A review of the European particleboard market

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Format of today’s presentation

- Who is Weyerhaeuser?
- Wood based Panels (General)
- Particleboard
  - Overview
  - Demand / Capacity Analysis for Panels
  - Evolution of Capacity
  - Country Review
  - Demand Side
  - Costs and Prices and Exchange Rates?
- The Future?
Weyerhaeuser Company

- 6 Particleboard facilities = 1,623,090 m³
- 5 MDF facilities = 1,180,090 m³
- 10 OSB facilities = 3,583,865 m³
- 16 Plywood facilities = 2,538,953 m³

Total production = 8.9 million m³
Weyerhaeuser European operations comprise of:

- **Medite MDF** a 400,000 m³ MDF plant in Ireland.

- **Mediland MDF**, a 170,000 m³ MDF plant, south west France.

- **Darbo particleboard**, a 500,000 m³ plant, south west France
Weyerhaeuser European panel business
OUR PRODUCTS IN EUROPE

The 3 core elements of our business are

Medite MDF
Mediland MDF
Darbo Particleboard
Wood-based Panels in Europe 2002

- Particle-board: 67%
- MDF: 19%
- Plywood: 6%
- OSB: 4%
- Hard/Soft-board: 4%

Total 54.2 million m³ (+2%)

Source: E.P.F.
Evolution Wood-Based Panels Consumption Europe

Source: E.P.F.
Evolution Wood-Based Panels Consumption Europe

Source: E.P.F.
Demand/Capacity MDF in Europe

(million m³)

Source: E.P.F.
Demand/Capacity OSB in Europe

(million m³)

Source: E.P.F.
Demand/Capacity PB in Europe

(million m³)

Source: E.P.F.
Production Breakdown 2002

Top 7 countries = 80%

<table>
<thead>
<tr>
<th>Country</th>
<th>Production Share</th>
</tr>
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<tbody>
<tr>
<td>Germany</td>
<td>28.4%</td>
</tr>
<tr>
<td>France</td>
<td>11.1%</td>
</tr>
<tr>
<td>Italy</td>
<td>10.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>9.4%</td>
</tr>
<tr>
<td>Belgium</td>
<td>7.3%</td>
</tr>
<tr>
<td>UK</td>
<td>6.7%</td>
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<tr>
<td>Austria</td>
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<tr>
<td>Turkey</td>
<td>5.3%</td>
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<tr>
<td>Czech Republic</td>
<td>2.8%</td>
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<tr>
<td>Portugal</td>
<td>2.3%</td>
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<tr>
<td>Sweden</td>
<td>1.8%</td>
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<td>Greece</td>
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<tr>
<td>Finland</td>
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<tr>
<td>Norway</td>
<td>1.1%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.1%</td>
</tr>
<tr>
<td>Others</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Source: E.P.F.
Production Breakdown per Country

(million m³)

1999 2000 2001 2002

Source: E.P.F.
Particleboard Production Capacity

(source: E.P.F.)
Evolution of Particleboard Production Capacity

(2002 - 2004)

Source: E.P.F.
Germany 2002

**Particleboard industry**
- Production: 9,104,000 m³
- Consumption: 8,455,000 m³

*Evolution of particleboard production and consumption*

- **Main Points**
  - Poor economic performance
  - Construction sector decline
  - Production decline
  - Significant export increases
  - (+9% at 25% of sales)
  - Some plant closures
    + 1 new investment
  - 2004 looking marginally better?

Source: E.P.F.
Main Points

- Low GDP growth
- Large decline in consumption
- Exports increase by 44%
- Housing industry crises and decline in furniture demand
- Some restructuring / closures
- 2004 looking better?

Source: E.P.F.
Main Points

• Poor economic performance – well below EU average.

• 2004 recovery anticipated.

• Production record in 2002

• Domestic demand –3%

• Significant export increases (+33%)

• 1 plant closure

• Production to increase in 2003/04.

Source: E.P.F.
Spain 2002

Main Points

• Economic performance declining but 2004 will be better.

• 9% particleboard growth in 2002

• Consumption fall by 4%

• Significant export increases (+69% at 13% of sales)

• Some plant closures + 1 new investment

• US exchange rate is not helping exports of furniture.

Source: E.P.F.
Main Points

- Improved economic conditions
- Particleboard capacity / consumption increases, production decline.
- GBP / Euro rate…
- Significant import increases
  - (+44%)
- 1 plant closure
- Production to decline in 2004

Source: E.P.F.
Main Points

• Modest economic performance

• Modest domestic demand increase, despite furniture and construction market challenges.

• Exports at 63% of sales.

• Significant export increases (+9% at 25% of sales)

• 1 mill closure (environmental reasons)
Main Points

- Poor economic performance
- Fall in domestic consumption by 14%
- Production increasing.
- Significant exports
  (+10% at 87% of sales)
- Some plant closures
  + 1 new investment
- 2004 looking better?

Source: E.P.F.
Demand Side - Furniture

- Negative result in production growth: -3% during 2002
- Furniture and construction crisis in Germany
- Improvements only expected after 2003 following construction growth
- Increasing competition non-European countries

Source: E.P.F.
Demand Side - Construction

- Western Europe: Stagnation phase will continue during 2003, only moderate recovery expected for 2004 and 2005.
- Eastern Europe: Recession (-3%) in 2002, but recovery in 2003 (+3%) accelerating in 2004 (+5%) & 2005 (+7%).
Cost Evolution Particleboard

- **wood**
- **energie**
- **resins**
- **paper**
- **wages**
- **transport**

Source: E.P.F.
Exchange Rate - expectations?

[Graph showing exchange rate fluctuations from 1979 to 2003]
Stock Markets – Wealth effect?
Prospects for the Future

- Particleboard will continue to remain the major panel type in Europe at almost 70%.
- Mature commodity industry with current over capacity (short-term?).
- Particleboard consumption declining since 2000 (-5%).
- Economic recovery deferred until at least 2004?
- European recovery dependant on global recovery?
- Exchange rate USD versus EUR – implications for industry?
- Restructuring of particleboard industry inevitable?
- External effects of increasing wood and transport costs.
- Surviving the current crises.