



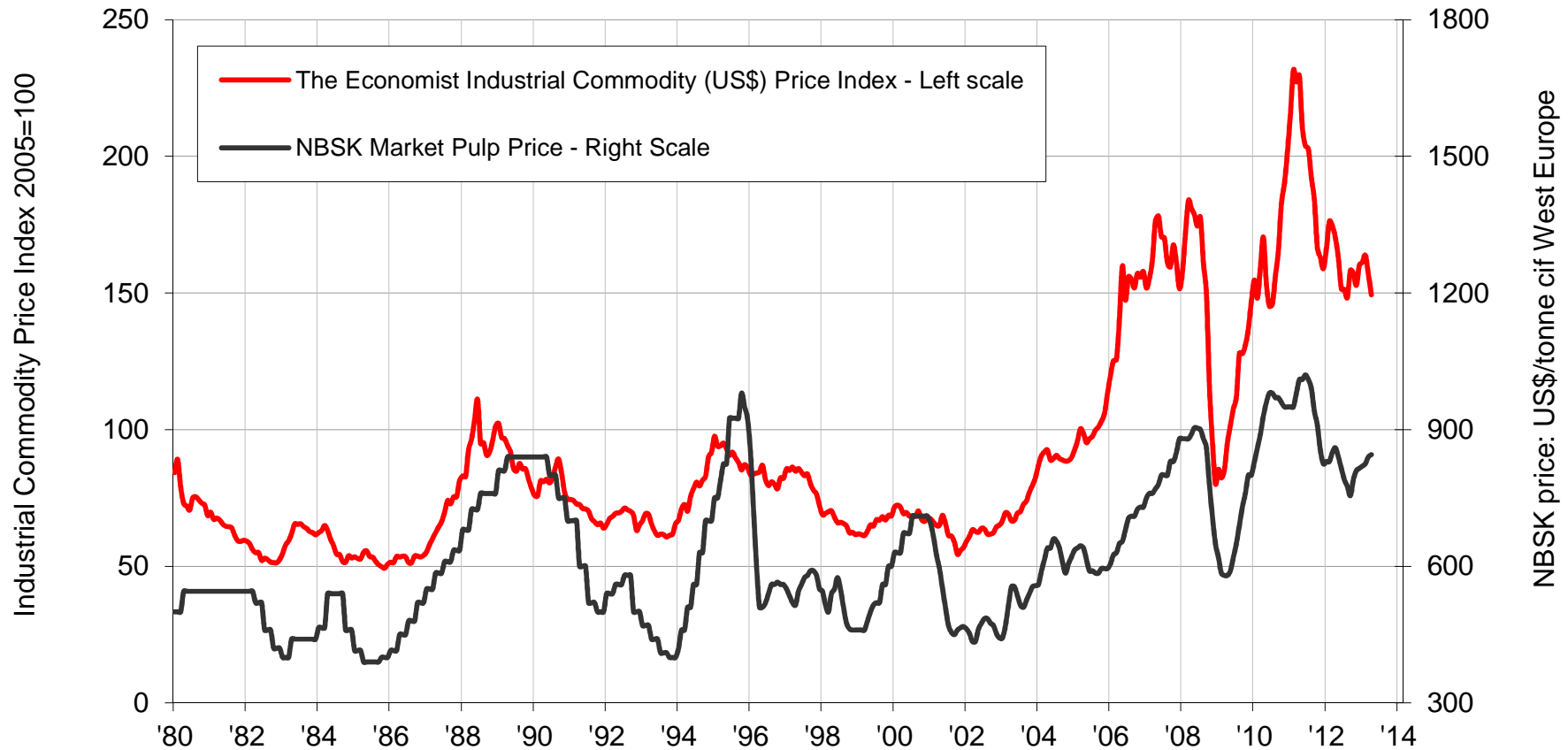
Market pulp outlook

French Association meeting

Divonne-les-Bains, June 2013

HAWKINS WRIGHT

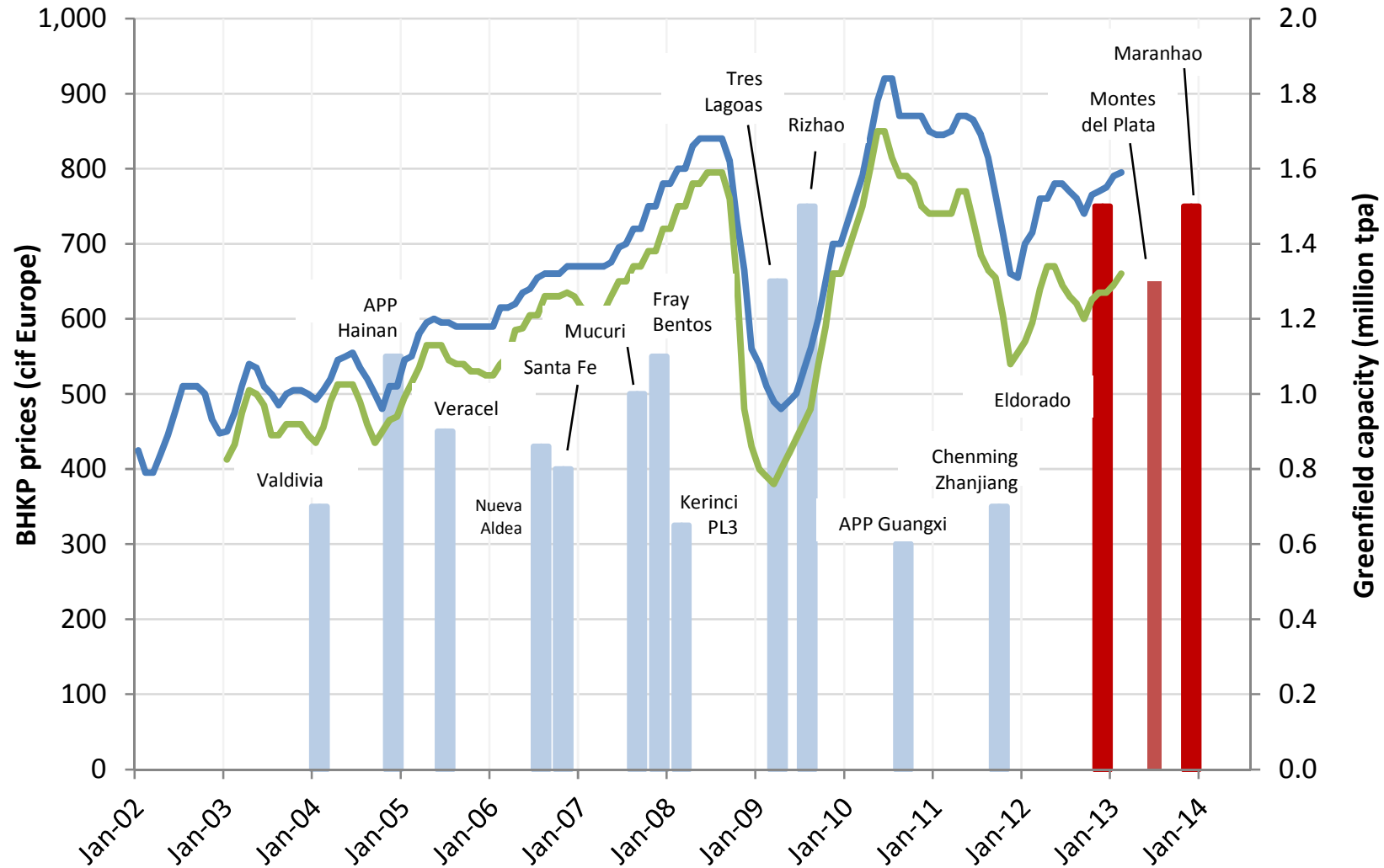
Pulp prices versus other commodities



Source: *The Economist*, Hawkins Wright

Macro forces more dominant than micro

Little correlation between Greenfield start-ups and prices



Closures and conversions to DP



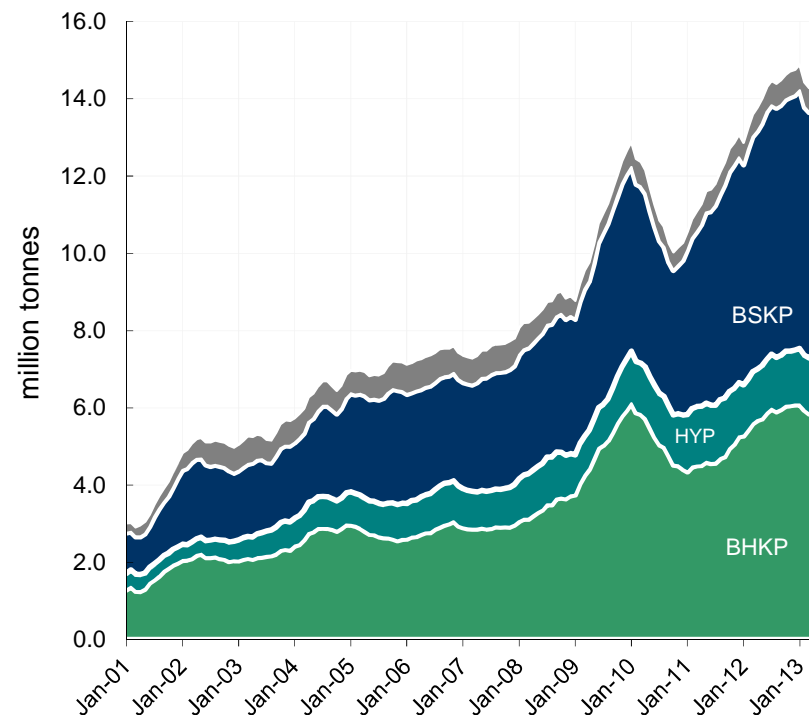
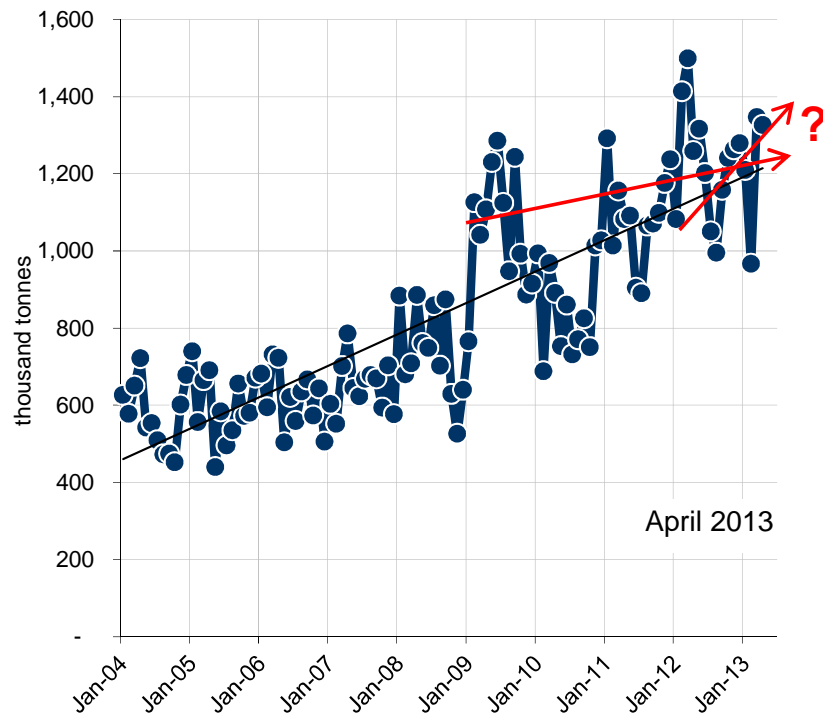
Year	Company	Mill	Country	Impact on mkt pulp	Grade	Date of closure
2013	Rottneros	Rottneros	Sweden	-85	HYP	Q1 2013
	Schweighofer Group	Hallein	Austria	-160	Sulphite	Q1 2013
	Lenzing	Paskov	Czech Republic	-280	Sulphite	Q1 2013
	Jari	Monte Dourado	Brazil	-420	BHKP	Q1 2013
	Domtar	Kamloops	Canada	-120	BSKP	Q1 2013
	SAPPI	Cloquet	USA	-450	BHKP	Q2 2013
	Rayonier	Jesup	USA	-260	Fluff	Q3 2013
2012	Tembec	Chetwynd	Canada	-220	HYP	Q3 2012
	Stora Enso	Enocel	Sweden	-200	BSKP	Q1 2012
	Sodra Cell	Folla	Norway	-100	HYP	Q4 2012
	Resolute Forest Products	Fort Frances	Canada	-200	BSKP	Q4 2012
	SAPPI	Ngodwana	South Africa	-200	BSKP	Q4 2012
2011	K-C	Millicent	Australia	-30	BSKP	Q4 2011
	Fortress Paper	Thurso	Canada	-250	BHKP	Q4 2011
2010	Sappi	Usutu	Swaziland	-190	UKP	Q1 2010
2009	Pastguren	Pastguren	Spain	-75	BHKP	Q4 2009
	M-Real	Alizay	France	-70	BHKP	Q2 2009
	Botnia	Kaskinen	Finland	-210	BHKP	Q1 2009
	CMPC	Laja	Chile	-110	BSKP	Q1 2009
	Rottneros	Miranda	Spain	-150	BHKP	Q1 2009
	Marathon Pulp	Marathon	Canada	-200	BSKP	Q1 2009
	Boise Inc.	St. Helens	USA	-85	BSKP	Q1 2009
TOTAL 2009-2013				-4,065		

Denotes conversion to dissolving pulp

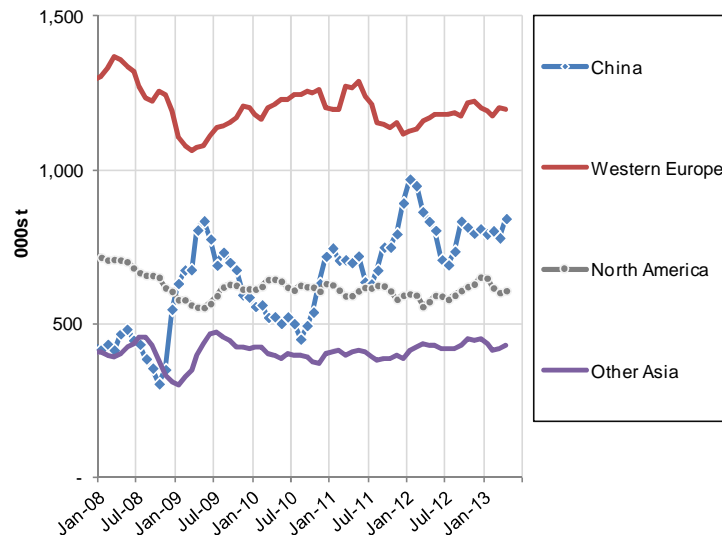
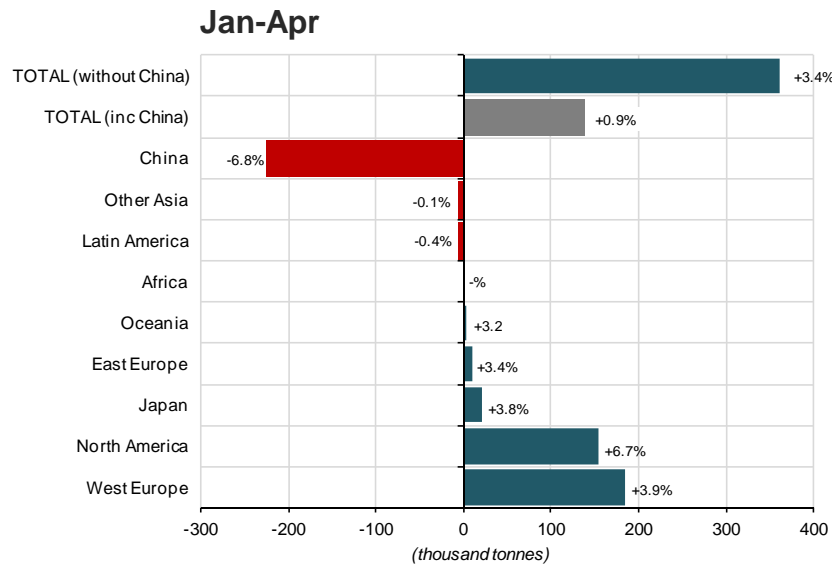
China pulp slowdown



- Import growth averaged 1 million tpa from 2002-12, and grew by 1.7Mt in 2012
- But imports are 8% lower ytd, and have been slowing for 12 months



Still, global pulp demand remains positive

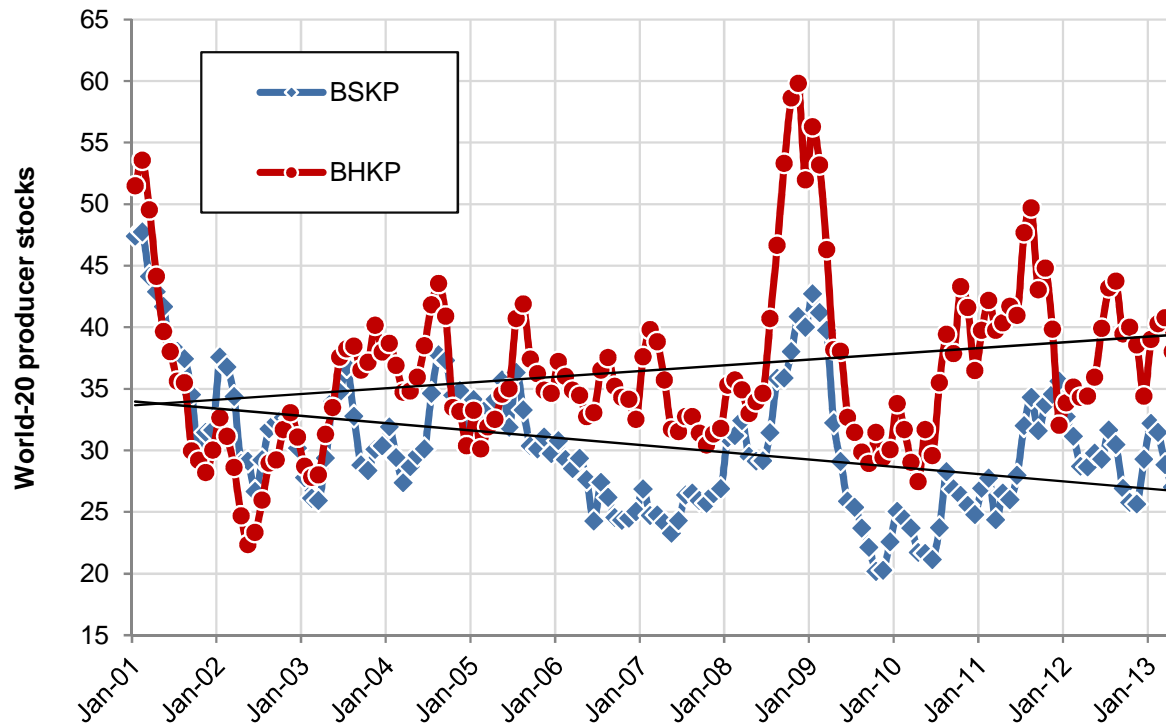


- Recent trends have reversed, with declines in China offset by North America and Europe
- We don't expect this situation to last
 - Demand in North America & Europe will revert to trend
 - China will pick-up...but where next?
- The 7 million tpa of new BKP capacity coming on from 2013-17 asks a lot of China

A finely balanced market...



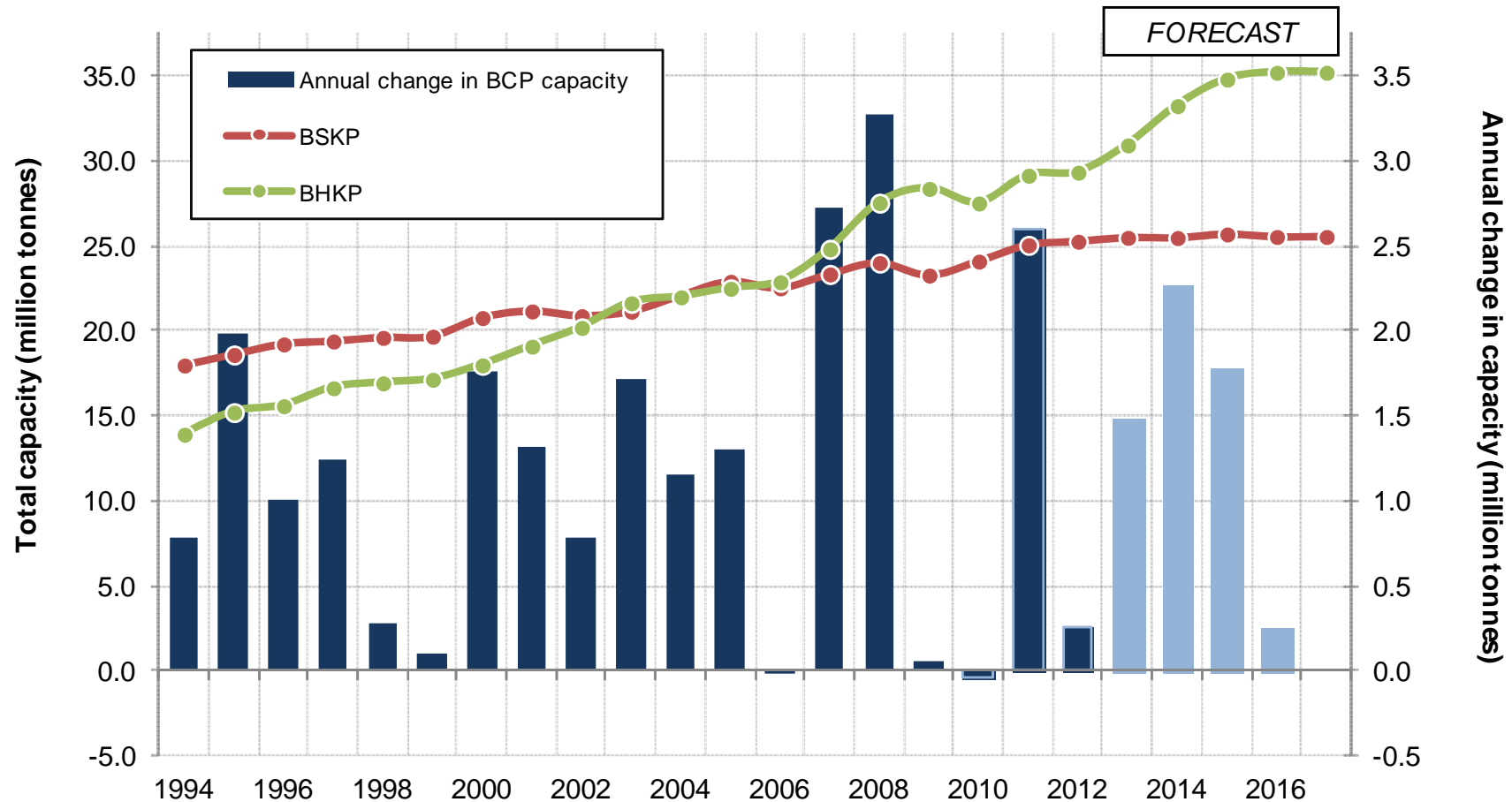
World-20 Producer inventories, days of supply



Source: PPPC, Pulpwatch

- Less useful than before as a leading indicator
- Information is late, backwards-looking, and most importantly does not take into account inventory in China, which is much more important than ten years ago
- Latin American supply chain also evolving

Supply...based on what we know today



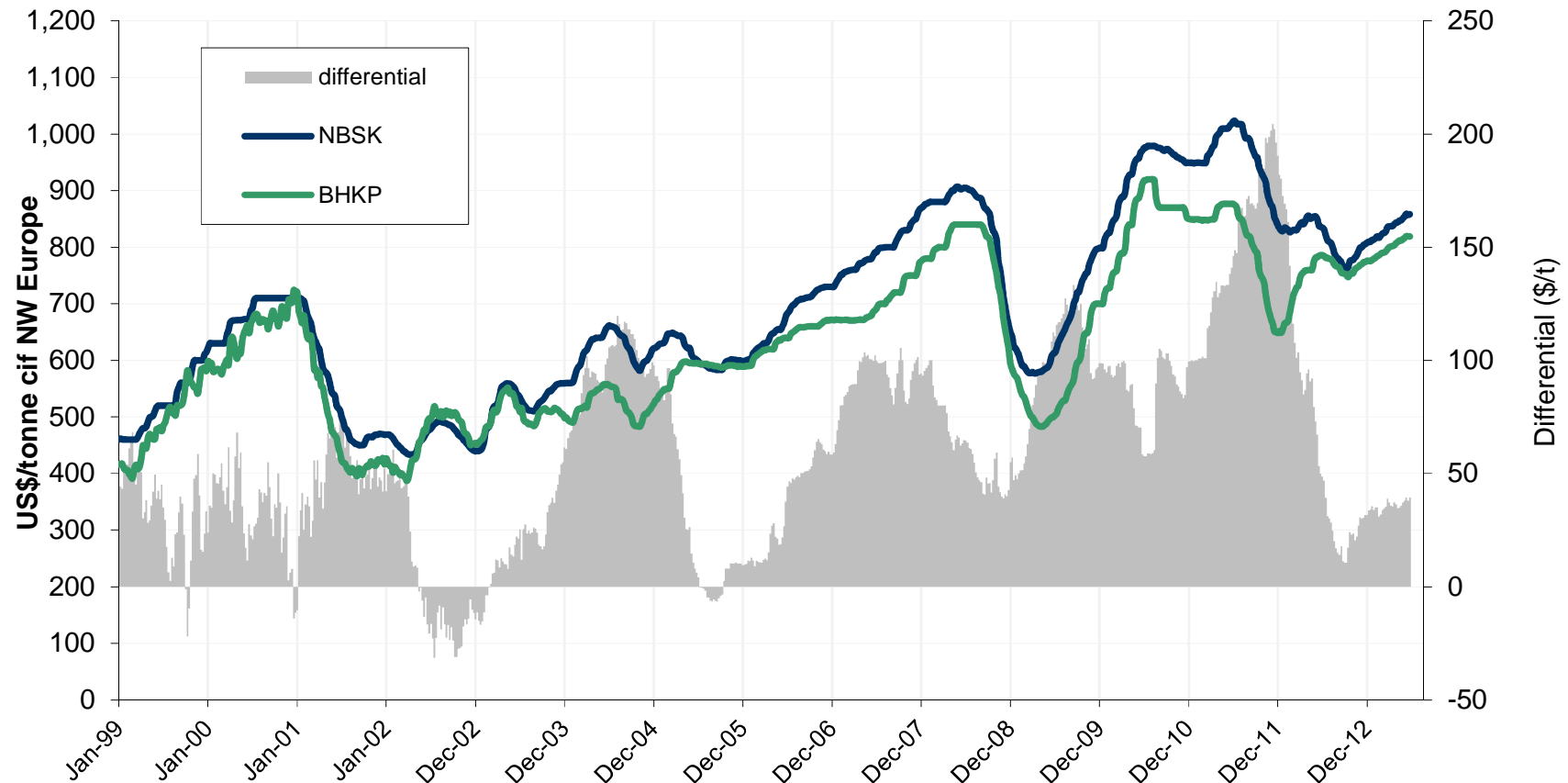
Source: Hawkins Wright

Includes: Bratsk, Eldorado, Montes del Plata, Maranhao, CMPC Guaiba

Excludes: all projects that have not yet satisfied all of their preconditions (e.g. financing, final board room approval etc). – Klabin, Arauco3, Acacell

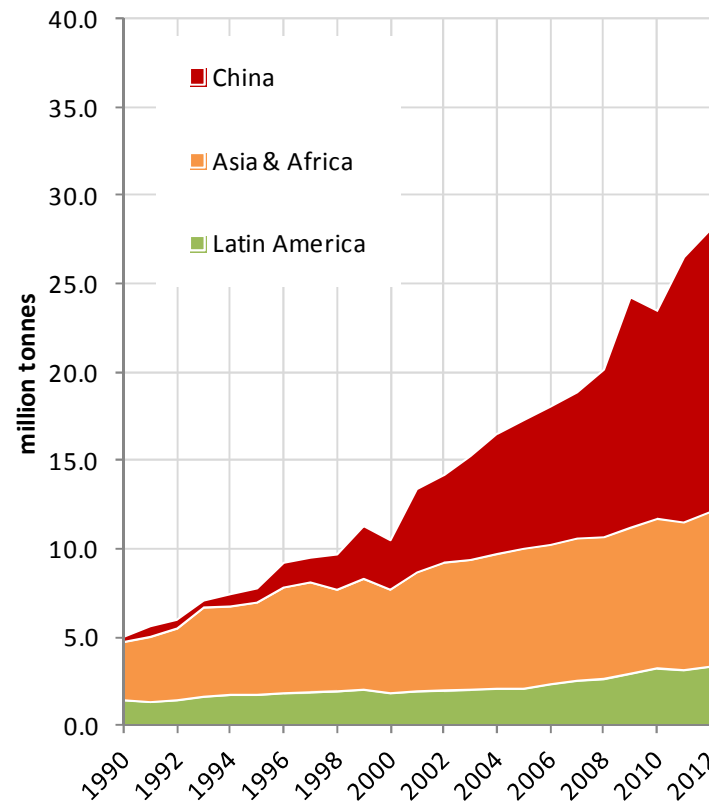
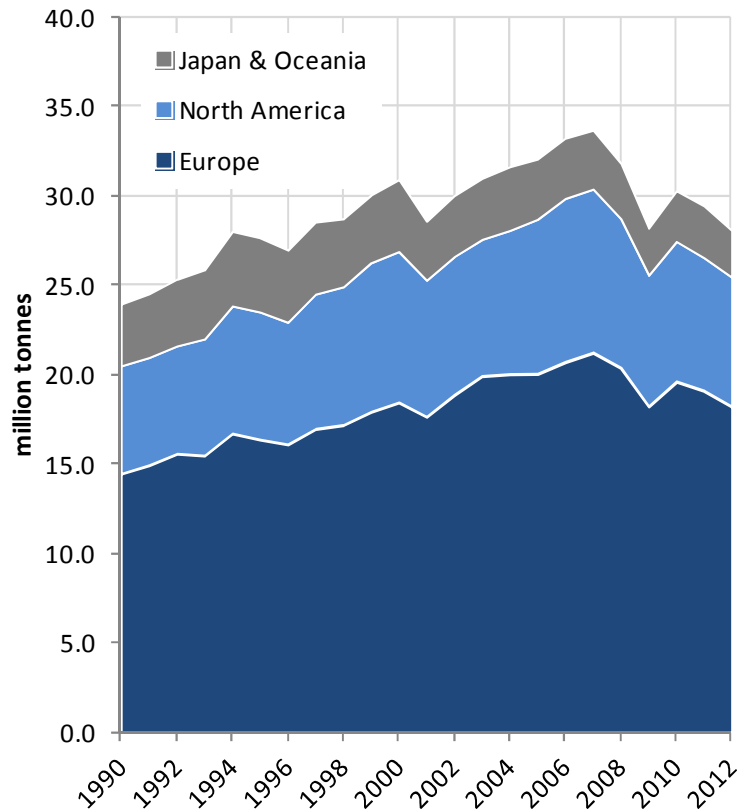
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Absolute level of pricing depends on macro-economic variables, but supply-demand fundamentals influence price differentials between fibres (SW, HW, HYP, RCF, etc...)



Source: FOEX

Demand trends



- Mature market demand has fallen by 5.6 million tonnes since 2007 and is currently lower than 2000
- Emerging market demand has increased by 9.2 million tonnes and now accounts for 50% of global demand. However, outside of China demand grows ~300,000t each year

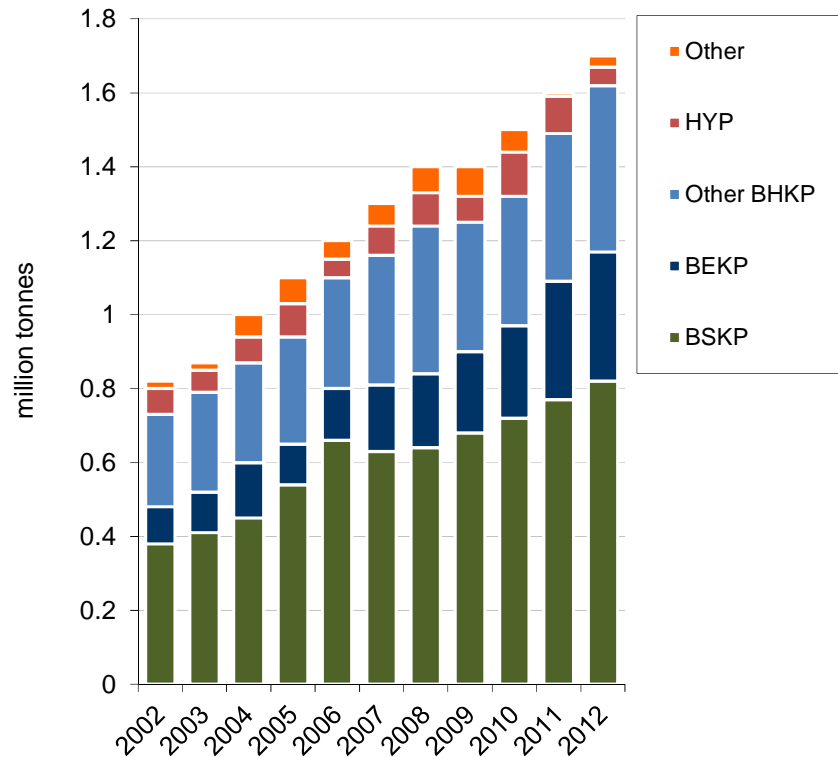
Source: Hawkins Wright Estimates

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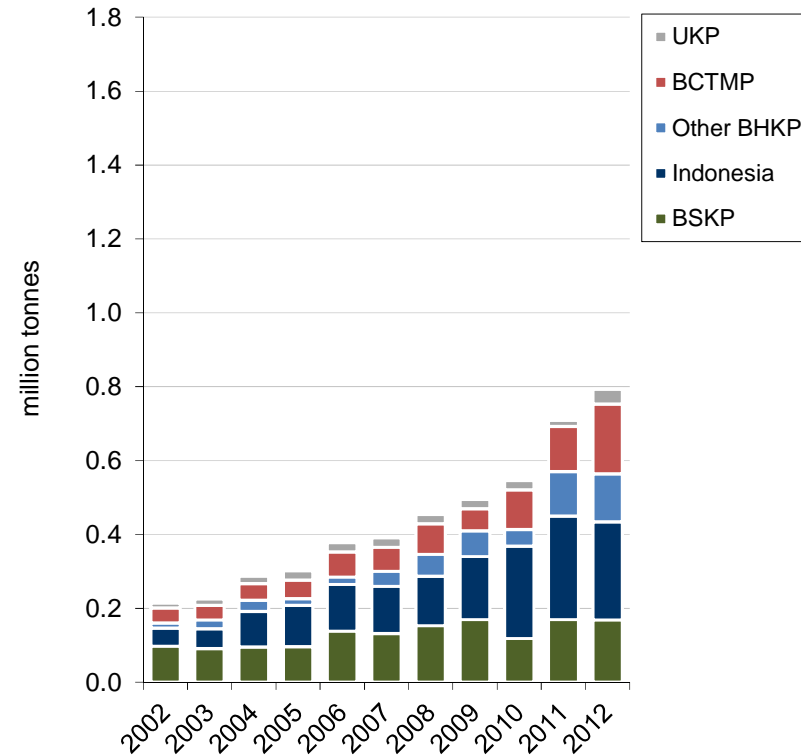
Emerging markets...



Middle East pulp demand



Indian pulp demand

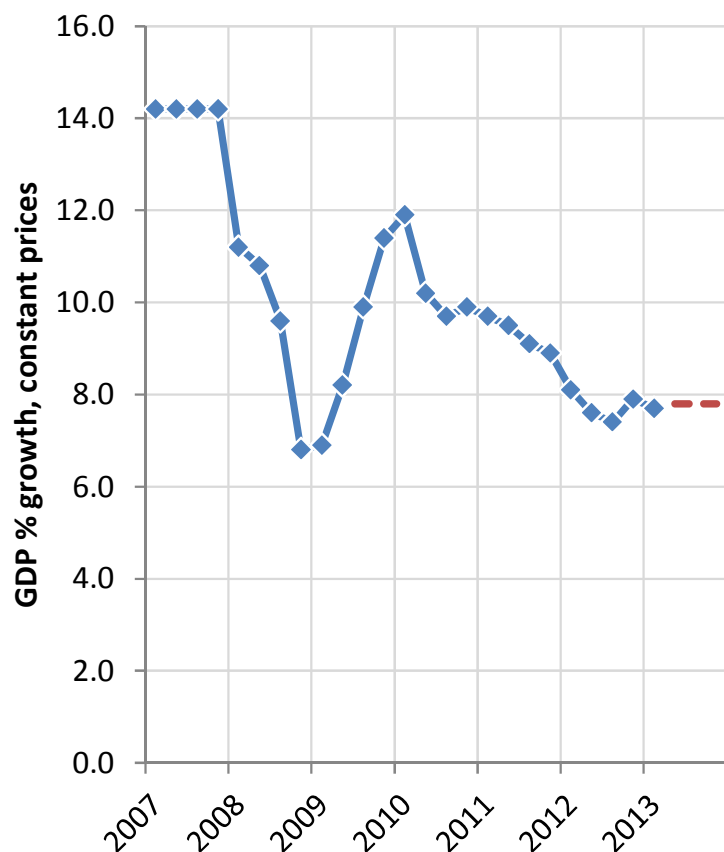


Middle East includes Turkey (41%), and other major markets include Saudi Arabia, Egypt, Israel, Iran

Source: Hawkins Wright Estimates

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China enters era of slower economic growth

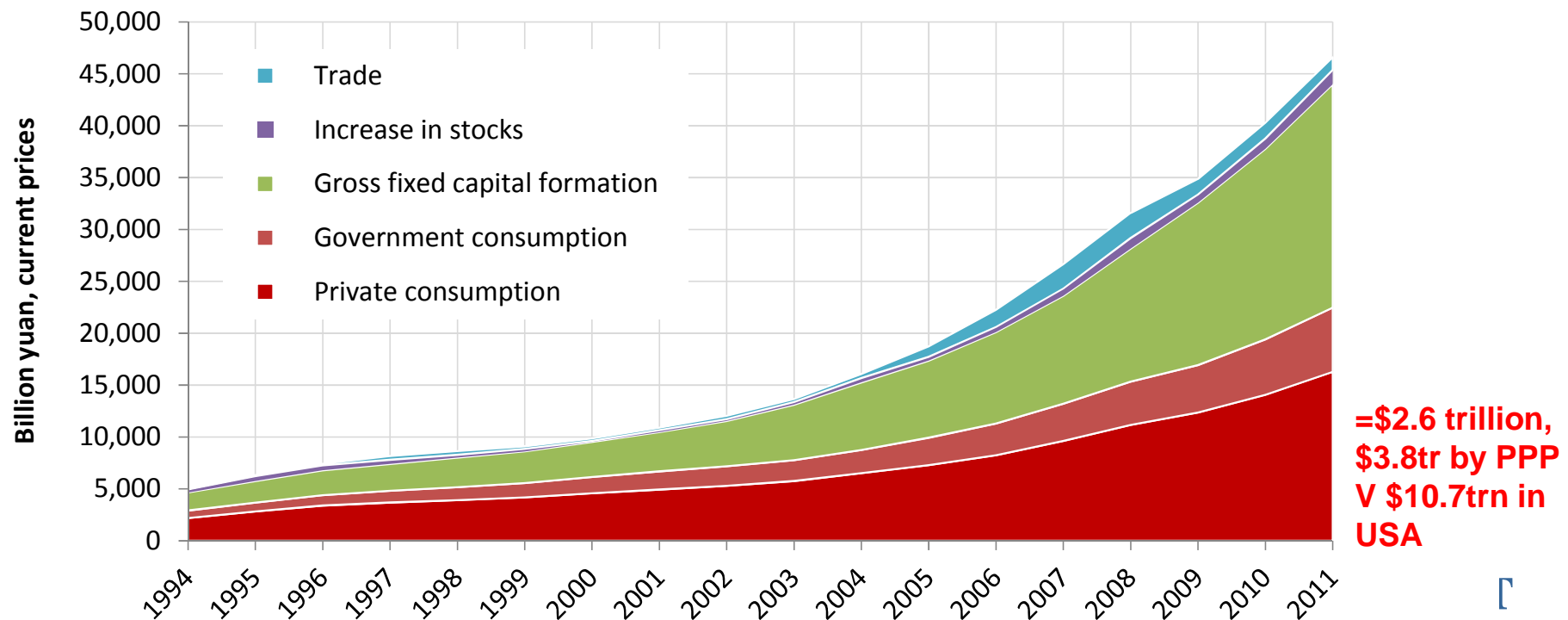


- After three years of double digit expansion, slower growth means adjustment, particularly for exporters of raw materials in Australia, Latin America and Africa. Frederic Neumann, co-head of Asian economic research at HSBC: ***“a lot of supply is coming on stream that was predicated on the idea that China would grow faster than 9 per cent forever”***
- This should not be a surprise...it can be argued, therefore, that the rebalancing of the economy is taking place **as planned**
- Slower but better quality...But is it actually happening?

Chinese paper consumption



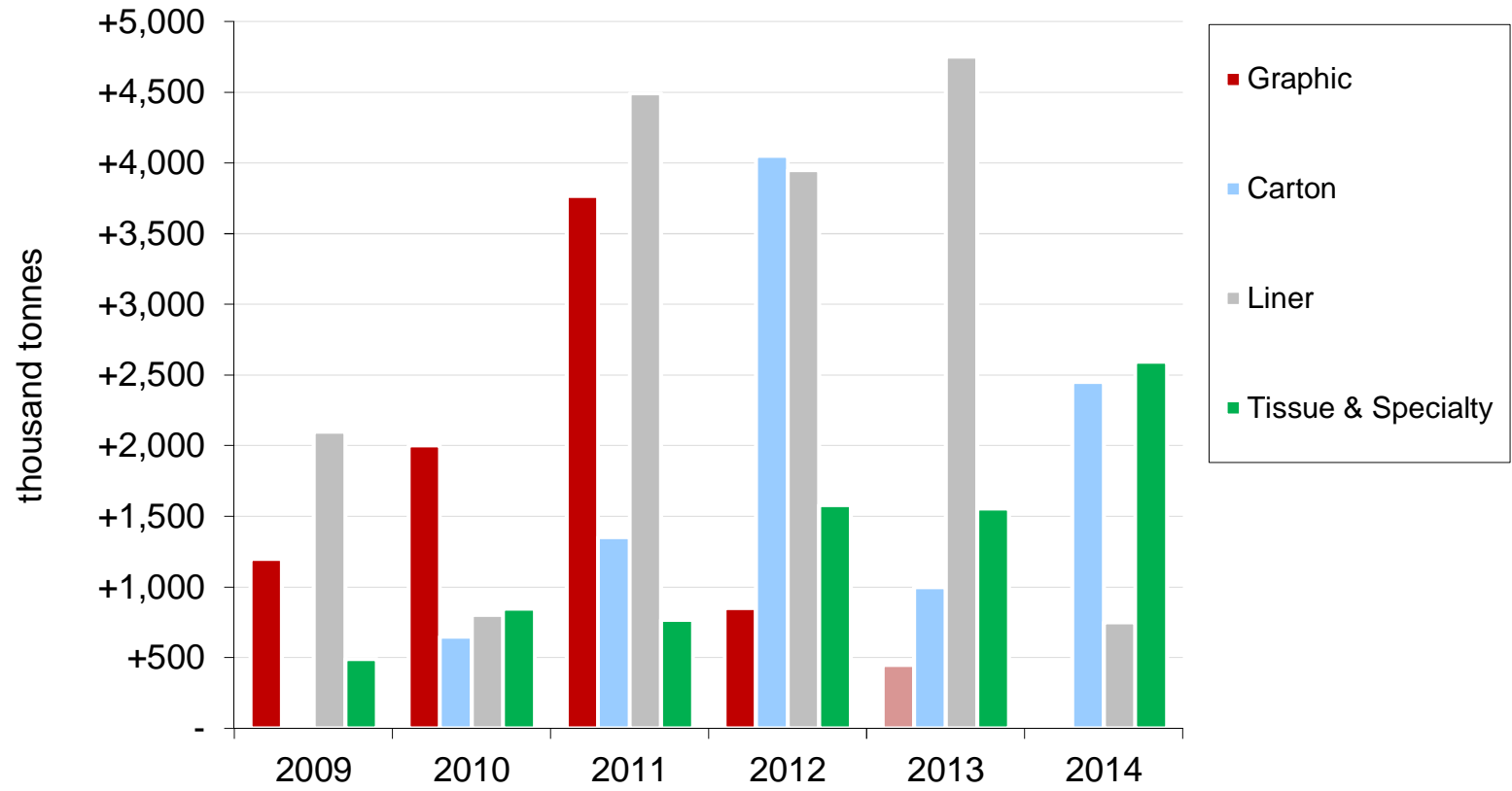
- Paper and board demand is a function of economic activity, however due to new media, the correlation is weaker than it was before
 - > More spending is required to generate same level of paper demand
- Economic activity is slowing, but growth remains comparatively strong
 - > Furthermore, **an emphasis on spending, rather than investment**



Chinese Capacity expansions



- Investment is focussed on tissue and board. Higher disposable income = improved healthcare, improved diet, luxury goods etc
- **BUT Capacity ≠ consumption**

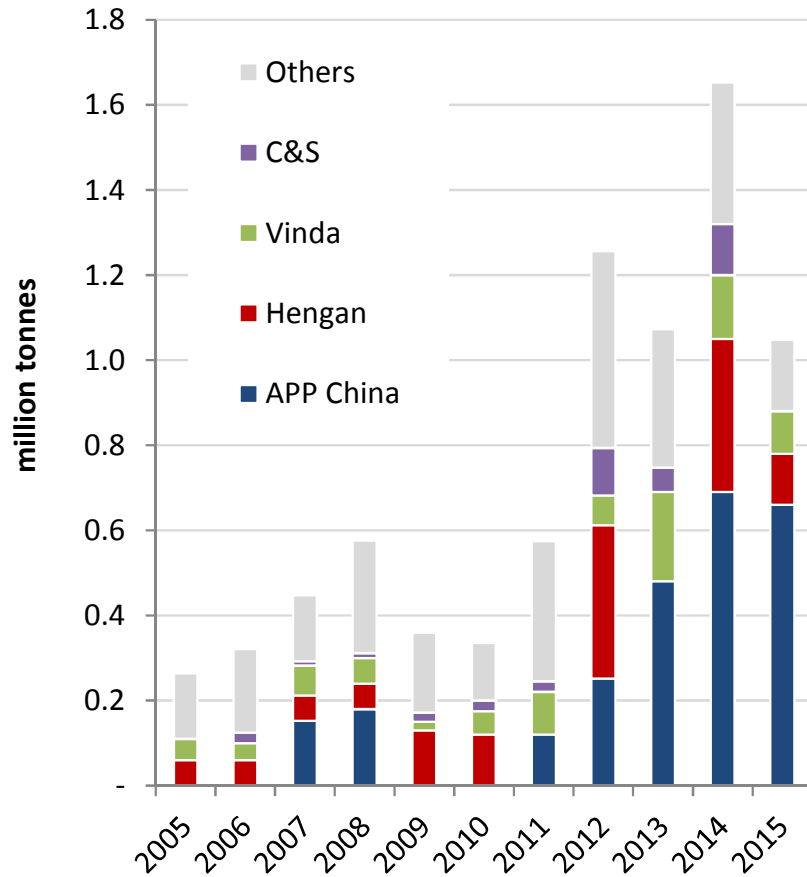


Source: Hawkins Wright

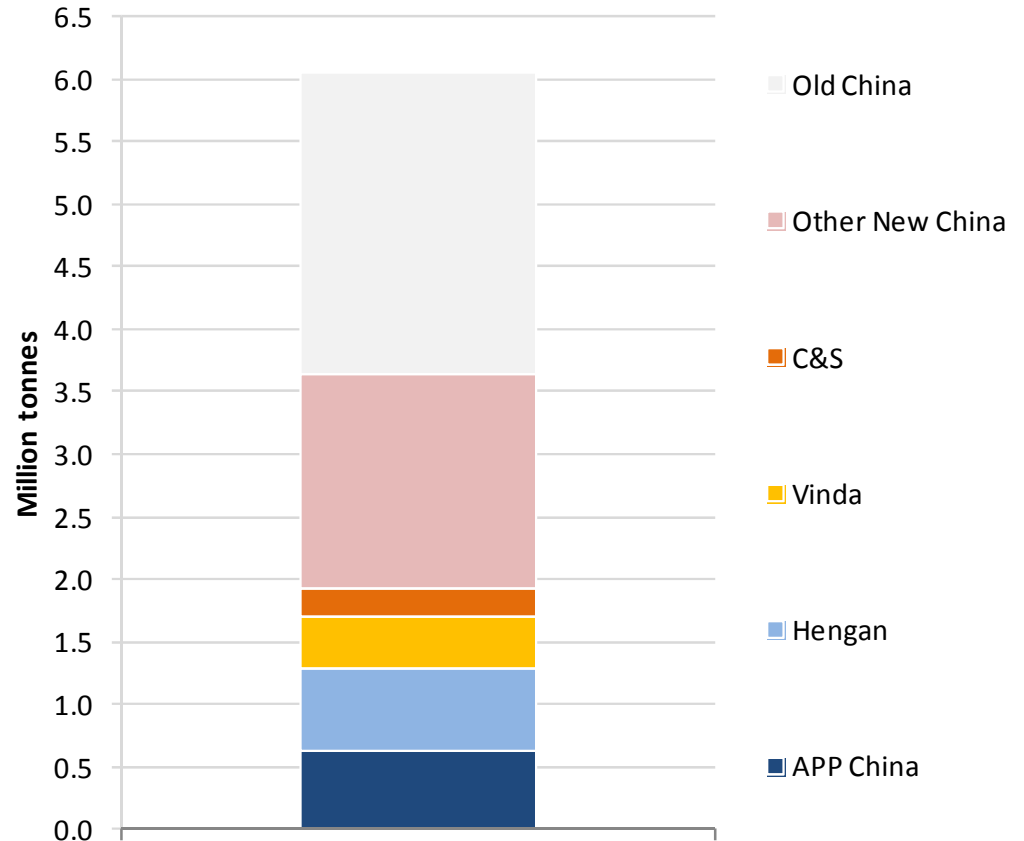
China tissue



Tissue capacity investment



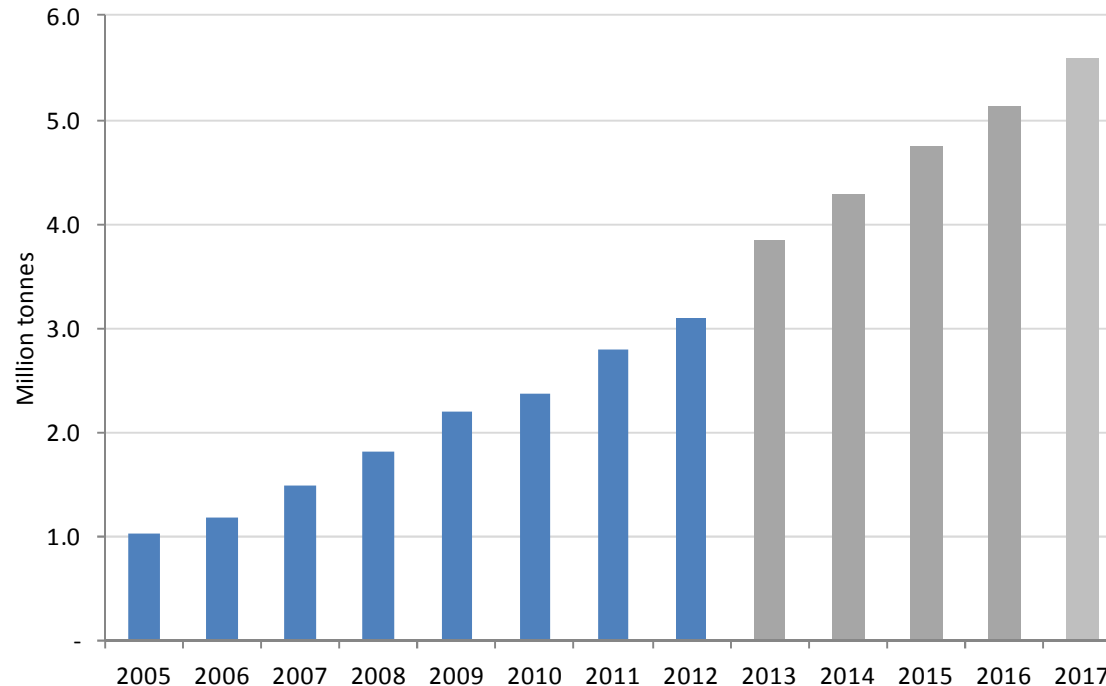
Tissue market structure



China exports 0.55Mt in rolls and converted tissue

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Chinese tissue demand



Beware of investment boom...see printing and writings & dissolving pulp...

Tissue demand is 6 million tonnes growing by 10-12% pa, demand for high quality tissue is nearer 3 million tonnes

Tissue will be the major driver of imported pulp demand. However,

- APP is largely integrated
- smaller tissue mills must be displaced

Nevertheless, pulp demand may benefit from stock-building

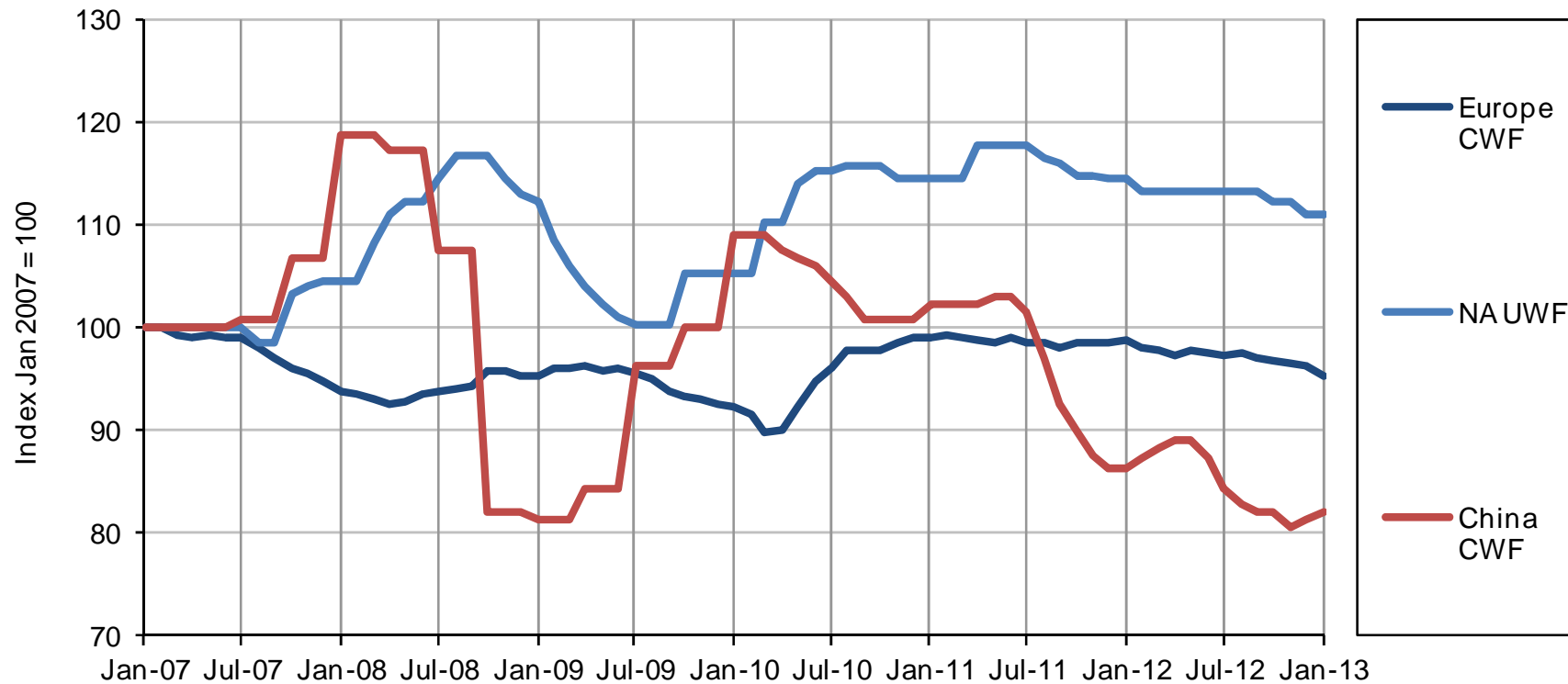
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Paper prices remain under pressure



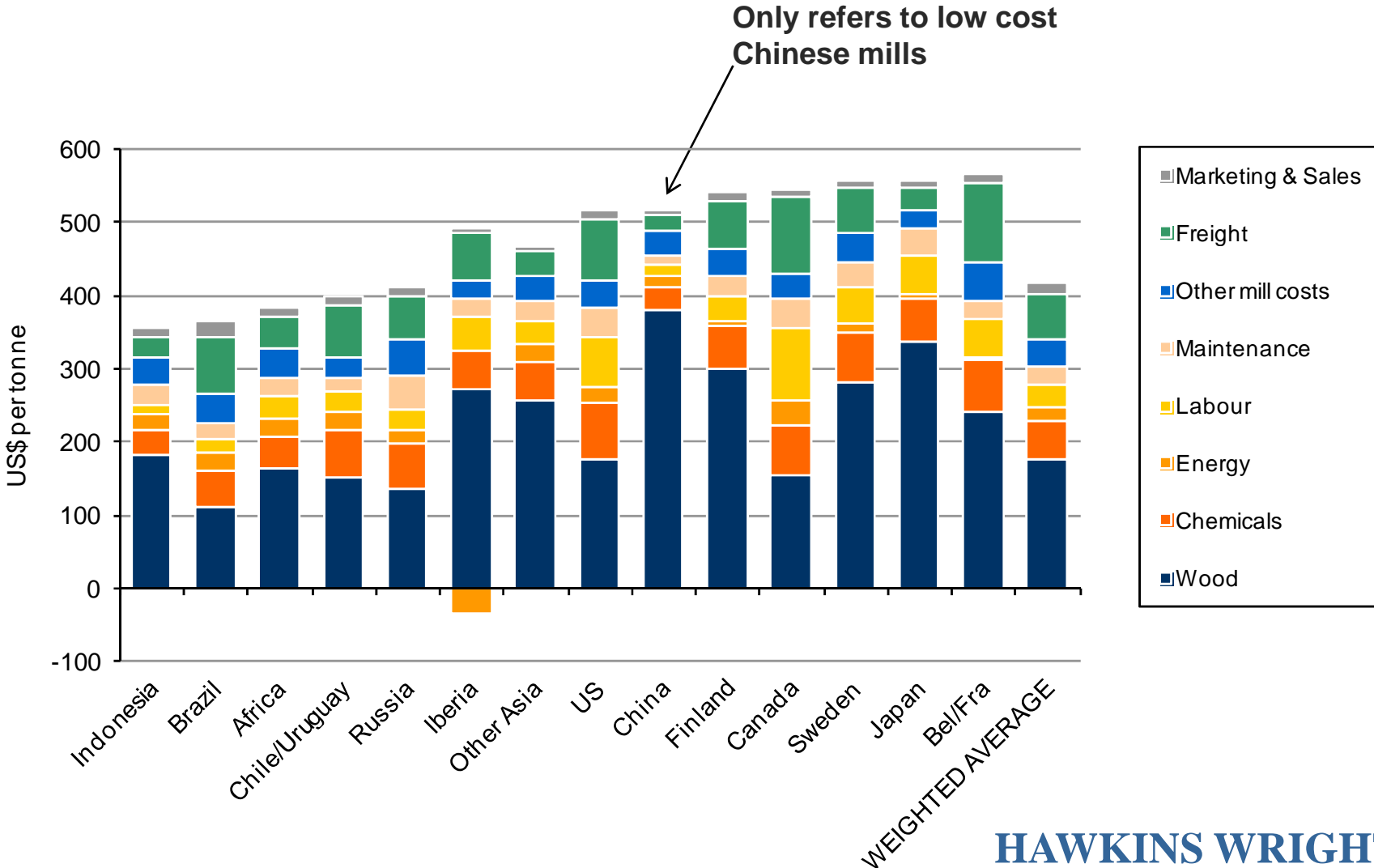
Printing and writing paper prices as an index

In domestic currencies



Source: Hawkins Wright

BHKP production costs, cif China



Chinese pulp production...

