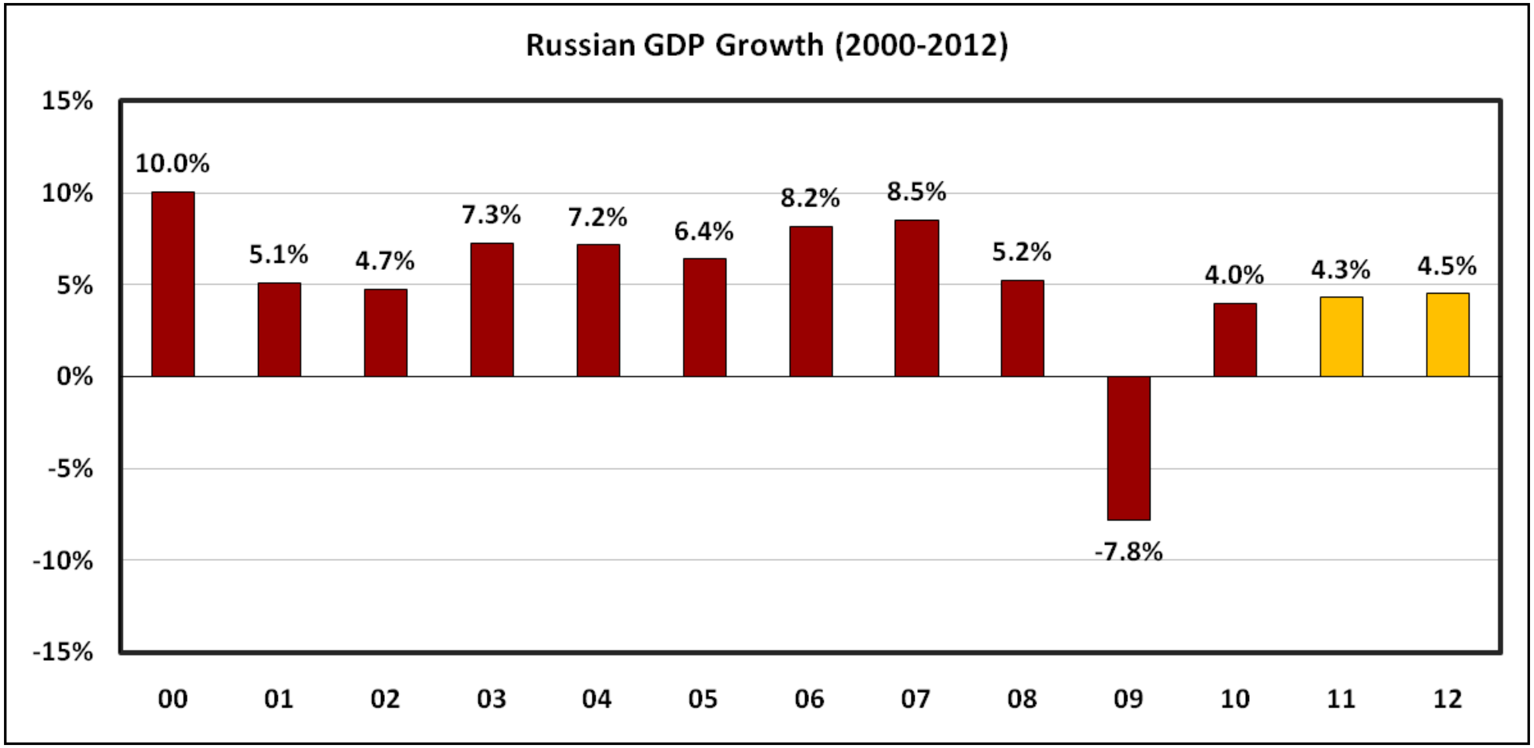
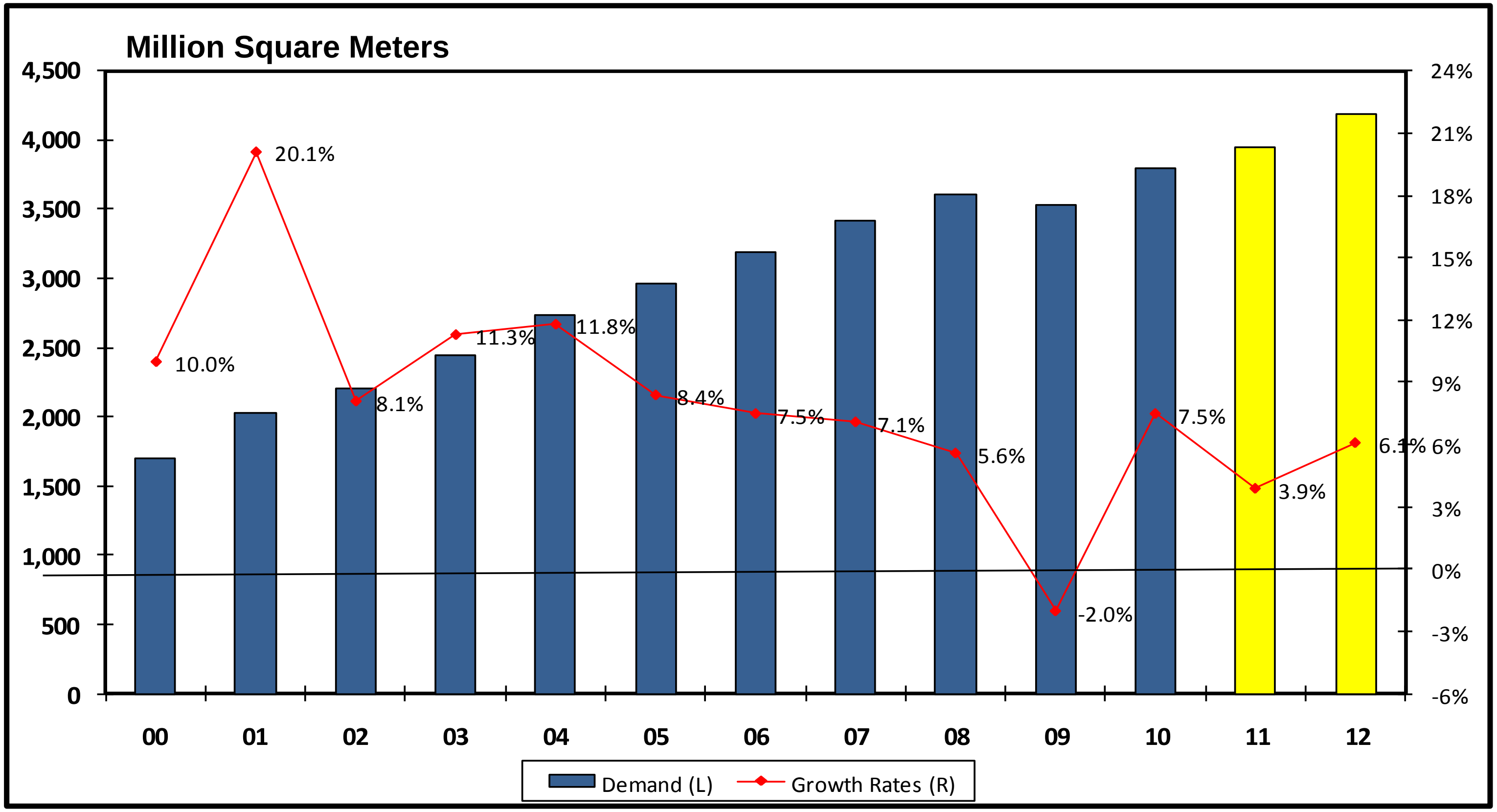
RISI Russian Containerboard Market Outlook

Orifjon Abidov
Economist, European Paper Packaging
May 2011
Montreal

Russian GDP: Growth Will Most Likely Be Below Historical Levels

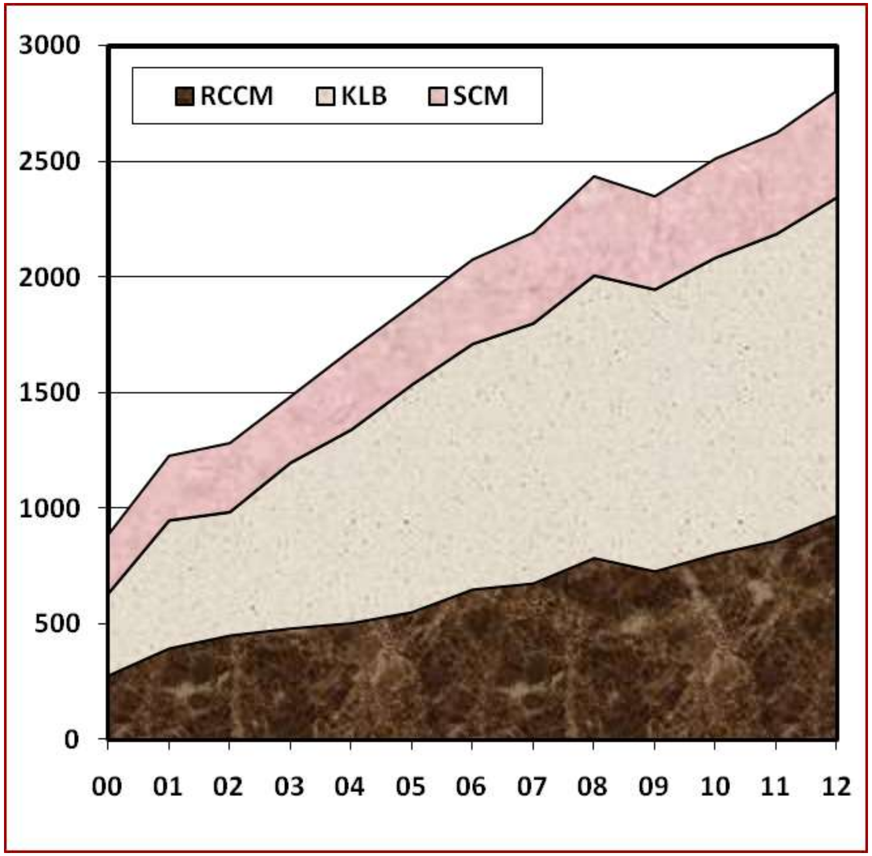


Corrugated Box Shipments (Million Square Meters) Showed Only a Mild Contraction in 2009 and Quickly Surpassed Pre-Crisis Levels in 2010



Source: RISI, RAO BUMPROM, NamPack

Russian Containerboard Market: Increasing Share of Recycled in Near Term, But with Virgin Still Dominating the Market



- 2009: Inventory Drawdown
  - CCM Demand: -3.6%
  - Box shipments: -2%
- 2010: Tight D/S
  - CCM: +6.9%
  - Boxes: +7.5%
- Forecast by Grade, 2011-2012
  - KLB: +3.5% (versus +5.5% in 2006-2010)
  - SCM: +3.8% (+4.6%)
  - RCCM: +11% (+7.5%)

Source: RISI, RAO BUMPROM

2011 GLOBAL SUMMIT
MONTREAL, QC, CANADA • MAY 23-25

Russian Containerboard Capacity Expansion Projects: New Tonnage Should Come Mainly from the Rebuild of Machines

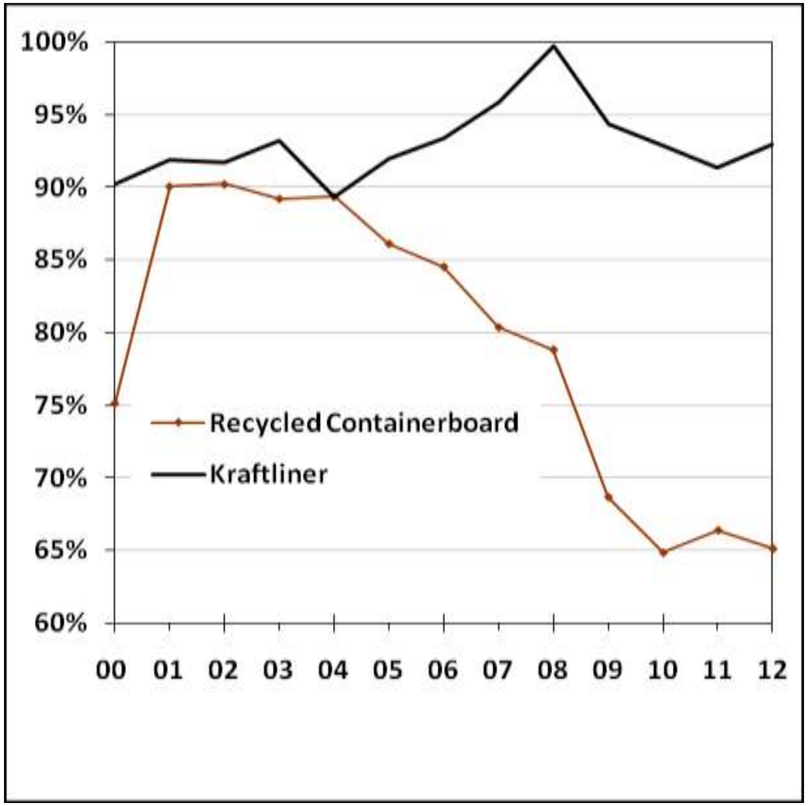
Announced European Containerboard Capacity Expansions in Russia in 2009-2013

Thousand Tonnes

Company	Location	Capacity	Date	Grade
Ilim Group	Koryazhma	40	2009 Q4	Kraftliner
Vyborg Cellulose	Leningrad Region	55	2010	White Top Kraftliner, Wallpaper Base Paper
Marisky	Volzhsk	45	2010 Q1	Recycled Containerboard
Okulovski P&B Mill	Okulovka	50	2010 Q1	Recycled Containerboard
Poligrafkarton	Nizhniy Novgorod	70	2010 Q4	Recycled Containerboard, Semi-Chemical Fluting
Mondi Packaging	Syktyvkar	45	2010 Q4	White Top Kraftliner
Sukhonsky Pulp and Paper Mill	Vologodskaya region	5	2010	Testliner and Fluting
Maykop	Maykop	5	2011 Q2	Testliner and Fluting
Polotnyanno Zavodskaya Paper Mill	Kaluga	30	2010-2011	Recycled Containerboard
Arkhangelsk Pulp & Paper	Novodvinsk	75	2008-2013	Kraftliner

Source: RISI

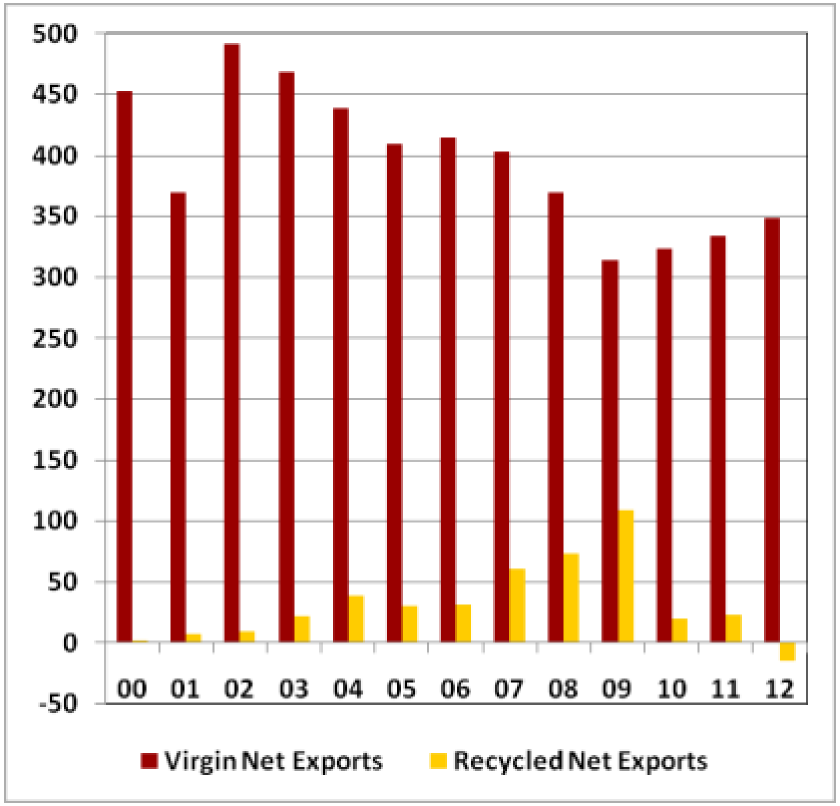
Russian Containerboard Supply: Lower Operating Rates for Recycled Are Expected to Continue in Near Future



- Recycled
  - Machines idled in the 1990s were reentering the market in 2000-2009
  - Lower operating rates are essentially due to the relatively old age of the machines, which require substantial investment
  - Investments are on the rise
- Kraftliner
  - More investments are likely given the availability of fiber

Source: RISI

Russian Containerboard Trade Position: Trade Surplus Will Remain Dominant in Virgin Grades, With Deteriorating Position on the Recycled Side



- Virgin – Net Exporter
  - Thanks to availability of fiber, mostly on the kraftliner side
  - Destination in 2010: China, Western and Central Europe, Countries of CIS
- Recycled – Net Exporter Too, But…
  - 2008-2009: Spike due to overcapacity in domestic market as a result of to financial crisis
  - By the end of 2012: Small *net importer* of recycled grades, mainly of higher quality from Western and Central Europe

Source: RISI

Russian Containerboard Market: Summary

- Balanced market in 2011 as supply side of the business should come back to its normal levels
- Lower growth in containerboard demand for 2011 due to inventory drawdown in the first half of the year
- Higher growth of recycled demand, but virgin will maintain the dominant position given its reasonable quality over recycled
- On the recycled side, the problem in securing recovered paper is the main obstacle to the significant capacity expansions (among other things)
- Net import position for recycled in 2012: supply not keeping up with growing domestic demand