# PIMA Leadership Conference
# Nashville, Tennessee
# June 26-29, 2005

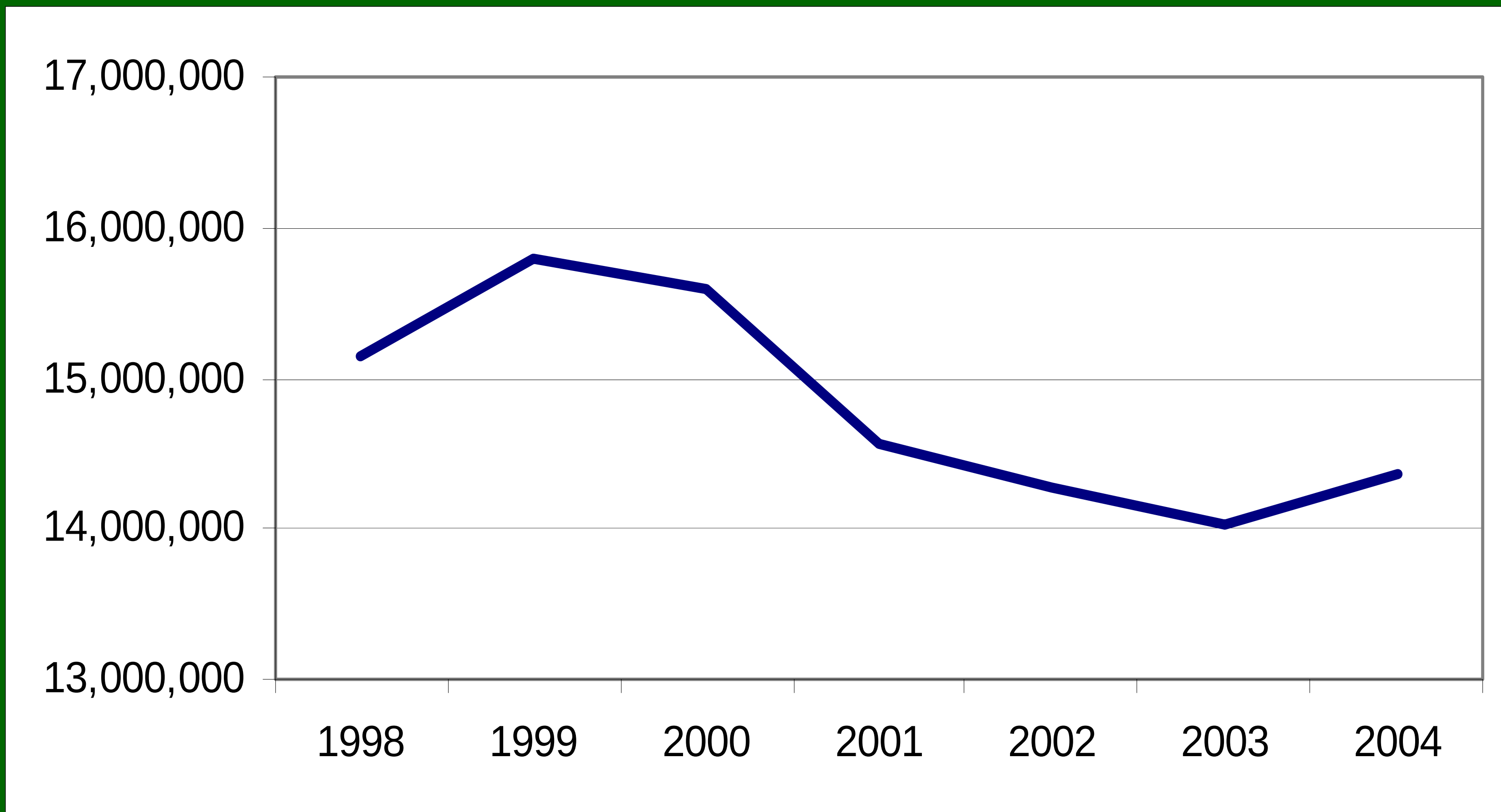
# Uncoated Free Sheet Papers

Dick Thomas
Weyerhaeuser Company

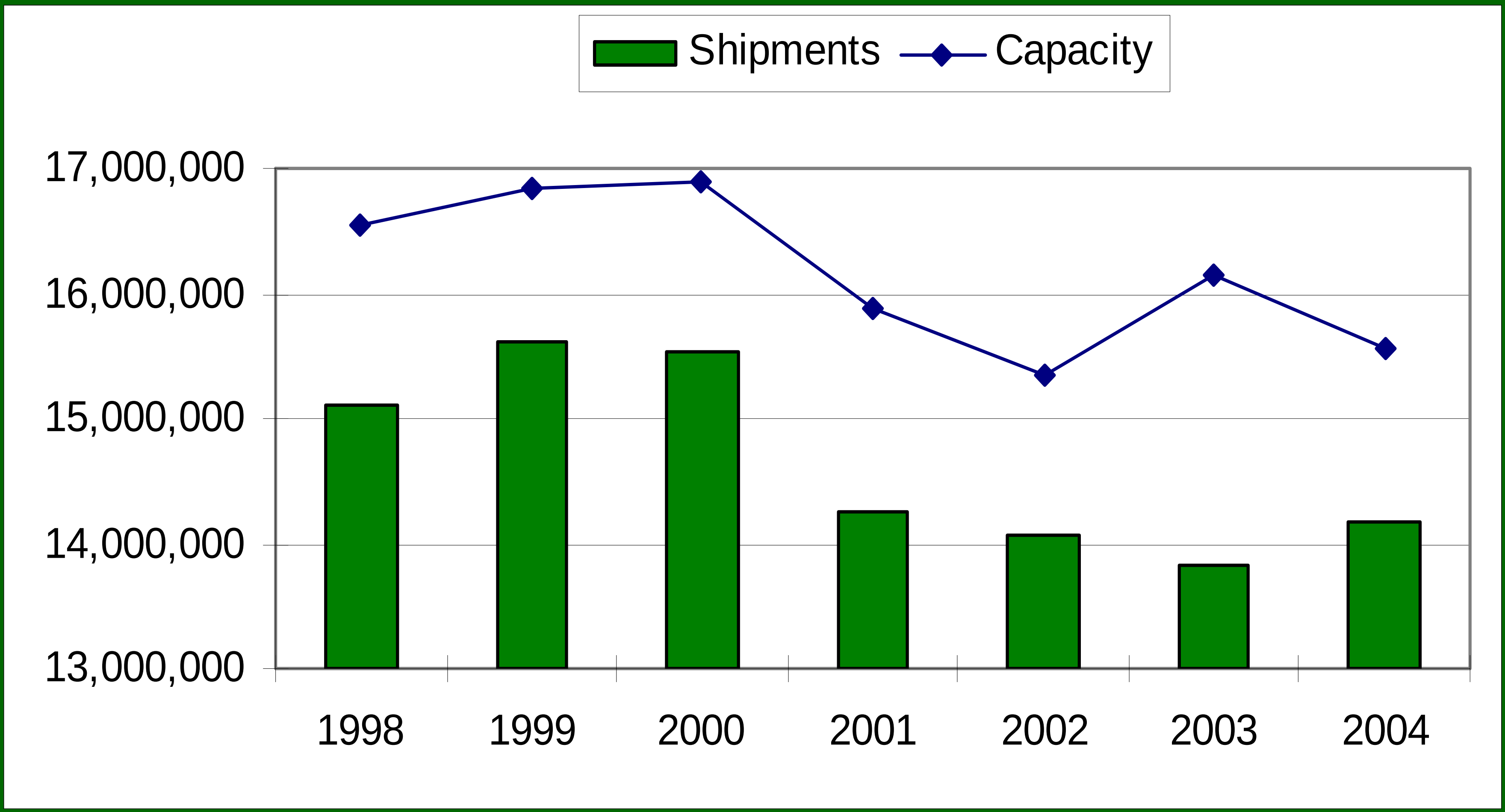
# The Market for Uncoated Free Sheet Papers

- Supply / Demand Trends
- Structural Changes
- Future Outlook

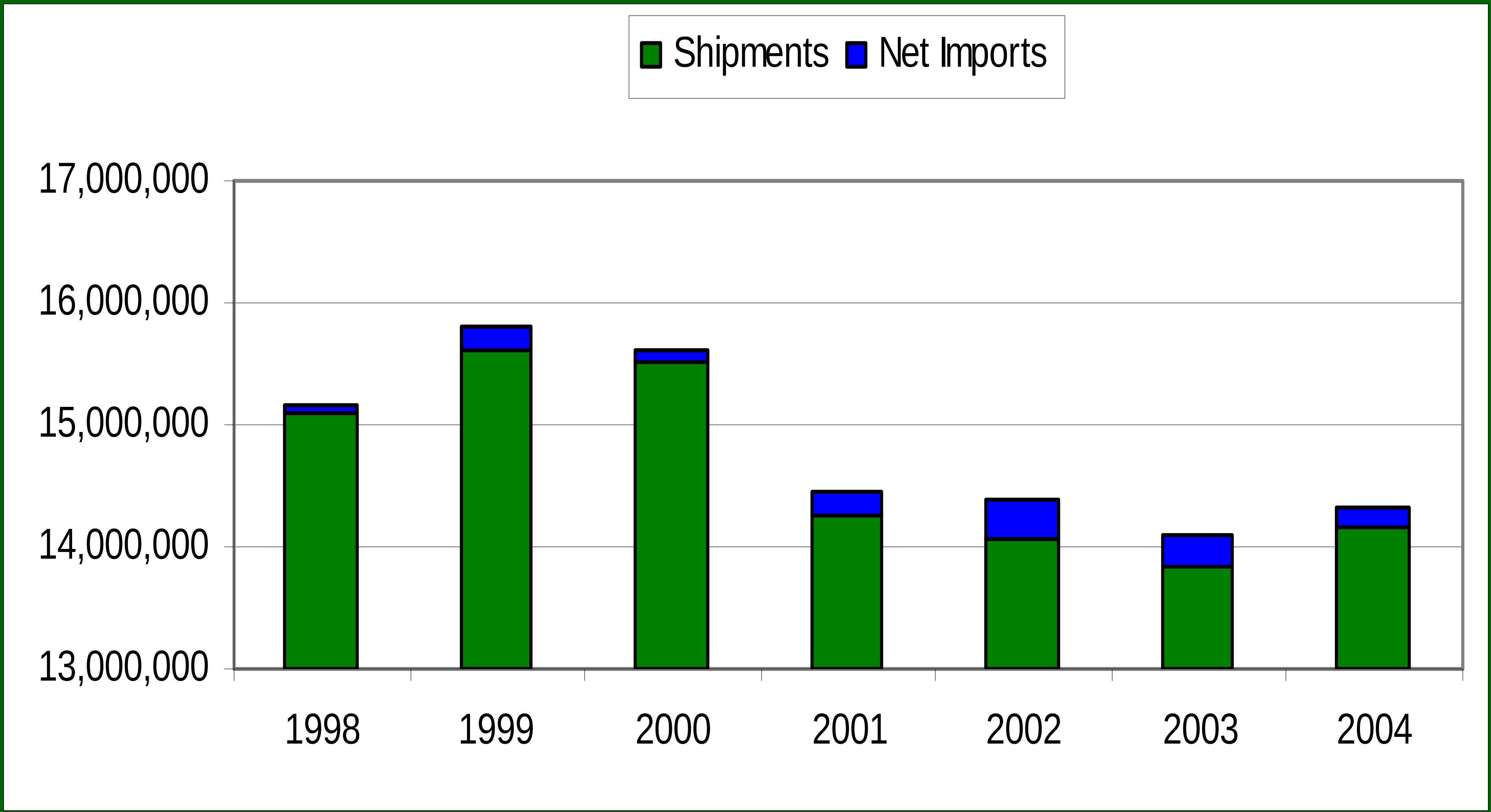
# N.A. UCFS Demand 1998 - 2004



# N.A. UCFS Shipments & Capacity 1998-2004



# N.A. UCFS Purchases



# UCFS Capacity Reductions 2002 - 2004

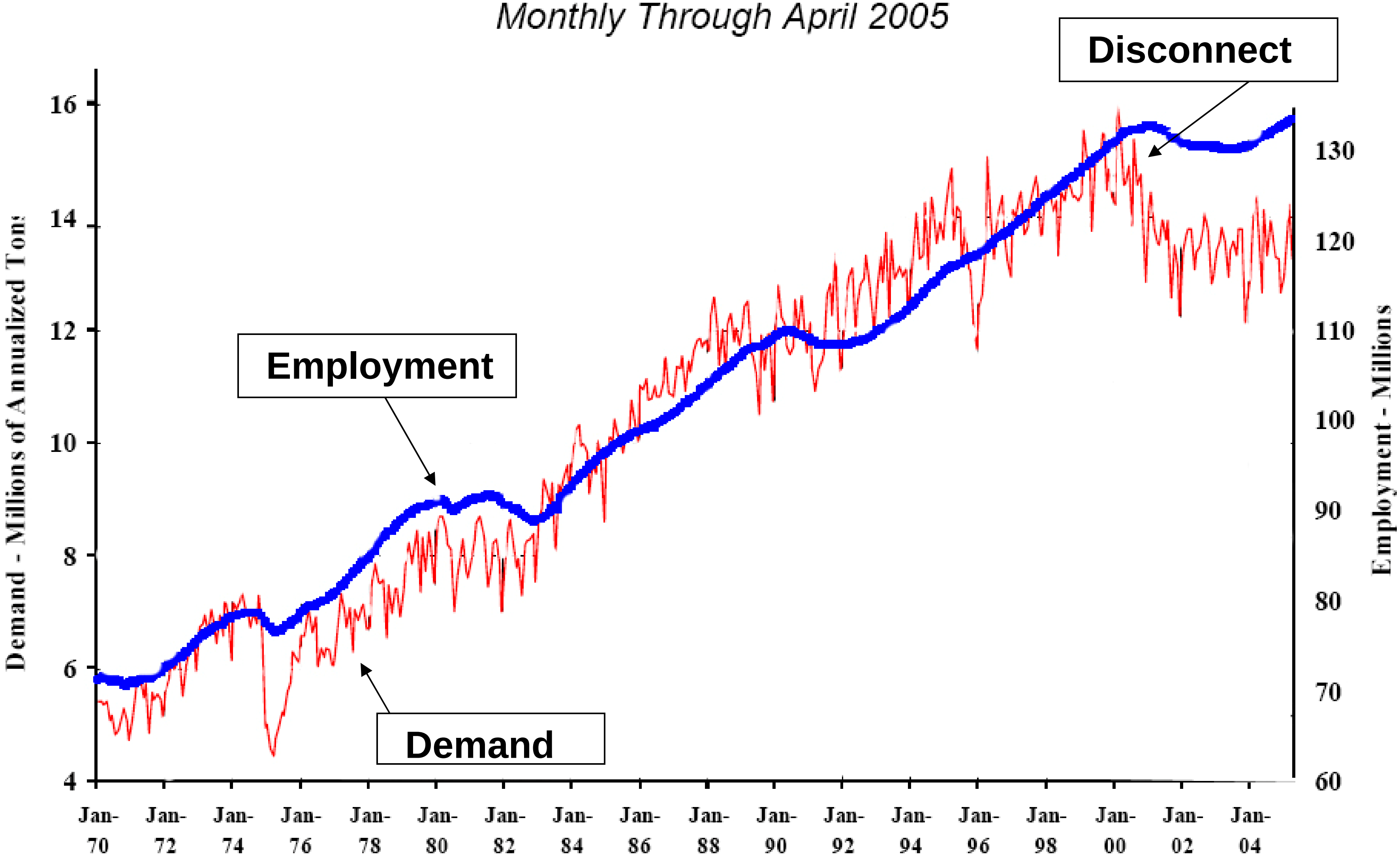
| Company | Mill | Date | Annual Production | |
|---|---|---|---|---|
| IP | Lock Haven, PA | 2002 | 62,000 | |
| IP | Erie, PA | 2002 | 115,500 | |
| Domtar | Nekoosa, Wis | 2002 | 28,000 | |
| Weyerhaeuser | Johnsonburg, PA | 2002 | 45,000 | |
| Weyerhaeuser | Kingsport, TN | 2002 | 185,000 | |
| Purico | Ecusta, NC | 2002 | 52,500 | |
| Domtar | St. Catherines, ON | 2002 | 52,500 | 540,500 |
| Eastern | Brewer, ME | 2003 | 35,000 | |
| Weyerhaeuser | Rothschild, WI | 2003 | 32,000 | |
| Curtis | Adams, MA | 2003 | 14,000 | |
| Curtis | Milford, N.J. | 2003 | 40,000 | |
| P. H. Glatfelter | Neenah, WI | 2003 | 38,500 | |
| Weyerhaeuser | Longview, WA | 2003 | 90,000 | 249,500 |
| Domtar | Vancouver, BC | 2004 | 45,000 | |
| P. H. Glatfelter | Spring Grove, PA | 2004 | 5,000 | |
| Appleton Coated LLC | Combined Locks, WI | 2004 | 71,000 | |
| Georgia Pacific | Camas, WA | 2004 | 65,000 | |
| Spexel | Beauharnois, QC | 2004 | 17,500 | |
| Eastern | Lincoln, ME | 2004 | 75,000 | |
| Eastern | Brewer, ME | 2004 | 40,000 | 318,500 |
| | | | Total | 1,108,500 |

# What Happened?

- Changes to the historical demand drivers for UCFS

# Uncoated Free Sheet Demand & Employment Trends Diverge

*Monthly Through April 2005*




AF&PA, Economics Department

U.S. Bureau of Labor Statistics

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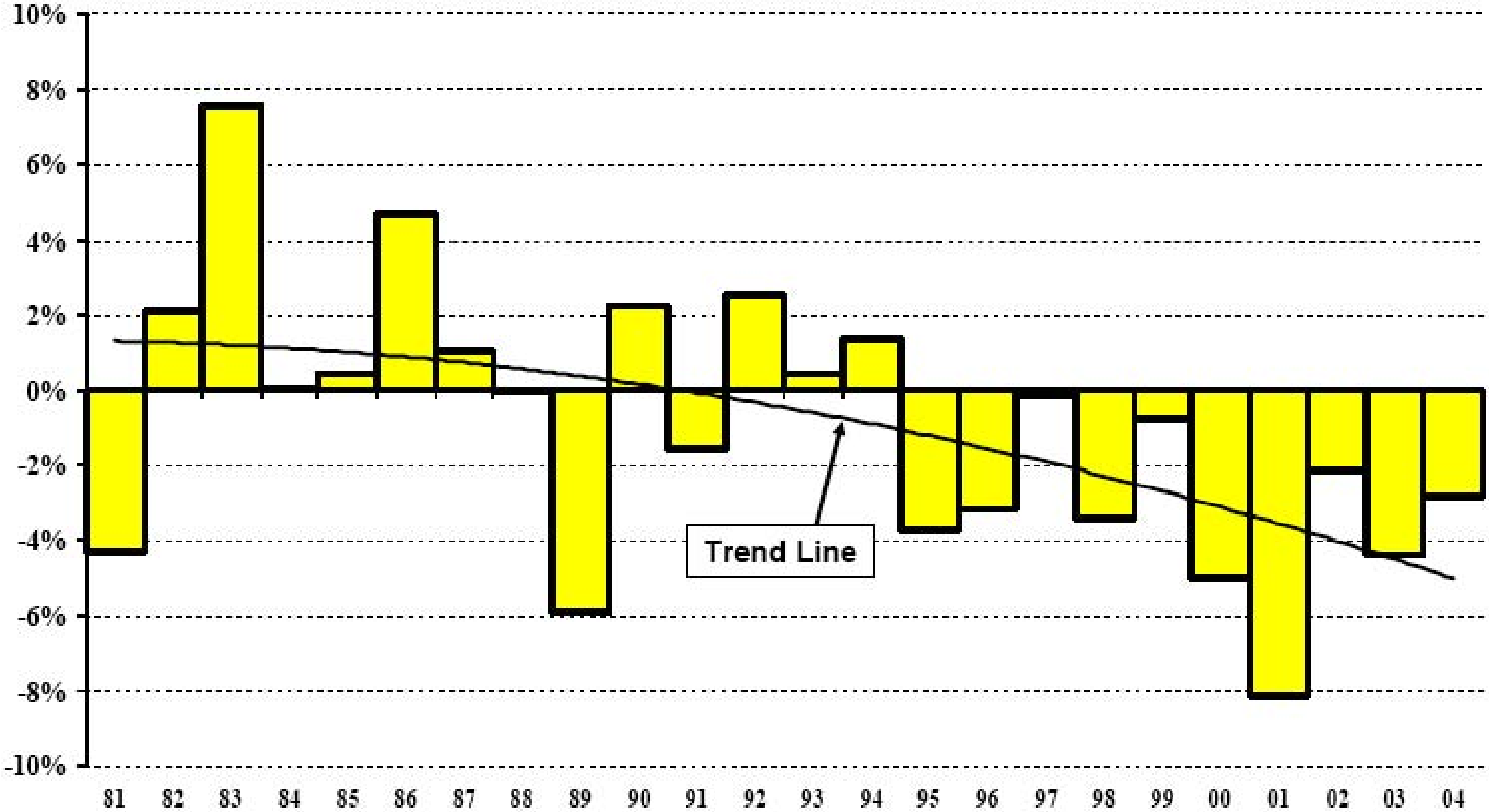
## ***Demand Growth Declined Relative To GDP Growth***

Uncoated Free Sheet Demand Changes Minus GDP Changes



# Key Demand Driver: Electronic Substitution

- Communications
  - -Email has replaced hard copy
  - -Printing has declined
- Transactional
  - B2B
  - B2C
  - B2E

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# ***Both U.S. Demand & Shipments Rise In 2004***

Final 2004 Post-Survey Statistics

| | 2004 '000 Tons | Change 2004/2003 '000 Tons | Change 2004/2003 Percent |
|---|---|---|---|
| **Demand*** | **13,520** | **+215** | **+1.6%** |
| Imports | 1,547 | +90 | +6.2% |
| Exports | 582 | +168 | +40.5% |
| **Net Imports** | **965** | **-78** | **-7.5%** |
| **Domestic Shipments** | **12,555** | **+293** | **+2.4%** |

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# ***Both U.S. Demand & Shipments Falling in 2005***

First Four Months of Year

| | 2004 '000 Tons | Change 2005/2004 '000 Tons | Change 2005/2004 Percent |
|---|---|---|---|
| **Demand*** | **4,453** | **-121** | **-2.6%** |
| Imports | 555 | +67 | +13.8% |
| Exports | 225 | +49 | +27.9% |
| **Net Imports** | **330** | **+18** | **+5.8%** |
| **Domestic Shipments** | **4,123** | **-139** | **-3.3%** |

# 2005 UCFS Capacity Reductions

| Company | Mill | Annual Production |
|---|---|---|
| Domtar | Cornwall, ON | 110,000 |
| IP | Jay, Maine | 120,000 |
| IP | Pensacola, FL | 130,000 |
| Riverside/Kervin | Appleton, WI | 50,000 |
| IP | Bastrop, LA | 180,000 |
| Badger Paper | Peshtigo, WI | 60,000 |
| | Total | 650,000 tons |

# UCFS growth is slowing globally as well

World Consumption
*(Million tons)*

| | 1995 | 2000 | 2005* | CAGR% 1995-2000 | CAGR% 2000-05 |
|---|---|---|---|---|---|
| Coated Free Sheet | 18.4 | 24.3 | 30.1 | 5.7 | 4.4 |
| Coated Groundwood | 14.9 | 18.0 | 20.2 | 3.9 | 2.3 |
| Uncoated Free Sheet | 45.1 | 53.7 | 55.5 | 3.6 | 0.7 |

* Estimate

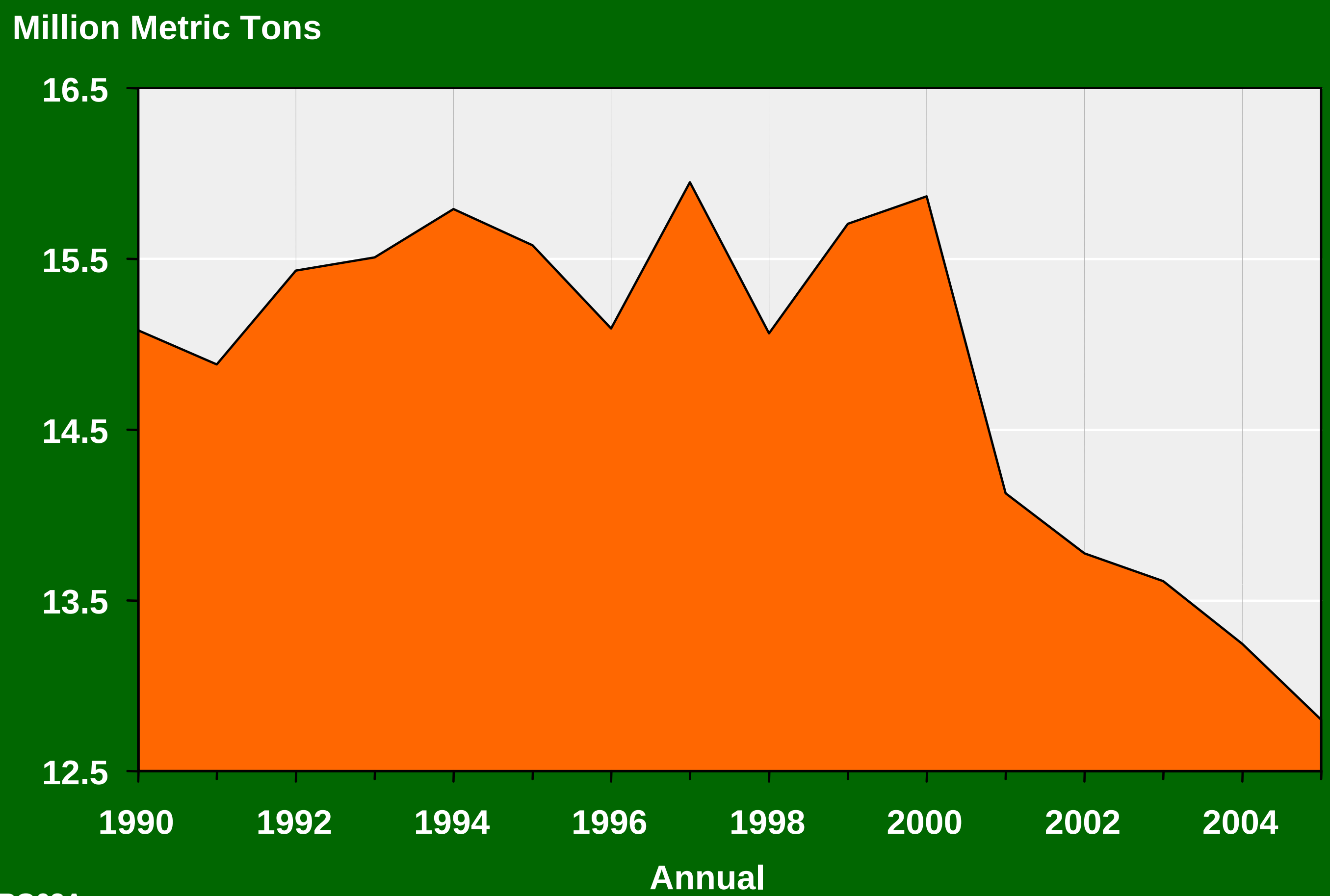
# World Uncoated Free Sheet Capacity For Selected Regions

*(Million tons)*

| | 1995 | 2000 | 2005 |
|---|---|---|---|
| North America | 15.7 | 16.9 | 15.5 |
| Western Europe | 10.5 | 11.4 | 12.1 |
| Asia | 18.0 | 24.6 | 25.7 |
| China | 8.7 | 11.9 | 12.7 |
| Japan | 4.0 | 4.2 | 4.0 |
| Rest of Asia | 5.3 | 8.5 | 9.0 |
| Latin America | 3.5 | 3.8 | 3.8 |
| World | 51.1 | 61.2 | 62.3 |

# Other factors: new competition

# N.A. Newsprint Shipments

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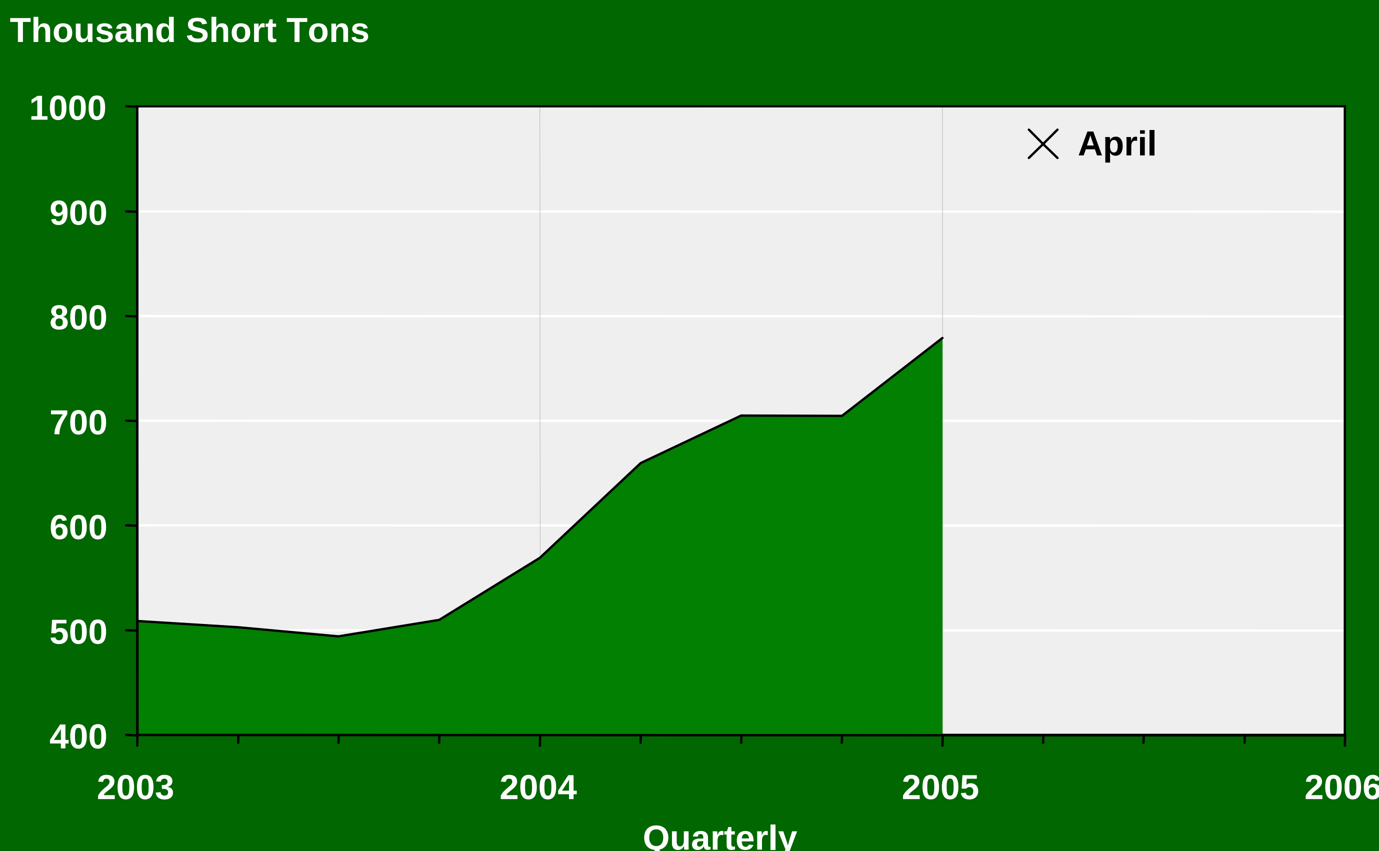
# N.A. UCGW “Super-Bright” Shipments (Annualized Rate)

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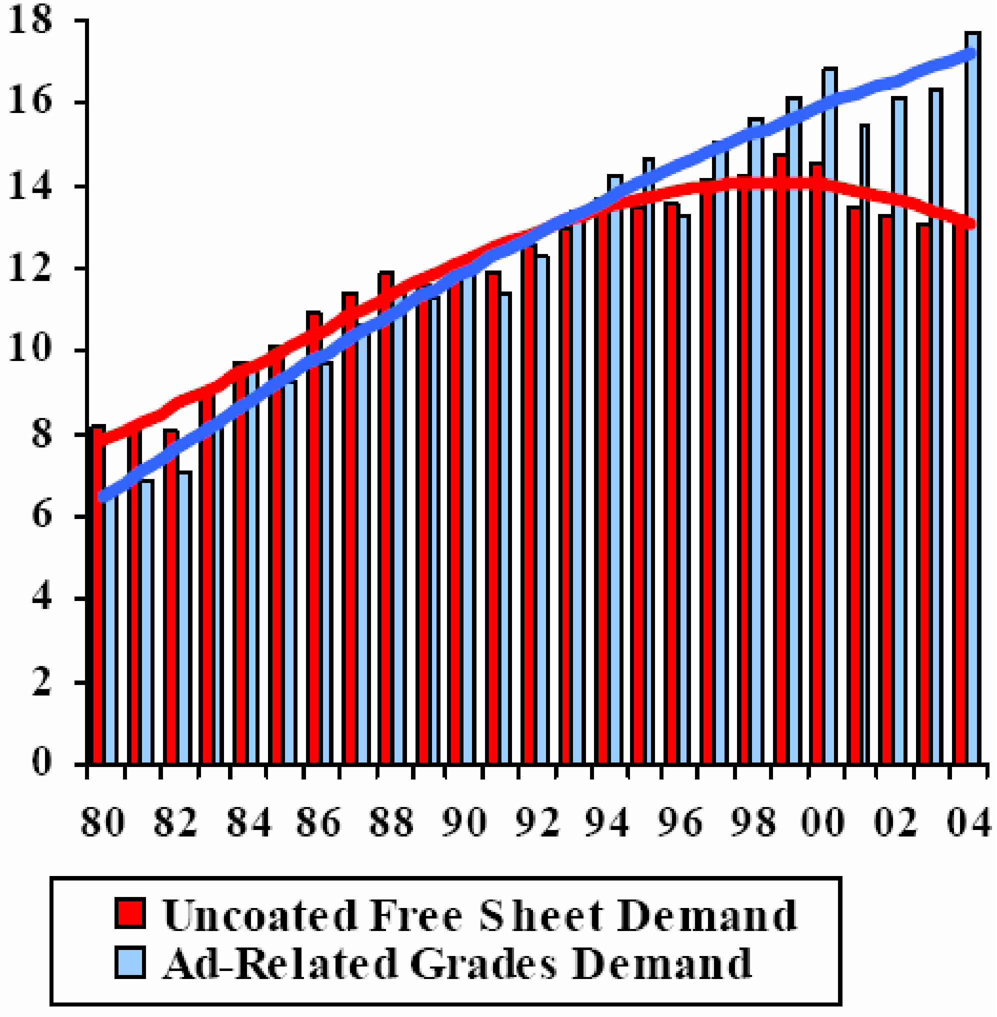
# UCFS demand: a closer look

Printing-Writing Papers

***Demand Rebounds For Advertising-Related Grades, Fall For Uncoated Free sheet***

Millions of Tons



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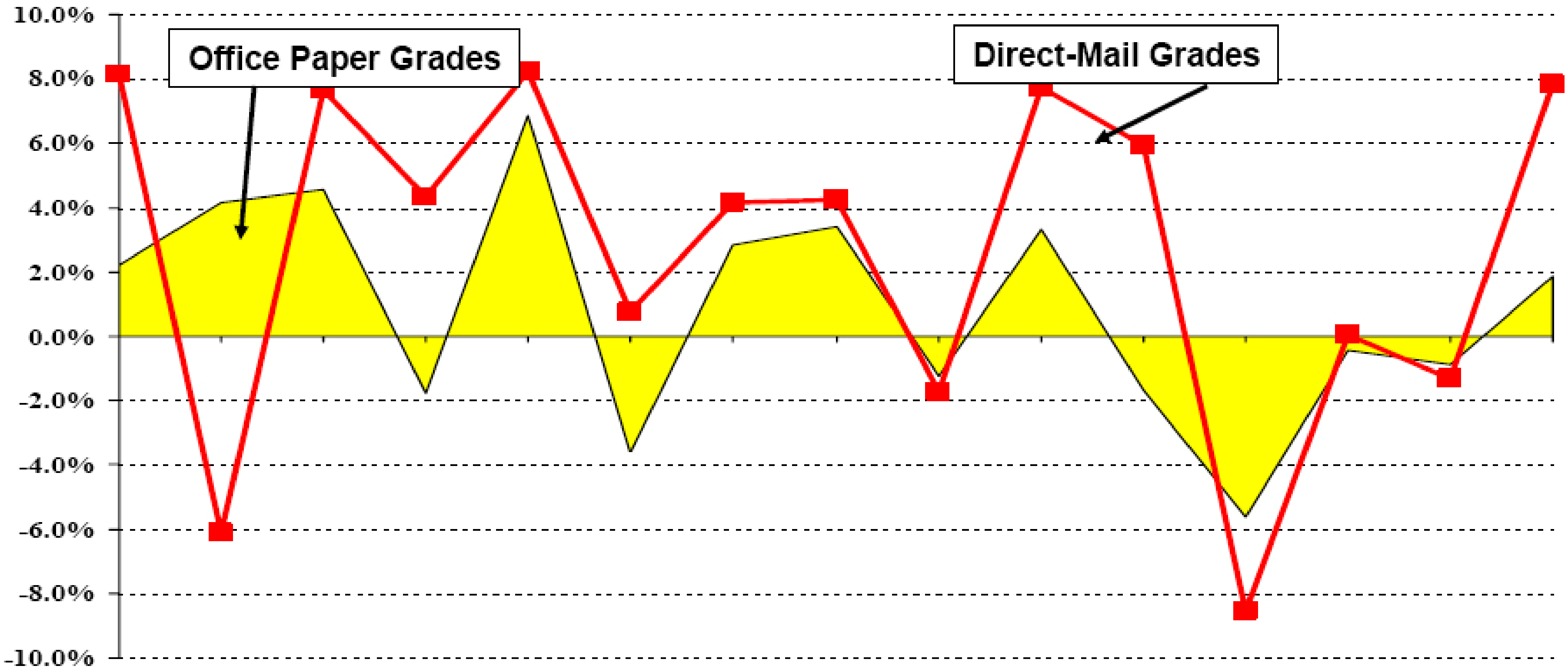
# ***Shipments Growth Faster For Direct-Mail Grades Than Office Paper Grades***

Year-Over-Year Changes



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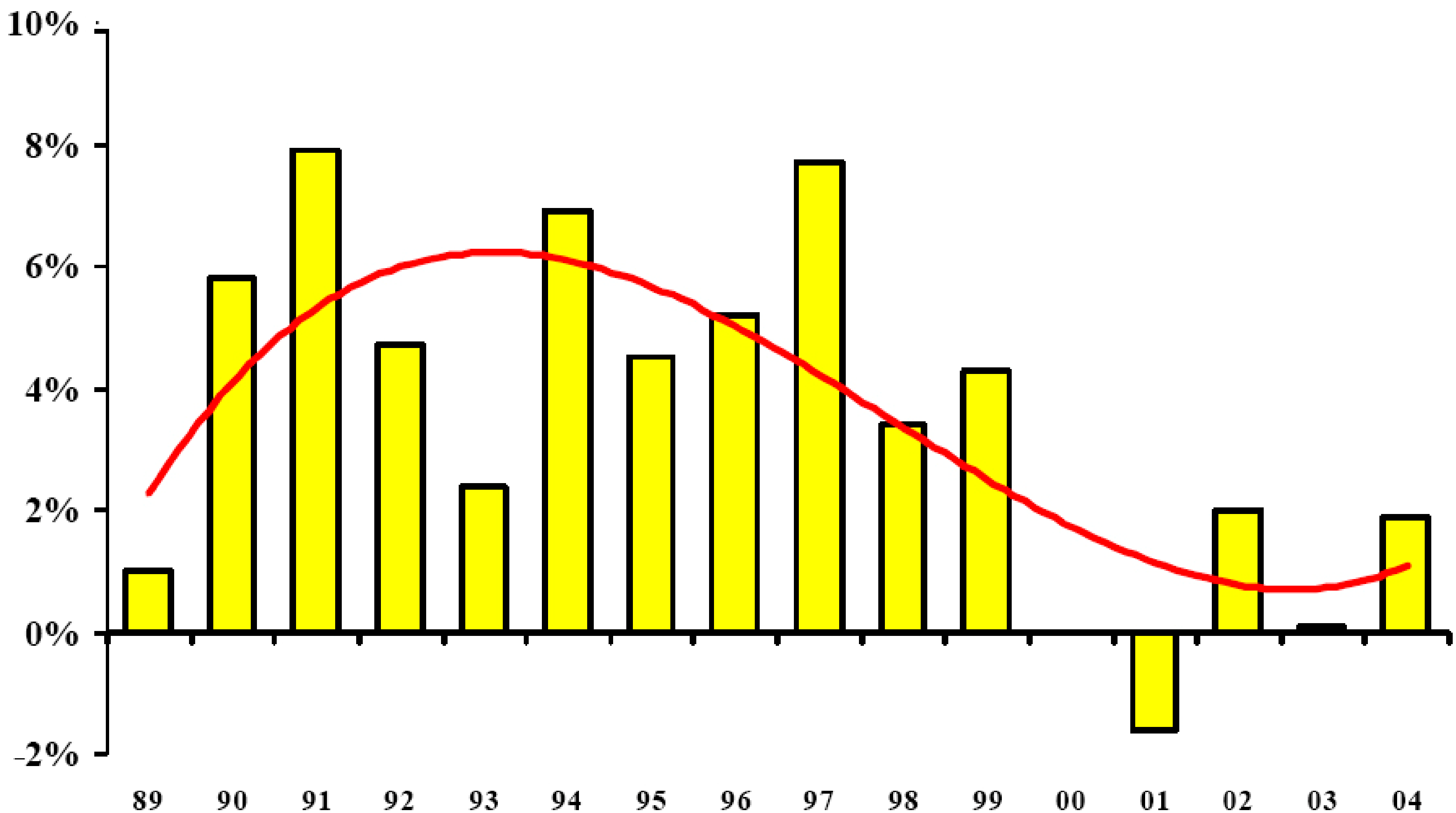
## ***Growth in Bond & Writing Paper Shipments Slump***

Year-over-Year Changes



# Conclusions

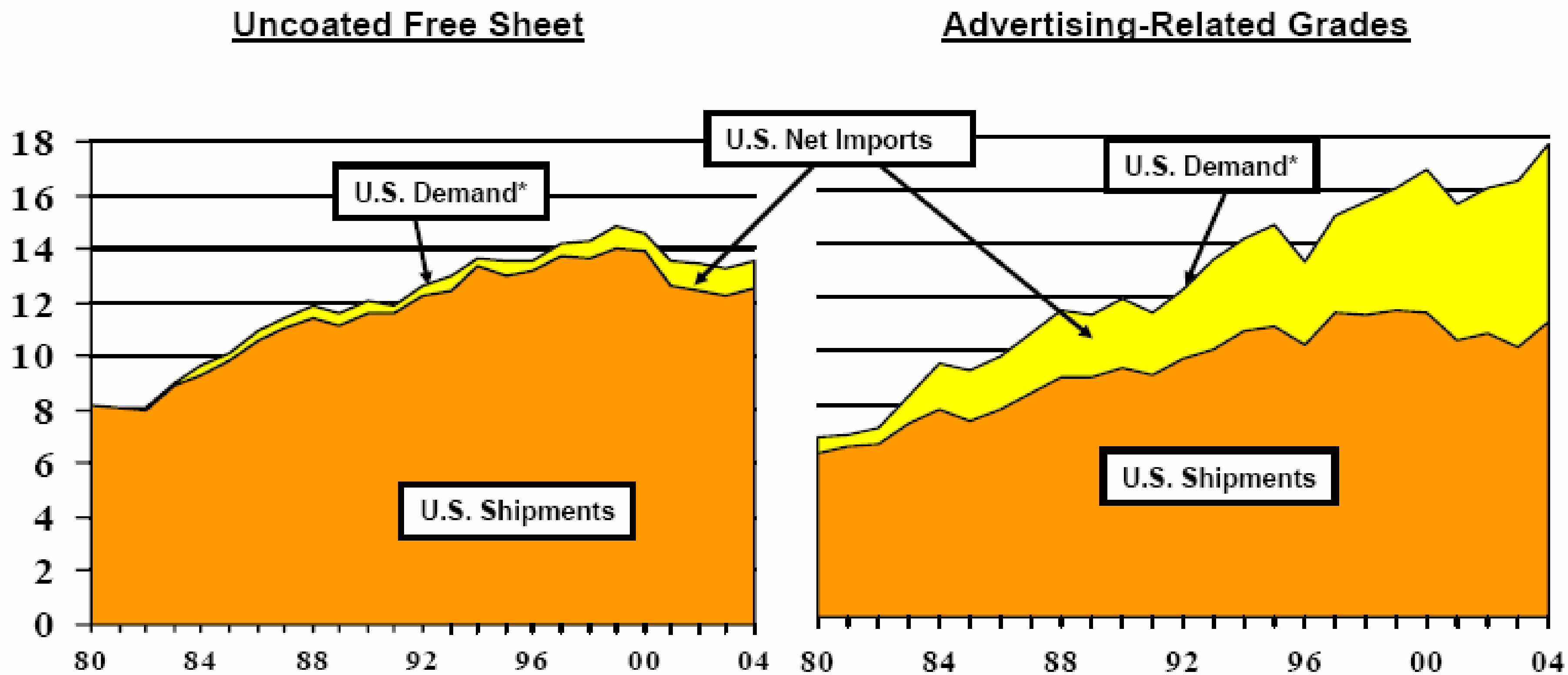
- Structural loss in UCFS demand will not be reversed
- Apparent uptick in demand for 2004 was largely an inventory build
- UCFS grades directed toward advertising and direct mail have performed better

# Import share of potential growth is increasing

Printing-Writing Grades

## *U.S. Shipments Of Advertising-Related Grades Versus Uncoated Free sheet*

Millions Of Tons




*Demand is equal to shipments plus net imports

# Import Share of North America Consumption

| | (%) | | |
|---|---|---|---|
| | 1995 | 2000 | 2005* |
| Coated Free Sheet | 6.7 | 12.8 | 25.0 |
| Coated Groundwood | 10.5 | 9.1 | 15.0 |
| Uncoated Free Sheet | 1.5 | 2.2 | 2.7 |

* Estimate

# UCFS Outlook

- North America demand will remain flat, and could even decline 1%-2% over 2005-2010 period
- Global demand will be no higher than 1-2%
- Lack of growth, combined with capacity creep, will force continued paper machine shutdowns
- Advertising related grades will experience cyclical periods of strength, but also downdrafts in demand
- Global consolidation will continue and probably accelerate

# Worldwide Market Share of UCFS Producers

*(Percent)*

| | 2005 Est | 2002 | 1999 | 1997 | 1992 |
|---|---|---|---|---|---|
| International Paper | 10.5 | 10.4 | 8.7 | 5.3 | 6.2 |
| Weyerhaeuser | 5.0 | 4.7 | 2.1 | 1.7 | 1.8 |
| Asia Pulp & Paper | 4.4 | 4.4 | 3.9 | 2.8 | 1.9 |
| Domtar | 3.8 | 3.8 | 1.5 | 1.5 | 1.6 |
| Nippon Unipac | 2.9 | 2.8 | 1.9 | 1.8 | 2.1 |
| Georgia Pacific | 1.8 | 1.9 | 3.6 | 4.1 | 5.1 |
| Champion | | | 2.9 | 3.6 | 3.7 |
| Stora Enso | 2.7 | 2.7 | 2.6 | | |
| UPM | 2.9 | | | 2.9 | 2.8 |
| Boise Cascade | 2.6 | 2.6 | 2.4 | 2.7 | 2.8 |
| Total | 26.6 | 26.1 | 21.7 | 18.7 | 20.6 |

# Wild Cards

- China leapfrog effect
- Mill Closures in Europe
- Potential forward integration of new pulp capacity
- Effect of offshoring US commercial print work to China