

MOORE

& Associates

Report #040801ONP51

Quarterly Report:

Fore\$ightSM

Price Forecasts for #7/8 Old Newspapers and Old Magazines

First Quarter 2005

A Multi-Client Report

December 14, 2004

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A. RESULTS

In this Fore\$ightSM service, Moore & Associates performs quarterly short-range price forecasts for #7/8 Old Newspapers (ONP) and #10 Old Magazines (OMG). As with all Moore & Associates Fore\$ightSM price forecasting, this effort examined a range of inputs that impact the recovered paper market. In this project these include:

- Short (next quarter) and medium (one year) term market trends
- US economy
- North American newsprint mill operating rate
- Supply, demand, and recovery of ONP and OMG (including export demand) - The statistics for these variables will only be reported once per year. On a quarterly basis, we will use our market trend information for these inputs.

For the full methodology and historical data for these forecasts, please refer to our September 14, 2004 Fore\$ightSM report. The following are the quarterly results for this forecast and the actual results from the current quarter (these results with additional price history are shown graphically on pages 13 and 14).

#7/8 ONP Price Forecast - US Average

(\$/Ton Baled, FOB Processor's Dock)

<i>Time Period</i>	<i>Price</i>
4 th Qtr 2004	\$92
1 st Qtr 2005	\$109
2 nd Qtr 2005	\$113
3 rd Qtr 2005	\$115
4 th Qtr 2005	\$105

Old Magazines Price Forecast - US Average

(\$/Ton Baled, FOB Processor's Dock)

<i>Time Period</i>	<i>Price</i>
4 th Qtr 2004	\$101
1 st Qtr 2005	\$122
2 nd Qtr 2005	\$128
3 rd Qtr 2005	\$132
4 th Qtr 2005	\$123

For regional price differentials from the US average, please refer to the September 14 edition of this forecast series. Please note that these differentials are long-term average numbers. It is always possible for any given quarter that a region may vary differently from the long-term relationship based on local market conditions.

B. INTRODUCTION AND PREVIOUS RESULTS

Introduction

Price forecasting is a complex process. Market forces in the future that cannot be identified (particularly industry operating rates, US Gross Domestic Product (GDP) and other external factors) may alter the prices of the recovered paper commodities covered in this report. Moore & Associates makes no expressed, implied guarantee or warranty on the prices forecast in this report.

For 2005 we will be embarking on adding two new indicator variables to our forecasting: a Supply and an Inventory Indices. We will be attempting to receive confidential monthly data on generation/supply and inventory from a representative group of local governments/packers and mills to create these indices. We may be contacting you on this!

Previous Forecasting Results

The following are the results of our previous forecast (September 14) for the 4th quarter 2004 and all of 2004 (composite of all our 17 quarterly forecasts for the year going back to early 2003) versus the results of the market:

<i>Time Period</i>	<i>Grade</i>	<i>Actual Price</i>	<i>Previous Quarter Forecasted Price</i>
4th Quarter 2004	ONP	\$92	\$100
	OMG	\$101	\$110

<i>Time Period</i>	<i>Grade</i>	<i>Actual Price</i>	<i>Composite Forecasted Price</i>
All of 2004	ONP	\$97	\$94
	OMG	\$105	\$103

For the quarter, our ONP/OMG forecasts were 9% high, a good performance. Our previous forecast was based on the premise that all of the new paperboard machines scheduled to startup in China would be on time. This would cause an OCC pricing spike that would pull all of the grades, including ONP. This did not occur. We are still surprised by the strength of ONP pricing, without this extraordinary “OCC effect” We believe that had OCC spiked our

forecasted ONP prices would have been low. For the full year composite, our track record was excellent – within 3% of the market.

Swap Prices

We have frequently been asked about the performance of the financial swap market versus our forecasts. A specific inquiry from one of our ForeSightSM subscribers led us to do some detailed analysis on how good a predictor of future prices the forward looking swap market is.

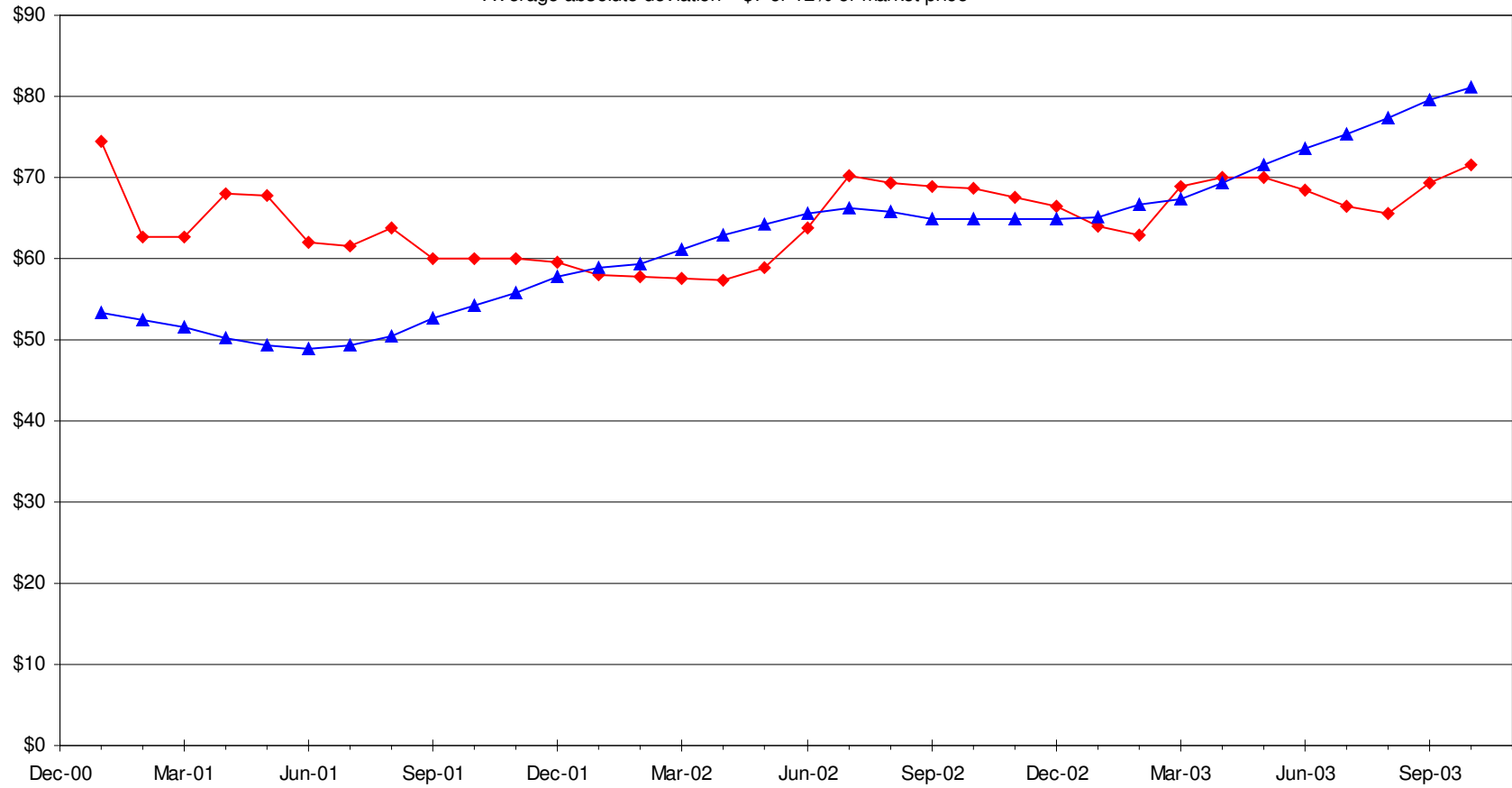
Please see the graph of the one-year swap price analysis on the next page. For each month, we plotted the one-year swap price versus the market price for the same one-year forward period of the swap. Over the almost three year period the one-year swap has been within 12% of the market average: sometimes above, sometimes below. We also examined the six-month, two and three year swaps. The average deviation of the composite of all four swaps was 10% (the time period examined varies from two to three and one-half years).

The swap market price data comes to us courtesy of Tradition Financial Services (TFS). Please note the market prices are those published by RISI up to July 2002 and Official Board Markets since then. These are the indices the TFS swap market used.

TFS 1-year Swap Price versus Market Price - #8 ONP

1-year Swap 1-year Forward Market Average

Average absolute deviation = \$7 or 12% of market price



Note: limited or no weekly swap prices for Jun-02 thru Jul-02

C. FORECASTING INPUTS

Market Conditions

Price History

The charts on pages 9 and 10 show a nine-year history of the average US price of ONP and OMG. The fourth quarter component of the second half 2004 prices are a projection through the end of this month. In the next edition of this report, we will include the ONP/OMG price results of our semi-annual survey.

ONP and OMG prices for the second half of 2004 changed only slightly from the first half of the year. The historical price trend lines for both grades both short and long-range are up strongly.

Short Term Market Trends

For the purpose of this price forecasting service, the short term will be defined as the next quarter – specifically the 1st quarter 2005.

We are forecasting the economy, as measured by the GDP to ease slightly from the fourth quarter but hold at reasonable pace. We feel that the weak dollar will help the manufacturing sector be more competitive in both fighting imports and to be able to sell their products offshore.

We expect generation to continue to decline both from loss of newspaper readership and the continuing decline in municipal recycling. We believe we may be seeing the bottom of the cycle for municipal recycling (see discussion on the bottom of page 7). These two trends will cause of higher ONP pricing. We expect to see higher ONP prices in this next quarter due to our often-quoted OCC effect. High OCC pricing tends to raise prices for all grades.

An important issue to realize with ONP usage is the amount that goes into carton/boxboard production. Typical fiber recipes in this sector can contain over 20% ONP. The large amount of new Chinese capacity in cartonboard will consume significant quantities of ONP (in addition to OCC and Mixed Paper). Also noteworthy is that this ONP is almost always lost to the recovery system: certainly to the newsprint production sector as it becomes a non-bleachable and even overall since the recovery of post consumer carton/box board is very limited.

The Newspaper Association of America (NAA) reported that two-thirds of American daily newspapers had flat or declining circulation this year. The average daily fell 0.9% and Sunday fell 1.5%. With declining demand, North American newsprint capacity has been declining. In 1997 North America newsprint exports accounted for

27% of shipments compared to 17% in 2003. Newspaper advertising expenditures were up 3.8% in the third quarter and for the first nine months of the year.

Container shipping lines in the Westbound Transpacific Stabilization Agreement (WTSA) indicated that they would raise freight rates on recovered paper shipments to Asia. Effective October 15, WTSA has recommended an increase of \$45 per 40-foot container based on rising fuel costs in 2004. Normally any freight rate increase has a dampening effect on demand, but we believe the new machine startups need for recovered paper will overcome it.

Once again, China has delayed the launch of its scrap certification system for imports. This is the third postponement and the new scheduled date is January 2005. It appears as each deadline approaches and there are any uncertainties regarding the acceptance of shipments the deadline has been extended. There has to be a message about potential interruption of recovered paper flow and these postponements.

Medium Term Market Trends

For the purpose of this price forecasting service, the medium term will be defined as the 2nd through the 4th quarter of 2005.

We believe that economic growth, as measured by GDP, will be fairly stable for the remainder of the year, averaging around 3.5%. We believe that the continued lack of increased ONP generation and the expected ramp up of the new machines in China will cause higher ONP prices during this period.

As in our last forecast, we feel that the expected increase in OCC demand and pricing will force ONP pricing up during this period as mills tend to increase lower cost grade substitution in rising fiber markets. To meet this demand, more ONP finds its way into Mixed Paper, effectively cutting the ONP supply. We do see ONP prices below that of OCC for the balance of the year.

First the first time in quite a while there are some positive stories on North American residential supply:

- Ontario reported higher fiber recovery levels in 2003.
- Pittsburgh plans to enforce its mandatory residential recycling program.
- After falling for three years, Wisconsin reported a 3% increase in material recovery in 2003. A similar performance was recorded in the state of Washington.

- Quebec intends to use packaging fees to financially bolster municipal recycling programs.
- Equipment manufacturers report an increase in orders for replacement MRF machinery.

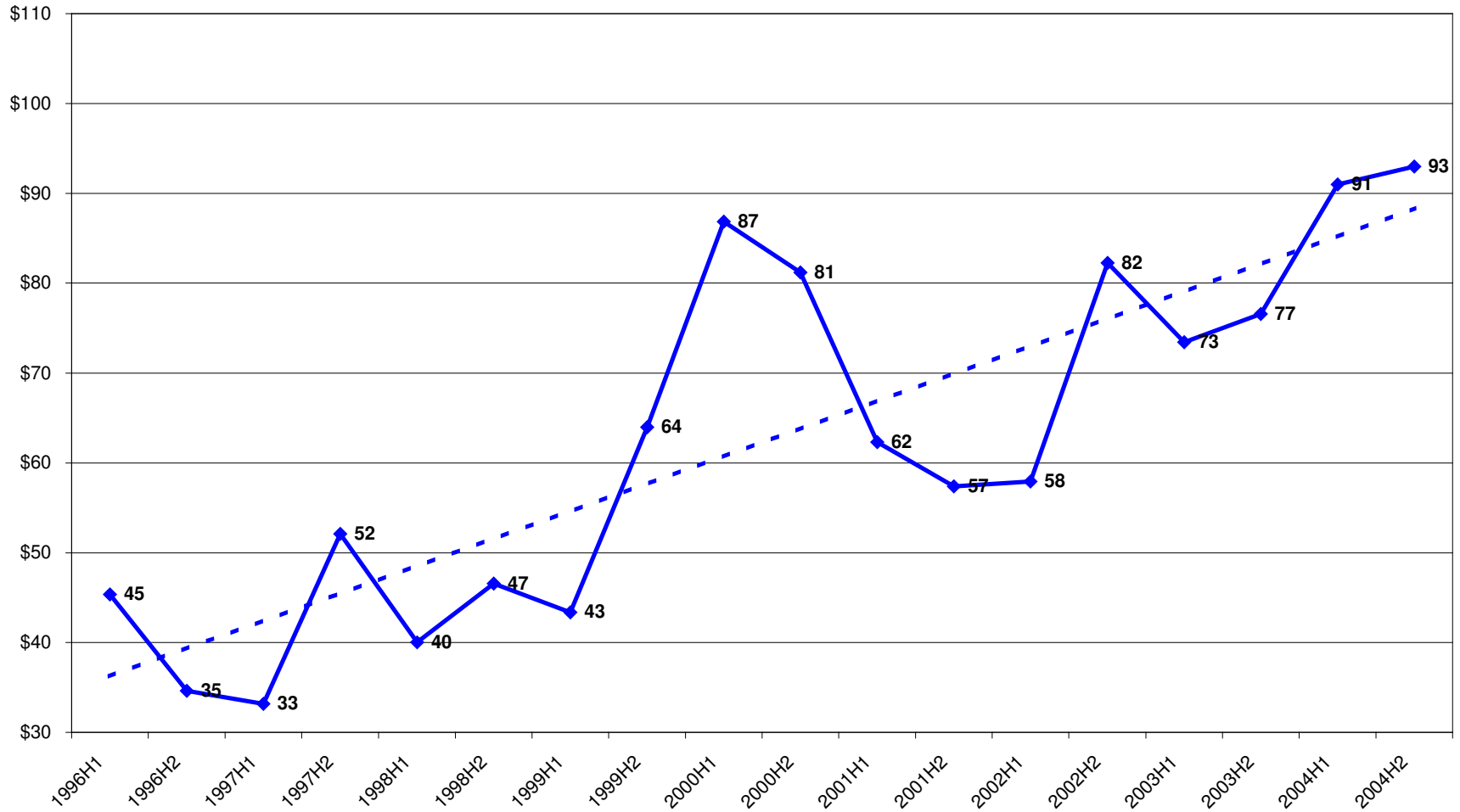
The Wall Street Journal has been one of the few success stories in the newspaper business. Their consumer ads in 2004 YTD September were up 11% (from a fairly small base). In September 2005 the paper will add a new sixth day edition on Saturday – the Weekend Journal”.

Pan Asia Paper’s Hebei newsprint machine is scheduled for startup in the 3rd quarter 2005. Shandong Huatai has placed its order for a newsprint machine to be installed at the company’s mill complex in Dongying. Startup of this very large recycled fiber based machine is scheduled for the 4th quarter 2005.

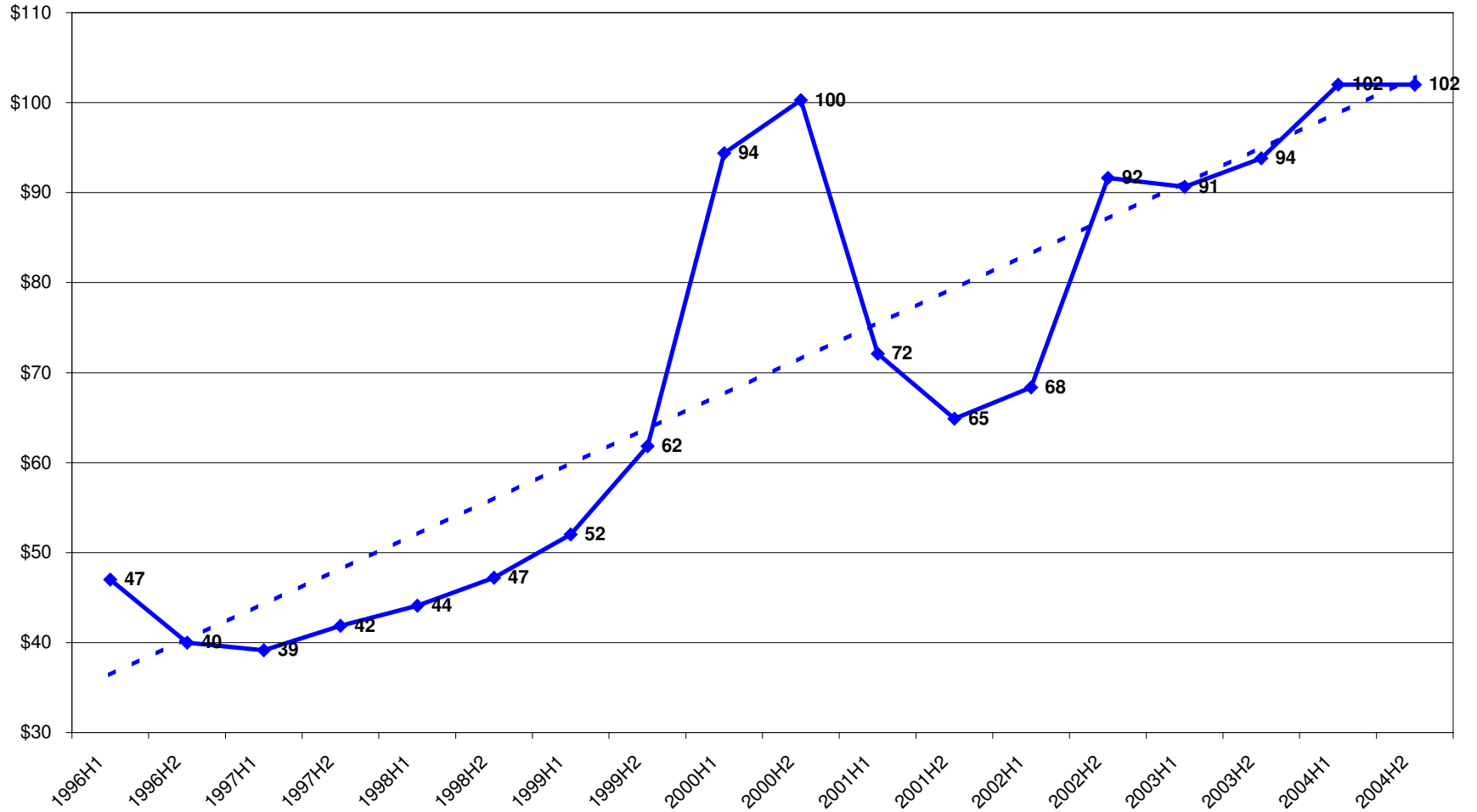
Environmental advocacy groups after success with the office superstores on recycled-content paper have now turned their attention to catalogs. Target protests began with Victoria’s Secret and are expected to follow a similar path as with the freesheet sellers. This could eventually raise the demand for recycled coated catalog papers (primary LWC grades), which would in turn increase demand for ONP/OMG and /or office grades. Any effect from this would be beyond 2005.

Besicorp-Empire has announced that it has approvals to build and operate a power plant and a 335,000 tpy recycled newsprint mill in Rensselaer, NY. They expect to start construction in 2005 and be in operation in 2007. This project has been delayed and in the planning stages for many years and appears to have a life of its own.

Actual #7/8 ONP Market Prices – US Average
(\$/Ton FOB, Processor's Dock)



Actual Old Magazines Market Prices – US Average
(\$/Ton FOB, Processor's Dock)



Economy

Over time, it has been proven that the US economy is a very important driver within the recovered paper industry. However, we have begun to notice a significant disconnect between the US economy and the operating performance of the US paper industry. For this forecast, the US Gross Domestic Product (GDP) will be used to track changes in the US economy. We will continue to assign more weight to the newsprint mill operating rate and export activity as opposed to GDP in their influence on ONP and OMG prices.

This section of the report will be updated each quarter and appear in every report. The following table contains the assumptions used for US GDP growth for this quarter, over the next four quarters and the revised actual result from last quarter:

US Gross Domestic Product
Expressed at an Annual Rate

<i>Time Period</i>	<i>Percent Change From Prior Quarter</i>
3 rd Qtr 2004	3.9
4 th Qtr 2004	3.7
1 st Qtr 2005	3.4
2 nd Qtr 2005	3.6
3 rd Qtr 2005	3.5
4 th Qtr 2005	3.4

The GDP reported for the 4th quarter 2004 is an estimate. Actual numbers for the quarter will not be available until well into the next quarter and will be reported in the next forecast. The most recent estimate of the third quarter GDP, from the Department of Commerce, was revised upwardly from 3.7 to 3.9%.

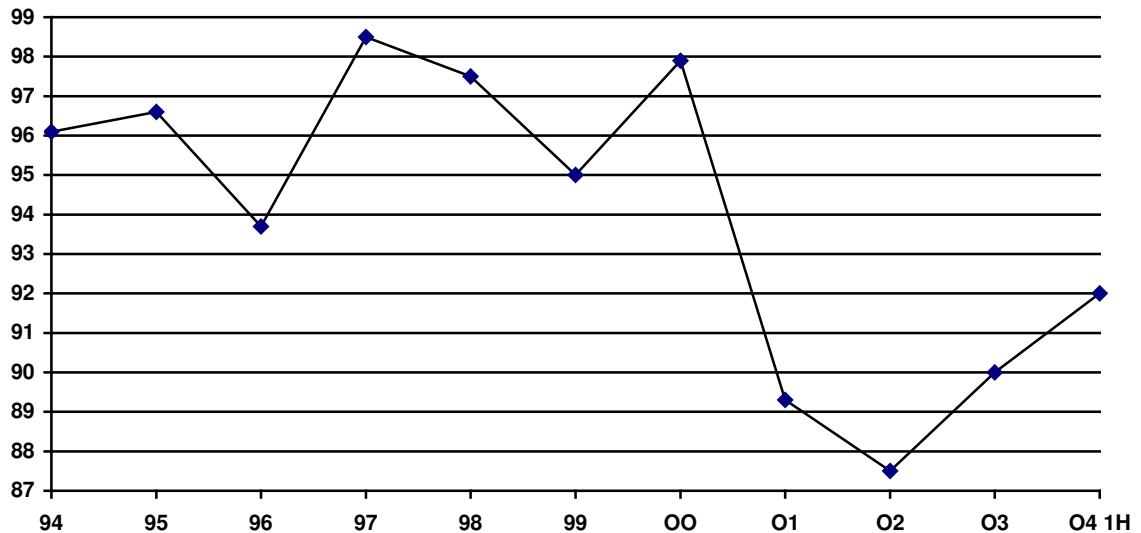
Our forecast calls for the economy in 2005 to ease slightly from 2004, but hold fairly steady throughout the year and to average almost 3.5% growth for the calendar year. As usual there are many more questions than answers. We are concerned about the weakness of the dollars causing the Fed to more aggressively raise interest rates during the coming year. We also see our beleaguered manufacturing sector being supported by the weaker dollar and its ability to sell its products in the global market much more competitively. We also expect to see a continued high level of employment that will be a drag on the economy over this time period.

China has taken major steps to slow its economy to a more measured pace of 8% - 9% GDP growth. It will continue to hold a tight rein on new capital investments by restraining the easy flow of capital. They have threatened to revalue their currency if needed to prevent any possible financial crisis from occurring.

Industry Operating Rates

Operating rate is the percentage of installed capacity being utilized in a given paper/paperboard grade at any given time. Operating rates for the North American newsprint mill industry are used for these forecasts. The following graph shows the North American newsprint mill operating rates over the last ten years and one-half years (source PPPC).

North American Newsprint Mill Operating Rate (%)



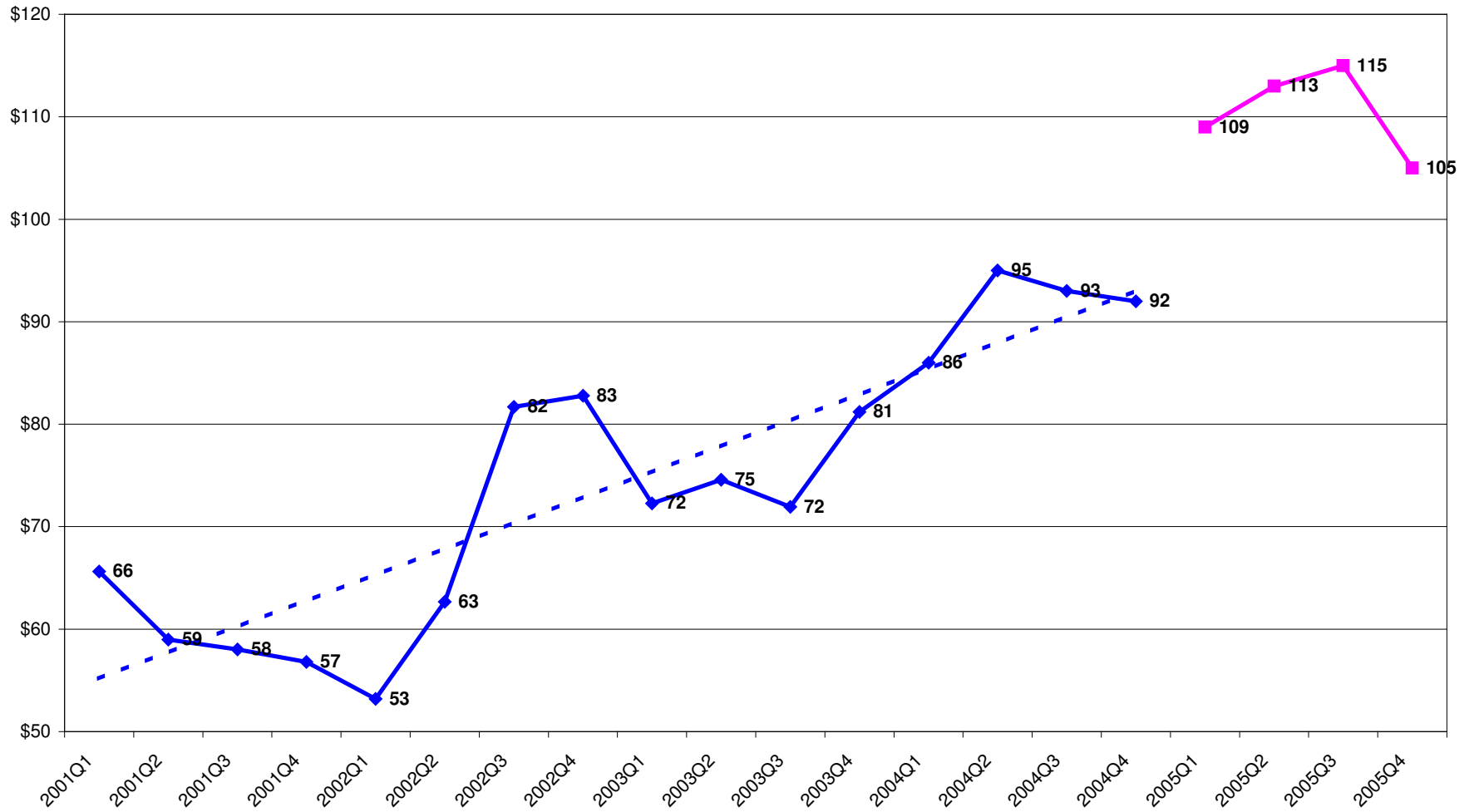
Newsprint mill operating rates for 2004 climbed upward slowly but steadily for second year in a row now. This increase has been due more from capacity shutdowns than any increase in newsprint production. The following table presents our outlook and recent history for newsprint mill operating rates.

North American Newsprint Mill Operating Rate

<i>Time Period</i>	<i>Percent</i>
3 rd Qtr 2004	92.7
4 th Qtr 2004	93.8
1 st Qtr 2005	91.2
2 nd Qtr 2005	92.4
3 rd Qtr 2005	91.7
4 th Qtr 2005	92.6

The current quarter operating rate is an estimate based on available industry information for the period. For the balance of 2004, we expect operating rates to be seasonally stronger for the holiday season. Longer term we expect to see a continued decline in newsprint production as newspaper readership continues to decline. We also are seeing a continued trend in the loss of newspaper advertising, as electronic media continues to pick up increased market share of the advertising dollar. Balancing this will be further machine conversions and shutdowns.

Summary of Historical and Forecast Prices for #7/8 ONP – US Average
 (\$/Ton, Baled, FOB Generator's Dock)



Summary of Historical and Forecast Prices for Old Magazines – US Average
(\$/Ton Baled, FOB Generator's Dock)

