Pulp & Paper **Edge**

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Increased imports of CWF from Asia may be displacing shipments from Europe. The Europeans have a good reputation in both Australia and New Zealand for being reliable suppliers of quality paper. *IndustryEdge* discussed with Paul Teague (pictured), National Sales Manager Stora Enso Australia, the changing trend in imports of CWF and in general terms how the European manufacturers are likely to compete against shipments from Asia.

ABC Tissue Driving Competition Harder

Sydney based tissue manufacturer ABC Tissue has been reported as being in breach of immigration and workplace standards.

IndustryEdge is not in a position to comment on whether or not the alleged infringements took place during the construction of the new ABC tissue machine and facility. However, it is understood the construction site is working again and progress is being made towards the tissue machine starting up early in 2007.

Work place standards are generally a topic most people accept as necessary and appreciate the progress that has been made on this issue in Australia over a number of years. However, the same cannot be said for national immigration policies, and as a result it is likely that some politicising in the reporting of the alleged breaches has occurred.

There are two particular issues of interest arising from this incident.

Firstly, ABC Tissue has taken significant market share from K-CA and SCA over recent years by consistently being a low cost producer of what the market considers to be quality products. To continue being the lowest cost producer ABC Tissue has contracted A Celli to deliver an operating tissue machine and therefore construction of the new tissue machine is firmly in the hands of A Celli.

Part of the solution to maintain low-costs has been to import labour, which has naturally caused a problem. If domestic production in Australia is to compete against increasingly cheaper imports across a range of manufactured goods then there are likely to be increasing incidence of cheaper labour being sort to reduce development and capital costs.

It would not be surprising if other companies in the pulp, paper and packaging manufacturing sectors that are considering major projects themselves do not think about labour supplied from a range of locations. However, Australian standards must be adhered to.

The second issue is the size of the pool of available labour that is sufficiently skilled to build a paper or board machine. A3P released a press statement in August reiterating the skill shortages in the plantation products, pulp and paper sectors. It also released a press statement in September condemning the reported safety breaches at ABC Tissue, while also confirming ABC Tissue is not a member of the association.

Struggling with a shortage of labour skills, while also maintaining environmental and work place safety standards are significant challenges for investors in this industry. With a number of new projects in the pulp and paper industry nearing the end of the feasibility stage, positive lessons can be learnt from ABC Tissue's alleged experiences during the construction phase.

The new ABC Tissue machine in Sydney may not be the only strategic change in the tissue sector.

Amcor's announced impending closure of its converting operations at Box Hill, in Victoria, will potentially provide a significant parcel of land next door to the SCA tissue facility.

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When the SCA Box Hill facility was under the ownership of Carter Holt Harvey, one of the restrictions on building a new machine or expanding the facility further was the lack of available land. Now there is a significant parcel of land becoming available next door to the tissue plant the question is whether or not SCA will be interested in expansion.

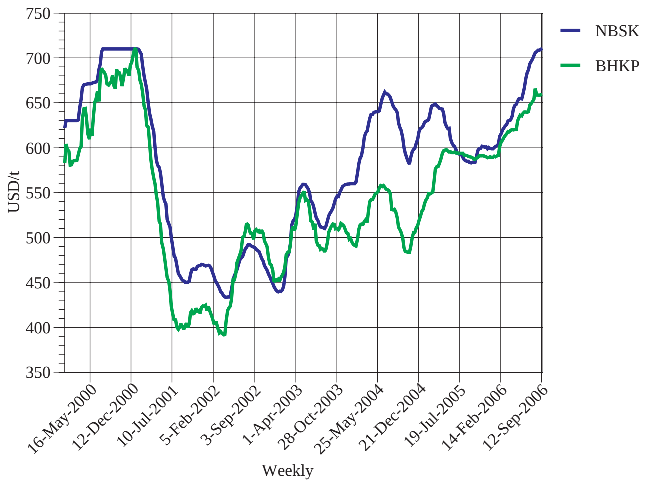
With the difficulties faced by SCA globally after its expansion three years ago, and the current restructuring of many of its operations, expansion in the Australian or New Zealand competitive tissue markets is unlikely.

However, with the increased competition from K-CA with the *Cottonelle* brand off PM5 at Millicent, and ABC Tissue building new capacity in Sydney for its *Quilton* brand (both facial and toilet tissue), the next strategic move might be expected from SCA.

Gap in Pulp Prices Growing

The gap between NBSK and BHKP passed through the USD50/t mark during the first week in September. Since mid-August the NBSK PIX price has risen by USD4/t, even though this is a smaller rise than for similar periods in recent months, while BHKP PIX has fallen USD6/t.

Weekly NBSK & BHKP PIX Prices: 16 Sep '06 - 12 Sep '06 (USD/t)



Source: FOEX

Pulp demand at the start of August has historically been slightly weaker due to summer holiday periods in the northern hemisphere, but has risen towards the end of August as paper and board mills gear up for high production levels between August and October.

This year demand remained strong with mills building up depleted inventory levels that are at the lowest level for a decade.

Market prices for both NBSK and BHKP remained stable in North America and Europe, however, both rose close to USD20/t in Asia, especially China. Prices are expected to remain strong until at least November, but are then forecast to start weakening.

Even though the closure of many small or inefficient North American mills has helped to push up the softwood pulp price, the start up of Arauco's 850 ktpa Nueva Aldea radiata pulpmill is going to ease supply limitations. In addition, the imminent restart of the Buchanan Forest Product's Terrace Bay, Ontario, mill will further ease supply. From a hardwood perspective, there have been some outages in Brazil (maintenance) and Indonesia (unscheduled) that will be completed, returning production to close to full capacity.

Hardwood pulp producers are expected to hold prices while softwood pulp may still have some room left for marginal increases before the end of the year. Hardwood producers will attempt to encourage buyers that have the capability to swing from softwood to hardwood pulp to do so as the margin between the grades widens.

Pulp prices are expected to start weakening in late 2006, and it is likely it will be hardwood pulp prices that lose momentum first, followed by softwood prices in the New Year. Predicted drivers for turning pulp prices are new capacity and the fact that paper prices have not responded sufficiently to high pulp prices, causing non-integrated mills to cut back on production. The traditional theory that if pulp prices rise, along with energy costs, then paper prices would be forced to follow has failed this time primarily because of supply.

Within twelve months pulp prices are expect to fall by up to 15%, however, this prediction is likely to be tempered by further closures of North American and European mills. Histograms published by TerraChoice Market Services in August show the mode periods for ages of recovery boilers in the USA is 31 – 35 years and in Canada it is older at 36 – 40 years. This is an indictment of the North American mills attitude to reinvestment.

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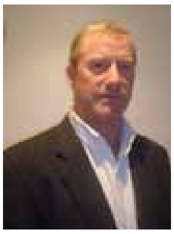
European CWF Supplies - Here for the Long Haul

European Advantages

Imports of coated woodfree (CWF) grades from Korea jumped a further 4% during 2005-06, resulting in Korean shipments accounting for almost 30% of total CWF imports to Australia. Apart for shipments from Finland and Germany, this increase has largely been at the expense of imports from Europe.

Even though shipments of CWF from Europe have fallen slightly over the last few years, there appears to be a solid market base in both Australia and New Zealand which will continue to demand European CWF grades, rather than supplies from other regions, especially from Asia.



Paul Teague (pictured), National Sales Manager Stora Enso Australia, says the two distinct advantages maintained by European suppliers are quality and sustainability.

European manufacturers have invested considerable energy and capital in developing quality grades of CWF, but Teague added quality is not just about how the paper performs but also the quality of the support and backup for printers. When paper associated issues arise on modern high-speed presses, printers need to know there will be an absolute commitment by the paper mills to resolving the problems in the quickest time possible.

The European suppliers take this commitment to quality paper and service extremely seriously and Teague expects this advantage to be defended strongly. He does not want to be seen as criticising suppliers from other regions, but rather he has no doubt the Europeans do truly have the edge with quality, in both paper and service.

The second advantage is sustainability. This is a big issue in Europe and Teague believes in time it will become significant in both Australia and New Zealand as well.

In Australasia sustainability accreditation is usually linked to growing forests or plantations and meeting a range of social and environmental issues. In Europe, while sustainable management of forests is extremely important, paper companies have to be sustainable in other operations that could impact the environment.

In Europe, the real test is to demonstrate high levels of sustainability throughout the organisation, from fibre resource management, bleaching and effluent control through to areas such as financial and social responsibility.

Triple bottom line reporting by paper suppliers is not a big concern yet for most paper buyers in both Australia and New Zealand. However, if this region is to follow the lead of an increasing number of paper buyers in Europe, then there will be a change in the future about how the paper manufacturer accepts and responds to its responsibilities for triple bottom line reporting.

For example, Stora Enso is now listed on the Ethibel Sustainability Index, an index that allows investors, if they choose, to invest their funds in certain companies that act responsibly towards the environment. When a paper manufacturer, such as Stora Enso, is listed as one of the 100 most sustainable companies in the world it gives paper specifiers and users confidence in their choice of product supplier.

Quality and sustainability are competitive advantages all major European suppliers strive for. Teague says reputations take a long time to develop in mature markets such as this region, therefore the credible advantages demonstrated by the European manufacturers historically will ensure shipments from Europe will be maintained.

Perception by the Europeans

Europeans perceive both Australia and New Zealand as similar markets to their own. The European paper companies see buyers in this region as technically advanced in the level of quality and performance they expect. This is supported by the increasingly sophisticated state of the art printing presses being commissioned by local printers.

The only major difference is the distance for freight. However, Teague says it is interesting the perception about freight is quite different between Europeans and those in Australasia.

From this end there is a belief the tyranny of distance causes longer shipping times and higher freight costs, however, this is not the case. There is no doubt shipping times are longer from Europe than either from domestic mills in Australia or possibly from Asian manufacturers, however, delivery costs may not be as high as for deliveries in central Europe.

Trucking is expensive in Europe, and the freight costs per ton for trucking paper across Europe are possibly more than the cost per tonne of shipping paper to Australia or New Zealand. Therefore it is possible to have delivered costs in Australia and New Zealand equal to what they are likely to be in many parts of Europe.

Therefore, while European paper companies ensure there is little or no impact on printers in this region from longer shipping times, with many printers accustomed to ordering in advance to compensate for longer lead times, there is, however, little disparity in delivery costs.

Not All Roses

If quality was the only criterion by which printers order paper then Teague has little doubt that shipments from Europe would be considerably higher. However, price is a major factor as well, and this is not a new issue for European paper makers.

The evidence is clear that cheaper Asian imports are impacting the quantity of CWF supplied out of Europe. Teague is also aware that for some printers the paramount issue is always to get the cheapest paper, however, there are also many instances where cheaper paper brands have cost some printers dearly.

There are no benefits for Teague in providing names, but he has seen examples of situations from both directions. Printers who have purchased European papers, run into some technical difficulties and then have been overwhelmed by the high level of technical support provided very quickly by the European manufacturers.

Conversely, unfortunately, he also knows of printers that have changed to cheaper brands of CWF manufactured closer to this side of the world, then when the print run experiences problems the printer has close to zero support, or even interest, from the paper manufacturers.

This topic is difficult to discuss for mill agents and merchants as it appears the argument is based on putting others down. This is not meant to be the case, with many printers not requiring to be convinced further since many have tales of woe of their own. Once again reputation is everything, and Teague is enthusiastic about the level of technical support and backup supplied by the Europeans.

He who has fibre – wins

IndustryEdge asked Teague about what changes are likely to occur in the supply of pulp and paper from Europe.

European paper manufacturers have mills located close to or in the midst of major markets, so Teague does not believe there is going to be an exodus of manufacturing from Europe.

The relevant statement, though, is "*He who has fibre – wins*." European manufacturers have, for many years, committed themselves to producing quality papers through considerable investment in research and development. In addition, as stated, there is a mature and sophisticated market generating local demand. None of this matters though if paper makers do not have a reliable and cost effective supply of fibre.

The current peak in pulp prices has been ably assisted by closures of pulping capacity in the northern hemisphere, mostly northern America, leaving non-integrated manufacturers wondering how much longer their margins can survive without life support.

Many of the major European manufacturers are building pulpmills close to fibre supplies. Stora Enso, as an example, started production from its Veracel pulpmill in South America in 2005 to supply its European paper mills.

Veracel Celulose South American Mill

While Teague would like to believe paper manufacturing will continue in Europe at the same scale it has historically, he knows that secure access to cost effective pulp that has been produced in an environmentally sensitive process will be the key for the future. European paper mills that cannot achieve this supply criterion, will be exposed to competition from imports from other regions.

Russia has a significant fibre supply that is of interest to many European paper makers, with some already announcing feasibility studies for pulpmills there. *IndustryEdge*, though, does not expect a wave of investment by European paper makers in Russian pulpmills because of considerable sovereign risk and poor infrastructure.

Before Veracel developed plantations

After Veracel developed plantations

Source: Stora Enso

The issue of locking in a secure and affordable fibre supply is also critical to China, where new paper capacity is being built at an alarming rate. To date, the Chinese have essentially either imported woodchips or have been buying market pulp. This weakness in supply has certainly been of concern to European companies seeking to invest in new capacity in China.

Therefore, while it may be viable for European manufacturers to consider moving part or all of their operations to Russia or China to reduce costs, both locations have major limitations in their manufacturing capabilities.

The choices for the Europeans are to either build new paper capacity next to their pulpmills in locations such as South America, or bring pulp from South America, Asia or even Australasia when a world scale pulp mill is eventually built in this region.

If and when Gunns has its pulpmill operational there is likely to be strong interest from the Europeans wishing to lock in a secure supplier.

Positioning PaperlinX

Since PaperlinX, Australia's only CWF manufacturer, and Australasia's largest merchant, is a major merchant in most European countries, it is in a position to work closely with a variety of European manufacturers.

PaperlinX sees the European brands as being complimentary to its own, especially in the mature markets of Europe and Australasia. The difficulties faced by PaperlinX to improve sales and margins are continuing challenges. However, in contrast, in China, where growth in demand for CWF is being partly driven by rising literacy rates and an increase in discretionary expenditure, the dynamics of the paper market are very different with a greater emphasis on local supply.

The rise in Chinese manufacturing and the resulting fall in Korean exports to China has meant new markets have had to be found for excess Korean output. This is a real threat to European suppliers and merchants carrying European stock in Australasia if paper buyers are prepared to change. Some will certainly consider Asian supplies since *IndustryEdge* expects the lower priced imports from both Korea and China will be attractive.

As far as Australasian printers are concerned, the espoused benefits of the European products will need to be clearly communicated if imports from Asia are to be curtailed in any way.

Conclusion

Trade statistics are showing imports of CWF from China have now reached 10 ktpa, while shipments from Korea, at 97 kt, are 30% of total shipments.

While PaperlinX will be defending the market for the small quantity of CWF it manufacturers locally, it will mainly be seeking to protect its imports of European grades.

The European paper suppliers see Australia and New Zealand as markets similar to their own and are not expected to walk away from competition from Asia. European suppliers have built a reputation over a long period of good support and back up, and are expected to use these iterated advantages to defend their market share.

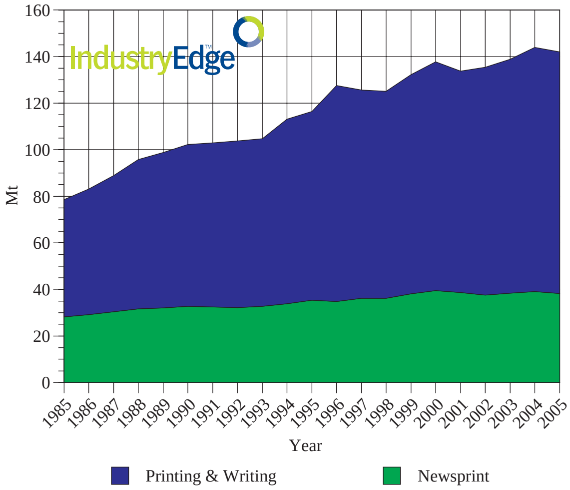
Local printers are technically sophisticated, and will therefore consider their options of staying with products they have used for long periods, or be driven by other considerations to use alternative and increasing imports from China and Korea.

Articles continued from page 2...

Global P&C and Newsprint Consumption Flat

FAO 2005 global production figures for printing and writing papers and newsprint show there was a decline of around 2 Mt.

Global Production of P&C and Newsprint: 1985 - 2005 (Mt)



Source: FAO

The small reduction in global production indicates closure of inefficient capacity is occurring at approximately the same rate as new capacity is being constructed, especially in China.

With paper and paperboard demand in China forecast to continue rising at an average rate of 5% pa until 2020, it is expected there will be a significant shortage eventually in available fibre. Already major European paper makers are investing in significant plantation areas in Eastern China, but initial reports are that growth rates are well below expectations.

Australia and New Zealand are well placed for the supply of pulp, with both countries having significant plantation resources, but New Zealand is pulling trees out due to poor policy on the signing of the Kyoto Protocol, and in Australia there is still no certainty a pulpmill will be built, even though the Gunns project does appear it will eventually be approved.

Reporting Season 2005-06

Amcor

Amcor results were in line with expectations, but were down 11% against the previous year.

All Operations (AUDM)	2005-06	2004-05	% Change
Sales	11 439.3	11 066.3	3.1
PBITDA	1 249.1	1 283.6	-2.7
PBIT	775.7	821.8	-5.6
PAT	405.9	458.8	-11.5
Significant Items	(54.6)	(265.8)	79.5
PAT after Significant Items	351.3	193.0	82.0
EPS (Cents)	46.1	52.2	-11.7
Operating Cash Flow	522.3	345.8	51.0
Dividends (Cents)	34.0	34.0	–

A profit before interest, tax, depreciation and amortisation decline of 2.7% to AUD1 249M was reported as a positive element in the current environment of rising input costs.

Energy cost increases could not be recovered in full across all businesses.

Comments by IndustryEdge

Amcor's results were close to expectations, but still disappointing. The Australasian fibre businesses under-performed and were a drag on results.

A major factor influencing the Australasian fibre-based packaging businesses is competition. Amcor, as a publicly listed company, needs to compete against two private companies that are both aggressively seeking to gain market share on both sides of the Tasman.

Senior management have already committed themselves to pursuing cultural changes, especially in the Australasian fibre-based packaging businesses. The strategy is for this to occur within two to three years.

Significant cost reductions will need to be found if Amcor is to compete against Visy, CHH and imports. Once again, senior management strategies are heading in the right direction, but will need to be pursued aggressively.

Technology investments by Amcor over the last decade have lagged those of its competitors, and therefore, even though the market is currently tough, changes in the structure and efficiency of manufacturing and converting operations are needed. While a strategy for this is in place, further delays will make it harder for Amcor to hold on to market share.

The announced feasibility study for a new recycled paper machine at Botany is not a new concept. There have been a number of projects in the past, but none have succeeded in achieving Board approval. This time there appears to be a concerted effort to conceive a cost effective machine capable of producing a competitive board in both quality and unit cost.

The announced restructuring of the corrugated box businesses is a good move to reduce costs and find efficiencies, however, Amcor remains exposed in one of its major market segment fresh produce boxes especially in Queensland. There is a strategy for market diversification in areas where Amcor is exposed to the fluctuations of specific sectors, especially those weather dependent, to reduce market risk.

Strategies announced by Ken MacKenzie, Managing Director and Chief Executive Officer, Amcor, for the Australasian fibre business are sound, however, the local competition is tough and market dynamics are changing. The announced strategies may only be the start of a series of changes if three companies are to survive in the Australasian box market, and two in the cartonboard sector.

PaperlinX

PaperlinX results were in line with expectations by most analysts, with profit, revenue and sales all down.

		2005-06	2004-05	% Change
Sales Volume	kt	4 248	4 298	-1.0
Sales Revenue	AUDM	7 413	7 574	-2.1
EBIT	AUDM	1524	180.1	-15.4
Report earnings after tax (excl. ATC)	AUDM	65.4	89.6	-27.0
EBIT/Average funds employed	%	6.2	6.7	
Net Debt/Net Debt & Equity	%	36.0	35.9	
EPS (excl. ATC)	cps	14.7	20.1	-26.9
Total dividends	cps	10.0	25.5	-60.8

Tom Park, Chief Executive Officer, PaperlinX, stated in his announcement address that:

- PaperlinX continued to face difficult market conditions, with paper prices remaining too low and input costs continuing to rise through 2005-06.
- Returns have been maintained by PaperlinX through strategic diversification, focus on expense management and reduced working capital.
- Key strategic initiatives are on track to contribute AUD35M in incremental operating earnings on 2007 and >AUD100M in 2009.
- The outlook is improving with rationalisation of capacity and price rise announcements in the major markets of Europe, North America and Australia.
- Pulp and energy prices continue to rise, while US and European GDP growth are about 3.5% and 2.5% respectively.

Comments by IndustryEdge

It is positive that PaperlinX continues to take costs out of all operations, both merchanting and manufacturing. However, some cost increases, such as oil and pulp, are rising faster than PaperlinX can absorb.

On the down side for PaperlinX is the fact that many of the things it needs to change to generate an acceptable return are external, and therefore out of the company's control. Commodity prices and the Australian dollar exchange rate both appear to be holding higher than PaperlinX would like.

Improvements in manufacturing efficiencies have started with the pulp and bleaching operations upgrade. Apart from stating the budget and schedule for the project are on track, there has been little reporting on progress. The outsourcing of the woodyard development and operation has assisted in keeping the budget on track.

Paper prices have not moved up as much as PaperlinX needs them to, so a greater resolution for merchanting businesses to stick with announced increases will be expected through 2006-07.

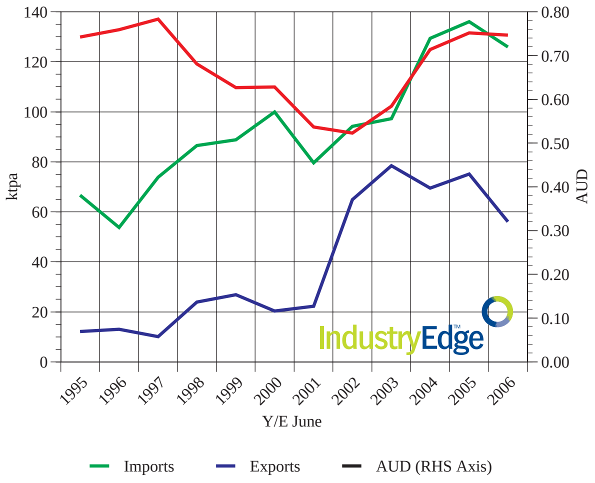
Testing External Factors for PaperlinX

During PaperlinX's 2005-06 performance presentation, Tom Park, Chief Executive Officer, PaperlinX, announced a number of external factors that needed to change for improved results.

For analysis of the possible impact of the exchange rate, the following chart shows movement in the value of the AUD against changes in import and export volumes of cut reams.

For the last decade imports of cut reams have risen most years regardless of where the exchange rate sat. Between 1996 and 2002, when the exchange rate was sliding into the trough, imports of cut reams rose at an average rate of 9.8% pa, then between 2002 and 2006 when the average exchange rate was rising again, making imports cheaper, the average rate of increase in shipments of cut reams rose at only 7.5% pa.

Imports & Exports of Cut Reams plus Exchange Rate: 1995 - 2006 (ktpa & AUD)

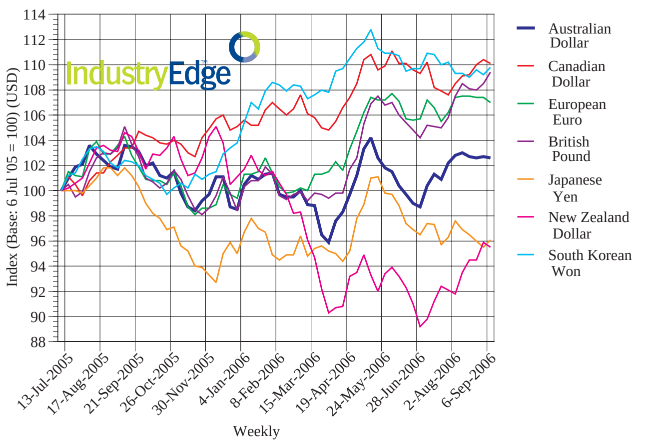


Source: ABS & Uni of BC

While the average exchange rate started and ended the decade at close to the same level, imports of cut reams have more than doubled.

The analysis of exports though, shows a very different trend. Before PaperlinX was floated off by Amcor (pre 2000), exports of cut reams remained close to 20 ktpa, mostly to New Zealand.

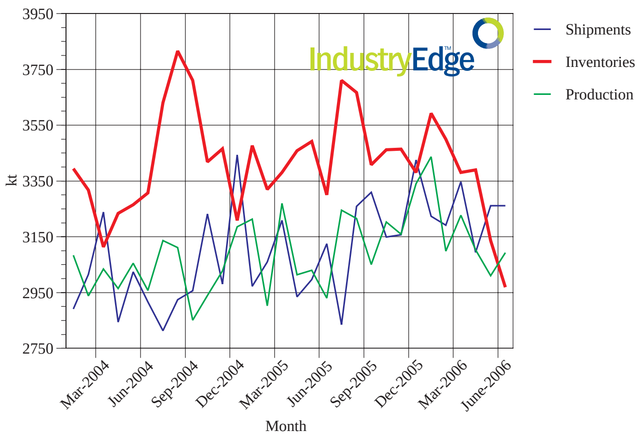
Main Trading Currencies: 6 Jul '05 - 6 Sep '06



Source: Uni of BC

There has been little or no movement in the AUD against the USD for the six weeks since the start of August. In comparison the NZD has risen by more than 4% and the JPY has fallen by 2%. The EUR has also demonstrated stability, apart from a small downward shift in the second week of September.

World-19 Producers: Jan '04 - Apr '06 (kt)



Source: Pulpwatch & IndustryEdge estimates

World-19 data for June shows inventories continued to fall sharply, passing through the three million tonne mark, or twenty-eight days. However, with shipments remaining level in June and reportedly falling in July, inventory will be expected to recover by more than ten percent.

After becoming a separate company and expanding its global merchanting businesses, PaperlinX quadrupled exports between 2001 and 2003 when the exchange rate was passing through the trough. With an increase in the value of the AUD, it would appear exports have fallen by a quarter.

There are obviously a range of factors other than the exchange rate influencing the level of trade in cut reams, however, by analysing trends over the last decade the initial indications are that exchange rates impact exports to some extent, but imports have continued to rise regardless of exchange rate levels.

Fast Tracking Yatala

The construction period of Visy's greenfield corrugated box plant at Yatala in Queensland has been expedited due to Visy's recently upgraded and expanded Carole Park facility in Queensland being at full capacity. Visy is accelerating construction of the new Yatala plant to be ready for the busy end of year season and the return of demand for banana boxes after cyclone Larry.

The Queensland market appears set to be a major part of Visy's publicly stated push to secure at least 60% market share in Australia.

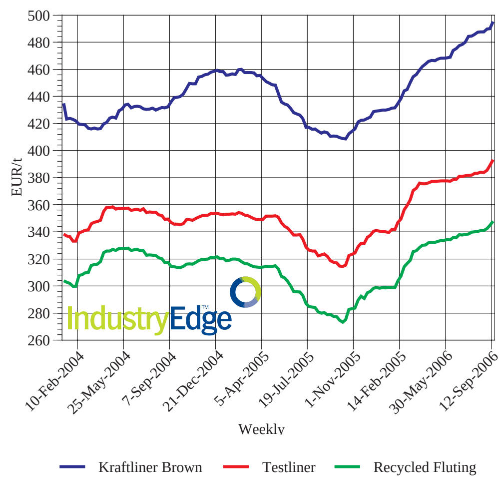
Apart from Queensland, Visy is currently upgrading existing corrugating facilities in New Zealand, Victoria, South Australia and Western Australia.

Premier Beattie Visiting the Yatala Site

Source: Visy

Expectations CHH would pursue a strategy to capture market share in both Australia and New Zealand are being borne out. A number of experienced staff from mostly Amcor, but also Visy, are now part of the CHH team. In addition, previous CHH alliances for the supply or purchase of board on either side of the Tasman are understood to no longer exist.

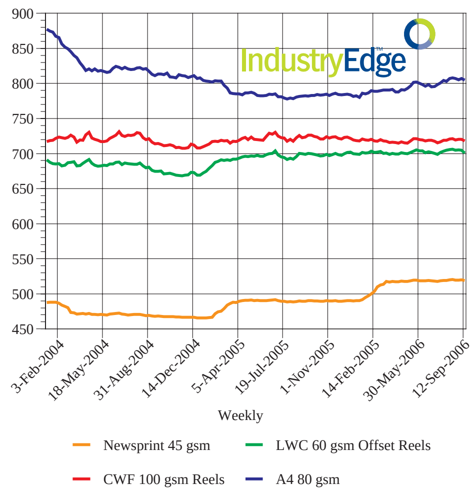
PIX Packaging Indexes: 7 Jan '04 - 5 Sep '06 (EUR/t)



Source: FOEX

The European PIX benchmarks prices for fibre packaging have continued the positive trend starting from back in November 2005. Benchmark prices for Testliner and Recycled Flutings are rising more sharply at a time when most mills are increasing production in preparation for the festive season.

PIX Paper Indexes: 7 Jan '04 - 5 Sep '06 (EUR/t)



Source: FOEX

European benchmark PIX paper prices continue to under perform, not reflecting any of the proposed price increases regularly announced by the European manufacturers and merchants. A4 80 gsm prices have moved up slightly, by the rise is slow and uninspiring.

CHH, as part of Rank Investments, now looks certain to invest to build the fibre packaging business, suggesting competition in both the corrugated container and cartonboard markets on both sides of the Tasman is about to be ratcheted up a few notches.

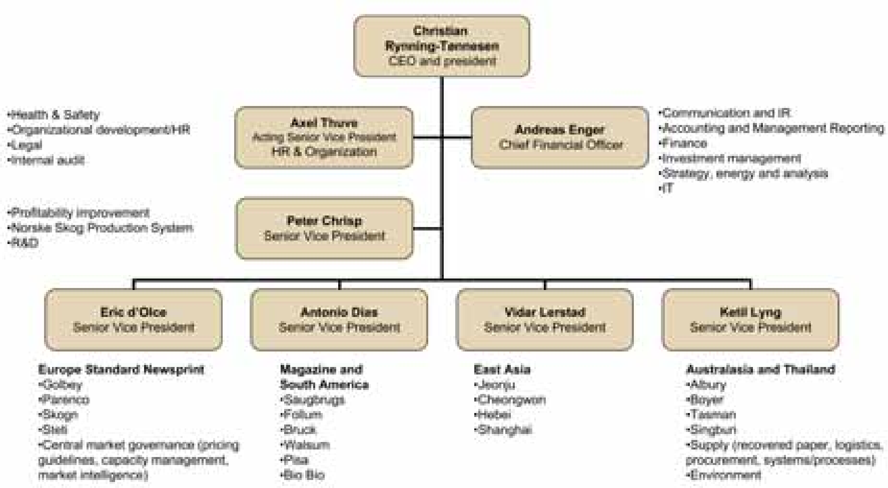
Norske Skog Structure Pruned

Norske Skog has made a number of announcements regarding changes to senior management and the corporate structure. The following chart shows the flatter structure with the removal of many of the regional corporate offices. The new structure recasts the mills as business units and profit centres, as opposed to cost centres that previously reported through the regions.

Ketil Lyng, Senior Vice President responsible for Australasia and Thailand is one of the direct reports of Christian Rynning-Tønnesen, CEO and President Norske Skog. *IndustryEdge* can confirm Rob Lord, the current Regional President Australasia, was offered one of the senior positions in Norway but chose to remain 'down under' for personal reasons.

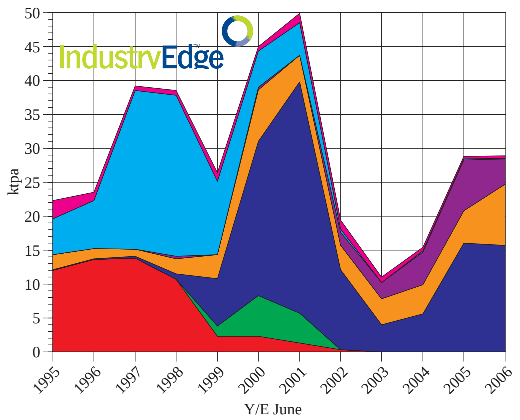
As stated, the regional structure as a separate management level has been removed, achieving cost savings and creating a more direct reporting line. The new structure is as follows.

Norske Skog New Corporate Management Structure



Source: Norske Skog

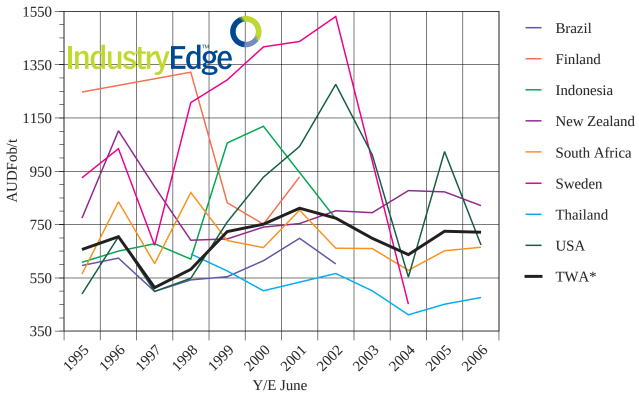
Imports of Kraftliner by Country of Origin: 1995 - 2006 (ktpa)



Source: ABS

Total imports of Kraftliner in 2005-06 remained virtually unchanged from the previous year at 28.9 kt. Shipments from New Zealand fell by a very small amount to 15.7 kt, but with CHH breaking off alliances this volume is expected to increase in 2006-07. Approximately 4 kt from Thailand was replaced by shipments from South Africa.

Imports of Kraftliner by Country of Origin: 1995 - 2006 (AUDFob/t)



Source: ABS

The trade weighted average kraftliner import price fell by 0.6% to AUDFob721/t. This was caused by imports from the major source, New Zealand, falling AUDFob51/t to AUDFob821/t. Imports from New Zealand were approximately AUDFob150/t above South Africa, which in turn was approximately AUDFob200/t above Thailand.

Newsprint mills will now be responsible for sales and general procurement, running more as business units. The exception will be Australasia, where there will be centralised sales, logistics and information technology.

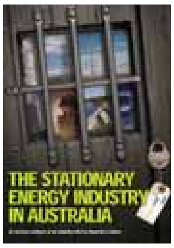
The Senior Vice Presidents will be responsible for central functions including market governance, defined supply and logistics and environmental standards. Andreas Enger, Chief Financial Officer, will take responsibility for strategy, energy, communications and information technology. Peter Chrisp, previously Manager at the Tasman mill, will be the Senior Vice President dedicated to profitability improvement, Norske Skog production systems and research and development.

The structural changes are being implemented to create clear accountabilities with market and customer focus and proximity, while also reducing costs.

While the Australasian mills (business units) will report directly to Norway, they will share some common corporate functions.

In Australasia some of the regional positions are still being reviewed with the final structure yet to be determined.

The Stationary Energy Industry Market in Australia



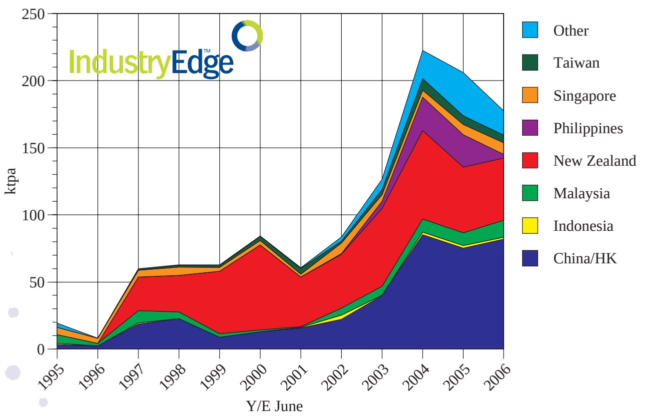
Businesses throughout Australia are struggling with rising transport energy prices, but it is apparent that prices for stationary energy (electricity and gas) are also considerably higher than they need to be, for a variety of reasons.

The Stationary Energy Industry in Australia analyses this AUD20 bn industry, and not only provides reasons as to why stationary energy costs are so high, but makes definite recommendations as to what needs to be done to reduce them.

The Stationary Energy Indystry in Australia is a valuable resource for business because it provides a detailed analysis of the structure and the dynamics of the industry and an abundance of ammunition for lobbying for stationary energy reform.

Further details about *The Stationary Energy Industry in Australia* may be found on the *IndustryEdge* web site at **www.industryedge.com.au** or by contacting Robert Eastment on 61 [0] 3 6224 7166.

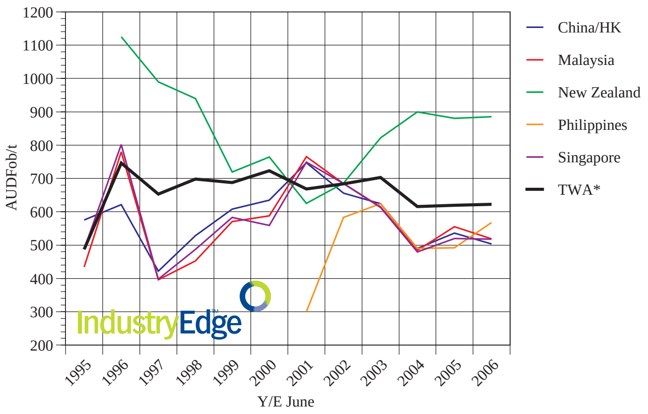
Exports of Kraftliner by Country of Destination: 1995 - 2006 (ktpa)



Source: ABS

Exports of kraftliner fell by 28.4 kt, or 14% to 177.7 kt. Even though total exports were down, shipments to China increased by more than 5 kt to 81.8 kt. and accounted for more than 46% of the total trade. The major casualty during the year was exports to the Philippines, with shipments down from 24 kt in 2004-05, to only 2.9 kt last financial year.

Exports of Kraftliner by Country of Destination: 1995 - 2006 (AUDFob/t)



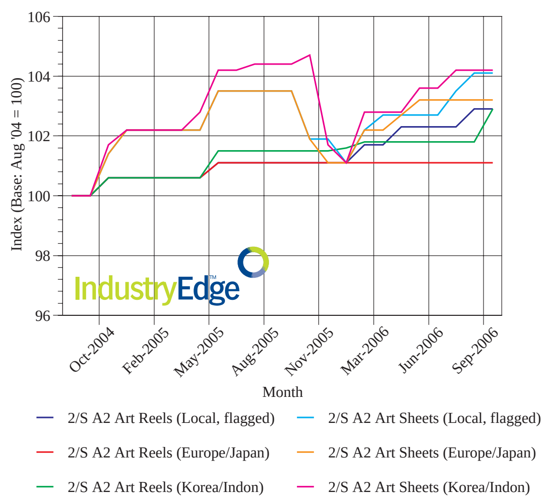
Source: ABS

Kraftliner export prices have remained close to stable for the second consecutive year at a trade weighted average of AUDFob622/t. Exports to New Zealand remained high at over AUDFob880/t, while shipments to Asia were almost AUDFob350/t cheaper, a significant difference.

Pulp & Paper Market Edge September 2006

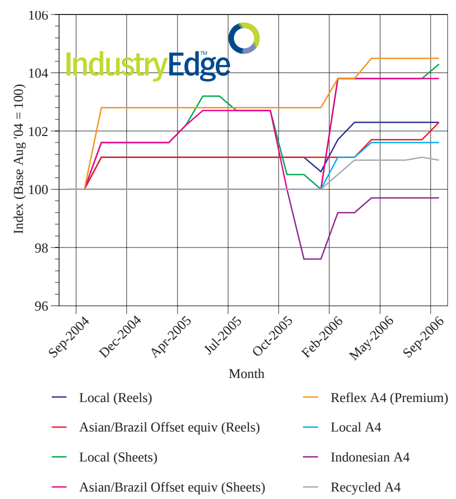
Grade	Specification	Weight (gsm)	Form	Monthly Prices Current	Monthly Prices Previous	12 months ago
Printing & Communication						
Newsprint	Norske Skog Announced Price	45	Reels	$ 1 023	$ 1 023	$956
Uncoated Mechanicals	S/C Mech Offset (Sweden)	56	Reels	$1 335	$1 285	$1 240
	Norske Skog Norstar	52	Reels	$1 141	$1 141	$1 087
Coated Mechanicals	LWC (Finland)	54	Reels	$1 625	$1 625	$1 600
	LWC (Finland)	65	Reels	$1 650	$1 650	$1 650
	MWC (Finland)	80	Reels	$1 650	$1 650	$1 600
	Local Acclaim Lick-coated Offset	54 - 60	Reels	$1 515	$1 500	$1 500
Packaging Grades						
Coated Cartonboard	1/S Solid Bleach Board (USA)	350um+	Reels	$1 500	$1 500	$1 745
	Local (Artcote White)	400um+	Reels	$1 562	$1 562	$1 712
	Local (Artcote Grey)	400um+	Reels	$1 369	$1 369	$1 369
	Local (Eco-cote)	400um+	Reels	$1 311	$1 311	$1 311
	Pearl Kote® Ctd Kft Back	356um+	Reels	$1 250	$1 265	$1 340
	Pearl Kote® Ctd Kft Back	457um+	Reels	$1 235	$1 250	$1 325
	Aqua Kote® Ctd Kft Back	508um+	Reels	$1 285	$1 300	$1 475
Container Materials	Kraftliner	200	Reels	$ 915	$ 914	$908
	Testliner	150	Reels	$ 810	$ 809	$ 794
Sack kraft	Semi extensible	70/80	Reels	$1 369	$1 358	$1 304
	Flat Sack Brown	80	Reels	$1 348	$1 335	$1 275
Fibre Resource						
Wastepaper	ONP - No 8 De-inking Australia into Asia			$ 120	$ 118	$ 130
	ONP - No 8 De-inking USA into Asia			USD $149	USD $133	USD $148
	ONP - No 8 De-inking Japan into Asia			USD $143	USD $131	USD $138
	ONP - No 8 De-inking Europe into Asia			USD $133	USD $120	USD $133
Pulp	NBSK Landed		Bales	USD $710	USD $700	USD $585
	Bleached Eucalypt Landed		Bales	USD $670	USD $650	USD 605

Indexed CWF Prices: Aug '04 - Sep '06



Source: IndustryEdge research

Indexed UCWF Prices: Aug '04 - Sep '06



Source: IndustryEdge research