

Global Market outlook

Mr. Olle Berg, Stora Enso Wood Products
Wood market day Tokyo, 10:th November 2011

european
wood

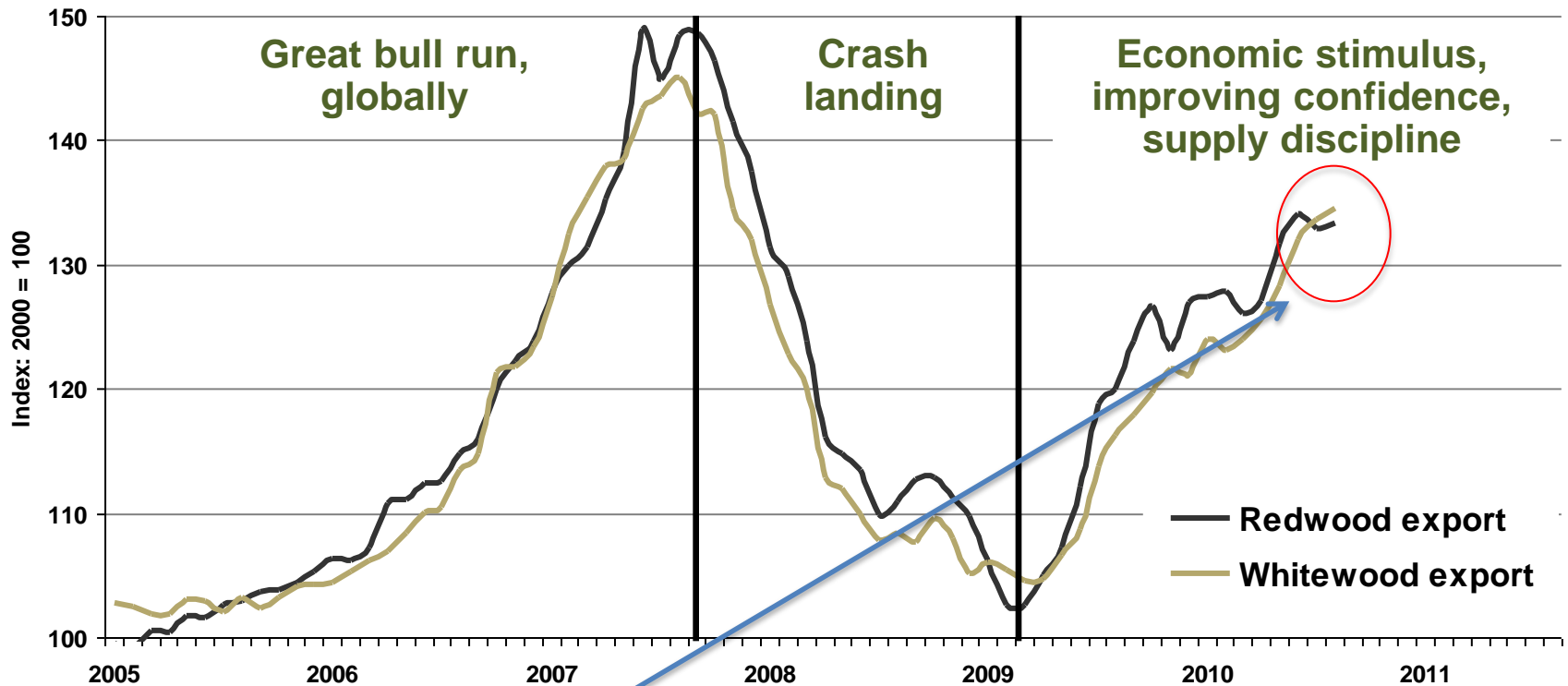
What has happened since the last time we met...

Lets recap the last year's events

Looking back...

...where were we in October 2010?

Swedish export price index for sawnwood



Source: Skogsindustrierna / Statistics Sweden

Output to a high level

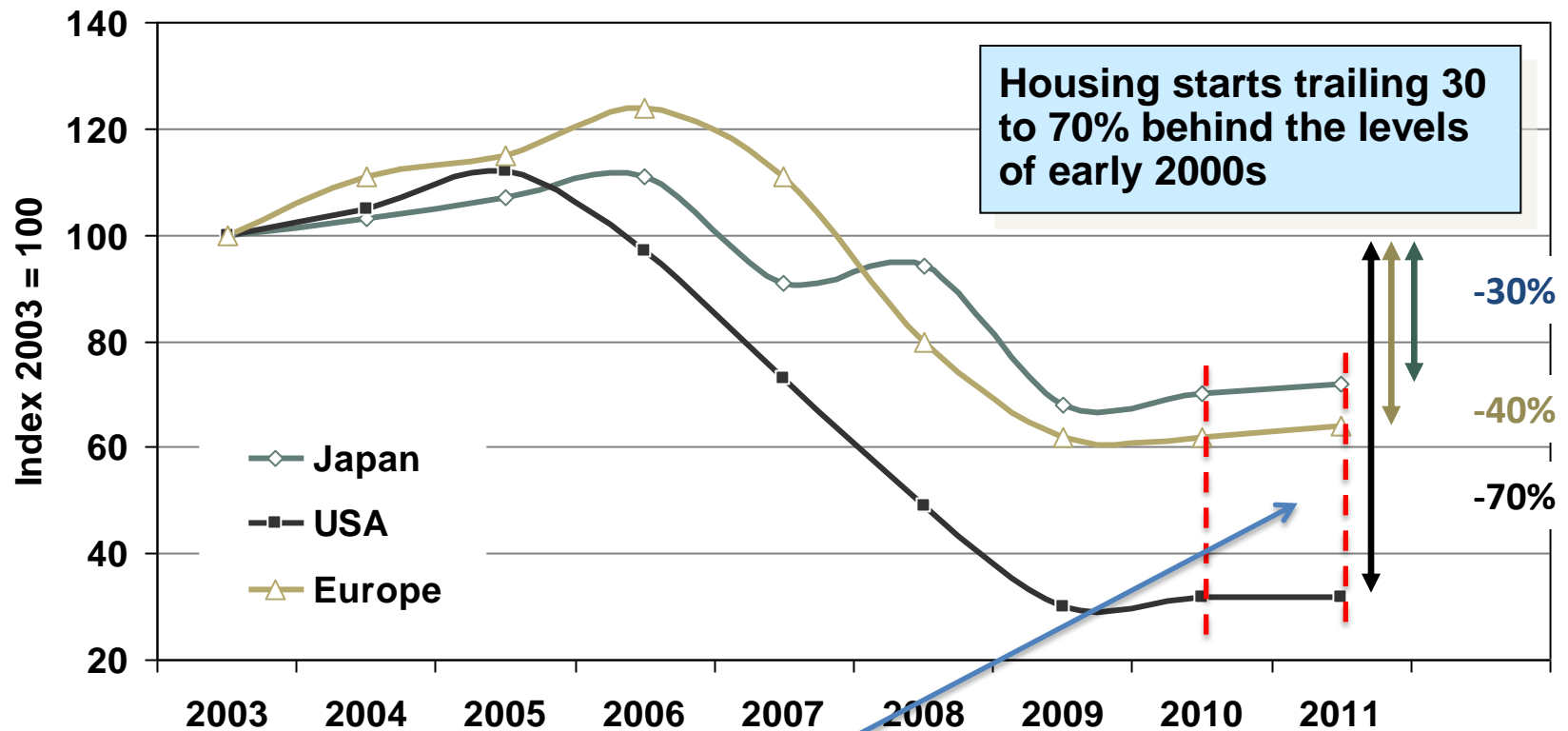
What has happend since then...

- Flooding in Australia
- Political turbulence, even civil wars, in North Africa & Middle East
- Massive earthquake & tsunami in Japan
- Crisis in Greece and increased economical turbulence in Euro zone
- Riots in London
- Emerging protests in Wall Street
- What's next...

Clear impact on demand

– recovery has remained slow

Development of housing starts by region



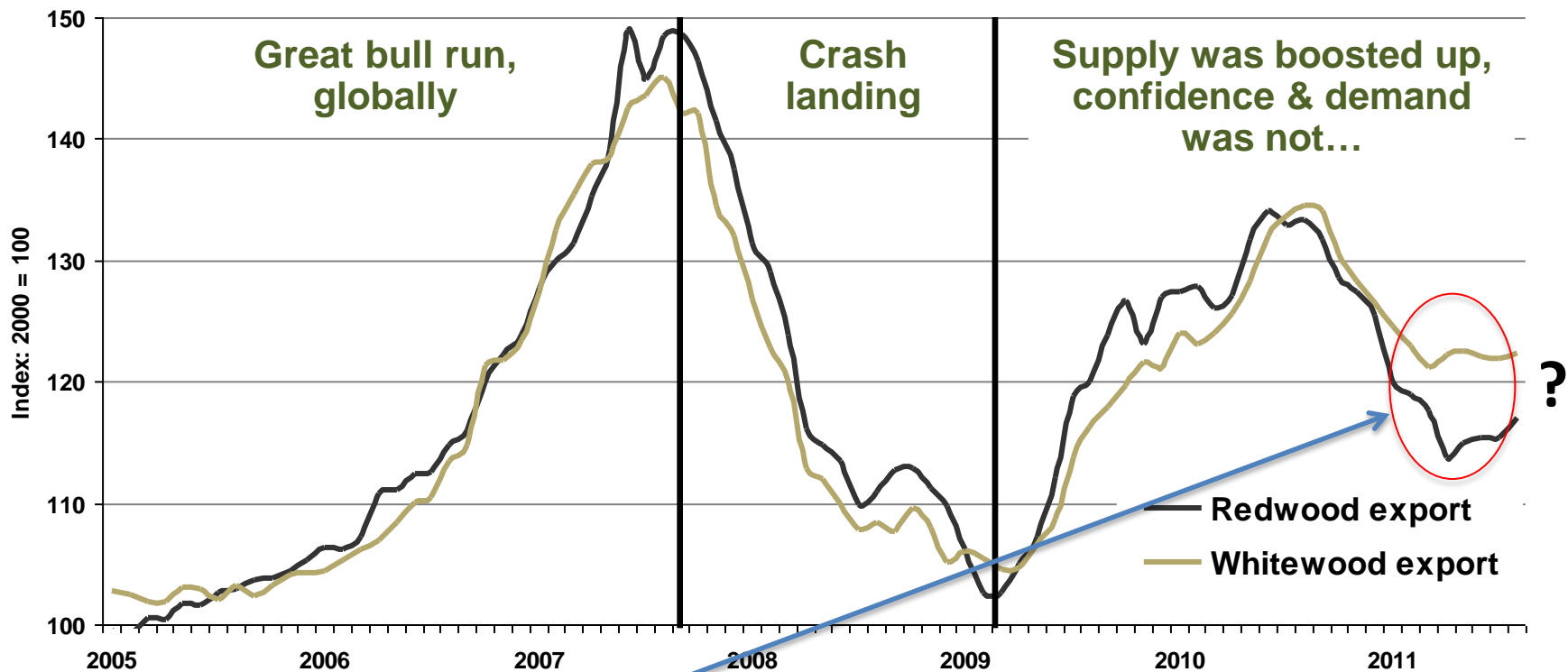
Marginal growth in demand

Source: Euroconstruct, Concensus Forecast

Clear impact on prices

– could this be the famous double dip...?

Swedish export price index for sawnwood



Source: Skogsindustrierna / Statistics Sweden

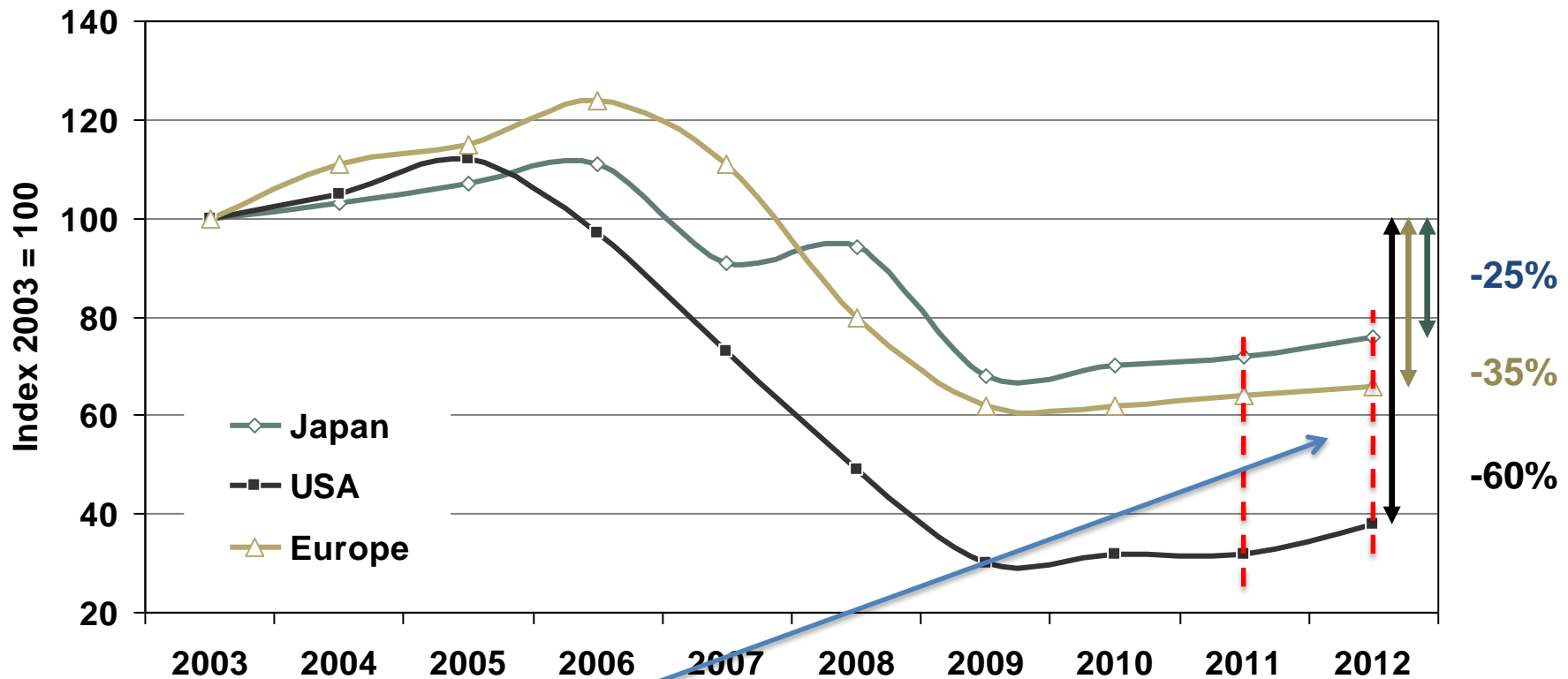
Q4 & Q1 curtailment effects

How will demand develop in 2012?

Any significant changes in any area ?

Construction recovery predicted to remain slow

Development of housing starts by region



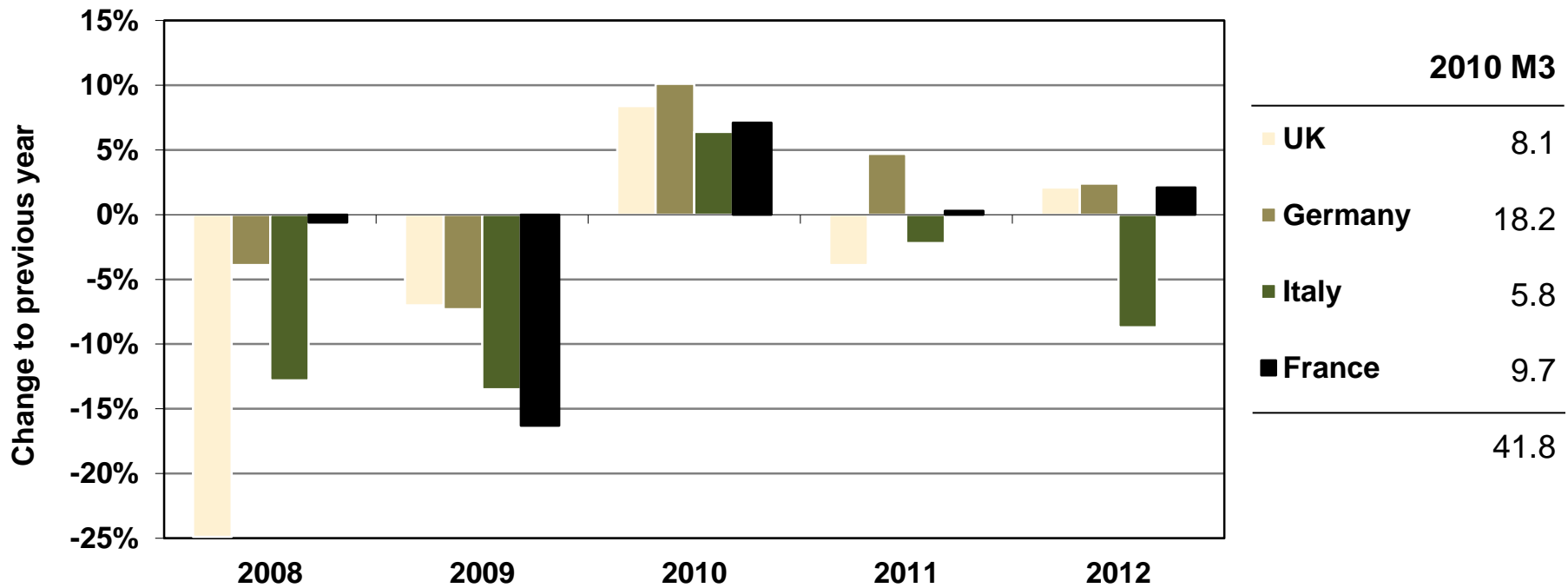
Source: Euroconstruct, Consensus Forecast

Only marginal growth forecast

How will demand develop in 2012?

European markets

Softwood sawnwood demand by main countries



Western Europe

Change to Prev year, m3	-7.7	-10.1	+5.0	+0.5	+0.6
Total volume, m3	75.4	65.3	70.2	70.8	71.4

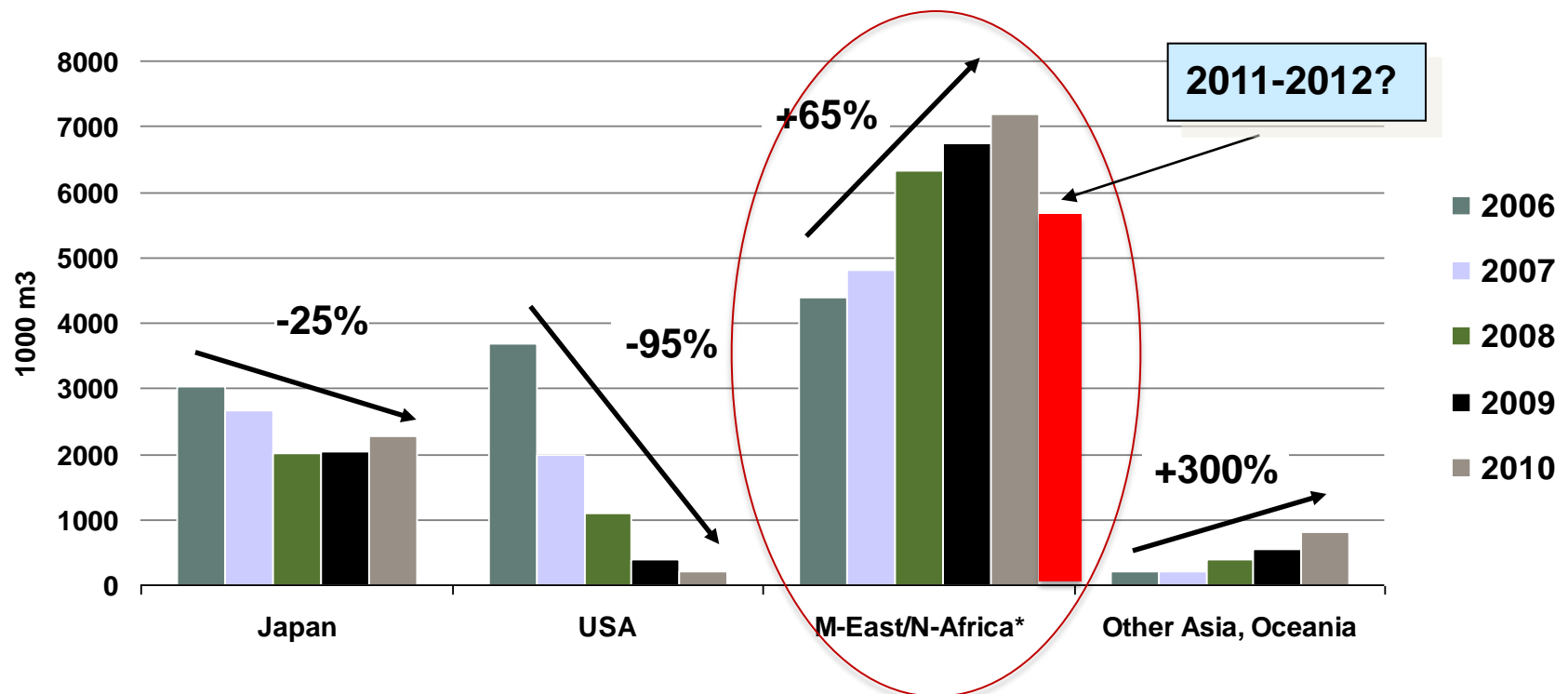
Source: Softwood Conference October 2011

How will demand develop in 2012?

Middle East & North Africa

MENA saved us during the last drop – will not provide the safety net now...

European sawnwood exports to Japan, USA, Levante and other Asia/Oceania



* Exports to Middle-East, North Africa and Other Asia/Oceania including Finland, Sweden, Austria and Germany
Note: US import statistics converted from board feet to cubic meters on nominal basis (2,36)

Middle-East and North Africa

Demographics bring both opportunities and risks

Country	Population	Average	Pop. growth	Life exp.	Jobless rate <25 yrs	GDP / PPP	GDP growth
Morocco	34,7 mio	27 yrs	1,2%	71	16%	4.160 \$	4,3%
Algeria	34,1 mio	27 yrs	1,5%	72	46%	6.200 \$	0,5%
Tunisia	10,4 mio	30 yrs	1,0%	74	27%	7.500 \$	4,6%
Lybia	6,3 mio	24 yrs	2,0%	74	27%	12.050 \$	
Egypt	82,9 mio	24 yrs	1,8%	70	26%	5.900 \$	5,2%
Jordan	6,3 mio	22 yrs	3,2%	72	39%	5.100 \$	4,5%
Lebanon	4,0 mio	29 yrs	0,8%	72	21%	12.750 \$	7,7%
Syria	20,1 mio	22 yrs	2,5%	74	20%	4.400 \$	2,6%
Iraq	28,9 mio	19 yrs	2,5%	68		3.500 \$	
Saudi	28,6 mio	25 yrs	2,0%	72	26%	21.100 \$	2,4%
Yemen	24,0 mio	18 yrs	2,9%	62	29%	2.300 \$	1,0%
Kuwait	2,8 mio	26 yrs	2,4%	77	23%	51.700 \$	2,6%
Bahrain	0,7 mio	29 yrs	2,1%	75		24.200 \$	4,1%
Qatar	0,9 mio	30 yrs	12,0%	75		74.100 \$	
Oman	3,4 mio	24 yrs	2,1%	75		22.800 \$	
U.A.E	2,7 mio	31 yrs	2,7%	77		33.750 \$	5,7%
	290,8 mio	24 yrs	2,0%	70		8.000 \$	

Middle-East and North Africa

Summary mid to long term

- Main problem is the political uncertainty
 - big projects planned in many areas
 - rebuilding needed in war zones
 - stable governments needed to make decisions and to attract foreign investors
- Countries that have not been affected so far
 - will it spread to Saudi etc..
 - keeps building activity high in order to keep populations calm
- Underlying premises remain very favourable
 - young populations
 - no lack of money
 - big housing and infrastructure needs
- Development in the region remains unpredictable, future visibility blurry – short term no dramatic improvement

How will demand develop in 2012?

Summary

Conclusions on demand outlook

- Weakening economic outlook in almost all European countries
 - will last for a longer period
 - we have gone from financial to country crisis
 - no money for stimulation packages this time
- No sign of US recovery – at least 24 months ahead
- Asian markets provide slightly better forecasts... but
 - China good growth – but limited mainly to lower grades & overstocked
 - Japan improved housing starts from low levels but overstocked
- NA & ME does not provide the same opportunities this time
- No real recovery and increase in demand to be expected during 2012

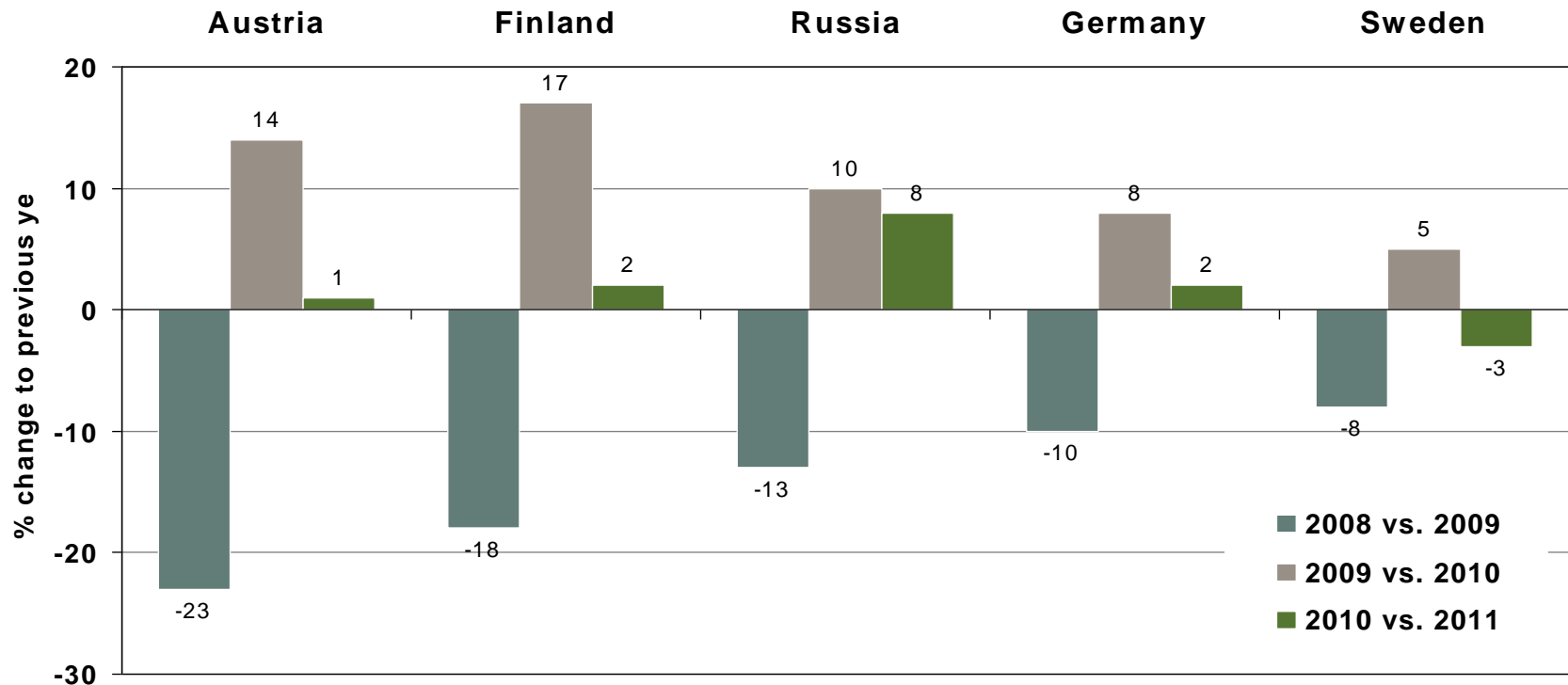
How is supply developing...

Have we learned the lessons from the last round?

Production has been boosted up

– although still clearly below the high mark of 2006-2007

Softwood sawnwood production in key European countries – 2008-2011



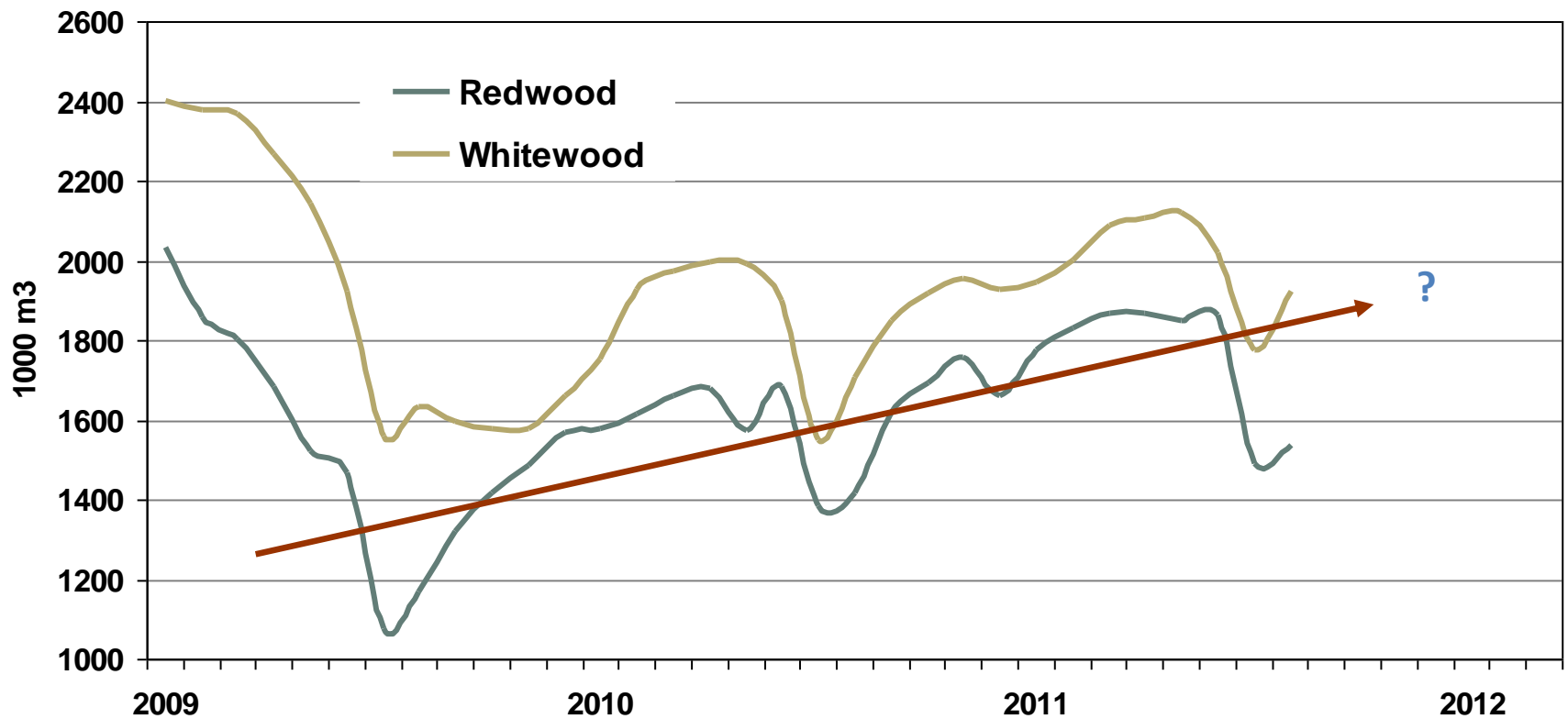
Sources: Softwood Conference / ECE Timber Committee

Note 1: Russian output 2011 is projection based on 1H 2011 development

Note 2: German output for 2011 based on 2010 ECE figures

Output – demand... not been matching for a while

Softwood sawnwood inventories in Sweden and Finland, 2009-2011



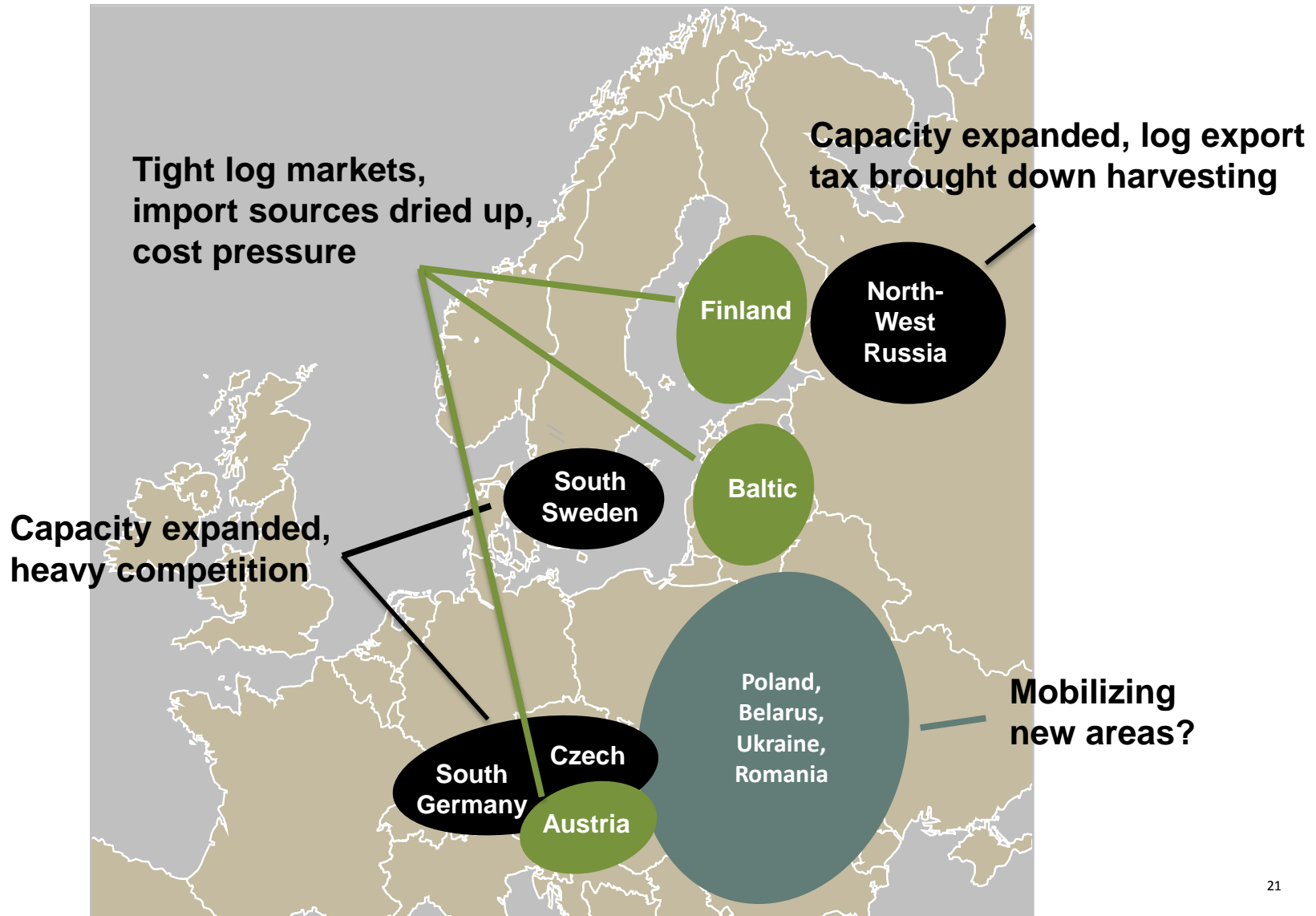
Source: Finnish Forest Industries, Swedish Wood

So here we are again

Major challenges for the industry, how will we act?

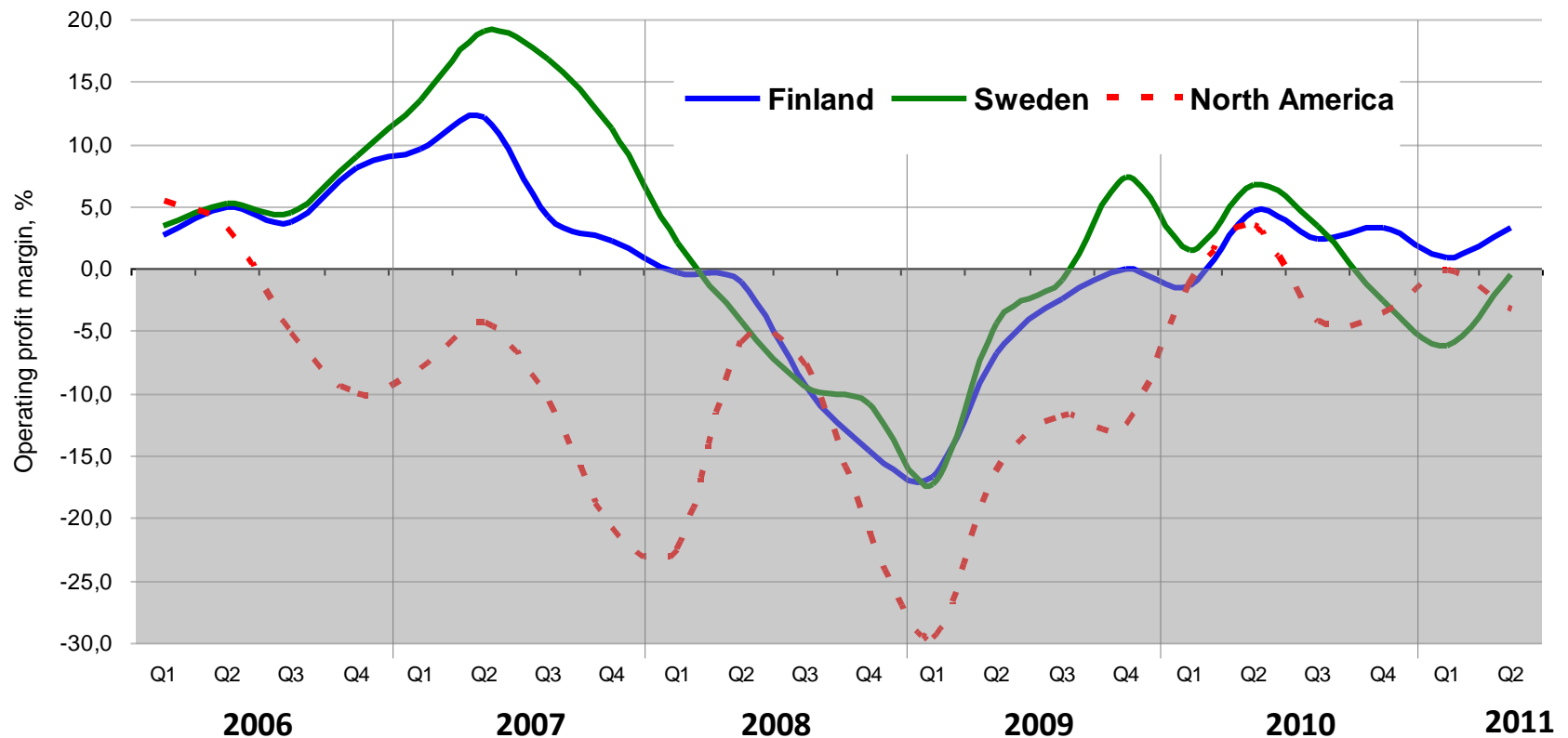
Rawmaterial challenges in most regions

– cost & availability



Overall weakening profitability – margins already thin

Operating margins of selected major wood products companies



Source: Weighted average margin for a small selection of large publicly traded companies. Excluding non-recurring items.

Summary & conclusions

Summary

- 2012 demand outlook remains sluggish
- No signs of quick recovery in any market – can it get worse ?
- Current output not matching demand
- Market will remain supply driven
- Curtailments will come – hopefully quick reactions
 - raw material costs remain on high level
 - no obvious competitive advantages in any main producing country
 - sawmills can not afford further price erosion

Long term outlook remains good for wood!

Fully renewable
Small carbon footprint
Higher share from urban construction
Biobased new businesses

