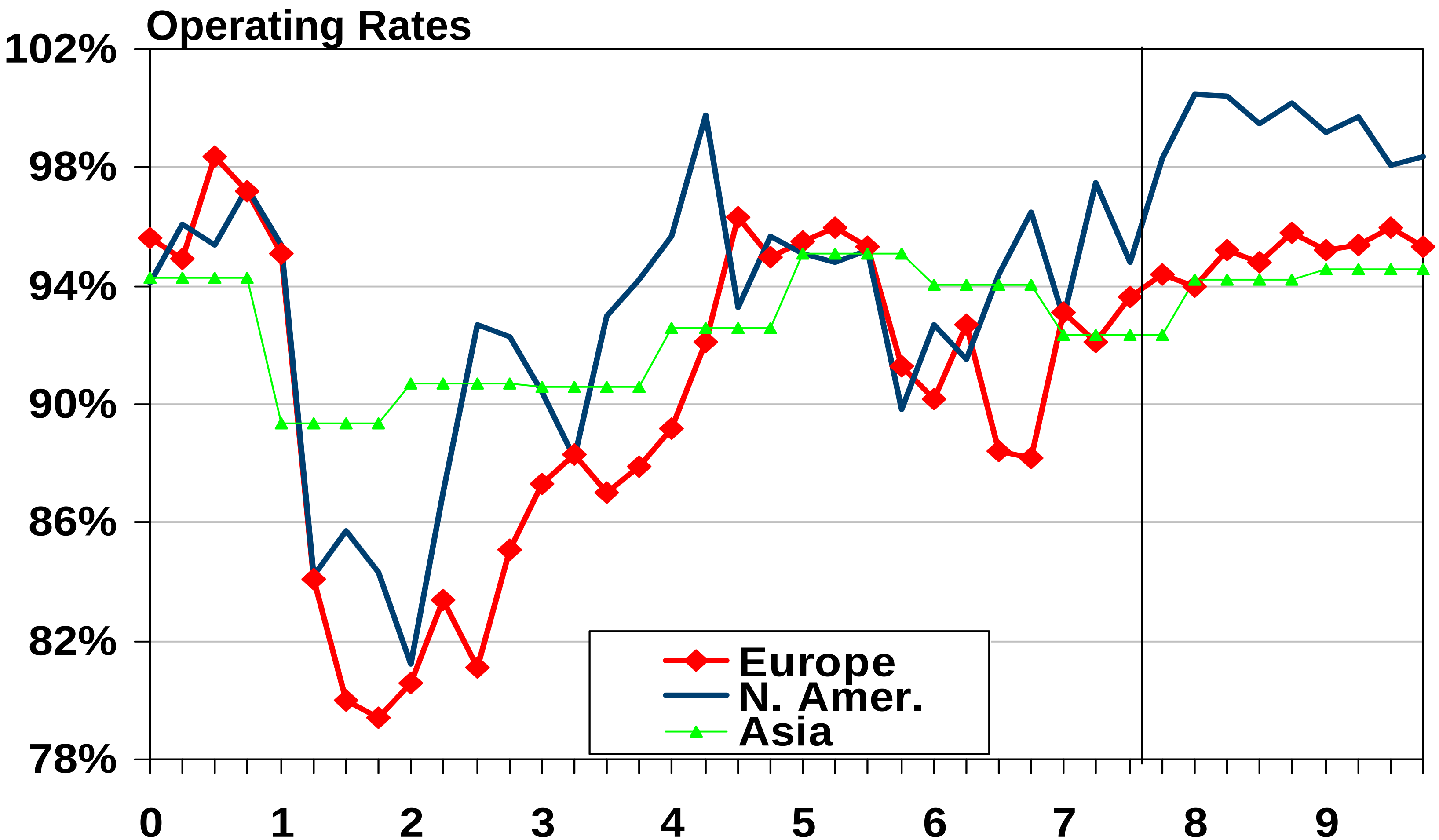
European Paper Mill/Machine Closures (Tonnes)

			UFS
2006	SAPPI	Nash	35,000
	Cran	Cran-Gervrier	35,000
	Paperalia	Legorreta	90,000
	IP	Maresquel	70,000
2007	M-Real	Wifsta	175,000
	Stora Enso	Berghuizer	235,000
	Totals		**640,000**

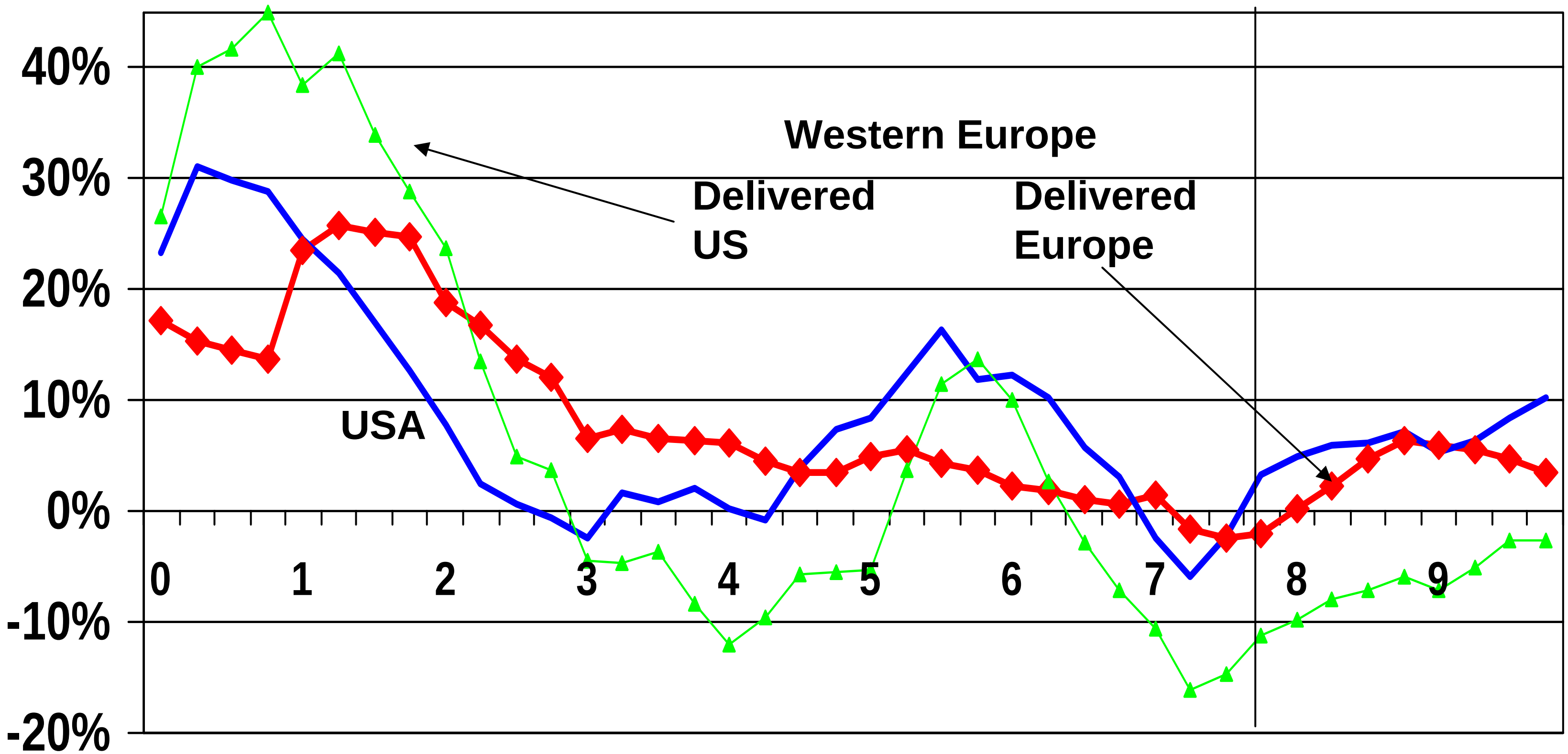
Lightweight Coated Mechanical Supply to North American Market Nosedives in 2008



Ctd. Mechanical Markets Possibly Supply-Constrained in 2008



Average Profitability for Coated Mechanical Paper Producers in Europe and USA

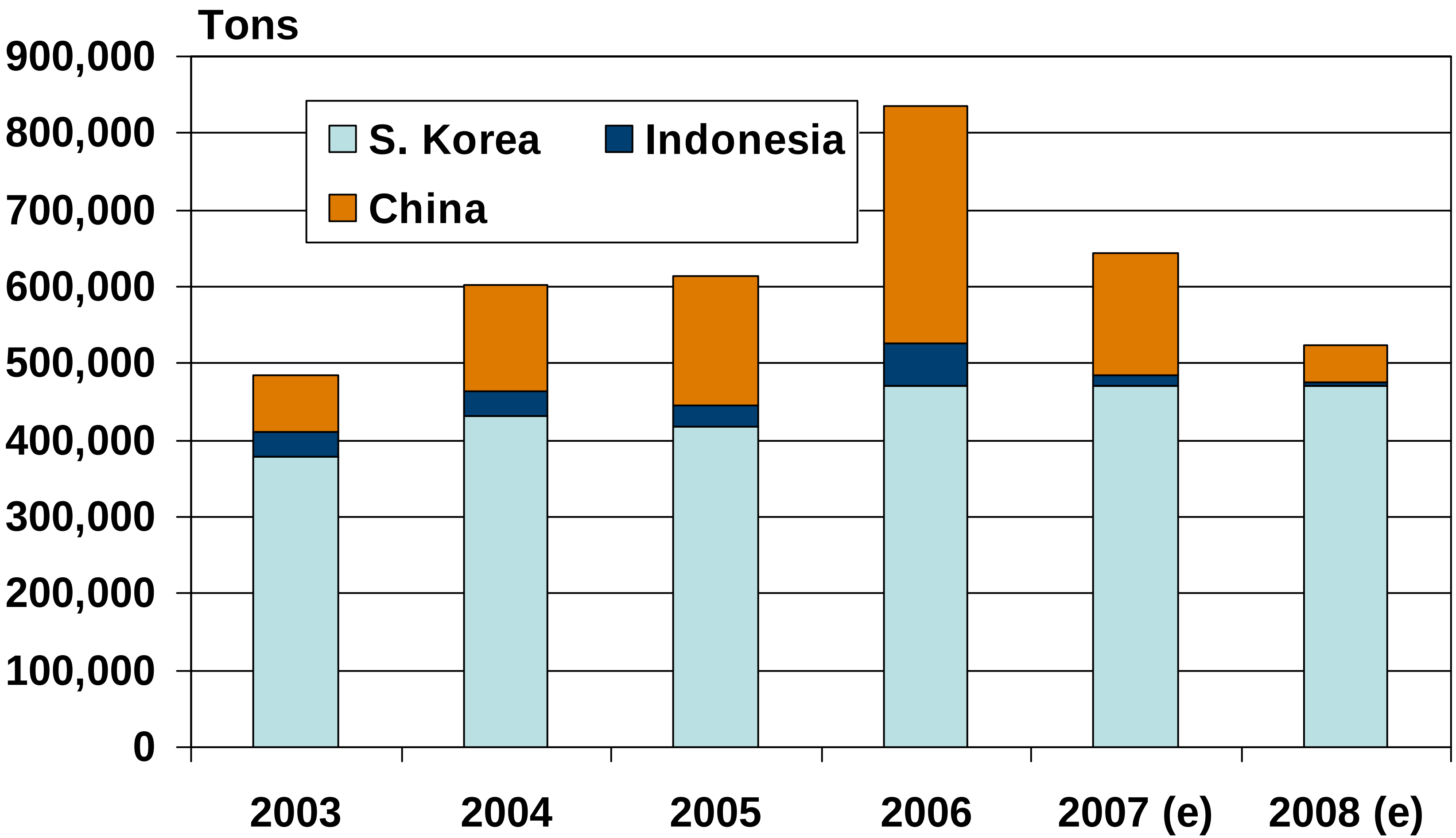


Profitability defined as (price-cost)/cost. Costs are total costs including depreciation, interest, SG&A, and delivery. Assumes $50 extra delivery cost to US for European Producers Compared to Home Market Delivery

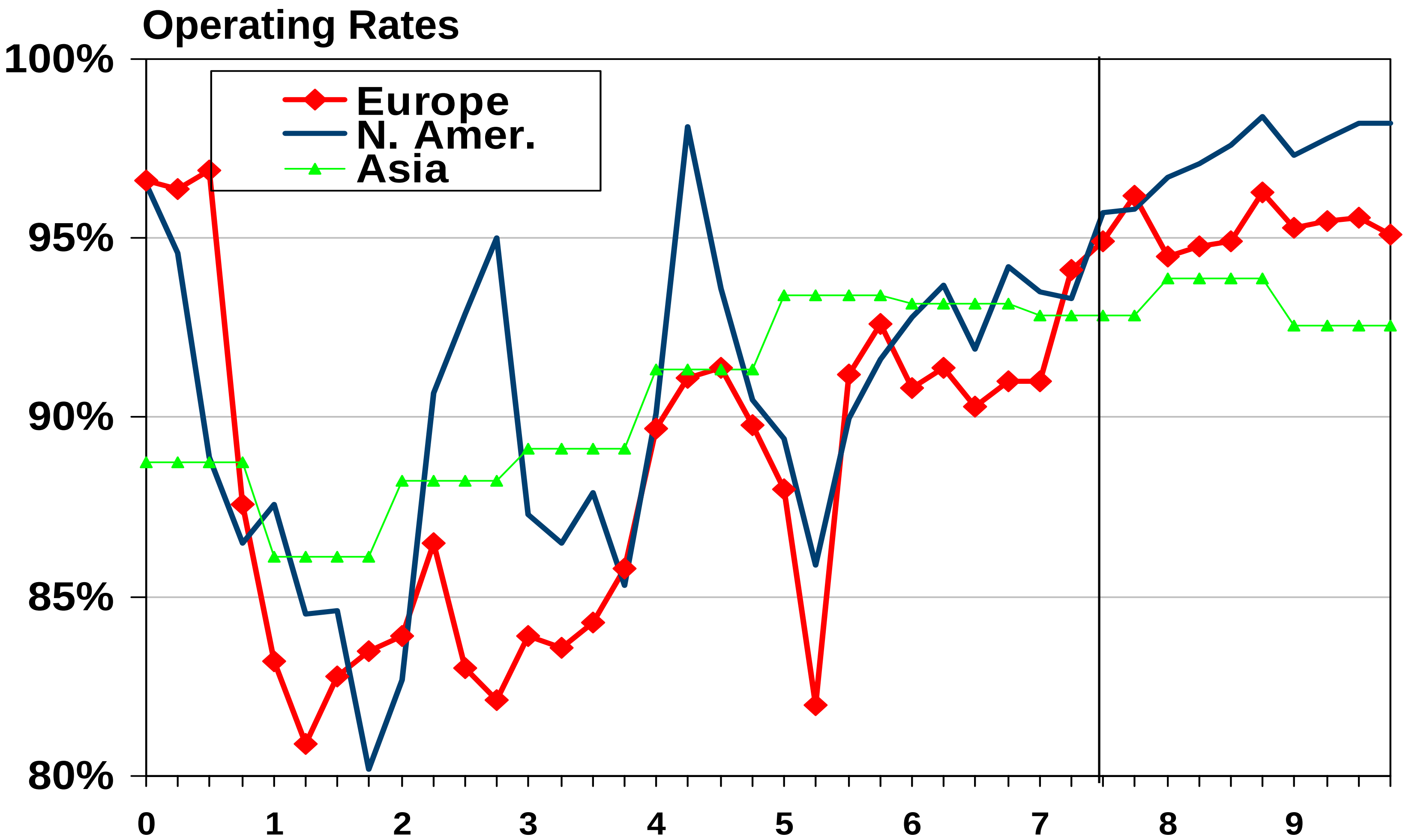
Impact of CVD/ADD on Asian Coated Freesheet Exports to the US

	Preliminary CVD	Preliminary ADD	Preliminary Total	CFS Capacity tonnes	Rough Estimate of Tonnes Subject to Duty Based on 2006 Shipments
Indonesia					
APP (Includes Tjiwi Kimia, Pindo Deli and Indah Kiat)	21.24%	10.85%	32.09%	660,000	50,000
Korea					430,000
En Paper (Shinho)	0.00%	12.31%	12.31%	360,000	80,000
Hankuk	1.76%	0.00%	1.76%	220,000	75,000
Hansol	0.00%	0.00%	0.00%	600,000	120,000
Kyesung	0.00%	30.86%	30.86%	280,000	75,000
Moorim	0.00%	0.00%	0.00%	505,000	80,000
All Others	1.76%	18.45%	20.21%	200,000	-
China					265,000
APP (Gold East, Gold Hua)	20.35%	23.19%	43.54%	2,020,000	130,000
Shandong Chenming	10.90%	48.07%	58.97%	295,000	75,000
Yanzhou Tianzhang	18.16%	30.22%	48.38%		
All others	18.16%	99.65%	117.81%	1,925,000	60,000

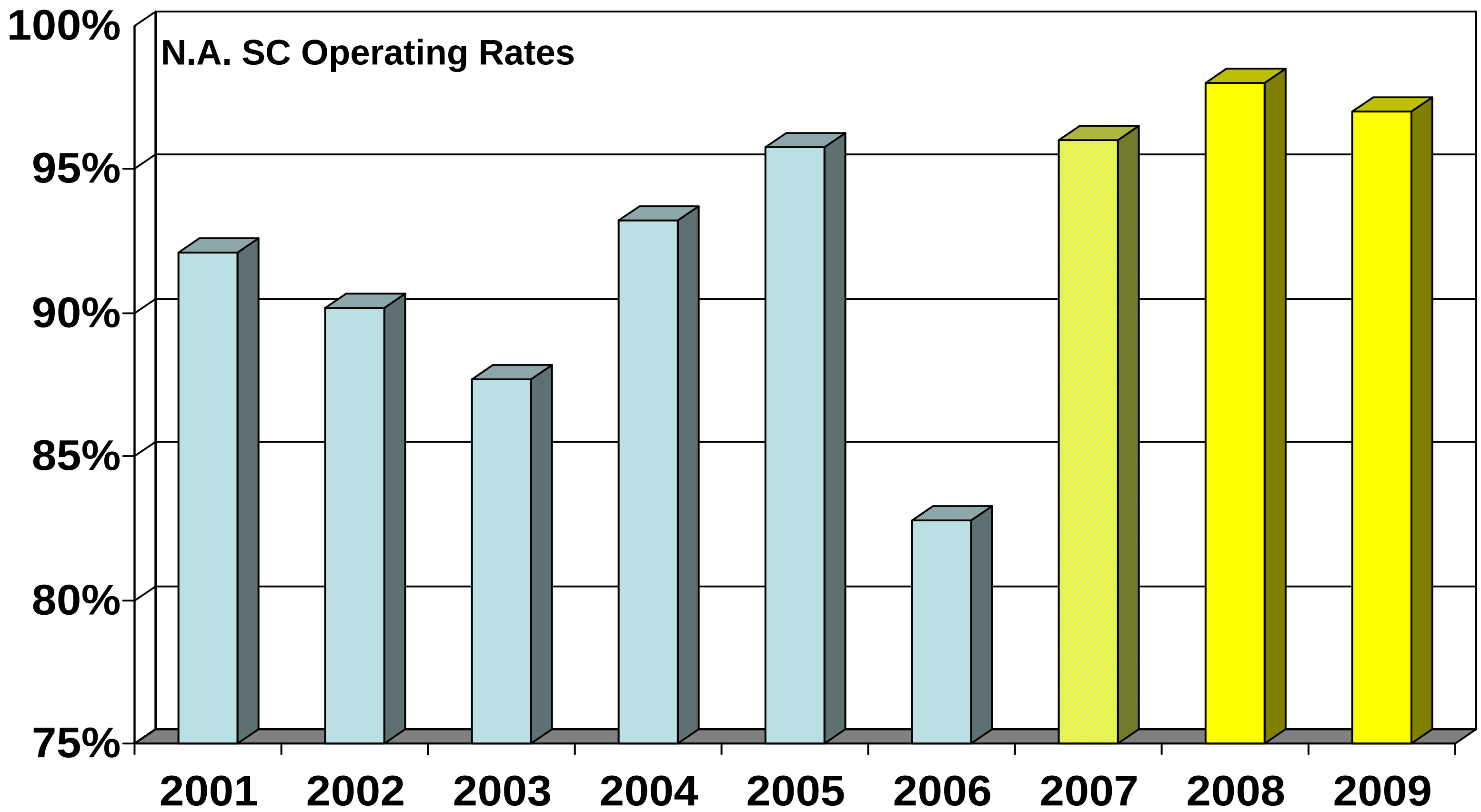
US Imports of Coated Freesheet and Coated Bristol from Countries Affected by CVD/ADD



CWF Operating Rates Finally Move Above 95% in Europe Due to Closures in 2007



North American SC Uncoated Mechanical Operating Rates Push the Limits in 08/09 Due to Closures, Limited Supply From Europe and Spillover Demand From LWC



Note: 2006 Impacted by temporary closure of Port Hawkesbury