

Industries

Forest, paper & packaging

Growth*

Global Forest, Paper & Packaging
Industry Survey

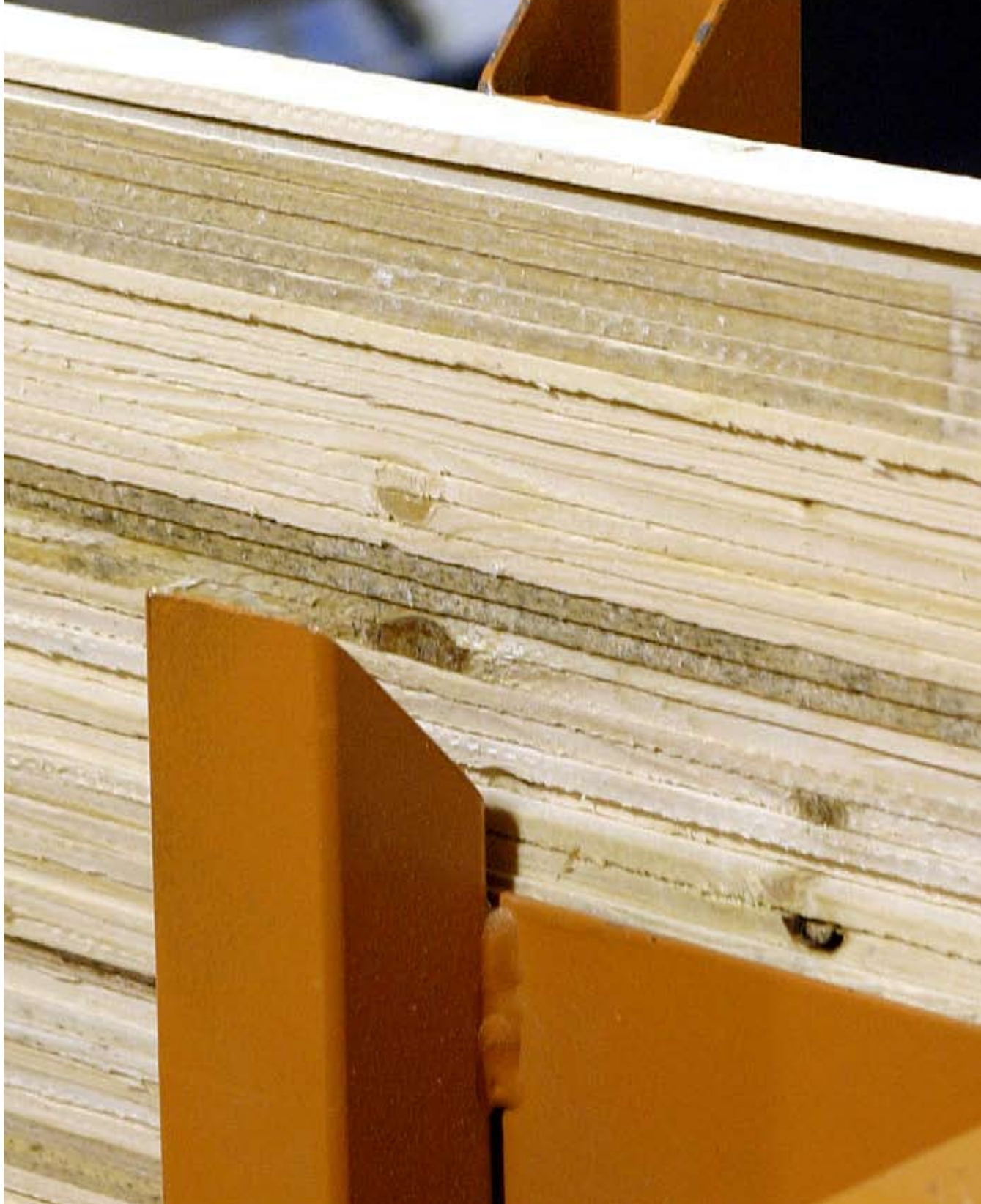
2007 Edition – Survey of 2006 Results



*connectedthinking

PRICEWATERHOUSECOOPERS 

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Leader's Message



Welcome to the PricewaterhouseCoopers Global Forest, Paper and Packaging† Industry Survey – 2007 Edition. The goal of the Survey, now in its 10th year, is to provide insight into the major companies, issues and events shaping the industry. This year's Survey summarizes the 2006 publicly available year-over-year financial information of the PwC Top 100, the 100 largest forest, paper and packaging companies in the world, ranked by sales revenue.

The Survey also includes an overview of the 20th Annual PricewaterhouseCoopers Global Forest and Paper Conference held in May 2007 in Vancouver, Canada. The conference drew more than 550 executives from around the globe, engaging them in dialogue about the challenges and opportunities facing the industry. More details can be found on page 30 and 31, and on our website: www.pwc.com/forestconf07. We look forward to hosting the 21st Annual Conference in Vancouver on 8 May, 2008.

The industry's performance on sustainability issues has long been under scrutiny. In a new departure, this year's Survey includes an article prepared by PricewaterhouseCoopers specialists reviewing the sustainability reporting practices of the PwC Top 100.

PricewaterhouseCoopers thought leadership and depth of industry knowledge have enabled us to not only satisfy our clients' business needs but to surpass their expectations by offering proactive solutions to help them identify and capitalize on trends. For more information about the services offered by the PricewaterhouseCoopers Global Forest, Paper and Packaging Industry Practice, please contact one of the PwC professionals in your region, as listed on page 43 of this report. We hope that you enjoy the 2007 edition of PricewaterhouseCoopers Global Forest, Paper and Packaging Industry Survey.

Robert Barnden
PricewaterhouseCoopers
Global Forest, Paper and Packaging Industry Practice Leader, Stockholm

Table 1: PwC Top 100 Companies
 (US \$ billions*)

	2006	2005	2004	2003	2002
Turnover	\$354.6	\$337.0	\$328.2	\$304.3	\$295.5
Operating profit	23.7	21.9	24.5	19.5	22.0
Net income	14.3	9.3	13.7	7.8	3.5
Return on equity (%)	5.9%	6.2%	9.4%	7.2%	8.0%
Return on capital employed ** (%)	5.1%	4.9%	5.3%	4.2%	4.3%
Capital expenditures	21.4	20.6	19.3	16.0	16.7
Depreciation	22.6	21.4	21.9	20.5	20.0
Cash flow from operations	34.3	29.9	35.7	28.7	30.6

* Throughout the Survey all currency references are in US dollars unless otherwise noted.

** Refer to the Methodology section on page 28 for the definition of return on capital employed.

† Inclusive of paper packaging only



The performance of the PwC Top 100 is strongly influenced by the general global economic environment.

While real GDP growth in the US, Europe (EU) and Japan was moderate (3.2%, 2.6% and 2.2%, respectively), economic conditions were more robust in emerging markets which led to growth of world real GDP from 4.9% in 2005 to 5.3% in 2006.

The increase was led by China with real GDP growth of 10.5%, India 9.2%, Russia 6.7% and Latin America 5.4%. The growth in these emerging markets continues to outpace the developed nations, and their influence on the global supply and demand equation has increased.

Of the many economic factors which have impacted the industry, those with the highest impact are the prolonged depreciation of the US dollar, continuing over capacity, high or increasing energy, transportation and raw material costs, and the shift of capital to the emerging markets.

Non-traditional investors, most notably private equity, are coming to play a key role in the industry and have been involved in at least one side of 15% of the deals transacted over the past four years in the Forest, Paper and Packaging sector.

In this Survey we comment on the impact of these global factors on the PwC Top 100.

Highlights Top 100



Foreign Exchange Impacts

Forest, paper and packaging producers are subject to fluctuations in foreign exchange rates, often incurring costs of production in one currency and selling in another. Trade in most forest, paper and packaging products is commonly denominated in US dollars. Due to the volatility in the US dollar over the past several years, foreign exchange rate movements have significantly impacted financial results. The impact of foreign currency movements has also become more significant with the increasing flow of international trade in the industry's raw materials and finished products.

The trend of the US dollar weakening relative to currencies of other forest, paper and packaging products producing countries continued throughout most of the year. Particularly noteworthy is that during 2006, the Brazilian real continued to appreciate, moving up 12% against both the US dollar and the Euro, and 18% against the Japanese Yen.

Energy Costs

Rapid economic expansion in China and other newly developing countries has contributed to rapid growth in energy demand. Consequently, prices for crude oil, coal and fuels have risen significantly. The price of oil, as measured by the average world crude price, increased by more than 15%, year-over-year, in US dollar terms. Prices for natural gas and liquid gas have also increased. Accordingly, due to its high energy consumption, forest, paper and packaging industry earnings were significantly impacted.

Figure 1: USD/Other Currencies

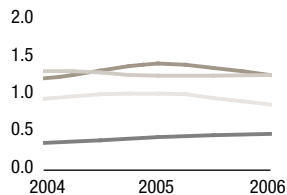


Figure 2: Euro/Other Currencies

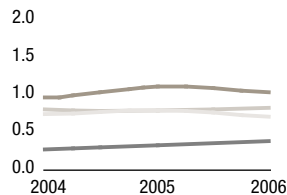
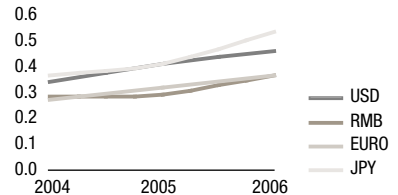


Figure 3: Brazilian Real/Other Currencies



RMB: Chinese Renminbi

Figure 4: Oil Prices Indices

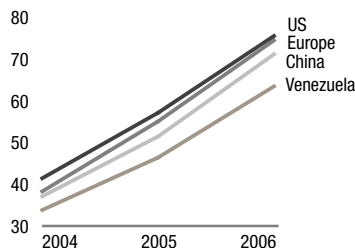
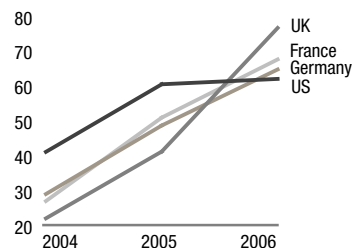


Figure 5: Electricity Prices Indices



Transportation Costs

Rising transportation costs continue to impact the forest, paper and packaging sector, which is heavily reliant upon road, rail and shipping for inbound and outbound logistics. Increasing fuel prices together with capacity shortages on many key transportation routes have led to increased transport costs for customers.

The Cockett Bunker Price Index (which is based on the weighted-averaged liftings and actual current spot prices of the three main bunker grades at 35 world ports) demonstrated the sharp increase in the spot rates for bunker grades during 2006 which translated into higher shipping costs (Figure 6).

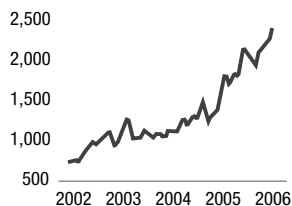
Emerging Market Impacts

The emerging market presence continues to impact the industry. With the suboptimal returns realized by traditional regions (North America, Western Europe, and Japan) for several years, investment dollars are continuing to migrate to the higher return regions of the emerging markets. This impacts both capital allocation decisions by producers, as well as equity investment decisions by portfolio managers.

In short, on the supply side, competitive advantage continues to shift towards South America and to a lesser extent other emerging low cost fiber producing regions; on the demand side, growth in the industry continues to be driven by the emerging markets, especially China.

China's continued growth and demand for raw materials, both for internal consumption and export manufacturing, has placed significant pressures on the supply and price of virgin and recycled fiber. In turn, this has increased costs for all producers.

Figure 6: Cockett Bunker Price Index



The China effect cannot be underestimated. Despite its own fiber deficit, China has become the world's second largest producer of wood and paper products, after the US. It has also become a major exporter of a wide range of forest-based products, both directly (panels, remanufactured wood products and paper) and indirectly (paper packaging for exports of consumer goods). China's development is the single largest driver of increasing international trade flows in raw materials for, and finished products of, the forest, paper and packaging industries.

These trends will not only continue, they are likely to accentuate. Trend projections suggest that before 2015, China will overtake North America as a producer of paper and board products. Collectively, China and other fast growing (and fiber short) Asian economies, notably India, could increase their current share of global paper and board production and consumption by as much as 50% by 2015.

Sales and Income

Total sales revenues in US dollars for the PwC Top 100 grew by 5% to \$354.6 billion compared to 2% in 2005. Operating profit increased by \$1.8 billion to \$23.7 billion. Net income rose from \$9.3 billion to \$14.3 billion. In addition to some improvement in operating earnings, net income received a boost from gains on asset disposals, notably International Paper's \$4.8 billion gain from sale of its forestlands. Cash flow from operations also increased year over year by 15% or \$4.4 billion.

Figure 7: Sales
(US \$ billions)

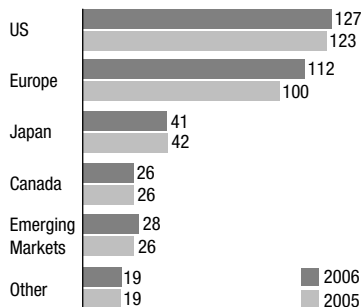
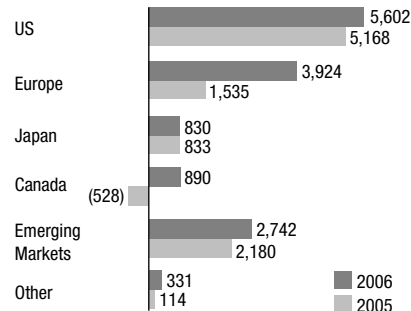


Figure 8: Net Income
(US \$ millions)



Return on Capital Employed

The average ROCE (return on capital employed) of the PwC Top 100 has increased from 4.9% to 5.1% in 2006. Sixteen companies earned a return of 10% or more (2005: 13 companies). Seven of the top 12 producers in terms of ROCE are from the emerging markets – four in Latin America and three Asia (including two from China). The remaining five are all North American-based.

Procter and Gamble (Baby and Family Care division), and Kimberly-Clark, with their focus on consumer hygiene products, featured amongst the North American companies in the Top 12 with ROCEs of 20.6% and 12.1% respectively. Although these returns were slightly down on 2005, North American tissue markets remain

healthy, and are not likely to feel the impact of low cost imports of tissue to the extent of other grades such as printing and writing papers.

This year marked the entry of another Chinese company – Shandong Sun Paper – to the PwC Top 100 list and also into the Top 12 ROCE performers. It joined Nine Dragons, which saw its ROCE climb more than two-fold to 14.2% as its strong investment in new containerboard capacity produced a surge in profits.

ROCEs for South American companies are on the rise as they generate strong increases in profits based on their low cost fiber sourcing and investment in modern production assets.

Table 2: ROCE Leaders

Company Name	Country	2006 ROCE	2005 ROCE
Procter & Gamble	US	20.6%	21.3%
Kimberly-Clark Mexico	Mexico	17.7	15.3
Aracruz	Brazil	15.8	12.9
Nine Dragons Paper	China	14.2	6.1
Klabin	Brazil	13.4	12.6
Rayonier	US	12.5	13.1
Kimberly-Clark	US	12.1	13.9
Votorantim Celulose (VCP)	Brazil	11.9	11.1
Siam Pulp & Paper	Thailand	11.5	10.1
Norbord (Nexfor)	Canada	11.4	23.7
Universal Forest Products	US	11.2	12.1
Shandong Sun Paper	China	10.6	12.9

Reinvestment Ratio

Reinvestment ratio, calculated as capital investment as a percentage of depreciation, measures the extent that capital investment is replacing aging assets.

In broad terms, results exceeding 1.0 indicate an expansion of capacity. Since 2000, the ratio has not exceeded 1.0 for the industry as a whole and in 2006 only Latin America, Japan, and the Asia Pacific groupings exceeded 1.0. This indicates that the largest forest, paper and packaging companies have been disinvesting for several years.

Figure 12: Reinvestment ratio

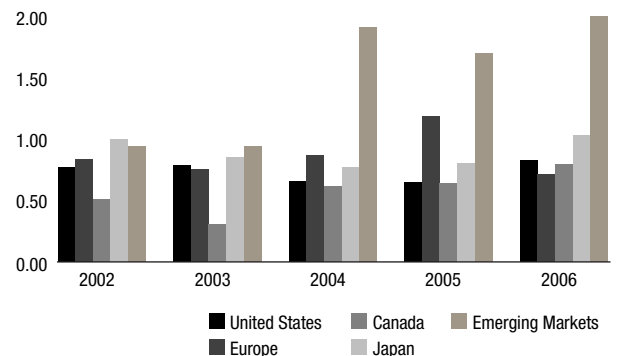


Figure 9: Highest Return on Capital Employed (%)

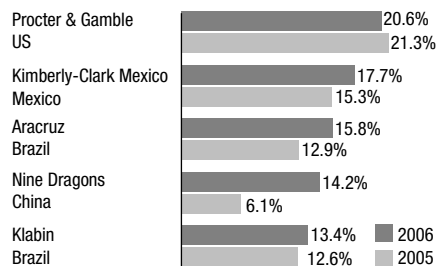


Figure 10: Highest Earnings (US \$ millions)

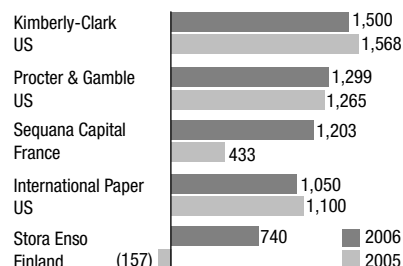
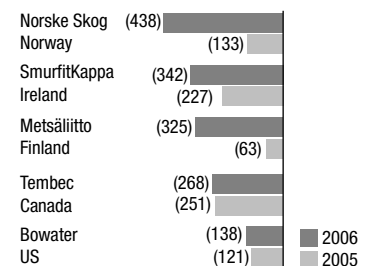


Figure 11: Largest Losses (US \$ millions)



PwC Top 100 2007

Table 3: Top 100 Global Forest, Paper and Packaging Industry Companies

(US \$ millions)

Rank '06	Rank '05	Company Name ¹	Country	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE ²	2005 ROCE ²
1	1	International Paper ³	US	\$21,995	\$21,700	\$1,050	\$1,100	5.3%	4.3%
2	2	Weyerhaeuser ⁴	US	18,561	19,131	142	261	3.1	4.4
3	3	Stora Enso	Finland	18,330	16,411	740	(157)	7.0	2.3
4	4	Kimberly-Clark	US	16,746	15,903	1,500	1,568	12.1	13.9
5	5	Svenska Cellulosa	Sweden	13,796	12,896	739	58	6.0	2.9
6	7	UPM ⁵	Finland	12,588	11,633	427	325	3.8	2.1
7	6	Procter & Gamble ^{5,3}	US	11,972	11,890	1,299	1,265	20.6	21.3
8	9	Metsäliitto	Finland	11,644	10,755	(325)	(63)	0.7	0.3
9	8	Oji Paper	Japan	10,439	10,762	181	394	3.2	4.2
10	10	Nippon Unipac	Japan	9,908	10,713	148	221	1.7	2.3
11	17	Smurfit Kappa	Ireland	8,833	5,490	(342)	(227)	4.0	1.7
12	12	Anglo American (Mondi)	UK	7,493	6,956	464	296	6.4	5.2
13	11	Smurfit-Stone ³	US	7,157	6,812	(59)	(327)	2.1	1.0
14	13	MeadWestvaco	US	6,530	6,170	93	28	3.7	2.0
15	14	Boise Cascade	US	5,780	5,907	72	121	6.3	9.2
16	16	PaperlinX	Australia	5,574	5,793	49	128	3.8	6.5
17	23	Temple-Inland	US	5,558	4,961	468	176	5.2	2.3
18	15	Amcor ^{3,5}	Australia	5,441	5,067	136	87	7.3	7.0
19	18	Sequana Capital ⁶	France	4,998	4,975	1,203	433	0.9	(0.1)
20	19	Sappi	South Africa	4,941	5,018	(4)	(213)	2.9	1.1
21	22	Norske Skog	Norway	4,495	3,993	(438)	(133)	2.1	2.1
22	20	Asia Pulp and Paper ⁸	Singapore	4,404	4,800	N/A	N/A	N/A	N/A
23	21	Abitibi Consolidated	Canada	4,279	4,408	48	(289)	1.9	(1.2)
24	26	Sonoco	US	3,657	3,529	182	162	9.8	8.4
25	28	Bowater	US	3,530	3,484	(138)	(121)	(0.8)	0.2
26	27	Domtar	Canada	3,518	3,503	289	(275)	3.5	0.1
27	25	Daio Paper	Japan	3,460	3,590	80	39	3.2	3.1
28	24	Rengo	Japan	3,459	3,656	112	102	3.6	3.6
29	35	Sumitomo ⁵	Japan	3,403	2,739	19	23	1.2	2.0
30	29	Canfor	Canada	3,389	3,126	416	79	(0.1)	4.3
31	31	DS Smith	UK	3,046	2,956	8	71	3.2	5.3
32	33	Cascades ³	Canada	3,001	2,730	3	(80)	3.5	2.0
33	34	Cartiere Burgo ³	Italy	2,991	2,837	27	84	2.1	5.6
34	30	Tembec ³	Canada	2,939	2,894	(268)	(251)	(2.7)	(1.5)
35	32	West Fraser Timber	Canada	2,933	2,951	351	89	4.3	4.3
36	39	Arauco	Chile	2,850	2,374	619	438	10.2	8.5
37	36	Universal Forest Products	US	2,665	2,692	70	67	11.2	12.1
38	41	Holmen	Sweden	2,529	2,183	198	168	6.4	5.6
39	38	Graphic Packaging	US	2,413	2,384	(101)	(91)	1.1	0.4
40	45	Unicharm ³	Japan	2,325	2,234	132	149	10.5	9.4
41	44	CMPC ³	Chile	2,260	1,991	205	225	4.3	5.2
42	37	Louisiana-Pacific	US	2,235	2,599	124	456	5.1	16.3
43	48	Packaging Corp of America	US	2,187	1,994	125	53	8.5	4.0
44	42	Sodra	Sweden	2,161	2,132	172	94	10.5	6.1
45	40	Carter Holt Harvey	NZ	2,146	2,307	103	76	3.7	3.1
46	53	Rock-Tenn	US	2,138	1,734	29	18	4.8	4.1
47	50	Sonae Industria	Portugal	2,134	1,816	40	46	1.9	5.6
48	57	NewPage Corporation ³	US	2,038	1,281	(32)	(57)	2.7	1.4
49	49	Ahlstrom	Finland	2,009	1,932	72	77	5.1	6.4
50	43	Mitsubishi Paper	Japan	1,965	2,131	62	(224)	3.8	(3.7)

1. All companies have December 31, 2006 year ends except those listed below:

March 31, 2006: All Japanese companies
 April 30, 2006: DS Smith
 June 30, 2006: Amcor, Buckeye Technologies, PaperlinX, Carter Holt Harvey, Nine Dragons Paper
 September 30, 2006: Rock-Tenn, Sappi, Tembec

2. Return on Capital Employed is calculated as net income before unusual items, minority interest, and interest expense, on an after tax basis, divided by average total assets less average non-interest bearing current liabilities.

3. 2005 Sales have been restated.

4. Weyerhaeuser results exclude the Real Estate Division

5. Results are reported for identifiable forest segment only. Estimates have been made to allocate company-wide expenses as required.

Rank '06	Rank '05	Company Name ¹	Country	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE ²	2005 ROCE ²
51	52	Mylykoski	Finland	\$1,925	\$1,809	\$(48)	\$21	4.6%	2.5%
52	51	Mayr-Melnhof Karton	Austria	1,900	1,811	133	118	9.2	8.6
53	47	Kimberly-Clark Mexico ³	Mexico	1,848	1,705	325	278	17.7	15.3
54	46	The Lecta Group ³	UK	1,810	1,762	22	19	3.2	4.1
55	74	Pfleiderer	Austria	1,778	1,033	105	36	7.8	5.3
56	54	Hansol Paper	Korea	1,706	1,641	(119)	27	(3.4)	3.4
57	–	SIG Group	Switzerland	1,694	1,502	83	58	8.1	5.9
58	64	Aracruz	Brazil	1,681	1,345	455	341	15.8	12.9
59	59	Catalyst	Canada	1,660	1,505	(14)	(21)	0.0	0.9
60	–	Ilim ⁷	Russia	1,658	1,400	N/A	N/A	N/A	N/A
61	56	Plum Creek Timber Co.	US	1,627	1,576	317	354	8.7	9.8
62	60	Potlatch	US	1,608	1,496	139	33	9.8	3.6
63	58	APRIL ⁷	Singapore	1,550	1,550	N/A	N/A	N/A	N/A
64	66	Shandong Chenming	China	1,477	1,186	75	74	6.5	5.4
65	55	Daiken	Japan	1,430	1,624	21	14	4.1	5.1
66	69	Suzano	Brazil	1,429	1,145	205	205	5.8	8.5
67	65	Portucel	Portugal	1,357	1,281	157	79	7.4	4.1
68	62	Hokuetsu Paper ³	Japan	1,322	1,373	28	65	2.0	4.1
69	70	Votorantim Celulose (VCP)	Brazil	1,317	1,130	372	264	11.9	11.1
70	63	Tomoku	Japan	1,271	1,345	20	14	2.6	2.6
71	61	Norbord (Nexfor)	Canada	1,252	1,462	97	248	11.4	23.7
72	71	Klabin	Brazil	1,251	1,111	218	79	13.4	12.6
73	67	Rayonier	US	1,230	1,181	193	189	12.5	13.1
74	98	Yuen Foong Yu Paper	Taiwan	1,220	1,130	37	44	2.9	5.3
75	72	Wausau-Mosinee Paper	US	1,188	1,097	18	(19)	3.7	(1.7)
76	77	Siam Pulp & Paper	Thailand	1,109	1,000	93	91	11.5	10.1
77	73	Appleton Papers	US	1,087	1,047	11	(3)	6.6	3.7
78	68	Nampak	South Africa	1,047	1,115	47	36	8.1	1.8
79	78	Billerud	Sweden	999	914	42	(24)	5.7	1.9
80	97	P H Glatfelter	US	997	579	(12)	39	(0.8)	2.2
81	80	Caraustar Industries ³	US	990	967	47	(103)	1.7	4.9
82	96	Nine Dragons Paper	China	988	589	172	37	14.2	6.1
83	76	Chuetsu Pulp & Paper	Japan	955	1,004	3	14	0.6	1.6
84	79	Longview Fiber ⁸	US	951	898	19	10	4.0	3.4
85	83	Cheng Loong	Taiwan	901	799	24	12	3.2	1.4
86	86	Grupo Industrial Durango	Mexico	892	748	(6)	5	2.4	1.7
87	87	Masisa SA	Chile	887	744	30	26	2.4	2.4
88	95	Kinnevik (Korsnas) ⁹	Sweden	858	618	78	27	2.1	2.4
89	81	Pope & Talbot	US	841	849	46	(50)	(0.9)	(7.2)
90	82	Sveaskog	Sweden	820	824	291	82	4.6	1.8
91	89	ENCE ³	Spain	812	732	63	80	5.4	8.3
92	93	Mercer International ⁹	Canada	784	563	80	(146)	5.4	(0.5)
93	85	Groupe Gascogne	France	758	750	13	(33)	3.6	(5.4)
94	75	Ainsworth	Canada	730	1,030	(95)	126	(2.5)	14.3
95	88	Buckeye Technologies	US	728	713	2	20	(4.9)	7.0
96	91	Interfor	Canada	727	689	84	16	6.7	9.8
97	84	Fraser Papers	Canada	702	758	(101)	(24)	(6.8)	(2.8)
98	90	The Pack	Japan	695	709	24	22	10.4	8.5
99	92	Schweitzer-Mauduit	US	655	670	(1)	19	3.4	5.0
100	–	Shandong Sun Paper	China	647	610	37	34	10.6	12.9
Total				\$354,591	\$337,042	\$14,319	\$9,302	5.1%	4.9%

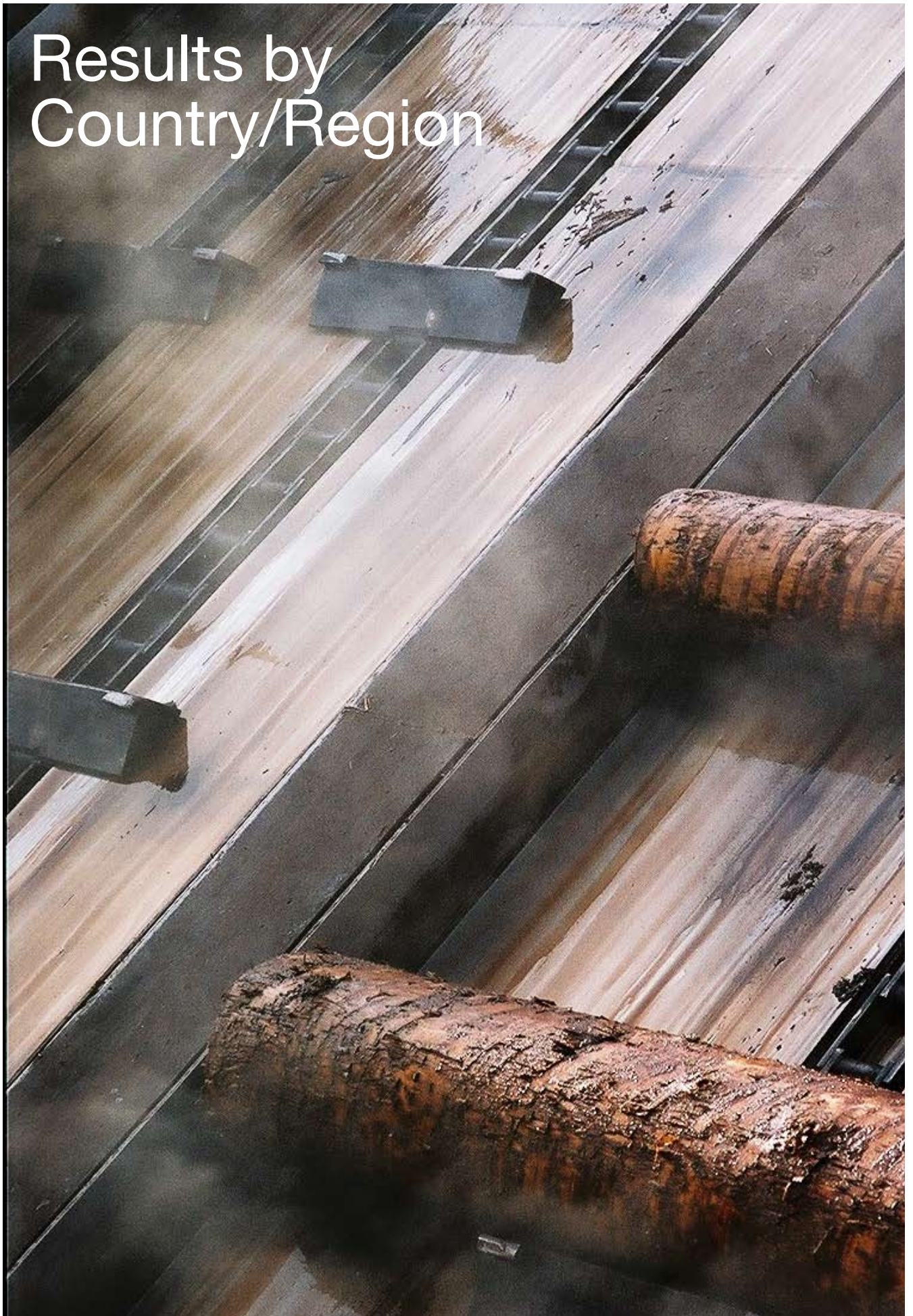
6. Sequana recorded gains on discontinued operation of \$1.2 billion (2005: \$698 million)

7. Results are based on estimates which have not been included in aggregate ratio calculations.

8. Longview Fiber year end changed from October to December.

9. Results presented exclusive of Gains/Losses from changes in fair value of financial assets.

Results by Country/Region



In the following pages the PwC Top 100 companies are reported in the geographic region which corresponds to the location of their head office.

United States

The sales of the 27 US companies in the PwC Top 100 increased by \$3.8 billion, and net income increased from \$5.2 billion to \$5.6 billion.

A weak dollar, falling demand for newsprint and other products, slowdown in housing construction, and the results of years of low capital investment contributed to sluggish performance in the North American market.

US wood product companies suffered from the slow down in housing starts; US paper companies continued to suffer margin pressures, exacerbated by the growing competition from emerging market producers.

US GDP increased by 3.2% in 2006 compared to 3.5% a year prior. Growth has slipped in 2007 YTD, mainly due to the housing sector. The US dollar closed out lower against other major forest, paper and packaging producing currency bases. Profits were negatively impacted by higher raw material costs, labor prices, energy prices and increased transportation costs.

US housing starts decreased by 12.9%, from an average of 2.1 million units in 2005 to 1.8 million units in 2006. This reduction occurred mainly in the second half of 2006.

Several US companies in the PwC Top 100 continued to rationalise their assets and dispose of their non-core holdings. Notable dispositions include Weyerhaeuser's disposition of 11 packaging plants, its North American composite paper operations and the combining of its fine paper business with Domtar. International Paper substantially completed the disposal of all businesses earmarked for divestment under its Transformation Plan, retaining industrial and consumer (non-beverage) packaging and uncoated wood free paper (plus North American merchanting), and disposing of virtually all its North American forestlands.

As the industry realigns globally, deal activity has risen in North America with the US taking the lead. Overall, the North American share of global M&A activity reached \$17.3 billion, or 67% of total forest, paper and packaging deal values of \$25.7 billion executed in 2006. Private equity investors continue to be pivotal players behind the M&A activity in the US forest products sector.

Results by Country/Region

Table 4: Top US Forest, Paper and Packaging Companies

(US \$ millions)

Company Name	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE	2005 ROCE
International Paper	\$21,995	\$21,700	\$1,050	\$1,100	5.3%	4.3%
Weyerhaeuser	18,561	19,131	142	261	3.1	4.4
Kimberly-Clark	16,746	15,903	1,500	1,568	12.1	13.9
Procter & Gamble	11,972	11,890	1,299	1,265	20.6	21.3
Smurfit-Stone	7,157	6,812	(59)	(327)	2.1	1.0
MeadWestvaco	6,530	6,170	93	28	3.7	2.0
Boise Cascade	5,780	5,907	72	121	6.3	9.2
Temple-Inland	5,558	4,961	468	176	5.2	2.3
Sonoco	3,657	3,529	182	162	9.8	8.4
Bowater	3,530	3,484	(138)	(121)	(0.8)	0.2
Universal Forest Products	2,665	2,692	70	67	11.2	12.1
Graphic Packaging	2,413	2,384	(101)	(91)	1.1	0.4
Louisiana-Pacific	2,235	2,599	124	456	5.1	16.3
Packaging Corp of America	2,187	1,994	125	53	8.5	4.0
Rock-Tenn	2,138	1,734	29	18	4.8	4.1
NewPage Corporation	2,038	1,281	(32)	(57)	2.7	1.4
Plum Creek Timber Co.	1,627	1,576	317	354	8.7	9.8
Pottlatch	1,608	1,496	139	33	9.8	3.6
Rayonier	1,230	1,181	193	189	12.5	13.1
Wausau-Mosinee Paper	1,188	1,097	18	(19)	3.7	(1.7)
Appleton Papers	1,087	1,047	11	(3)	6.6	3.7
P H Glatfelter	997	579	(12)	39	(0.8)	2.2
Caraustar Industries	990	967	47	(103)	1.7	4.9
Longview Fiber	951	898	19	10	4.0	3.4
Pope & Talbot	841	849	46	(50)	(0.9)	(7.2)
Buckeye Technologies	728	713	2	20	(4.9)	7.0
Schweitzer-Mauduit	655	670	(1)	19	3.4	5.0
TOTAL	\$127,064	\$123,244	\$5,602	\$5,168	5.4%	5.5%



Western Europe

The GDP for the EU increased by 2.6% during 2006. This growth was reflected in most of the EU members with a pick-up in Germany being a major factor. GDP growth in the EU area in 2007 is projected to lose momentum in 2007 and 2008 as governments tighten fiscal policy, and due to the strength of the Euro and an anticipated increase in interest rates.

European producers continued to face difficult market challenges in 2006. Despite an increase in net income to

\$4 billion (on sales of \$112 billion), the industry's financial results have been less than satisfactory. Increases in energy and raw materials costs have forced companies to continue to find new ways to make their operations more efficient. Furthermore, the industry continues to face over-capacity and increased global competition. The decline of the US dollar in comparison to the Euro has been a further challenge, putting additional pressure on export margins. One redeeming feature was that adjacent markets in Eastern Europe continued to show above average growth.

Table 5: USD – Top European Forest, Paper and Packaging Companies
(US \$ millions)

Company Name	Country	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE	2005 ROCE
Stora Enso	Finland	\$18,330	\$16,411	\$740	\$(157)	7.0%	2.3%
Svenska Cellulosa	Sweden	13,796	12,896	739	58	6.0	2.9
UPM	Finland	12,588	11,633	427	325	3.8	2.1
Metsäliitto	Finland	11,644	10,755	(325)	(63)	0.7	0.3
Smurfit Kappa	Ireland	8,833	5,490	(342)	(227)	4.0	1.7
Anglo American (Mondi)	UK	7,493	6,956	464	296	6.4	5.2
Sequana Capital	France	4,998	4,975	1,203	433	0.9	(0.1)
Norske Skog	Norway	4,495	3,993	(438)	(133)	2.1	2.1
DS Smith	UK	3,046	2,956	8	71	3.2	5.3
Burgo	Italy	2,991	2,837	27	84	2.1	5.6
Holmen	Sweden	2,529	2,183	198	168	6.4	5.6
Sodra	Sweden	2,161	2,132	172	94	10.5	6.1
Sonae Industria	Portugal	2,134	1,816	40	46	1.9	5.6
Ahlstrom	Finland	2,009	1,932	72	77	5.1	6.4
Myllykoski	Finland	1,925	1,809	(48)	21	4.6	2.5
Mayr-Melnhof Karton	Austria	1,900	1,811	133	118	9.2	8.6
The Lecta Group	UK	1,810	1,762	22	19	3.2	4.1
Pfleiderer	Austria	1,778	1,033	105	36	7.8	5.3
SIG Group	Switzerland	1,694	1,502	83	58	8.1	5.9
Portucel	Portugal	1,357	1,281	157	79	7.4	4.1
Billerud	Sweden	999	914	42	(24)	5.7	(1.9)
Kinnevik (Korsnas)	Sweden	857	618	78	27	2.1	2.4
Sveaskog	Sweden	820	824	291	82	4.6	1.8
ENCE	Spain	812	732	63	80	5.4	8.3
Groupe Gascogne	France	758	750	13	(33)	3.6	(5.4)
TOTAL		\$111,757	\$100,001	\$3,924	\$1,535	4.9%	3.5%

Cost cutting and increasing efficiency were the way most companies dealt with these issues. Over capacity has been reduced to some extent through production curtailments and/or plant closures but excess capacity remains in several grades. The problem with excess capacity is that it drives industry pricing behavior, even in grades where market power is relatively concentrated. Hence, without changing traditional pricing behaviors, excess capacity needs to be removed to strengthen product prices. A key

determinant will be the extent to which excess capacity on a regional (Western Europe) basis can be maintained, for example, as Chinese and other Asian producers threaten to make further inroads into traditional export markets for Western European producers.

With prospective returns on investment in Western Europe looking poor, the major producers are switching their investment focus to the emerging markets of Asia and South America especially.

Table 6: Euro – Top European Forest, Paper and Packaging Companies
(€ millions)

Company Name	Country	2006 Sales €	2005 Sales €	2006 Net Income €	2005 Net Income €
Stora Enso	Finland	€14,609	€13,188	€590	€(126)
Svenska Cellulosa	Sweden	10,995	10,363	589	47
UPM	Finland	10,032	9,348	340	261
Metsaliitto	Finland	9,281	8,643	(259)	(51)
Smurfit Kappa	Ireland	7,040	4,412	(272)	(182)
Anglo American (Mondi)	UK	5,972	5,590	369	238
Sequana Capital	France	3,983	3,998	959	348
Norske Skog	Norway	3,582	3,209	(349)	(107)
DS Smith	UK	2,428	2,375	6	57
Burgo	Italy	2,384	2,280	22	68
Holmen	Sweden	2,015	1,754	158	135
Sodra	Sweden	1,722	1,713	137	76
Sonae Industria	Portugal	1,701	1,459	32	37
Ahlstrom	Finland	1,601	1,553	58	62
Myllykoski	Finland	1,535	1,454	(38)	17
Mayr-Melnhof Karton	Austria	1,514	1,455	106	95
The Lecta Group	UK	1,443	1,416	18	15
Pfleiderer	Austria	1,417	830	84	29
SIG Group	Switzerland	1,350	1,207	66	47
Portucel	Portugal	1,082	1,029	125	63
Billerud	Sweden	796	734	34	(19)
Kinnevik (Korsnas)	Sweden	683	497	62	22
Sveaskog	Sweden	654	662	232	66
ENCE	Spain	647	588	50	64
Groupe Gascogne	France	604	603	10	(27)
TOTAL		€89,070	€80,360	€3,129	€1,235

Results by Country/Region

Canada

2006 was a challenging year for Canadian forest, paper and packaging companies. A strong Canadian dollar and a declining North American housing market are re-shaping the forest industry and putting downward pressure on margins. During 2006, there were closures of several Canadian pulp mills, newsprint mills, and sawmill operations.

In 2006, lumber production fell 2.5%, paper production fell by 8%, and containerboard production fell by 4% compared to 2005.

An exception is NBSK pulp where producers have enjoyed good profits, due to the tightening of supply due to closures and increasing Asian demand. Looking forward, the mountain pine beetle (MPB) infestation in British Columbia is set to have a more accelerated adverse impact on wood supplies than was earlier predicted.

2006 was marked by a settlement of the softwood lumber trade dispute between Canada and the US. After four years of litigation, the new agreement resulted in the return of over \$4 billion in duties paid during the

Table 7: Top Canadian Forest, Paper and Packaging Companies

(US \$ millions)

Company Name	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE	2005 ROCE
Abitibi Consolidated	\$4,279	\$4,408	\$48	\$(289)	1.9%	(1.2)%
Domtar	3,518	3,503	289	(275)	3.5	0.1
Canfor	3,389	3,126	416	79	(0.1)	4.3
Cascades	3,001	2,730	3	(80)	3.5	2.0
Tembec	2,939	2,894	(268)	(251)	(2.7)	(1.5)
West Fraser Timber	2,933	2,951	351	89	4.3	4.3
Catalyst	1,660	1,505	(14)	(21)	(0.0)	0.9
Norbord (Nexfor)	1,252	1,462	97	248	11.4	23.7
Mercer International	784	563	80	(146)	5.4	(0.5)
Ainsworth	730	1,030	(95)	126	(2.5)	14.3
Interfor	727	689	84	16	6.7	9.8
Fraser Papers	702	758	(101)	(24)	(6.8)	(2.8)
TOTAL	\$25,914	\$25,619	\$890	\$(528)	2.0%	4.5%

Table 9: Top South African Forest, Paper and Packaging Companies

(US \$ millions)

Company Name	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE	2005 ROCE
Sappi	\$4,941	\$5,018	\$(4)	\$(213)	2.9%	1.1%
Nampak	1,047	1,115	47	36	8.1	1.8
TOTAL	\$5,988	\$6,133	\$43	\$(177)	5.5%	1.5%

course of the dispute to Canadian-based producers, representing 80% of duties paid. Without the gains associated with these duties, net loss for the Canadian companies would have been \$615 million.

Operating profit for the twelve Canadian companies included in the PwC Top 100 fell from \$0.6 billion in 2005 to \$0.3 billion in 2006. Capital investment as a percentage of depreciation increased slightly from 2005 levels.

Japan

Japan's GDP grew by 2.2% in 2006 compared to 1.9% in 2005. Forecasts for 2007 project little change. Limited growth has been driven by a competitively valued Yen and Japan's proximity to China.

The top Japanese forest, paper and packaging companies have experienced little change in net income from the prior year and with ROCE creeping up 0.3% to 3.9%, still well below Japan's low cost of capital. Companies have been competing to retain their share of a mature and saturated market. Attempts at consolidation, led by Oji Paper in 2006, were frustrated.

Table 8: Top Japanese Forest, Paper and Packaging Companies
(US \$ millions)

Company Name	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE	2005 ROCE
Oji Paper	\$10,439	\$10,762	\$181	\$394	3.2%	4.2%
Nippon Unipac	9,908	10,713	148	221	1.7	2.3
Daio Paper	3,460	3,590	80	39	3.2	3.1
Rengo	3,459	3,656	112	102	3.6	3.6
Sumitomo	3,403	2,739	19	23	1.2	2.0
Unicharm	2,325	2,234	132	149	10.5	9.4
Mitsubishi Paper	1,965	2,131	62	(224)	3.8	(3.7)
Daiken	1,430	1,624	21	14	4.1	5.1
Hokuetsu Paper	1,322	1,373	28	65	2.0	4.1
Tomoku	1,271	1,345	20	14	2.6	2.6
Chuetsu Pulp	955	1,004	3	14	0.6	1.6
The Pack	695	709	24	22	10.4	8.5
TOTAL	\$40,632	\$41,880	\$830	\$833	3.9%	3.6%

Table 10: Top Australian/New Zealand Forest, Paper and Packaging Companies
(US \$ millions)

Company Name	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE	2005 ROCE
PaperlinX	\$5,574	\$5,793	\$49	\$128	3.8%	6.5%
Amcor	5,441	5,067	136	87	7.3	7.0
Carter Holt Harvey	2,146	2,307	103	76	3.7	3.1
TOTAL	\$13,161	\$13,167	\$288	\$291	4.9%	5.5%

Latin America

Latin America's forest, paper and packaging sector experienced continued growth during 2006. Due to the high supply of fiber and short harvest cycles, the South American countries have seen significant investment by both local and international companies.

As a group, Latin American producers in the Top 100 have increased sales and net income by 17% and 31% respectively over 2005. They have exhibited the highest returns on sales and equity as well as the highest ROCE. This continues a trend of recent years.

Latin American companies are dealing with many of the same issues as their counterparts around the world, such as increased fuel prices and raw material costs. However, the increased efficiency that investment in new technology has brought, combined with lower comparable fiber costs, have allowed them to better absorb increased costs. Companies fully integrated with forest ownership have fared best and have continued to make high returns on invested capital.

As the Latin American economies have continued to grow, their relative cost advantages have been eroded by a correction in the foreign exchange rates. Over recent years this correction has been exacerbated by the steady decline in the US dollar making investment in Brazil, Chile, and Uruguay more expensive for international investors. However, this has not slowed the flow of investment. European companies such as Stora Enso and Botnia (jointly owned by Metsäliitto and UPM) have entered the Latin American landscape with investments in new pulp mills and plantations.

The pulp sector is set for huge expansion. Capitalizing on its low fiber costs, new capacity of over 12 million tonnes, some already in situ, other still on the drawing board, is planned for Brazil and other Southern Cone countries over the next eight to nine years. Whether or not all of these expansions happen, it is clear that South America is set to become a dominate producer of market pulp globally.

Table 11: Top Forest, Paper and Packaging Companies in Latin America
(US \$ millions)

Company Name	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE	2005 ROCE
Arauco	\$2,850	\$2,374	\$619	\$438	10.2%	8.5%
CMPC	2,260	1,991	205	225	4.3	5.2
Kimberly-Clark Mexico	1,848	1,705	325	278	17.7	15.3
Aracruz	1,681	1,345	455	341	15.8	12.9
Suzano	1,429	1,145	205	205	5.8	8.5
Votorantim Celulose (VCP)	1,317	1,130	372	264	11.9	11.1
Klabin	1,251	1,111	218	79	13.4	12.6
Grupo Industrial Durango	892	748	(6)	5	2.4	1.7
Masisa SA	887	744	30	26	2.4	2.4
TOTAL	\$14,415	\$12,293	\$2,423	\$1,861	9.3%	8.7%

China

China's economy continued to grow at a rate above 10% per annum and this trend is forecast to continue in the near future. This economic growth has made China the hottest forest, paper and packaging products market in the world.

With the constant increase in the standard of living in China, the domestic consumption of paper and value added wood products (i.e. tissue, packaging material, furniture, flooring, and others) is increasing. However, the key growth driver remains export markets, as Chinese-produced panels, remanufactured wood products, floorings, furniture etc. are shipped to all parts of the globe. In 2006, paper joined the list, as China became a net exporter of graphic papers. The increase in demand, low labor and manufacturing costs, the enormous investments in Chinese infrastructure and its proximity to Russia are attracting both local and foreign investors to the Chinese forest, paper and packaging industry.

With limited forest resources China is expected to continue to draw in huge quantities of raw materials (wood, pulp and recovered paper) to feed its huge industries. Chinese paper producers are continuing to invest heavily in new machines. For example, Nine Dragons Paper, the largest producer of containerboard in China, has unveiled expansion plans that will take its total packaging capacity to over 10 millions tonnes per year by 2010, making it the largest producer of containerboard in the world.

Despite the size of the Chinese industry, there are only three companies in the PwC Top 100. Shandong Chenming Holdings and Nine Dragons remain on the list. Nine Dragons was also the highest climber last year, up fourteen places to the 82nd spot. It can be expected to continue scaling the rankings quickly in the future based on its expansion plans. Shandong Sun Paper is a newcomer to the list this year. In addition, there are several companies ranked just outside the Top 100; given the growth of these companies, we would expect several new Chinese entrants to the Top 100 in the next few years.

Table 12: Top Forest, Paper and Packaging Companies in Non-Japan Asia
(US \$ millions)

Company Name	2006 Sales	2005 Sales	2006 Net Income	2005 Net Income	2006 ROCE	2005 ROCE
Asia Pulp and Paper	\$4,404	\$4,800	\$N/A	\$N/A	N/A%	N/A%
Hansol Paper	1,706	1,641	(119)	27	(3.4)	3.4
APRIL	1,550	1,550	N/A	N/A	N/A	N/A
Shandong Chenming	1,477	1,186	75	74	6.5	5.4
Yuen Foong Yu Paper	1,220	1,130	37	44	2.9	5.3
Siam Pulp & Paper	1,109	1,000	93	91	11.5	10.1
Nine Dragons Paper	988	589	172	37	14.2	6.1
Cheng Loong	901	799	24	12	3.2	1.4
Shandong Sun Paper	647	610	37	34	10.6	12.9
TOTAL	\$14,002	\$13,305	\$319	\$319	6.5%	6.4%

Results by Country/Region

Russia

Russia leads the world as an exporter of unprocessed timber, but otherwise its role in the world's forest products markets is muted when considered against its forest resources base: 50% of the world's standing softwood forest and nearly 20% of the world's total forest. With its proximity to the fastest growing market in the world, China, the opportunities are significant for the Russian forest, paper and packaging industry.

There were several important developments in 2006; the growing recognition by Russian authorities that its forests were of strategic importance, as well as the revisions to the country's Forest Code designed to stimulate investment in the sector. However, it was the announcement of steep rises in export taxes on unprocessed timber, starting from this year, that has drawn the most attention.

Table 13: Financial Summary Information by Country/Region
(US \$ millions)

	2006 Sales	2005 Sales	Change	2006 Net Income	2005 Net Income	Change
US	\$127,064	\$123,244	3.1%	\$5,602	\$5,168	8.6%
Europe						
Finland	46,496	42,540	9.3	866	203	326.7
Sweden	21,162	19,567	8.2	1,521	405	275.6
Other	44,098	37,894	16.4	1,537	927	65.8
Total Europe	111,757	100,001	11.8	3,924	1,535	155.7
Russia	1,658	1,400	18.4	–	–	–
Japan	40,632	41,880	(3.0)	830	833	(0.6)
Canada	25,914	25,619	1.2	890	(528)	(268.5)
Australia/New Zealand	13,161	13,167	0.0	288	291	(0.9)
South Africa	5,988	6,133	(2.4)	43	(177)	(124.5)
Emerging Markets						
Non-Japan Asia	14,002	13,305	5.2	319	319	0.1
Latin America	14,415	12,293	17.3	2,423	1,861	30.2
Total	\$354,591	\$337,042	5.2%	\$14,319	\$9,302	54.8%

These export taxes, which are planned to be phased in over the next two years, will add in the order of 80% to the cost of exported logs. They are intended to reduce the volume of log exports and in turn, promote investments into wood processing industries (wood products, pulp and paper) thereby expanding and modernizing its domestic industry.

It is too early to judge the effectiveness of these taxes in addressing their objectives. Potential foreign investors remain cautious about significant investment into Russia,

despite the rapid growth in domestic demand and the export potential given factors such as infrastructure limitations, illegal logging and political concerns.

On a positive note, Ilim Pulp has re-entered the Top 100 (at number 60) after an absence of several years. International Paper and the owners of Ilim Pulp are currently finalizing a venture arrangement involving joint ownership of Ilim and with plans for significant future expansion of its activities.

2006 ROCE	2005 ROCE	2006 Cash Flow from Operations	2005 Cash Flow from Operations	2006 Debt to Equity	2005 Debt to Equity	2006 Return on Sales	2005 Return on Sales	2006 Return on Equity	2005 Return on Equity
5.4%	5.5%	\$11,163	\$10,955	1.8	1.9	3.8%	3.4%	8.5%	8.3%
4.2	2.7	4,465	2,498	1.1	0.9	1.2	1.2	(1.4)	2.0
5.6	2.8	2,058	1,694	1.0	0.5	11.7	4.3	9.2	2.9
4.4	4.0	4,034	4,549	1.1	1.4	3.0	0.6	5.3	(0.3)
4.9	3.5	10,557	8,741	1.1	0.9	5.3	2.0	4.4	1.5
-	-	-	-	-	-	-	-	-	-
3.9	3.6	3,572	3,588	0.8	1.1	2.3	2.2	6.5	5.6
2.0	4.5	2,847	1,054	1.2	1.0	1.5	2.3	(2.2)	6.8
4.9	5.5	1,221	1,065	0.9	1.0	2.7	3.5	8.0	10.4
5.5	1.5	549	551	0.9	0.6	2.3	(1.6)	5.0	(3.6)
6.5	6.4	797	859	0.8	0.8	5.1	4.6	4.0	11.3
9.3	8.7	3,547	3,007	0.8	0.7	14.8	12.7	13.0	9.0
5.1%	4.9	\$34,253	\$29,820	1.0	1.0	4.7%	3.6%	5.9%	6.2%

Survey Methodology

The PricewaterhouseCoopers Global Forest, Paper and Packaging Industry Survey examines the 100 largest forest, paper and packaging products companies in the world – whether state, private, or publicly owned, or a division of larger entity – ranked by sales, provided there is sufficient public disclosure to allow meaningful reporting.

The data reported is drawn from a number of sources including annual reports, Bloomberg, press releases and the companies. Information may be unaudited.

For some companies, such as privately owned entities, only sales data is available. We have listed separately the eleven largest companies on page 29. Had sufficient



data been available, most of these companies would have been included in the PwC Top 100. This list does not purport to be complete. Most notably the list is topped by Koch Cellulose which incorporates Georgia-Pacific acquired in 2005.

The PwC Top 100 results include only companies whose forest, paper and fiber packaging products business comprise more than 50% of total sales.

The 2005 comparative corporate data included in this Survey depends upon the 2005 data reported in the companies' 2005 annual reports. Any restatements by these companies have not been included. PwC takes no responsibility for the correctness of the extrapolated figures. The 2006 Japanese data is for their fiscal year ended March 31, 2006.

Return on Capital Employed (ROCE) is calculated as net income before unusual items, minority interest and interest expense, on an after-tax basis, divided by average total assets less average non-interest bearing current liabilities.

Foreign exchange fluctuations can have a significant impact on the data presented. This Survey has directly adopted the results of companies that report in US dollars; otherwise we have translated income statement items at the 2006 and 2005 average rates for the calendar years (irrespective of year-ends within 2006). Balance sheet items have been translated at the rates as of December 31, 2006 and 2005 respectively.

The PwC Top 100 is based on financial data available as at April 30, 2007. At the deadline for publication, Asia Pulp & Paper's (APP) and Asia Pacific Resources International's (APRIL) financial statements had not been released. These companies are too large to leave off the list; consequently, we have extrapolated the publicly available information for sales comparatives only.

Due to limited publicly available financial information, Chinese companies are not necessarily fully represented in the PwC Top 100.

Table 14 : Exchange Rates

Currency Type	Year End	USD Dec 31	USD Average
Australian Dollar	2006	0.789	0.754
Australian Dollar	2005	0.734	0.762
Brazilian Real	2006	0.469	0.461
Brazilian Real	2005	0.428	0.411
British Pound	2006	1.959	1.843
British Pound	2005	1.717	1.819
Canadian Dollar	2006	0.858	0.882
Canadian Dollar	2005	0.856	0.825
Chilean Peso (000s)	2006	1.920	1.880
Chilean Peso (000s)	2005	1.953	1.787
Chinese Renminbi	2006	0.128	0.125
Chinese Renminbi	2005	0.124	0.122
Euro	2006	1.320	1.256
Euro	2005	1.180	1.244
Indonesian Rupiah (000s)	2006	0.112	0.110
Indonesian Rupiah (000s)	2005	0.102	0.103
Japanese Yen (000s)	2006	8.410	8.600
Japanese Yen (000s)	2005	8.472	9.081
Korean Won (000s)	2006	1.090	1.060
Korean Won (000s)	2005	0.989	0.976
Mexican Peso	2006	0.093	0.092
Mexican Peso	2005	0.094	0.092
New Zealand Dollar	2006	0.705	0.649
New Zealand Dollar	2005	0.681	0.704
Norwegian Krone	2006	0.161	0.156
Norwegian Krone	2005	0.148	0.155
Singapore Dollar	2006	0.652	0.629
Singapore Dollar	2005	0.601	0.601
South African Rand	2006	0.144	0.149
South African Rand	2005	0.158	0.157
Swedish Krona	2006	0.146	0.136
Swedish Krona	2005	0.126	0.134
Swiss Franc	2006	0.820	0.798
Swiss Franc	2005	0.759	0.802
Taiwan Dollar	2006	0.031	0.031
Taiwan Dollar	2005	0.030	0.031
Thai Baht	2006	0.028	0.026
Thai Baht	2005	0.024	0.025

Table 15: Other Major Companies
(US \$ millions)

Company Name	Country	2006 Estimated Sales	2005 Estimated Sales
Koch Industries	US	\$19,656	\$18,000
Visy Industries	Australia	2,367	2,150
Fritz Egger	Austria	2,324	2,100
Tolko	Canada	1,900	1,570
Kruger	Canada	1,850	2,000
North Pacific Lumber	US	1,500	1,500
Menasha	US	850	800
Papierfabrik Palm	Germany	848	702
Elopak	Norway	781	740
Klausner	Germany	720	476
Cenibra	Brazil	576	447

2007 Global Forest and Paper Industry Conference 20 Years of Change

As the economy continues to become global so too does the forest and paper industry. To illustrate the issues and challenges that a global economy presents for the forest and paper industry, the PricewaterhouseCoopers (PwC) 20th Annual Global Forest and Paper Conference provided our most globally focused conference in 20 years with speakers from around the world including Europe and South America. The conference again proved to be a highly informative and memorable event. This one-day conference featured a line up of industry leaders and over 550 delegates, including CEOs, senior forest and paper industry executives, industry analysts, suppliers, customers and government policy makers from around the world.

The conference provides delegates with the opportunity to meet global leaders through the various official and unofficial networking opportunities, such as the post conference reception.

The speaker presentations and biographies can be accessed from our conference website:
www.pwc.com/forestconf07

Opening Keynote Address and Panel

Bruce McIntyre, Leader of PwC's Canadian Forest, Paper and Packaging Practice and Conference Co-chair welcomed delegates to the 20th annual conference and to Vancouver.

To kick off the conference retired forest executive Mike Apsey and retired PwC Partner Mike MacCallum provided a perspective on the changes in the industry over the past 20 years. The key changes have included the softwood lumber dispute, the mountain pine beetle, the "war in the woods" and the increasing global nature of the industry.



Mark your calendar

PricewaterhouseCoopers 21st Annual Global Forest and Paper Industry Conference

May 8, 2008 – Vancouver, Canada
Westin Bayshore Resort & Marina

Financial Performance and Economic Outlook

In his presentation, “When Worlds Collide”, Stephen King, Group Chief Economist of HSBC, described the shifting balance of world trade. Mr. King explained that increasing levels of consumption in Asian markets, coupled with a decline in developed countries, are changing the flow of goods in this global economy. Mark Connelly, Managing Director at Credit Suisse, New York, presented a global review of the investment climate in the forest and paper sector. Focusing on specific major markets including China, US, Latin America, Canada and Europe, Mr. Connelly discussed the corporate strategies of many of the industry’s key players from a broad financial perspective. Craig Campbell of PwC presented highlights from PwC’s 2007 Global Forest and Paper Industry Survey and recent CEO Survey. Mr. Campbell also discussed the financial performance of the British Columbia industry with specific emphasis on the tragic impact of the Mountain Pine Beetle. This panel was moderated by Michael Vermette of PwC Vancouver.

Market Outlook Panel

Russ Taylor of International WOOD MARKETS Group Inc. discussed the global timber developments including the long-term trends regarding exporting countries. Log prices, he explained, will only increase once the U.S. housing starts rebound and the Russian log export tax is fully implemented. Chad Wasilenkoff of Fortress Financial Corporation explained that it was a good time to invest selectively in the industry. Commodities in general have been in a bull market except for forestry. Martin Glass of EMGE & Co. Ltd. spoke about how Europe may see more mergers since they are currently only moderately concentrated. He also discussed how producers have difficulty in passing on cost increases to consumers. The panel moderator was Michael Armstrong of PwC Vancouver.

Keynote Luncheon Speaker

US Ambassador David Wilkins presented views on Canada-US relations.

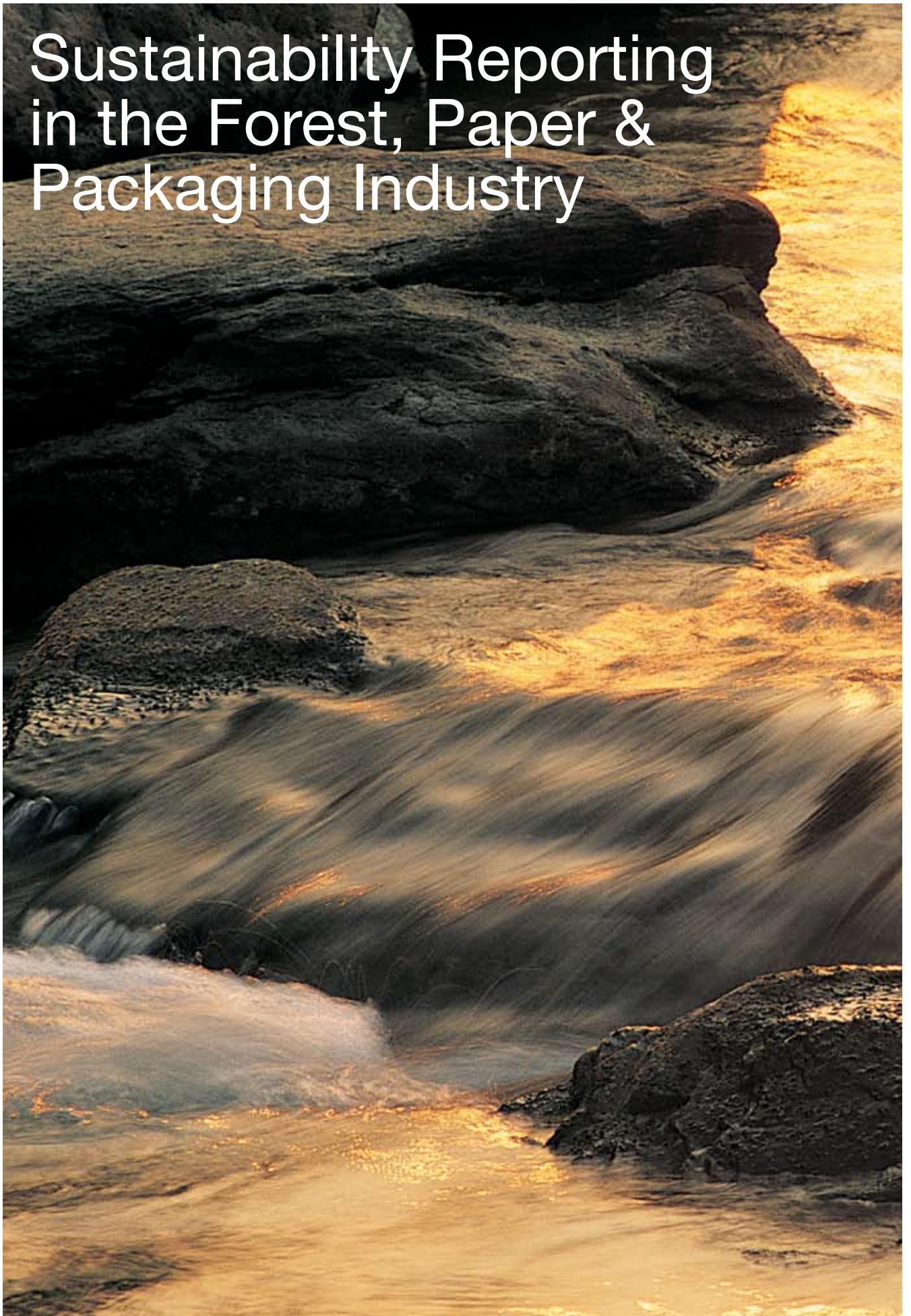
Strategic Issues and Trends

John Williams, President of SCA Packaging, Europe, described the dynamics of the European corrugated packaging market. Building brand value, he explained, is crucial to escaping the “commodity trap” and capturing increased prices for shareholders. Ville Jaakonsalo, Senior Vice President, Finance, Oy Metsä-Botnia Ab, talked about the strategic objectives and risks associated with Botnia’s large-scale investment in Latin America. In his presentation, *Sustainable Vision in a Carbon Constrained Global Economy*, Stora Enso’s Chief Financial Officer, Hannu Ryöppönen, explained how customer and stockholder demand for action on climate change is driving change in the forest and paper industry. Mr. Ryöppönen described the concept of the bio-refinery that optimizes all of the components of the tree for multiple uses. Björn Stigson, President of World Business Council for Sustainable Development, talked about the organization’s role in building dialogue, combating illegal logging, finding solutions for energy and climate, and developing a responsible procurement guide. The panel was moderated by Clive Suckling of PwC London.

Executive Perspectives

West Fraser’s Hank Ketcham spoke about the key issues facing the BC industry: global competition, the softwood lumber agreement, mountain pine beetle, bio-energy opportunities and sustainability. Jimmy Lee of Mercer International described that even though there is a global shift to cheaper fiber (e.g. eucalyptus), NBSK still has a strong future. Andrew Miller of Stimson Lumber stated that the main issue to deal with is how we reconcile being a successful, profitable company in an industry that has traditionally destroyed capital. Votorantim Celulose e Papel’s José Penido explained the company’s shift away from paper and into pulp. He also spoke about the huge advances being made in eucalyptus fiber productivity in Brazil and he observed that a key issue is reducing risks associated with the business. The co-moderators for this panel were Robert Barnden of PwC Stockholm and Bruce McIntyre of PwC Vancouver.

Sustainability Reporting in the Forest, Paper & Packaging Industry



PricewaterhouseCoopers (PwC) has been providing Sustainable Business Solutions to the forest, paper and packaging industry for over twenty years, during which time the issue of sustainability has gone from the peripheries of the corporate mindset to centre stage. Reporting on environmental, social and economic sustainability performance is a relatively new phenomenon that has attracted significant attention in recent years. For an industry like forest, paper and packaging that has often been the focus of negative media attention and public scrutiny for its environmental performance, sustainability reporting would seem to offer an ideal opportunity to improve transparency and demonstrate the industry’s commitment to the broader suite of sustainability issues – but has this happened? PwC undertook a high-level review of the sustainability reporting practices of the PwC Top 100 to assess the current status.

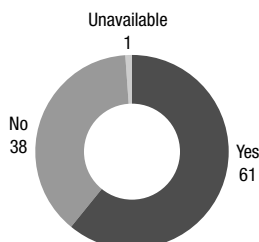
Findings

Of the PwC Top 100, 61 companies have produced some kind of sustainability report.

Scope of Reporting Detail

Most forest, paper and packaging sustainability reports are published annually. 79% of companies provide corporate-level detail on their sustainability activities, where only 39% provide site-level detail, 25% provide geographic detail, and 21% provide division or business unit detail. While company-level information is an important indicator of overall performance, a further breakdown, whether by geography, division, or site, adds value to the sustainability report by allowing the reader to ascertain the relative performance of the different components of the company.

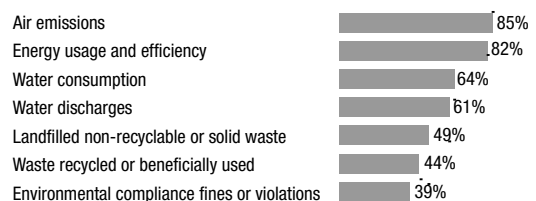
Figure 13: Number of Companies Publishing Sustainability Reports in the PwC Top 100



Reporting on Environmental Sustainability Indicators

Environmental sustainability indicators examine company impacts on the natural environment as well as describing environmentally friendly operational practices. Environmental indicators were more likely to be reported than either social or economic indicators, with air emissions and energy consumption as the most commonly reported metrics, provided by 85% and 82% of reporters respectively. Water consumption and discharges to water were the next most likely environmental indicators to be provided by companies, with 64% and 61% respectively offering this information. The least likely environmental metrics to be reported related to non-recyclable or landfilled waste (49%), recycled or beneficially reused waste (44%), and compliance with environmental regulations or related fines (39%). These results may reflect where companies have focused their environmental improvement efforts to date.

Figure 14: Percentage of Reporters Providing Environmental Sustainability Data



Reporting on Social Sustainability Indicators

Social sustainability indicators examine the conduct of companies relative to their employees and other stakeholders. The most frequently cited social indicator was health and safety metrics, with over two-thirds (67%) providing information in this area. Workforce characteristics such as gender and diversity were the next most frequently reported (56%), followed by employee training (52%). Thirty-three percent of companies indicated they received awards related to their social initiatives. Only 11% of companies indicated that whistleblower policies or programs were in place. In many organizations, environmental and health and safety functions were combined, which may explain the predominance of reporters of health and safety metrics relative to other social indicators.

Reporting on Economic Sustainability Indicators

Economic sustainability indicators examine the financial impact of companies on their communities and operations. Forest, paper and packaging companies are less likely to report on economic than environmental or social sustainability indicators in their reports, suggesting some reluctance to provide detailed economic sustainability information related to their operations beyond regulatory requirements. Although 77% of companies reported their number of employees, only 44% provided information related to payroll or salaries. Forty-four percent of companies reported the amount of taxes paid. Forty-one percent reported their annual charitable giving while 39% of companies reported their sustainability-related capital expenditures.

Figure 15: Social Sustainability

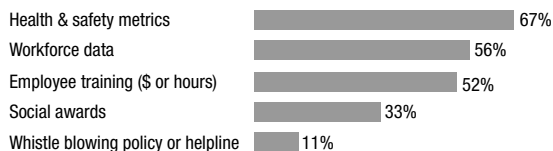


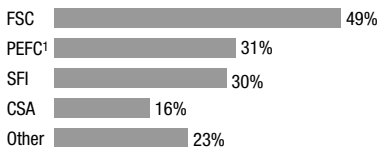
Figure 16: Economic Sustainability



Reporting on Forestry Certification

Over half of reporters indicate the percentage of their lands that are certified to a sustainable forest management (SFM) standard or the percentage of certified fiber procured. Forty-nine percent of companies have achieved certification of one or more operations to the Forest Stewardship Council (FSC) certification standard, 31% are certified to the PEFC (Programme for the Endorsement of Forest Certification schemes) standard¹, 30% are certified to the Sustainable Forestry Initiative (SFI) standard, 16% to the CSA (Canadian Standards Association) standard, and 23% are certified to other certification schemes. Forty-six percent of reports indicate that companies have chain of custody certification in place in at least some of their operations. Seventy-seven percent of reporters indicate that environmental management systems are in place in at least some of their operations. These results reflect the industry's focus on achieving environmental and SFM certification over the past decade.

Figure 17: Achieved Forest Management Certification



1. Excluding SFI and CSA, which were recognized by PEFC in 2005, making the PEFC standard the most widely adopted forest certification standard in the world.
2. However, it should be noted that the number of companies for a particular sector are limited for the indexes (e.g. the DJSI captures the top 10% of performers based on the biggest 2,500 companies worldwide and limits each economic sector to 20%. Forestry and paper is part of the basic materials economic sector.

External Assurance

Our analysis reveals a growing acceptance of external reporting standards and independent third party assurance as a means of external validation to improve the credibility of sustainability reports. While a minority of the 61 sustainability reporters (18%) have received independent third-party assurance of their reports, nearly half (44%) have developed their performance metrics to align with the Global Reporting Initiative (GRI) reporting standard to varying degrees.

Sustainability Indexes

A number of investment indexes have developed sustainability sub-indexes to help identify corporate leaders in sustainability performance. Inclusion within such an index is considered a prestigious accolade. While most of our analysis focused on what and how sustainability issues were being reported, we also looked at the presence of forest, paper and packaging sustainability reporters within two sustainability indexes, the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index. The findings indicate that relatively few companies – 17 out of the 61 reporters – are members of either set of indexes: 13% are part of the Dow Jones Sustainability Index and 15% are part of the FTSE4Good Index.²

Figure 18: External Assurance and Reporting Standards Utilized by Sustainability Reporters



Results by Region

EU-based companies followed by North American companies represent the two largest regional groups of sustainability reporters.

Certain regional reporting trends are evident and are discussed below.

North America

North America represents the largest regional grouping within the Top 100 (39 companies) and is the second largest grouping of sustainability reporters (19 companies). However, North American companies produced relatively fewer sustainability reports than EU-based companies.

North American sustainability reports had the lowest frequency of utilizing external validation either in the form of third-party independent assurance (0%) or use of the GRI standard (33%).

Over three-quarters (78%) of North American reporters provided data related to their health and safety performance, and two-thirds (67%) provided data related to their environmental regulatory compliance. This group provided the least information related to workforce makeup (30%).

Europe

Over three-quarters (80%) of EU-based companies in the PwC Top 100 produced sustainability reports. These results are not surprising in light of mandatory environmental reporting legislation in several European countries such as Norway, Sweden, the Netherlands and France. EU-based companies were more likely than other regional groupings to obtain third-party assurance of their sustainability reports, although they had the lowest frequency of presenting information related to environmental regulatory compliance.

Asia-Pacific

Asia-Pacific companies were the most frequent reporters of having a whistle blowing policy (18%). Reporters from this region were also strong users of the GRI standard, yet they had the lowest frequency of reporting on social or economic sustainability metrics compared to other regional groupings.

Figure 19: Regional Breakdown of Sustainability Reporters

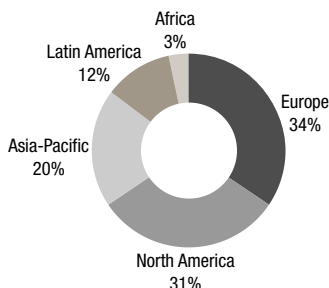
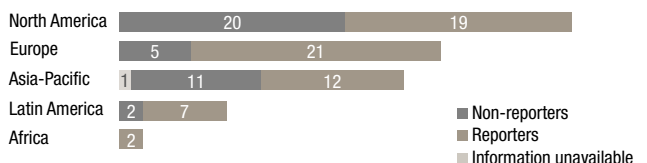


Figure 20: PwC Top 100 Sustainability Reporters versus Non-reporters by Region



Latin America

Latin America represents a strong region for sustainability reporting, both in terms of numbers of reports and metrics included in those reports. Latin American companies had the highest frequency of the regional groupings of utilizing external validation, with 43% using an independent third-party assurance provider and 57% publishing a GRI-based report. 100% of companies from this region reported their operational air emissions, while 86% reported water consumption statistics. Latin American companies also reported on economic sustainability metrics, with 86% reporting both their charitable giving and payroll information and social sustainability metrics, with 71% providing both workforce and health & safety information.

Relationship between Ranking within PwC 100 and Reporting

Companies that ranked higher on the PwC Top 100 list were more likely to produce a sustainability report. As the rankings descend, companies were less likely to produce a sustainability report.

There are several possible explanations for this result:

- Companies with strong financial performance may pay greater attention to overall strategy, including environmental and communication strategy, or may have a more comprehensive risk management strategy.
- Larger companies or those with strong financial performance may simply have more funds and staff resources to deal with sustainability and CSR issues.

Financial ranking does not, however, necessarily impact the scope or quality of the reporting. For example, of the 61 reporters within the Top 100, 18% have obtained third-party assurance, compared with 23% of reporters within the Top 25 and 25% of reporters ranked 76 to 100.

Large and small companies had a similar frequency of reporting certain metrics such as environmental data, but not in others, such as social data.

Figure 21: Sustainability Reporters, by Position on Survey

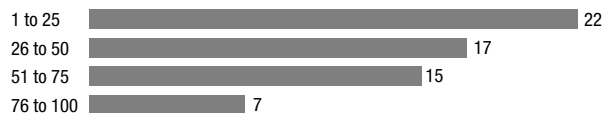


Figure 22: External Reporting and Assurance

Largest versus smallest reporters in PwC Top 100



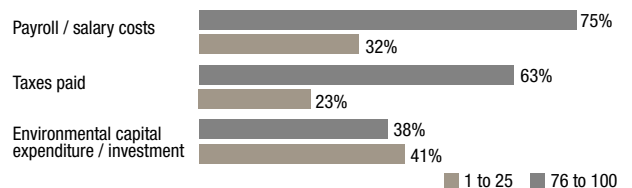
Figure 23: Environmental Sustainability Metrics

Largest versus smallest reporters in PwC Top 100



Figure 24: Social Sustainability Metrics

Largest versus smallest reporters in PwC Top 100



Conclusions

With nearly two-thirds of companies in the PwC Top 100 producing a sustainability report, the majority of forest, paper and packaging companies are now reporting on their sustainability performance to varying degrees. This is a positive reflection on the industry's willingness to disclose information regarding its performance, a change for an industry that has historically found itself on the defensive regarding its environmental track record and which has often been wary of publicizing information relating to operations. Since most Top 100 companies are headquartered in jurisdictions that do not require the publication of environmental information, the high number of companies reporting suggests that companies find value in reporting on their environmental performance and other aspects of sustainability.

Of course, quantity and quality are two very different things. The value of the sustainability report as a communication tool is dependant upon a number of factors such as external validation; appropriate metrics; and a meaningful level of detail. While the companies in the Top 100 have come a long way, companies tend to report data at the consolidated corporate level for selective rather than a full range of metrics, and a minority obtain third-party assurance on the data presented. An opportunity therefore exists for companies to more fully demonstrate their sustainability achievements, particularly North American companies who were not only less likely to publish a report than companies in other regions, but are also not as strong in reporting certain indicators.

Adoption of a consistent external reporting standard such as the GRI could help to address many weaknesses currently seen in reporting. In almost every case, the most comprehensive and meaningful reports assessed during this research were developed with reference to the GRI guidelines.

While the numbers of reports published indicate that the forest, paper and packaging industry is becoming

more transparent regarding the sustainability of its operations, there is still room to improve the content and credibility of those reports. As green thinking becomes more mainstream, there will be increased pressure on companies to report more consistently and to adopt external reporting and assurance standards to increase transparency and reduce risk.

Methodology

An internet search was conducted to locate publicly available sustainability reporting documents and other information published by the companies and made available on their respective websites. For the purposes of this research, the definition of what constitutes a sustainability report includes several different forms of reporting: a separate environmental or CSR reporting document; environmental or CSR reporting included within the company annual report; and web-based environmental or CSR reports. Report titles that were examined included CSR reports, Sustainability Reports, Environmental Reports, Environment, Health and Safety Reports, Annual Reports, or reports by any other title that included discussion and/or quantitative analysis of the company's environmental or sustainability performance and initiatives.

The most recent report available for each company was examined where data for the years 2004 through 2006 was presented. Where the last published sustainability report provided data for 2003 or prior, the report was excluded from analysis.

Some companies classified as non-reporters may in fact have produced environmental or sustainability reports that were distributed internally or among stakeholder groups, but these reports were not readily available via the company website or other public databases.

To assess the quality of sustainability reporting, a template of reporting metrics was developed against which each company's report was evaluated to assess the scope and depth of reporting. Specific metrics in the following categories were assessed:

- External validation of reporting
- Coverage of data
- Environmental sustainability indicators
- Social sustainability indicators
- Economic sustainability indicators
- Forest management certification programs
- Inclusion in external sustainability indexes (FTSE4Good, DJSI)

Rankings or gradings were not prepared for individual company reports – a company report either provided or did not provide data related to the established criteria for at least some of its operations.

For the purposes of this analysis, the Asia-Pacific region includes Australia and New Zealand, Europe includes Russia, North America includes Canada and the US, and Latin America includes Chile, Brazil and Mexico.

For further information:

PricewaterhouseCoopers Sustainable Business Solutions Services, visit www.pwc.com/sustainability

PricewaterhouseCoopers helps clients develop and implement a range of strategic programs to manage business conduct, risks to reputation and corporate responsibility.

Our comprehensive CSR services include:

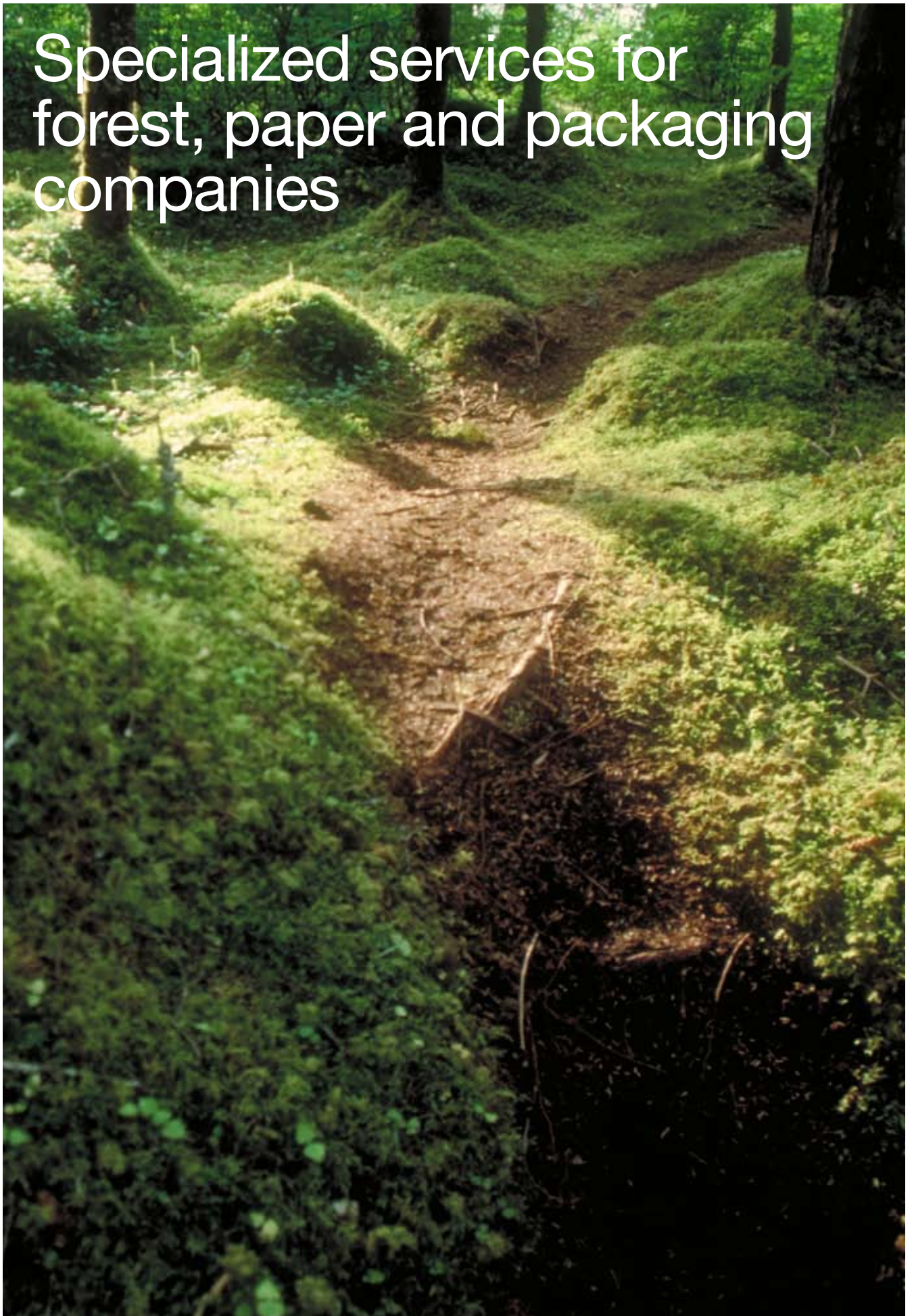
- CSR strategy
- Program development and improvement
- Stakeholder engagement
- Performance metrics
- CSR reporting and assurance

PricewaterhouseCoopers has developed a systematic approach to help companies implement and improve their CSR programs.

Our performance improvement methodology provides clients with a framework to help them identify and select those change and improvement initiatives that deliver the most CSR and organisational gain. It is also designed to optimize the benefits from CSR projects by ensuring that processes used to realise benefits are an integral part of the organisation's activities.

PwC's objective is to improve your organisation's performance by helping you define, realise, measure, and sustain benefits of CSR.

Specialized services for forest, paper and packaging companies



PricewaterhouseCoopers offers a broad range of innovative, cost-effective solutions that respond to both local and global business issues.

Our forest, paper and packaging industry specialists can help you effectively manage performance improvement, sustainability, operational risk management, tax, audit, finance and other business challenges.

Audit and Assurance

An independent, objective and transparent audit is top of mind for organizations and their shareholders. PricewaterhouseCoopers' audit and assurance methodology sets the quality standard for the profession. We audit some 45% of the world's largest forest, paper and fiber-based packaging companies.

We have also developed solutions to help clients understand the implications of IFRS on the forest, paper and packaging industry.

Performance Improvement

Our Performance Improvement practice leverages our knowledge of forest, paper and packaging industry business trends, processes, finance, technologies and project management to provide solutions to optimize operational performance. Services include industry benchmarking, finance function effectiveness, merger integration, Six Sigma quality management, and information technology effectiveness.

Regulatory Compliance

Regulatory change and compliance for public companies has always been a reality for forest, paper and packaging companies participating in capital markets. Whether assessing the impact of legislation such as the US Sarbanes-Oxley Act, or similar regulatory requirements, public companies are revisiting many aspects of their corporate governance, business practices, internal audit mandates and other internal controls. Our Risk and Regulatory professionals are at the forefront of corporate governance and internal controls related through leadership. Our deep knowledge and understanding of these evolving rules and internal controls expertise can assist forest products companies navigate the regulatory maze and build sustainable, efficient and effective compliance solutions.

Sustainable Business Solutions

Sustainability is now, more than ever, a part of the executive agenda. Our specialists help forest, paper and packaging companies define strategies and plans for environmental, social and economic sustainability – helping businesses improve operational processes and sustainability management systems and providing assurance on performance reporting. We are accredited to offer sustainable forest management (SFM), Chain of Custody and other management systems certification to the ISO 14001, ISO 9001, SFI, PEFC, OHSAS 18001 and CSA Z809 standards.

In addition, we have developed an independent Chain of Custody standard to help ensure that organizations have the systems and controls in place to meet stated environmental objectives regarding wood, paper and building products sourced from responsibly managed forests and certified to selected SFM standards. (www.pwc.com/forestry/icoc)

Tax Services

With the growing number of international transactions, effective tax planning is essential for forest, paper and packaging companies. Our tax professionals understand the intricacies of income and commodity taxes in every major forest products region in the world, as well as providing compliance services. We formulate effective, innovative strategies to plan and manage your taxes so that you attain strong results and increase shareholder value.

Transaction Support

Sub-optimal financial performance due to industry fragmentation continues to drive asset rationalization. PricewaterhouseCoopers is known for its skill in assisting and executing financial transactions in the forest, paper and packaging sector. We help clients in mergers and acquisitions, including financial and operational due diligence, accessing capital markets, and valuing, negotiating and structuring deals. We also assist with divestitures and developing exit strategies.

Publications from PricewaterhouseCoopers Forest, Paper & Packaging practice are available to download from www.pwc.com/fpp

Branching out – Global deals activity in the forest, paper & packaging industry (2007)

Reviews the recent deals activity in the forestry, paper and fibre packaging sectors, examines the last twelve months' activity in detail, exploring the key drivers behind transactions in the industry, including the key role of non-traditional investors, in particular private equity. The publication also focuses on deal activity by key regions, the success of deals and considers the future transactions outlook.

CEO Perspectives – Viewpoints of CEOs in forest, paper & packaging companies worldwide (2006)

Summarizes the thoughts of leading CEOs in the forest, paper & paper-based packaging sectors around the globe on key issues facing the industry. The thoughts of the CEOs from North America, South America, Europe, Russia, China, India and South Africa are drawn from face-to-face and telephone interviews.

Global Forest, Paper & Packaging Industry Survey (2006 edition)

Comprises an analysis of the financial results of the PwC Top 100 – the 100 largest forest, paper and paper-based packaging companies in the world, ranked by sales revenue.

Risks & Rewards – Forest, paper & packaging in South America (2007)

Addresses the state of the industry in South America – a series of interesting growth markets for forest, paper and packaging products – and reflects on key considerations for potential investors. With the lowest wood costs of any leading producer region, South America looks set to become a dominant producer of market pulp globally. The publication includes a major focus on Brazil as well as sections on other key South American markets – Argentina, Chile, Colombia & Uruguay.

Risks & Rewards – Forest, paper & packaging in Russia (2006)

Addresses the state of the industry in Russia and reflects on the key considerations anyone thinking of investing in the sector there should make. Sets the scene on the background of the Russian marketplace, the regulatory environment and its “forest wars”; provides analysis sector by sector (forestry and logging; processed wood products; pulp, paper and paperboard; paper/non-paper packaging); and explores the risks and rewards of doing business in Russia.

Risks & Rewards – Paper & packaging industry in China (2005)

Presents an overview of the impact of China on the paper and packaging sectors including an in-depth look at some key issues of particular importance to companies operating – or looking to invest – in the Chinese marketplace.

IFRS in FPP – Applying IFRS in the forest, paper & packaging industry (2007)

This publication and corresponding website (www.pwc.com/fpp/ifrs) contain our solutions so far to help our clients in understanding the implications of IFRS on the forest, paper & packaging industry

PricewaterhouseCoopers Global Forest, Paper & Packaging practice is comprised of a network of industry professionals located in over 30 countries around the world.

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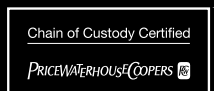
PricewaterhouseCoopers is committed to environmental stewardship, including sound paper procurement and usage practices that ensure the sustainability of forests and other natural resources.

To reach this goal we are developing and implementing policies and procedures to guide our paper procurement and use, to promote the responsible use of natural resources, and to recognize and support the environmental initiatives of our suppliers.

The text pages of this document¹ are printed on Electrastar 45, containing 100% certified wood fiber, and produced by Catalyst Paper in accordance with PricewaterhouseCoopers Independent Chain of Custody™ Standard (www.pwc.com/forestry/icoc). This Standard facilitates tracking of the environmental attributes of paper and wood products from the forest to the customer including wood fiber certified to CSA, SFI, PEFC and FSC sustainable forest management standards.

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1. Printing specifications refer to the original published document.

