



Value Creation Through Partnering

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Nice, France - March 29th, 2004

Value Creation Through Partnering

- **Overview of Canfor**
- **Challenges Facing the Pulp Industry**
- **The Opportunity to Create Value**

Overview of Canfor...

Overview of Canfor

- Canfor (CFP) is one of the largest producers of softwood lumber and northern softwood kraft pulp in Canada.
- Canfor also produces kraft paper, plywood, remanufactured lumber products, hardboard paneling and a range of specialized wood products, including baled fibre and fibre mat.
- Canfor had annual sales revenues in excess of \$Cdn 2 billion in 2003 and employs 6,290 people - 5,600 directly, with an additional 690 through affiliated companies.
- Canfor was founded in 1938 and is based in Vancouver, BC with the majority of woodlands operations and manufacturing facilities located in BC and Alberta.

Business Overview



- 57% of normalized revenue
- Lumber capacity of 800 million m³ (12 sawmills in BC, Alberta and Quebec)
- Plywood capacity of 45 million m³



- 36% of normalized revenue
- Pulp capacity of 1,360,000 tonnes including 50% ownership of the Howe Sound Pulp & Paper Mill



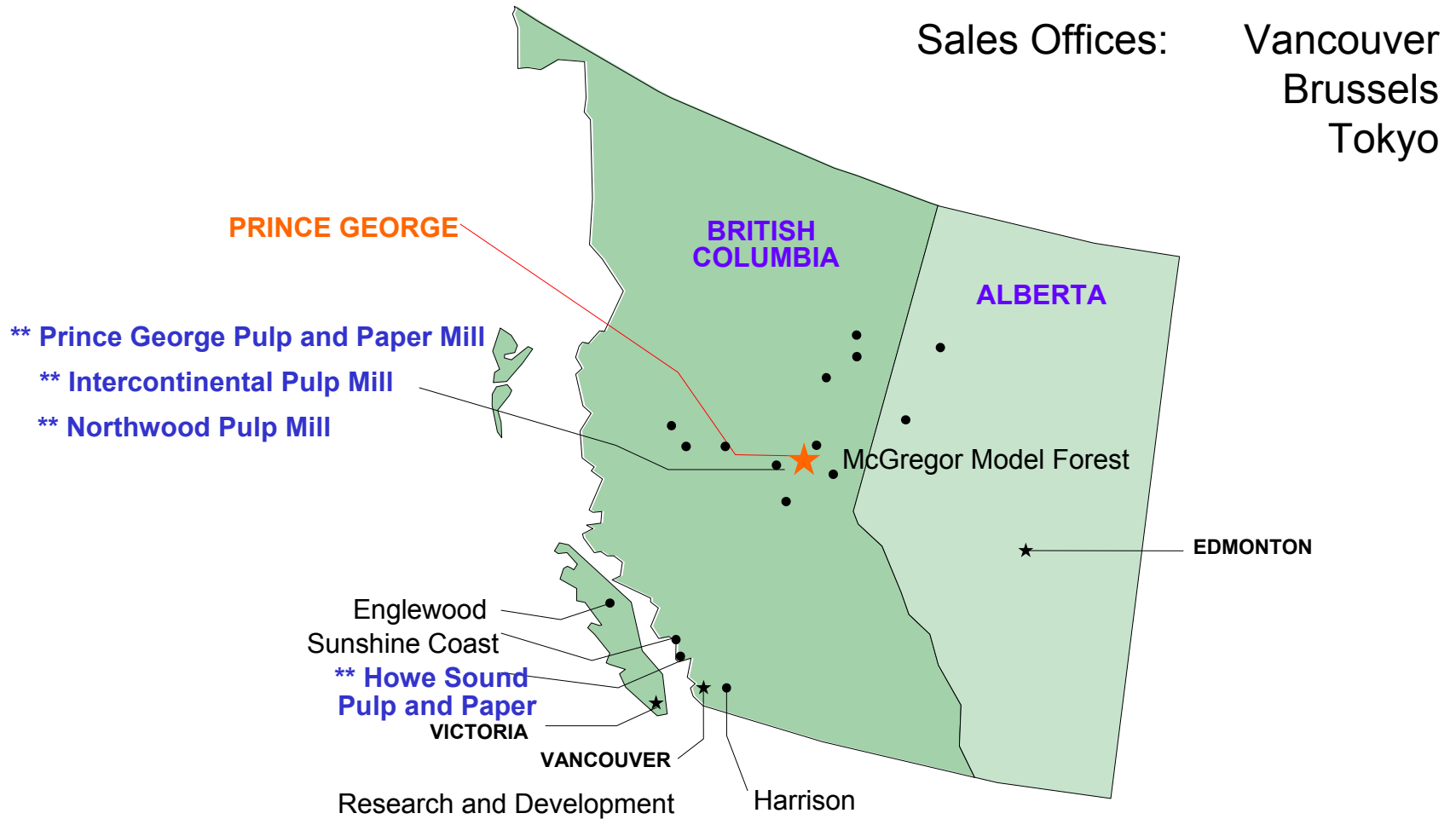
- 7% of normalized revenue
- Kraft paper capacity projected at 140,000 tonnes
- High margin specialty business



- 9.6 MM m³ of forest tenure
- 100% ISO14001 certified
- Majority CSA/SFI certified

Overview

Canfor's Operating Locations

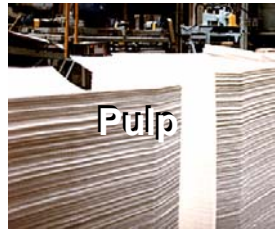


Overview

Canfor Slocan Merger – April 2004



- Lumber Capacity Grows to 1.3 billion m³
- Plywood capacity grows to 240 million m³



- Pulp capacity grows to 1,580,000 tonnes including 50% ownership of the Howe Sound Pulp & Paper Mill
- Adds 220,000 BCTMP capacity



- 7% of normalized revenue
- Kraft Paper capacity projected at 140,000 tonnes
- High margin specialty business



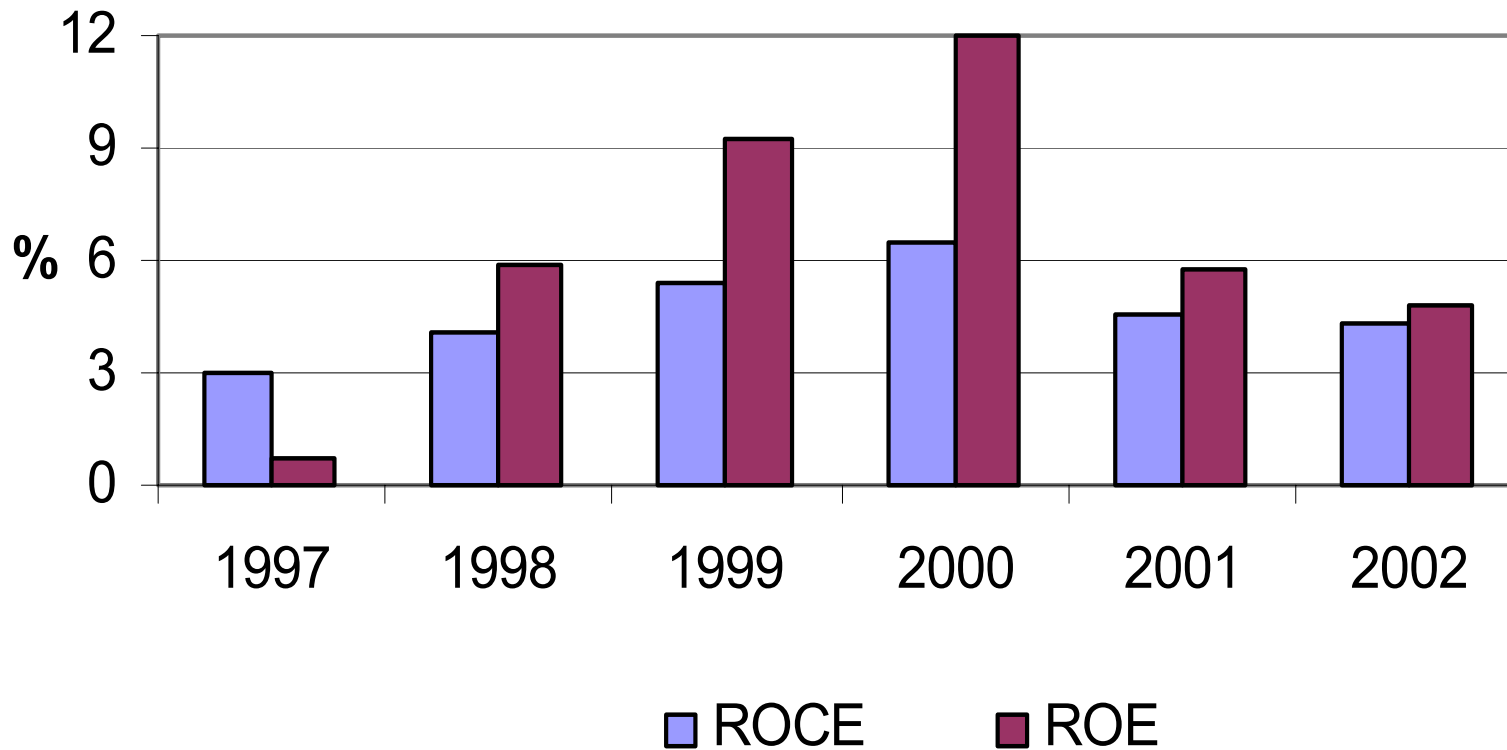
- Grows to 1.45 million m³ of forest tenure
- 100% ISO14001 certified
- Majority CSA/SFI certified

The Challenges...

The Challenges...

Financial Performance has been Unacceptable

Returns of 100 Top Pulp and Paper Producers



Source: PricewaterhouseCoopers

The Challenges...

Contributing Factors to Poor Financial Performance

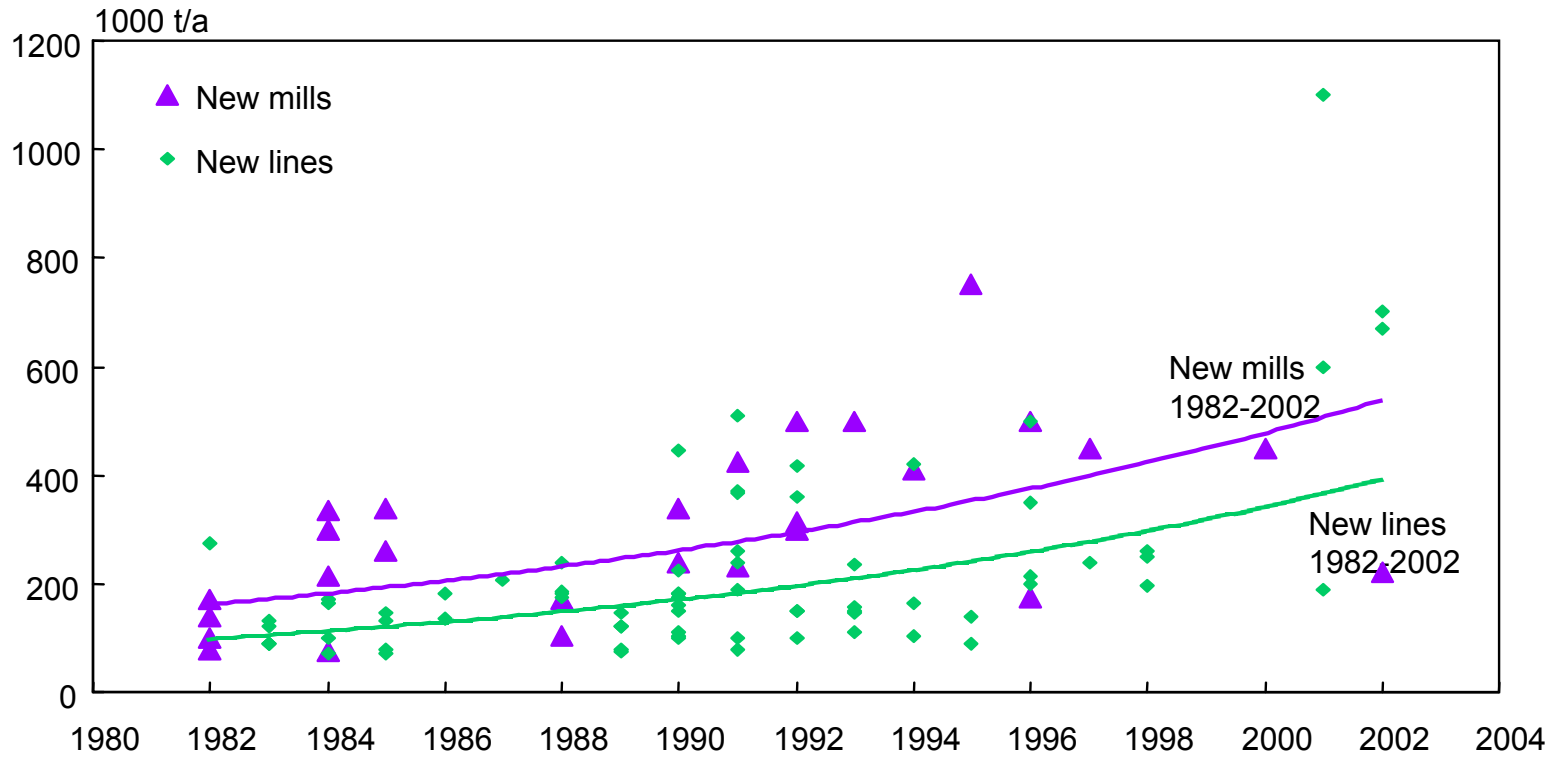
- **Mature Industry**
 - Demand growth has been anemic
 - Few new product introductions
 - Effect of electronic technology
- **Cyclical / Chronic Overcapacity**
- **Fragmented Industry Structure**
 - Global marketplace
 - No one supplier having more than 5% market share
- **Environmental and Legislative Expectations**
 - Increasing costs

The Challenges...

Industry response – Increase Asset Scale

Average Capacity of New Bleached Kraft Pulp Mills and Lines

The average capacity of new Greenfield mills and lines continues to grow – however, the scatter between the smallest and largest units is also widening.



Source: Jaakko Pöyry Consulting

The Challenges...

Industry Response - Consolidation

Highlights of the last 7 years

- Abitibi – Stone, Donohue, Pan Asia
- Aracruz – Riocell
- Bowater – Avenor, Alliance
- Canfor – Northwood, Slocan
- Domtar – 4 GP Pulp Mills
- Georgia Pacific – Fort James
- IP – Champion, Union Camp
- Mead – Westvaco
- Metsa Serla (M Real) – MODO, SCA, Zanders
- Myllykoski – MD Paper
- Norske – Pacifica / Fletcher Challenge
- Smurfit – Stone Containers, St. Laurent Paperboard
- Stora – Enso
- Stora Enso – Consolidated
- Tembec – Crestbrook, Marathon, Smooth Rock Falls, Matane la Rochette, Chetwynd
- UPM – Blandin, Repap NB, Haindl
- Wausau – Mosinee
- Weyerhaeuser – MB, Willamette

The Challenges...

ROI for NBSK is Dismal vs. HBK

- **Production cost is \$100 lower for Hardwood**
 - Yield is higher
 - Fiber costs are lower
 - Operating costs per tonne are lower

- **Average delivered price is only \$US 30-50 lower...**
 - 1993 – 2003 average price delivered to eastern US Mill*:
 - NBSK \$576
 - Eucalyptus \$543
 - N. Mixed HBK \$523

***numbers are real prices in constant 1996 US dollars**

Source: NLK, Hawkins Wright Cost Studies

The Challenges...

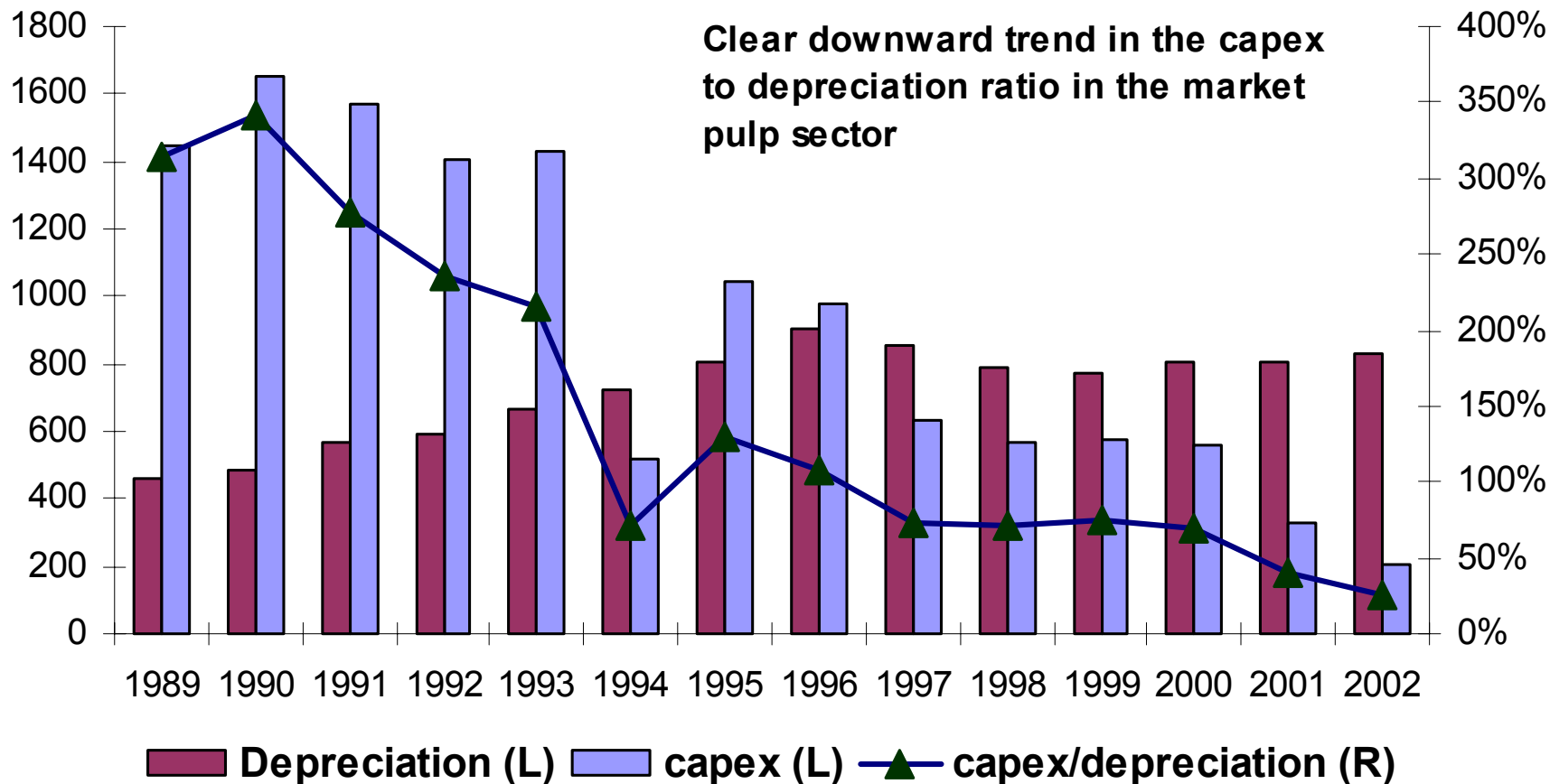
Consequences of Low NBSK ROIs

- **Lower Investment / R&D Activity for NBSK**
 - Relative efficiency and cost competitiveness is eroding further
 - Relative quality advantage gap is diminishing

- **Negative Consequences for Papermakers as well**
 - Customers receive no pulp innovations so limits their ability to introduce new paper products
 - Paper customers average cost of pulp is not falling as fast as desired

The Challenges...

Market Pulp Capital Expenditures to Depreciation Ratio, 1989-2002



Source: PPPC

The Challenges...

Positive Note – New NBSK Capacity is Limited

- Capacity increases for NBSK have been limited and are expected to be limited in the foreseeable future

World NBSK Capacity Changes 2001 - 2006

Company	Timing	Capacity
Skeena - Prince Rupert, Canada	2001 - Q1	-440,000
Stora Enso - Imatra, Finland	2001 - Q2	80,000
Metsa-Botnia - Joutseno, Finland	2001 - Q2	150,000
Norske - Powell River, Canada	2001 - Q4	-160,000
Stora Enso - several mills	2002 - Q1	-50,000
Sodra Cell AB, Sweden	2002 - Q3	75,000
Metsa-Botnia - Finland	2003 - Q1	30,000
UPM - Wisaforest, Finland	2004 - Q1	60,000
Norske - Elk Falls, Canada	2004 - Q2	-90,000
Stora - Wisconsin Rapids, USA	2004 - Q3	-170,000
Stendal - Germany	2004 - Q4	550,000
ILIM - Russia	2004 - Q4	100,000
Total		135,000

** Assumes Skeena does not restart in 2004

source: PPPC/Canfor Database

The Challenges...

Canadian Industry Has Additional Issues

- **Countervail duty**
 - Up to 27% duty on lumber has resulted in chip supply shortages / increase in cost of chips

- **Government intervention supporting non-competitive assets**
 - Artificially high pulp capacity

- **Challenging labour / tax climate**
 - Labour costs / inflexibility / manning requirements
 - Amortization and tax rates

The Challenges

Canadian Industry Consolidation

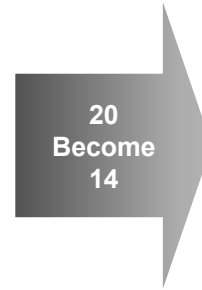
Western Forestry Companies

1990s

Ainsworth
Canfor
Crestbrook
Doman
Fletcher
Challenge
Harmac
Interfor

Lignum
MacMillan Bloedel
Northwood
Pacifica Papers
Pope & Talbot
Primex
Riverside

Slocan
TimberWest
Tolko
Weldwood
Weyerhaeuser
West Fraser



Today

Ainsworth
Canfor
Doman
Interfor
Lignum
NorskeCanada
Pope & Talbot

Riverside
Slocan
TimberWest
Tolko
Weldwood (IP)
Weyerhaeuser
West Fraser

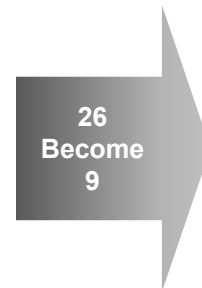
Eastern Forestry Companies

1990s

Abitibi - Price
Alliance Forest Products
Avenor
Buchanan
Cascades
Champion Newsprint
Davidson Industries
Domtar
Donohue

EB Eddy
Grant
Irving
Kruger
Malette
Nexfor
Paperboard
Industries Int'l
Perkins Papers
Quno

Rainy River
Repap
Rolland
Scott Paper
Spruce Falls
St. Laurent
Paperboard
Stone
Consolidated
Tembec



Today

Abitibi
Buchanan
Cascades
Domtar
Grant

Irving
Kruger
Nexfor
Tembec

The Challenges...

Canada's Capacity has Shrunk in the Last 5 years

Canada NBSK Capacity Changes 1999 - 2006

Company	Timing	Capacity
Gold River	1999 - Q1	-250,000
Skeena - Prince Rupert	2001 - Q1	-440,000
Norske - Powell River	2001 - Q4	-160,000
Norske - Elk Falls	2004 - Q2	-90,000
Total		-940,000

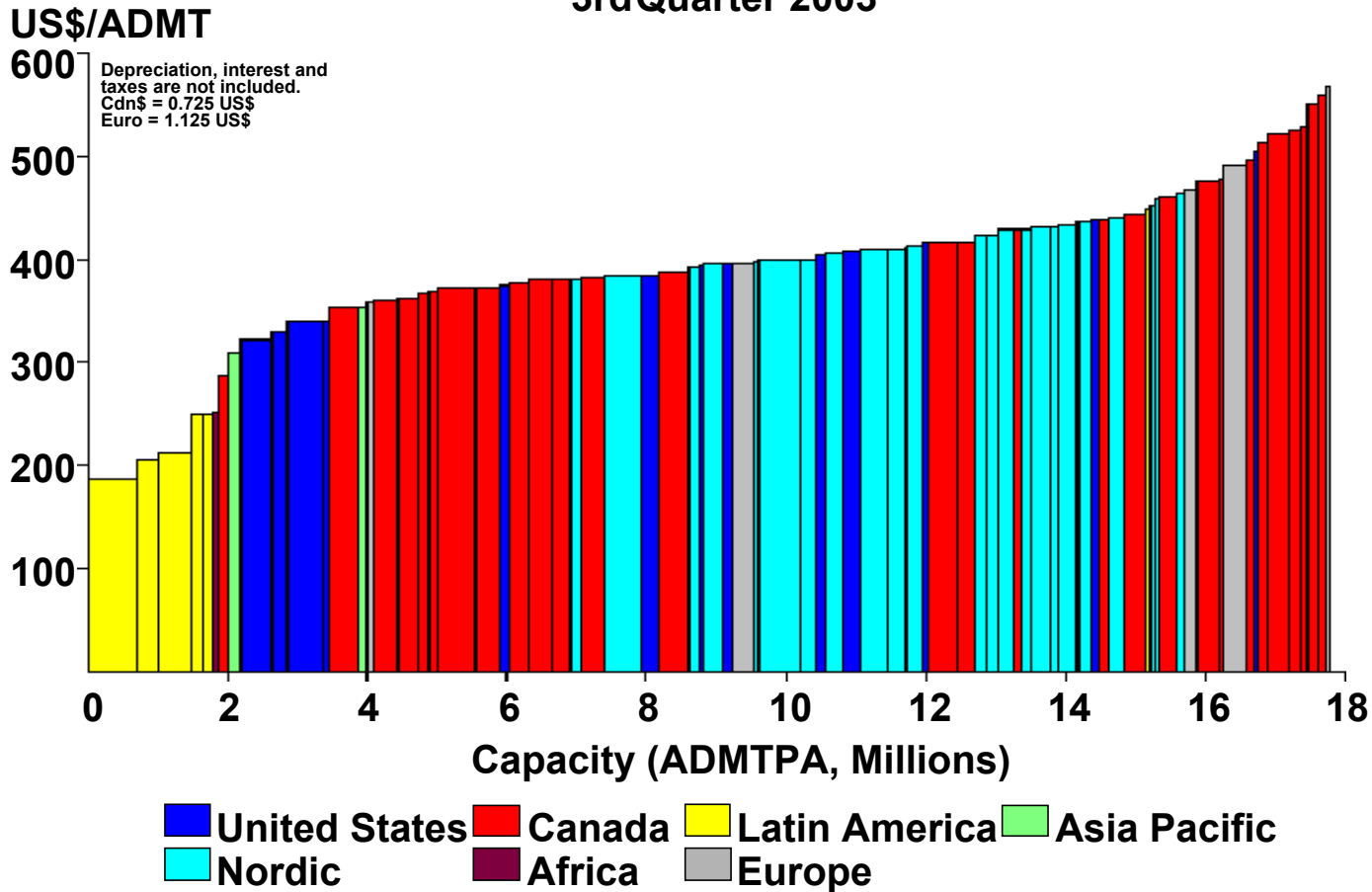
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source: PPPC/Canfor Database

The Challenges...

Today, Canadian NBSK Producers are High Cost

Bleached Softwood Market Kraft Manufacturing Cost Curve 3rd Quarter 2003



Source: NLK



Market Pulp
Conference 14

CANADIAN FOREST PRODUCTS LTD.

The Challenges...

Canfor's Response

- **Grow by Acquisition**
 - Northwood (1999)
 - Slocan (2004)
- **Drive Down Costs**
 - Targeted capital spending (energy, process control)
 - Manpower reduction / automation
- **Secure Raw Materials**
 - Acquisition + long term supply agreements
- **Grow with Strategic Customers**

The Opportunity...

The Opportunity...

Value Creation Through Partnering

Focus is upon Factors Within Our Control...

- **Fiber Procurement**
- **Cost Reduction**
 - Productivity Improvements
 - Process Control (run more consistently, less downtime and off grade)
 - Yield improvements (chemistry, fiber)
 - Maximum run rate increase (de-bottlenecking, process control)
 - Direct Cost Reduction
 - Major cost categories: Fiber, Energy, Chemicals, Labour
 - Supplier choice and relationship: total cost approach
- **Revenue Enhancement**
 - Technical fit
 - Transforming the relationship with key customers

The Opportunity... Value Creation Through Partnering

Technical Fit – What & Why

■ What is Technical Fit?

- Degree to which a product offering meets the performance requirements of a target end use application
- Fit between a customer's **need** and the unique, competitive advantages of a supplier's offering

■ Why Focus on Technical Fit?

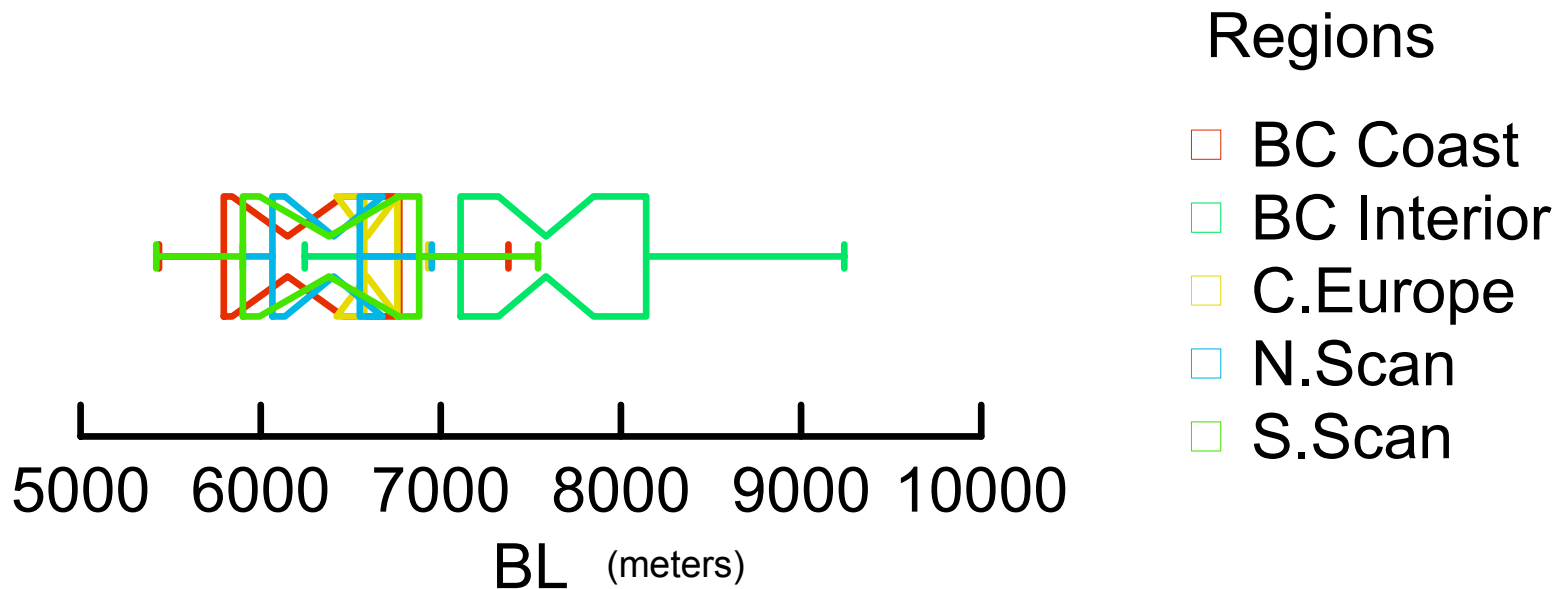
- It drives financial benefits
 - Enhances revenues
 - Reduces costs
- It strengthens the basis for the relationship beyond price

The Opportunity... Value Creation Through Partnering

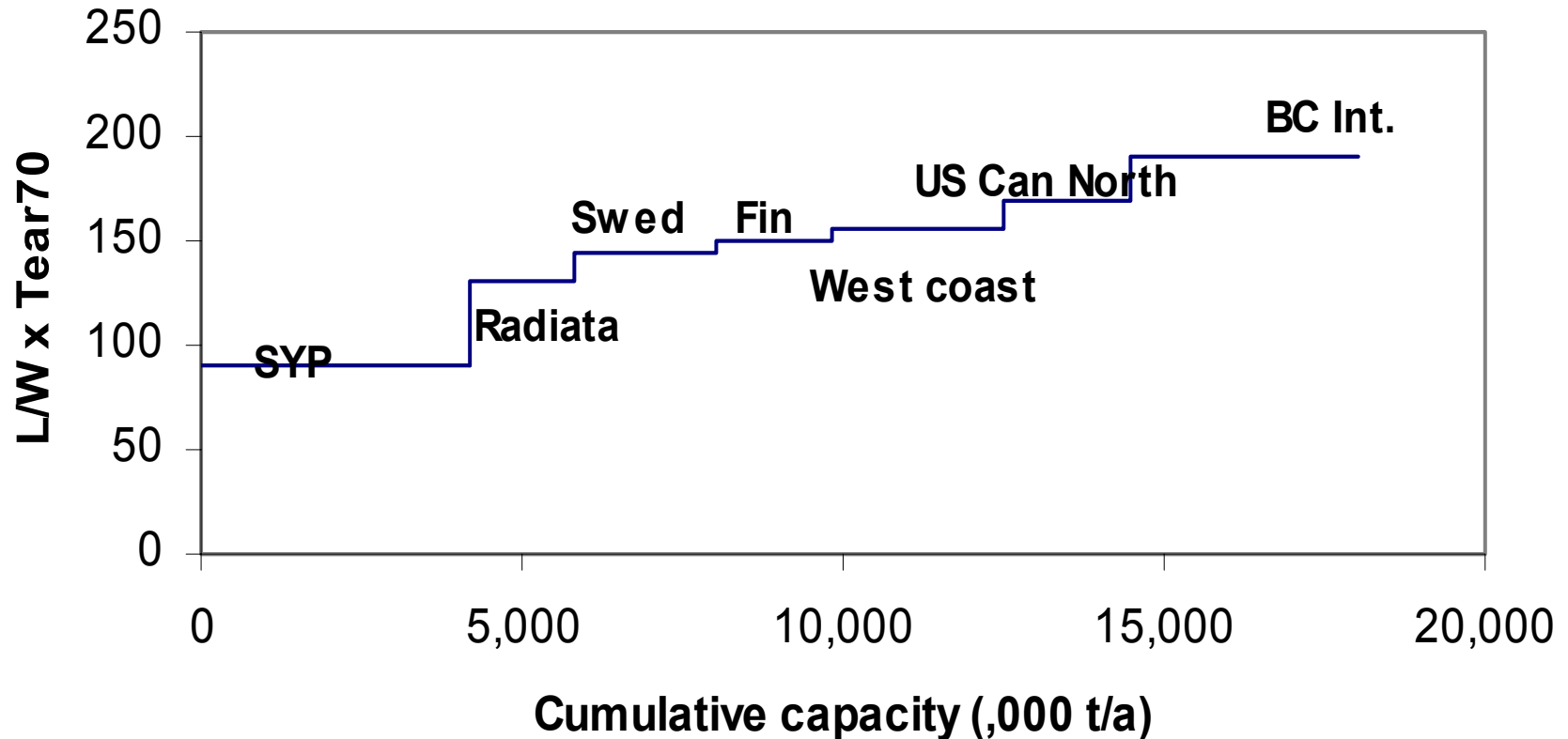
Technical Fit - Examples

- Strong, reinforcing pulps: Lightweight applications
- Defect Free, low conductivity pulps: Electrical applications
- High absorbency pulps: Feminine Hygiene, Medical and Baby products
- Short, thin walled pulps: Dimensionally stable grades (labels)
- Long, coarse pulps: Fiber cement board
- High bulk pulps: Filter grades

Technical Fit Example – Premium NBSK from BC Interior Natural Advantage in Tensile Strength

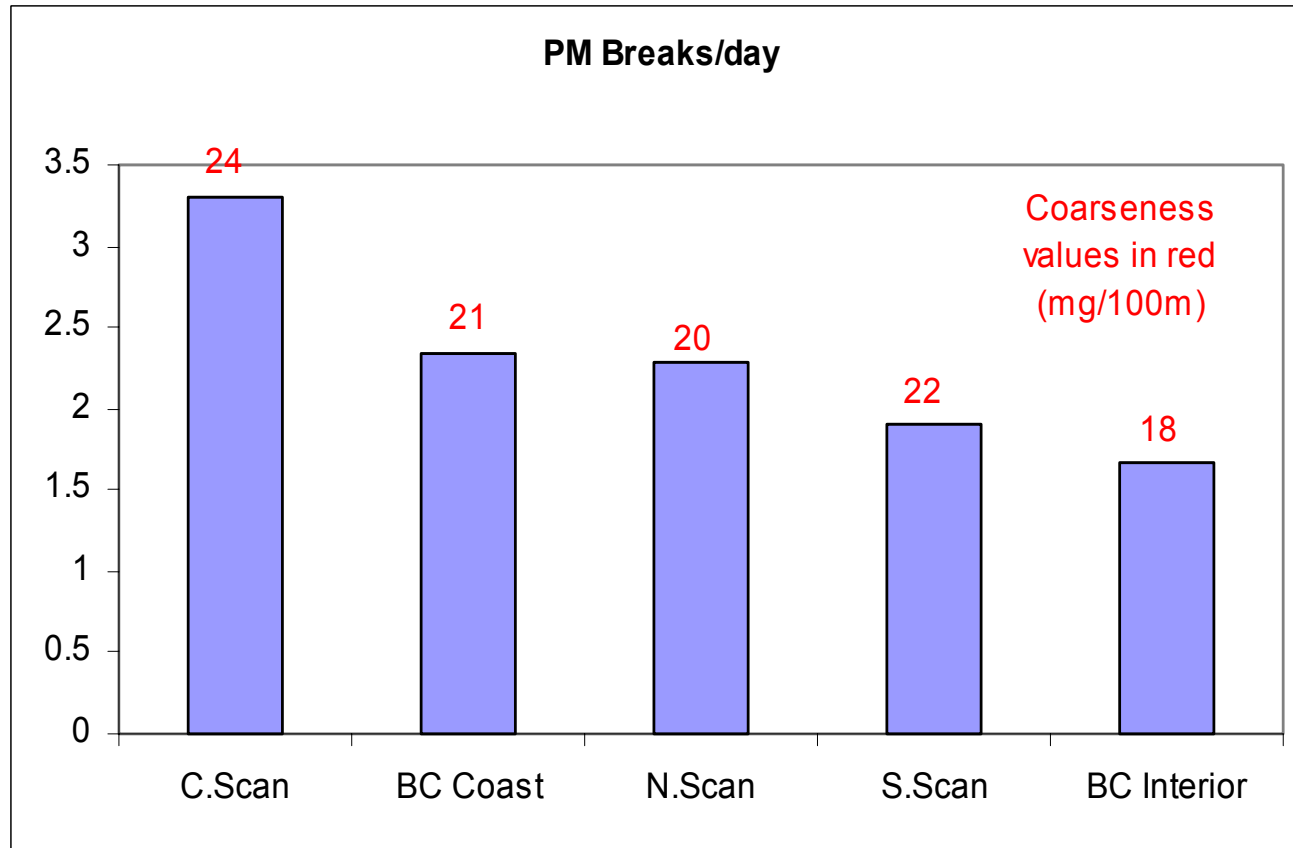


Technical Fit Example – Premium NBSK from BC Interior Top Reinforcement Ranking for LWC



[(Fibre length/coarseness) x tear at 70 N tensile strength]

Technical Fit Example – Premium NBSK from BC Interior Provides Superior Paper Machine Productivity



Components of Technical Fit

- **Grade score**

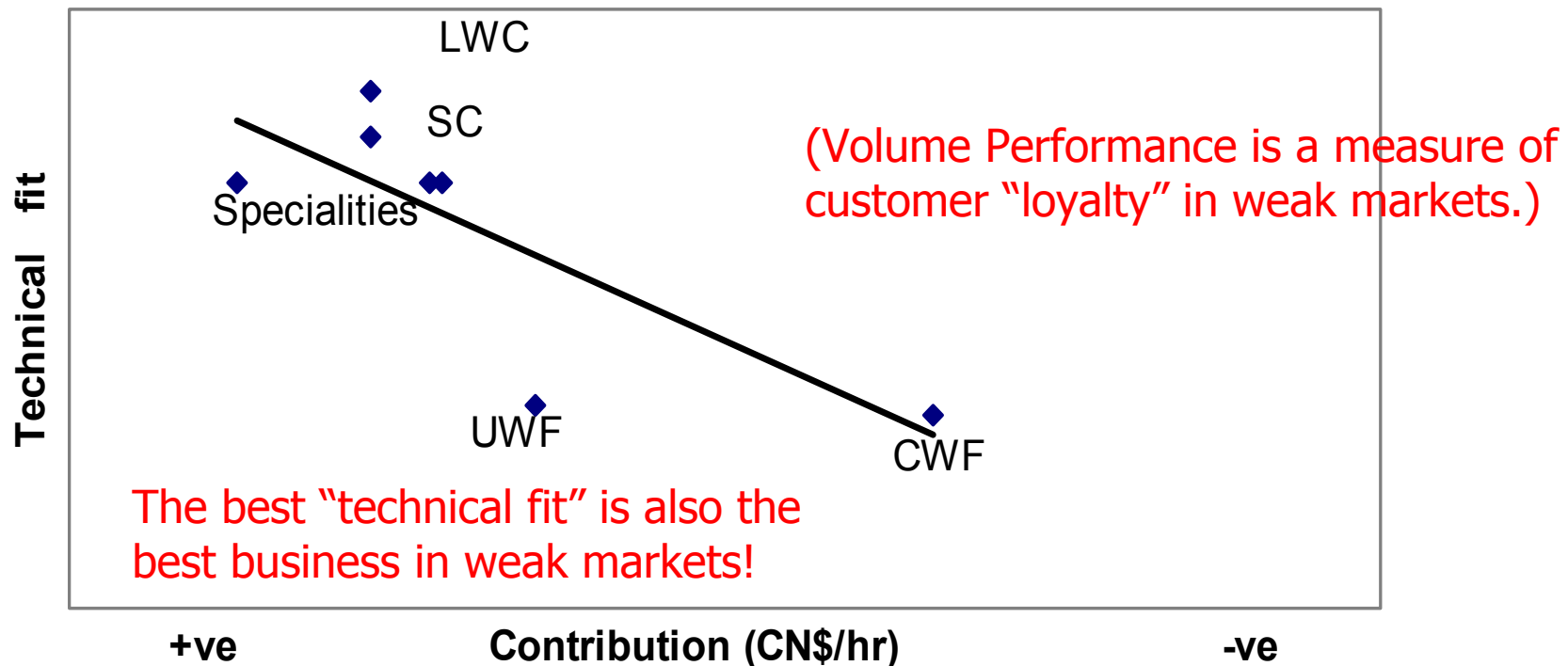
- Technical requirements for this paper grade?
- How well does a pulp fit the requirements?
- Competitive threats from other paper grades?

- **Customer score**

- Is a pulp used on its merits?
- Is customer technically demanding?
- Does the customer value and recognize the impact on their bottom line?

Technical Fit versus Volume Performance

Volume Performance adjustment (CN\$/hr)



The Opportunity... Value Creation Through Partnering

Customer Partnerships

- **What is meant by a customer partnership?**
 - A business relationship where the objective is mutual value creation (both parties are better off being together than apart)

- **What does it look like?**
 - Multiple points of contact / relationships (executive, management, first line supervisors, operators)
 - Mutual understanding of each other's goals and issues
 - Trust, open sharing of information and ideas
 - Ideas become actions which deliver real, measurable results
 - Supply Chain
 - Operational Performance
 - New Product Development

The Opportunity... Value Creation Through Partnering

Customer Partnerships – Potential Benefits

- **Grow / Stabilize Revenues**
 - New product development / customized pulps
- **Drive Out Costs**
 - Superior technical fit = superior paper machine performance
 - Fewer web breaks / increased productivity
 - Lower inclusion rates / lower furnish costs
 - Supply Chain Cost Reduction
 - Negotiate better rates
 - Change routing
 - Reduce working capital
 - Eliminate steps (ordering, receiving etc.)
- **Profit Share New Value Created**
 - Performance based commercial terms (volume stability, order size, ship to locations, product performance etc.)
 - Profit sharing of new value creating ideas

The Opportunity... Value Creation Through Partnering

Customer Partnerships – Key Success Factors

- **Starts with technical fit**
- **Needs executive sponsorship / commitment**
 - Partnership is a priority
 - Resources and time are committed
 - Scope and objectives are clearly defined
- **Needs effective tactical / implementation teams**
 - Team members from both companies are knowledgeable, motivated and have decision making authority
 - Meet regularly, establish a baseline, targets and specific action plans
 - Openly share information and ideas
- **Regular review, course correction, celebration of success**
 - Including third party audit of results

Summary

Value Creation Through Partnering

Pulp and paper industry has delivered unacceptable returns.

We need to focus on things we can control / have the most impact.

Marketing function can contribute meaningfully to both:

- Costs
- Revenues (Net Mills)

Two opportunities include:

- Technical Fit
- True Customer Partnering



Value Creation Through Partnering

The End