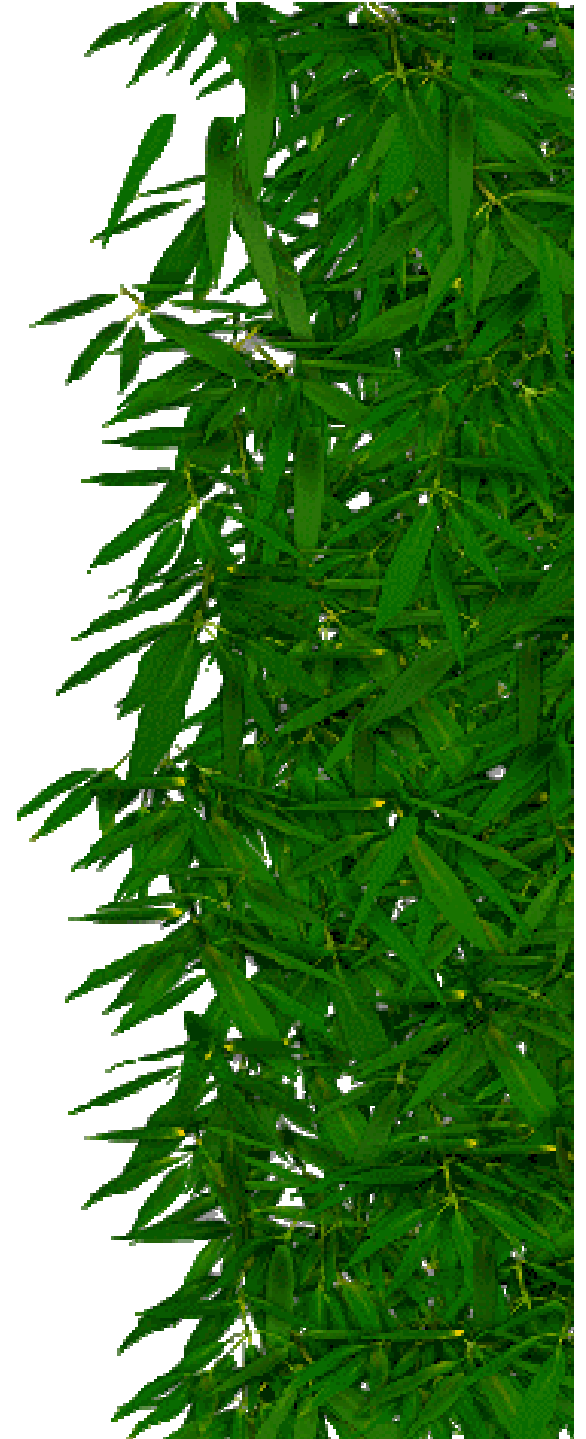


Perspectives on Forestry Investment

John Begley

Port Townsend Paper

September 23, 2004



Agenda

- ★ *Objective of discussion*
- ★ *PTPC & the Chinese Market*
- ★ *Key Criteria for Investment Considerations*
- ★ *Major Trends in the Industry*
- ★ *Factors for Consideration*



Discussion Objective

The objective of this presentation is to give an industry perspective on investment criteria in forestry and papermaking investments, how that compares to Chinese standards and its competitive impact.



PTPC: an overview

- * *Port Townsend is an integrated producer of pulp, paper, containerboard and corrugated boxes.*
- * *There are 5 manufacturing facilities (soon to be 6) with a creative design facility.*
- * *In 2004, gross sales will exceed \$200 million US*
- * *There are approximately 750 employees producing 90m tons of pulp, 220m tons of paper and board and 1.4 billion square feet of boxes*
- * *PTPC currently sells 90m tons of UKP and about 25m tons of paper and board into the Asian marketplace.*
- * *Our key markets are: China, Korea, Taiwan, Thailand and Japan*



Trends in the Industry

- ★ *Acquisition vs. Greenfield*
- ★ *Scale vs. flexibility*
- ★ *Recycled vs. virgin fiber*
- ★ *Trend to lighter weights (do more with less)*
- ★ *Hi-yield plantation forestry*
- ★ *Consolidation*



Key Investment Criteria

When making an investment in this industry, there are 4 major criteria:

- 1. Market opportunity*
- 2. Capital availability*
- 3. Physical site*
- 4. Wood basket*



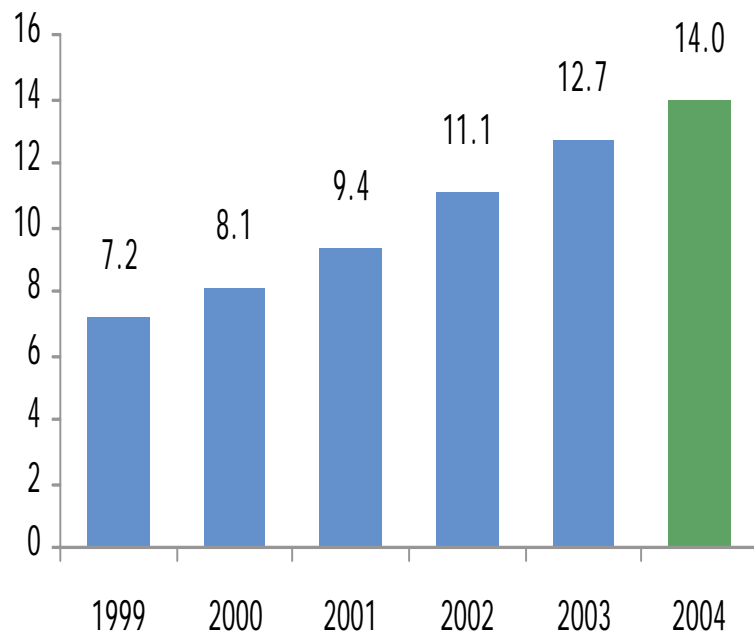
Key Investment Criteria

- ★ *Both in construction and management, the Industry looks at indicator ratios to guide their actions:*
 1. *Return on assets employed*
 2. *Productivity vs. employees*
 3. *Contribution per hour*
 4. *EBITDA*



Chinese Containerboard Growth

Chinese Containerboard Capacity



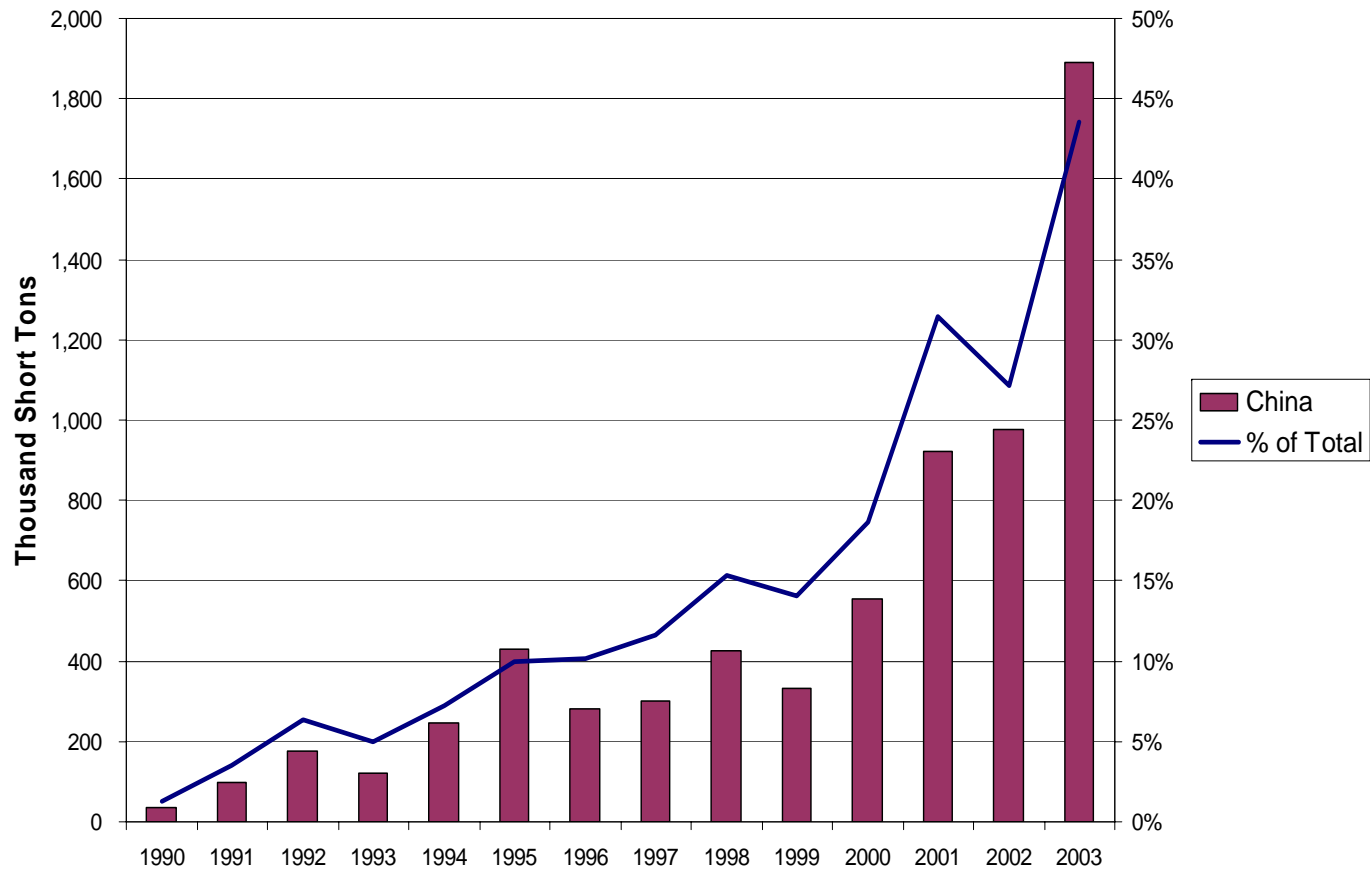
Chinese containerboard supply has been growing at 16% CAGR

UKP pricing driven as a function of both containerboard and market pulp both of which are expected to increase by 10% in 2004

China represents approximately half of global UKP consumption

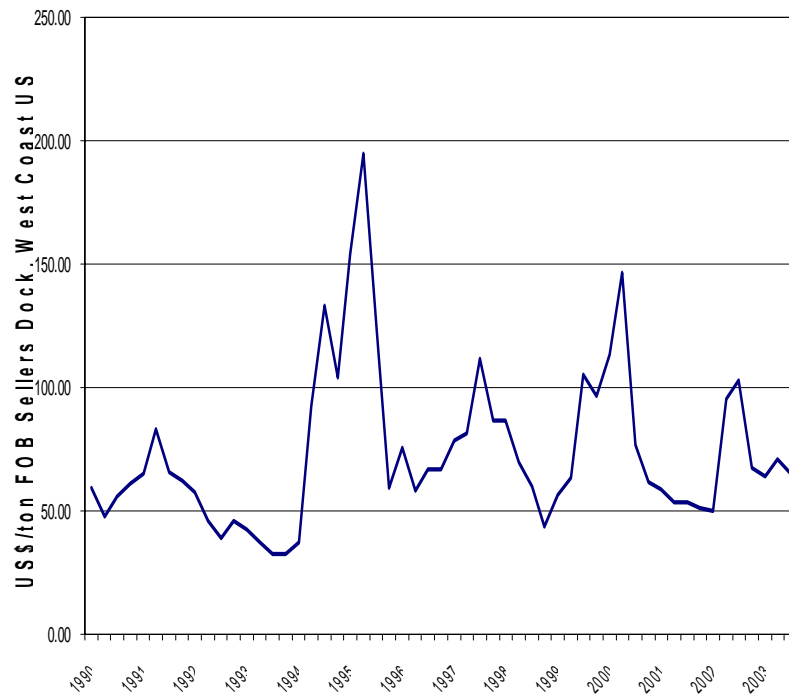


North American OCC Exports

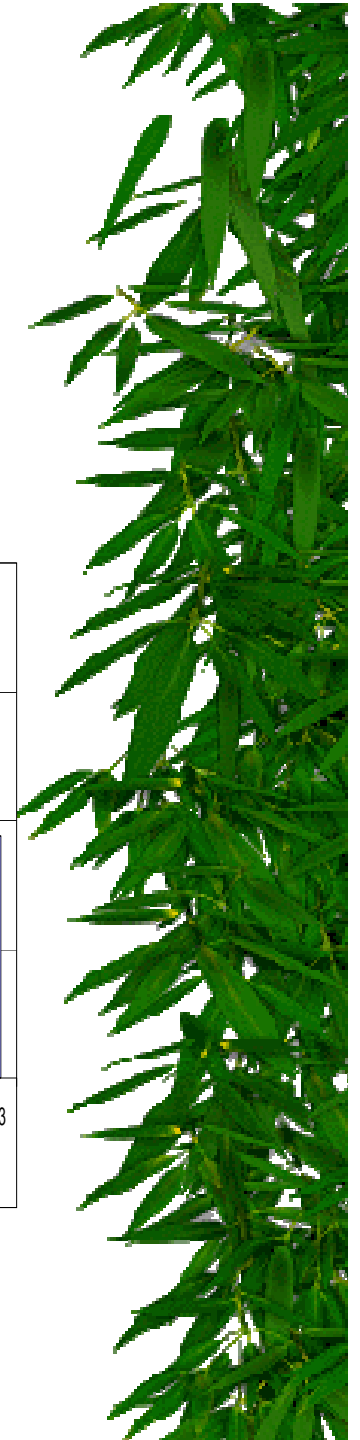
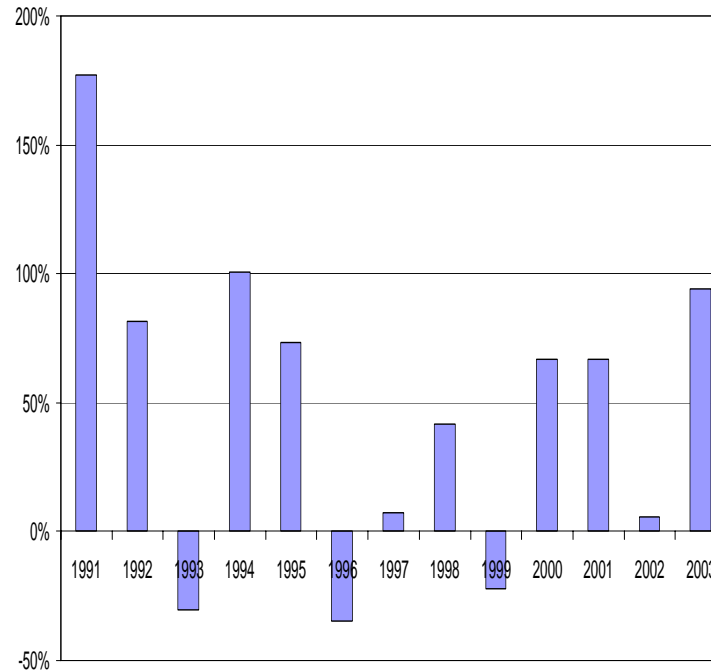


OCC Pricing is Volatile

OCC Price History



Percent Change in OCC Exports to China



Observations

- * *Chinese capacity (supply) has grown at a much faster rate than market demand*
 - *42 pulp and paper projects are designated to be completed by 2010*
- * *Expansion/growth decisions are not based on solid financial analysis*
 - *Domestic banks are playing the leading role in making these financial commitments*
- * *Packaging converting business has also expanded dramatically to service large export-based markets*
- * *China is dependent on imported fiber to source this growing industry*



Recommendations

- ★ *Adopt a more market-driven approach to capacity expansion*
- ★ *Rigorous financial analysis prior to employing capital and in the on-going management of the asset*
- ★ *Standardize foreign (and domestic) investment criteria to make it less confusing and intimidating*
- ★ *Scale Chinese industry more in line with access to fiber*

