

# WORLD NEWS

## INDUSTRY NEWS

### Sawlog prices fell 5-12% worldwide in the 3Q/08

Reduced consumption of lumber in North America and Europe in the 3Q/08 resulted in lower demand for sawlogs and declining prices for softwood timber, according to the Wood Resource Quarterly (WRQ). Because wood costs account for 65-75% of the production costs when producing softwood lumber, they are the key factor determining a region or company's competitiveness.

The WRQ Global Conifer Sawlog Price, based on sawlog prices in 19 key regions worldwide, fell 5.8 percent to US\$85.92/m<sup>3</sup> in the 3Q/08, the lowest level since the 1Q/2007. The recent price decrease is one of the biggest quarterly declines seen since the Index was first published in 1995. The major reason for the lower log costs was the weakening of lumber markets in most regions around the world.

The biggest declines in log prices occurred in Western Canada, Sweden, Germany, the Baltic States and New Zealand. In the US, prices were down about five percent from the 2Q/08, while log costs in Brazil and Chile were practically unchanged.

The sawmill sector has been hit hard in Canada as a result of a sharp decline in housing constructions in the important US market. Housing starts in the US have fallen from 1.5 million units in early 2007 to 625,000 units in November 2008.

The biggest decline in sawlog prices came in coastal British Columbia, where Douglas-fir and hemlock log prices fell about 10% from the previous quarter (in US dollar terms) and were more than 20% lower than a year ago. Most sawmills have reduced production temporarily and there have also been permanent closures. Lumber production in BC was 24% lower in the 3Q/08 compared to the same quarter in 2007.

Sawlog prices fell in most regions of Europe in the 3Q as the demand for lumber declined not only in Europe but also in the US and Japan - both important overseas markets for sawmills, particularly in the Nordic countries and Germany. Log prices fell the most in the Nordic countries, where average costs were between 5-10% lower than in the 2Q.

Despite this decline, WRQ reports that wood costs for sawmills in Sweden and Finland are still among the highest in the world and substantially higher than they were two years ago.

## PAPER COMPANIES

### Sappi results for Q1

Results for the first quarter ended 28 December 2008

- European acquisition completed on 31 December 2008 (post quarter end)
- Declining global demand leads to weak operating profit
- Significant production curtailment in December
- Coated paper prices increased in Europe; under pressure elsewhere
- Pulp prices declined more than US\$200 per tonne
- Basic EPS 6 US cents (favourably impacted by special items)

Sappi's sales volumes declined 8% in the quarter compared to a year earlier as a result of the global market turndown. Prices for coated paper increased relative to the prior quarter and a year earlier in Europe but were under pressure in the USA and many other markets. Pulp prices, including prices for chemical cellulose, fell sharply and by the end of the quarter, NBSK prices were more than US\$200 per tonne lower than at the end of the previous quarter.

Demand fell off sharply as the quarter progressed, resulting in lower sales in all Sappi's businesses, particularly Saiccor. The company took extensive production curtailment in December to match output to demand in addition to major planned maintenance outages during the quarter.

Operating profit excluding special items was US\$25 million for the quarter compared to US\$92 million a year ago and US\$89 million in the prior quarter. Basic EPS of 6 US cents per share for the quarter was favourably impacted by special items of 6 US cents per share. Cash generated from operations was US\$95 million, down from US\$155 million a year ago, as a result of lower operating profit. Working capital increased US\$96 million during the quarter compared to an increase of US\$133 million a year ago. Net debt, excluding the proceeds of the rights offer, increased to US\$2.5 billion from US\$2.4 billion at September 2008.

Says Sappi chief executive Ralph Boöttger: "We expect the Southern African fine paper and packaging paper businesses to continue to perform moderately well. Demand in the local market has weakened less than global markets generally. We have taken and will continue to take commercial downtime when necessary. The 3 viscose grade chemical cellulose and other exports, however, continue to be

significantly affected by the major fall in demand and sharp fall in prices which has continued into the current quarter.

“The additional capacity at Saiccor following the commissioning of the expansion in September 2008 is not being utilised. We are therefore shutting certain elements of the old plant to reduce output to match demand while utilising the more efficient new plant as much as possible.”

## SUPPLIERS

**Donaldson Engine Product celebrates 15 years.** Donaldson Company (NYSE:DCI), worldwide manufacturer of filtration systems and parts, has recognized a 15-year milestone for the introduction of Donaldson Ultra-Web® Nanofibre Filtration Technology into its Engine Products. Launched in the Engine Aftermarket in December 1993, Ultra-Web Technology revolutionized air filtration for on- and off-road vehicles and equipment by providing high efficiency filtration and extended filter life while reducing operator maintenance costs.

Donaldson Ultra-Web Technology causes submicron particles to load on the media surface rather than disperse throughout the depth of the filter. The smaller, interfibre spaces of Ultra-Web provide higher efficiency and capture more contaminants.

Throughout the years Donaldson has continued to improve the durability and performance of Ultra-Web Technology, targeting diesel engine applications operating in increased ranges of temperatures and humidity levels. For more information contact Donaldson Filtration Systems (Pty) Ltd on 011 9976000 or Fax: 011 6080021 or visit [www.donaldson.co.za](http://www.donaldson.co.za).

### **Metso's new speed record at Stora Enso Kvarnsveden**

The Metso supplied PM 12 at Stora Enso Kvarnsveden mill in Sweden has improved the world speed record of SC paper production. The machine reached a 24-hour record of 1,926 m/min on January 21st. The top speed achieved during the period was 2,009 m/min.

“This new record shows what can be achieved with the newest machine technology in the hands of highly skilled operating staff. It is also a result of the good co-operation between Metso and Stora Enso. We did not face any unexpected challenges during the record run, and we expect to break even this

record in the near future”, states Annica Bresky, Production Manager of PM 12 at Stora Enso Kvarnsveden.

“The runnability was good and tail threading operated smoothly through the whole machine. Also, reel turn-ups were without problems at the record speed”, adds Lennart Johansson, PM 12 Superintendent.

Kvarnsveden PM 12 was started up in November 2005. It is the largest SC paper production line in the world. PM 12 is one of the largest investments that Stora Enso has ever made in Europe, and the biggest ESS (extended scope of supply) paper mill project by Metso.



*The joint efforts of Stora Enso's and Metso's teams resulted in a new world speed record.*

### **StreamLine Pro roll wrapping and handling system goes online**

The new Metso StreamLine Pro wrapping and handling system went into production on December 1, 2008 at the NewPage Wickliffe, Kentucky mill, in the USA. The fully automated roll wrapping and handling system includes a modularized high capacity StreamLine Pro kraft roll wrapper with four industrial robots. The new conveyor system collects rolls from the paper machine and the off-machine coater areas and brings them to the new wrapper. After rolls are wrapped and labeled, they are moved to either the "in process" area or shipping warehouse. The entire system is free of any hydraulics. All actuators are electric or pneumatic.

This is the second StreamLine Pro that NewPage has purchased. The first system was started up at their Escanaba operations in October, 2006.

NewPage Corporation, headquartered in Miamisburg, Ohio, is a leading producer of coated papers in North America. The Wickliffe mill has a kraft mill, one paper machine and an off-machine coater. With 530 employees, the mill produces 340,000 tonnes of paper and 345,000 tonnes of hardwood pulp per year. The Wickliffe facility is a leader in magazine covers.

