

PIMA President's Panel

The Paper Industry

An Investor Perspective

Kim Williams Retired Partner
Wellington Management Company, LLP
Orlando - May 22nd 2006

The Influence of the Institutional Investor

A Force for Good or Evil ?

The Analyst's Challenge

Investment Appeal of the Industry

- Relative importance
- Commodity, cyclical industry
- Capital Intensive
- History of poor returns
- Emergence of the Southern Hemisphere

Industry Performance 2004

Return on Capital Employed

US	Canada	Europe	Latin America	Asia Pacific
6.4%	4.4%	4.4%	10.2%	7.2%

Source : PricewaterhouseCoopers Global Forest and Paper Industry Survey 2005

Mistakes of the past

- Inability to earn cost of capital
- Too willing to solve problems with capital
- Market share focus
- No recognition that real prices falling
- Poor analysis of marginal cost

Change Underway

- Global consolidation
- Capacity rationalization and closures
- Discipline of supply management
- Capital spending below depreciation

Impact of change in industry behavior on stock price performance



Operating rates have improved

But ...

- Material improvement in profitability has yet to emerge
- Industry remains marginally profitable in spite of strong economic performance
- Price increases have been offset by cost pressures

Perception that the industry has missed the cycle

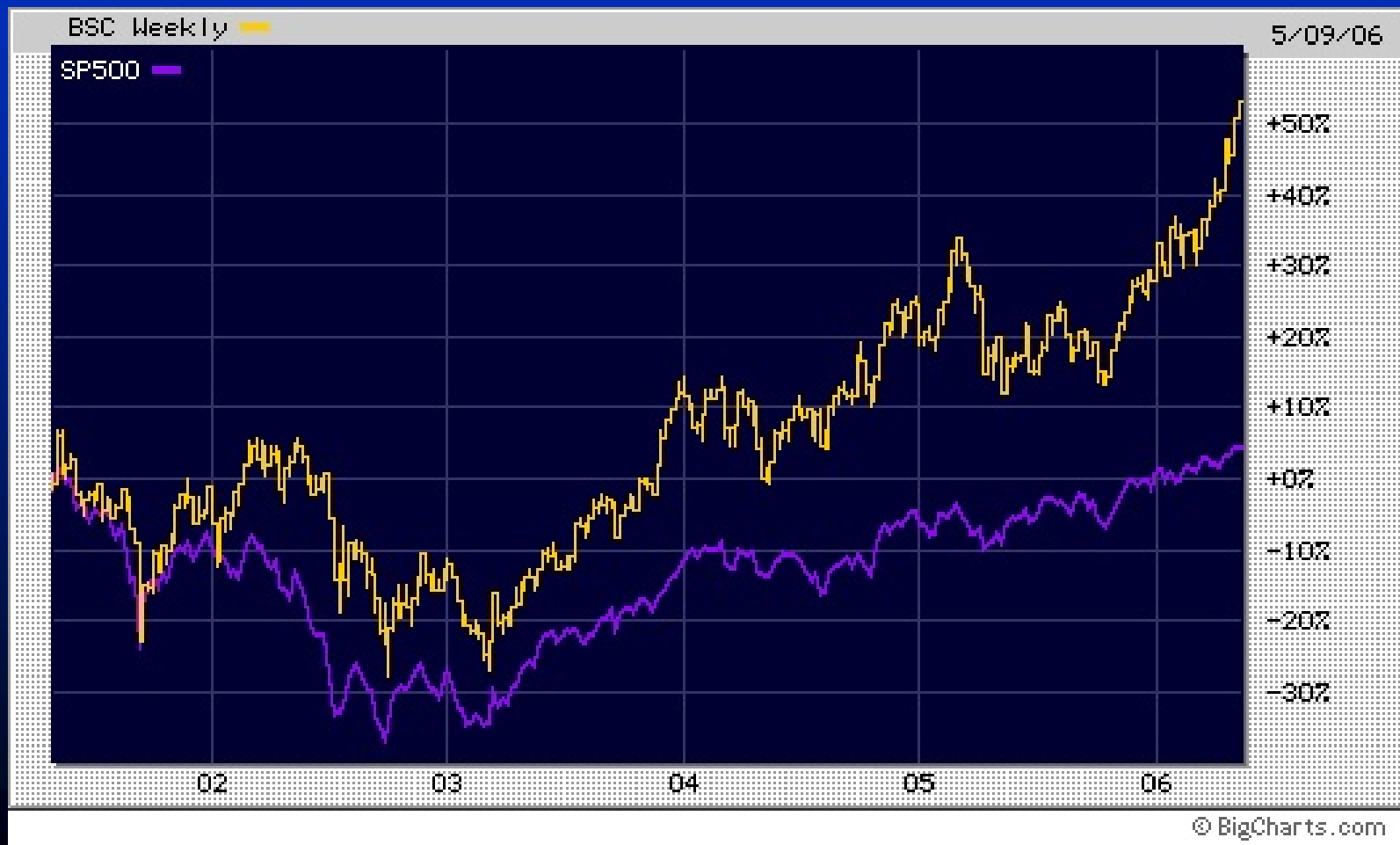
Secular issues also weigh on group performance

- Declining demand trends
- Price increases will induce further conservation
- Grade conversions will translate into excess capacity

No China story

There are alternatives

- Other cyclical industries have experienced strong earnings growth



What is the answer ?

- Stay the course
- Continue to address excess production capacity
- Cost reduction must be a way of life
- Continue to consolidate the industry and rationalize