Perspectives on Forestry Investment

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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 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

[Graph showing the export of OCC (Oriented Centralized Core) from North America, with bars and a line graph indicating the increase over time. The bars represent the physical tons exported, while the line graph shows the percentage increase of China's share of the total exports. The x-axis represents the years from 1990 to 2003, and the y-axis represents thousands of short tons. China's share of the total exports is highlighted with a line graph, showing a significant increase from 1990 to 2003.]
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