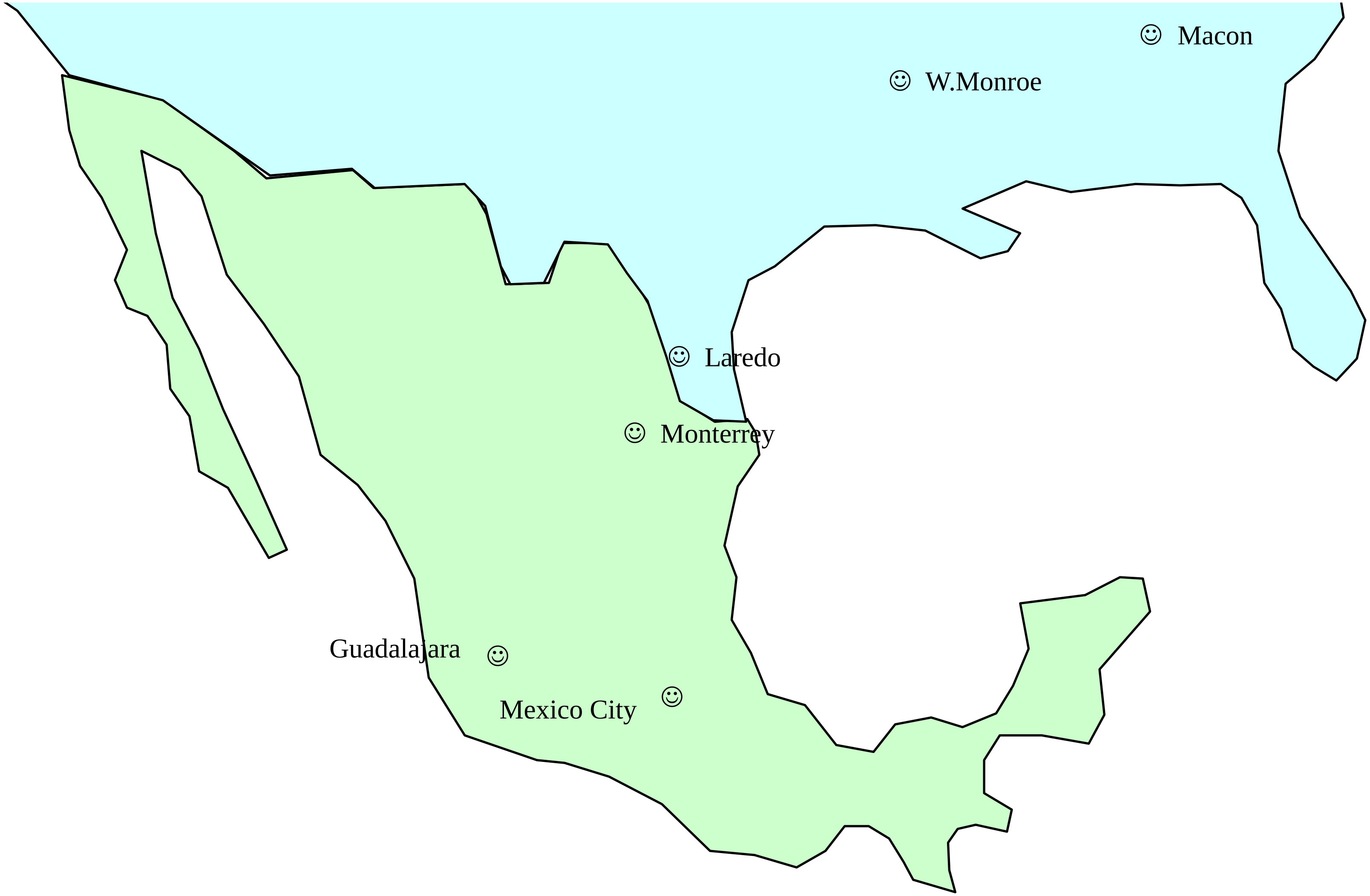
Mexico Market review



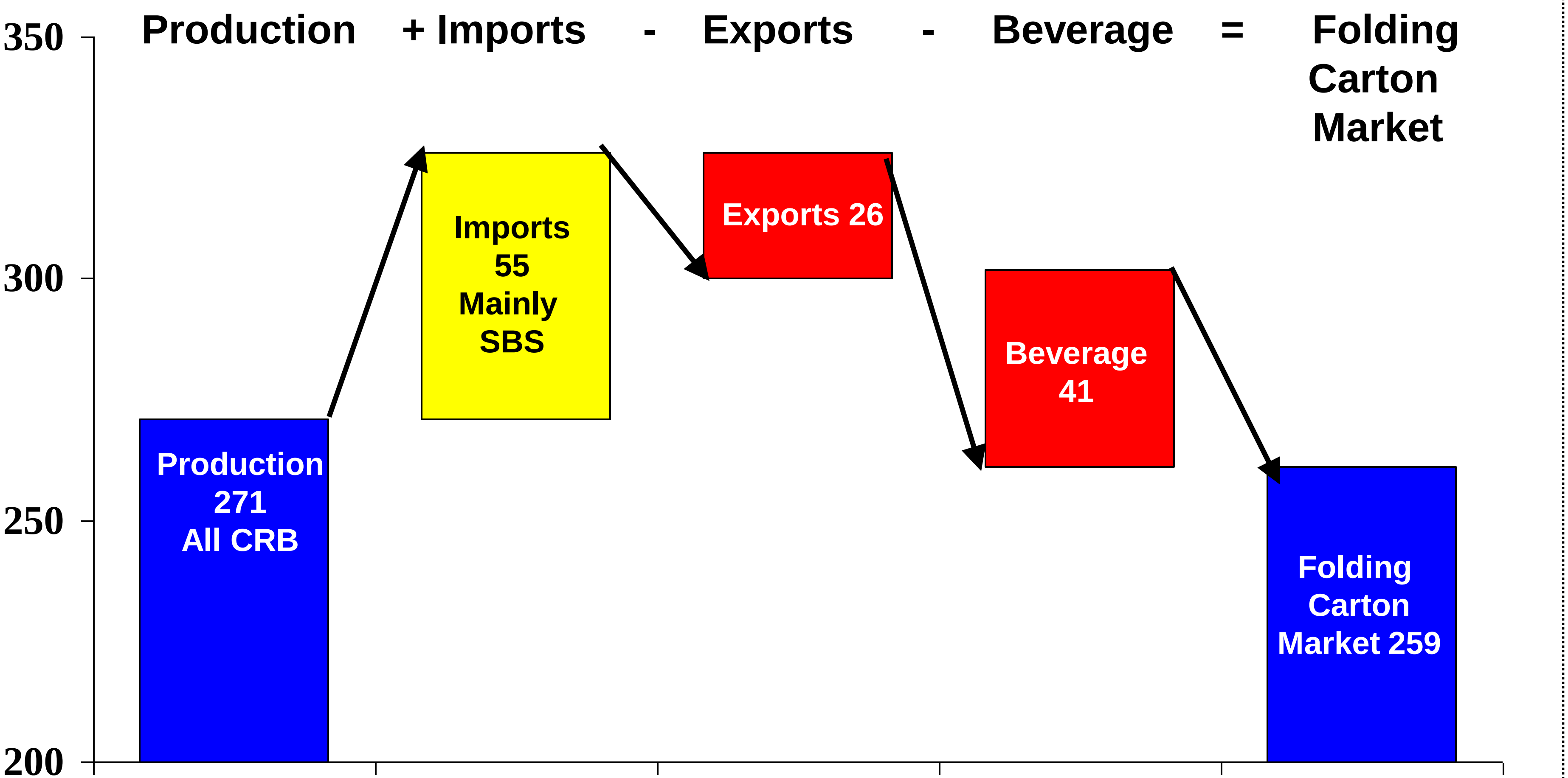
Outline -- Mexico Market review

- Demographics
- Folding Carton Market
    - End Uses
- Competitive Situation
- Price Model
- Obstacles
- Value Proposition
- Opportunities
- Action Plan

Mexican demographics are not the best base for the development of the paperboard market

- **Population 96 million -- 1/3 of the U.S. population**
  - **80% of the population has little disposable income and spends 1/3 of their income on food**
  - **20% of the population is upper middle class and constitutes the market for packaged goods**
- **Three major cities: Mexico City, Guadalajara, and Monterrey**
  - **Retail channels are developed mainly in these cities**
  - **Outside these cities the major stores are mom and pop**

Mexico folding carton market is 260,000 tons - only 5% of the U.S. folding carton market



Major SUS niche markets in the U.S. are not an opportunity in Mexico

- **Frozen Food - Limited**
  - Mainly imports pre-packaged in the U.S.
  - Poverty levels
  - Lack of refrigeration
- **Autoparts / Hardware - Not an opportunity**
  - Exports in bulk to reduce tariff
  - Packaging is not important for retail merchandising
- **Ice Cream Novelty - Not an opportunity**
  - Mainly imports pre-packaged in the U.S.
- **Electronics - Not an opportunity**
  - Very small volumes
  - Poor population
  - Imports pre-packaged

SUS niche markets in Mexico are

- **Crackers & Cookies**
  - Gamesa (approximately 7,500 tons; mix corrugated/folding)
  - Nabisco (conversion from corrugated displays)
- **Liquors**
  - Heavier SUS calipers offer substitution for micro flute
- **Dry Food**
  - Rice (Tres Estrellas)
  - Sold in mom and pop stores
- **Candy**
  - Heavyweight calipers for displays
  - Warner Lambert, Nestle, Bimbo
  - Sold in mom and pop stores
- **Toys - maybe an opportunity**
  - Converters showed interest for heavy caliper niche

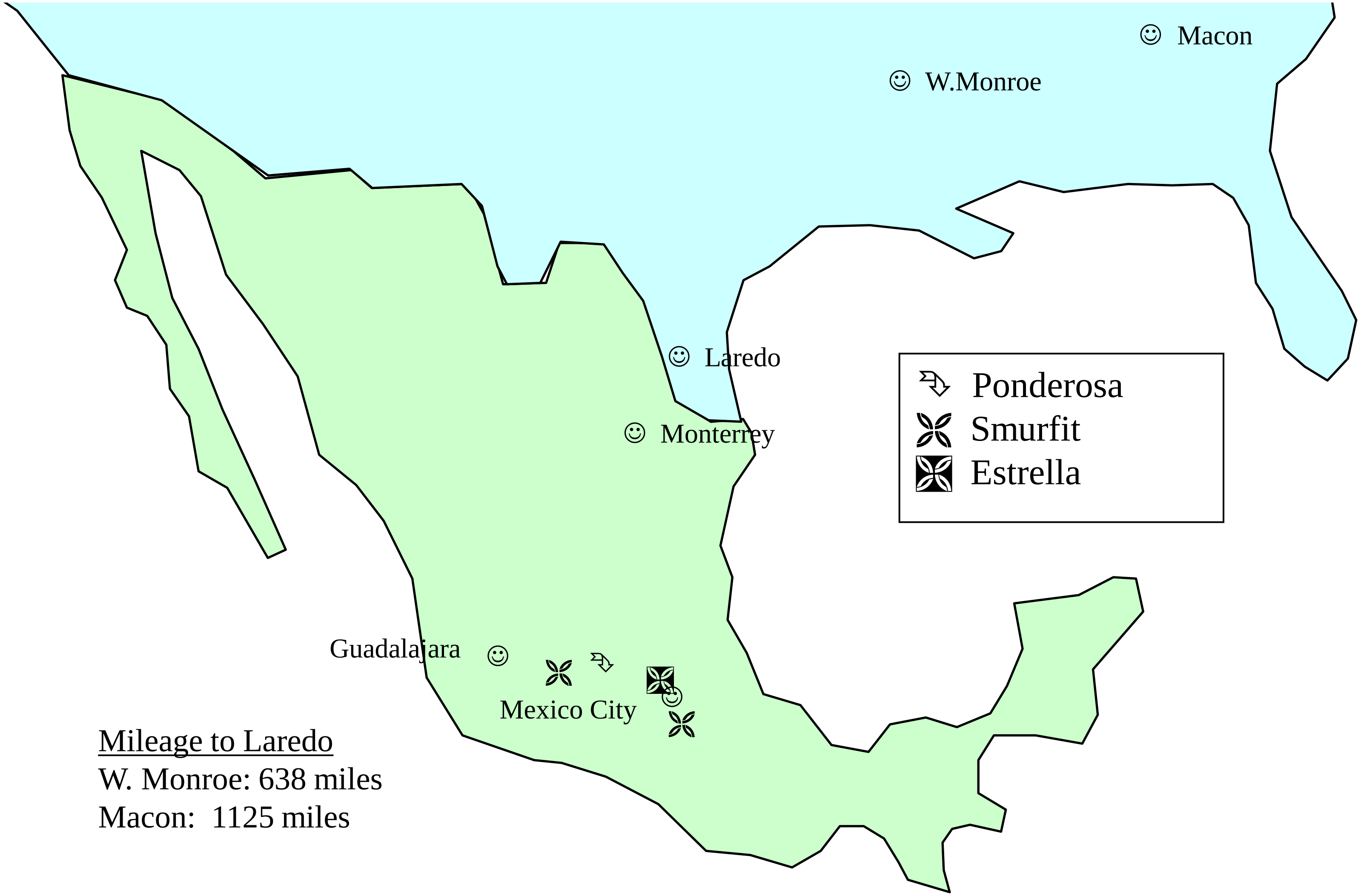
Competitive situation is difficult

- **Three main players with almost 85% of the board capacity**
  - **Ponderosa -180,000**
  - **Smurfit - 66,000**
  - **Estrella - 65,000**
- **Excess capacity in the market**
  - **1997 production equals 87% of the capacity of the three major players**
  - **Expected 5-10% price reduction in response to RVW entry**
- **Three major players are vertically integrated**
  - **Ponderosa sells almost all its capacity in the open market**
  - **Smurfit converts 58% of its capacity internally**
  - **Estrella converts almost all its production internally**

Competitive situation is difficult

- **Ponderosa board meets market requirements**
  - **Converters recognize that Riverwood board has better quality**
  - **Market is not willing to pay a higher price for better quality**
- **Market is driven by price**
  - **Riverwood has to reduce 4 caliper points to be competitive in price with Ponderosa in large accounts**
  - **Riverwood is price competitive with Ponderosa at small accounts after a 2 caliper reduction**
- **Competitors sell board in sheets, have warehouses and offer 100 and 90 day credit terms**

Competitors are closer to customers



Mileage to Laredo
W. Monroe: 638 miles
Macon: 1125 miles

Ponderosa's lower cost to serve the market gives them a $100/MT advantage over Riverwood

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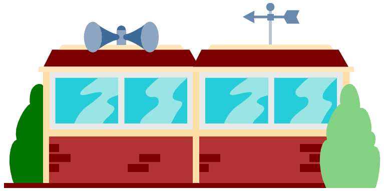

Mill	Freight	Sheeting in Mexico	Cost to Serve
Ponderosa	**$25**	**$35**	**$60**
WM	**$101**	**$60**	**$161**
Macon	**$119**	**$60**	**$179**

Riverwood is competitive versus Ponderosa in small accounts after a two caliper reduction

Ponderosa Caliper	$/MSM	$/MT - Sheets (FOB Mex. City)	Riverwood Caliper	$/MSM	$/MT - Sheets (FOB Mex. City)
16	209	721	14	209	797
18	227	688	16	227	777
20	241	687	18	241	768
22	261	687	20	261	770
24	285	686	22	285	754
26	305	685	24	305	740
28	326	678	26	326	721

- **Average price FOB Mexico City in sheets from WM $751/mt, from Macon $787/mt**
- **Sheeting $60/mt**
- **Freight Laredo - Mexico City $50/mt**
- **Freight West Monroe - Laredo $51/mt**
- **Freight Macon - Laredo $69/mt**
- **Average price FOB West Monroe $590/mt; $536st**
- **Average price FOB Macon $608/mt; $552st**

Riverwood's board has to be priced at $488/ST FOB West Monroe to be competitive versus Ponderosa in large accounts after a two caliper reduction

Ponderosa Caliper	$/MSM	$/MT - Rolls (FOB Mex. City)	Riverwood Caliper	$/MSM	$/MT - Rolls (FOB Mex. City)
16	194	616	14	194	681
18	206	588	16	206	664
20	223	588	18	223	657
22	244	587	20	244	658
24	258	580	22	258	637
26	275	580	24	275	626
28	290	573	26	290	610

- **Average price FOB Mexico City in rolls from WM $638/mt, from Macon $673/mt**
- **Freight Laredo - Mexico City $50/mt**
- **Freight West Monroe - Laredo $51/mt**
- **Freight Macon - Laredo $69/mt**
- **Average price FOB West Monroe $537/mt; $488st**
- **Average price FOB Macon $554/mt; $503st**

Riverwood's board has to be priced at $515/ST FOB Macon to be competitive versus Ponderosa in large accounts after a three caliper reduction

Ponderosa Caliper	$/MSM	$/MT - Rolls (FOB Mex. City)	Riverwood Caliper	$/MSM	$/MT - Rolls (FOB Mex. City)
18	206	588	15	206	686
20	223	588	17	223	687
22	244	587	19	244	686

- **Average price FOB Mexico City in rolls from Macon $687/mt**
- **Freight Laredo - Mexico City $50/mt**
- **Freight Macon - Laredo $69/mt**
- **Average price FOB Macon $568/mt; $515st**

Riverwood will be competitive versus Ponderosa in large accounts if we can drop four calipers

Ponderosa Caliper	$/MSM	$/MT - Rolls (FOB Mex. City)	Riverwood Caliper	$/MSM	$/MT - Rolls (FOB Mex. City)
18	206	588	14	206	722
20	223	588	16	223	720
22	244	587	18	244	717
24	258	580	20	258	698
26	275	580	22	275	680
28	290	573	24	290	658

- **Average price FOB Mexico City in rolls from WM $688/mt, from Macon $721/mt**
- **Freight Laredo - Mexico City $50/mt**
- **Freight West Monroe - Laredo $51/mt**
- **Freight Macon - Laredo $69/mt**
- **Average price FOB West Monroe $587/mt; $534st**
- **Average price FOB Macon $602/mt; $548st**

Obstacles for Riverwood in Mexico

- Credit risk for Riverwood
- Exchange rate risk for customers
  - Further devaluation of the Peso makes Riverwood board more expensive
- Cost to serve the market
  - Freight $101/ mt from West Monroe
  - Freight $120/ mt from Macon
  - Sheeting for small converters
- Ponderosa offers local warehousing and J.I.T. delivery
- Less favorable terms (45 days) versus competitors
- Persuade four caliper drop to customers

Obstacles For Riverwood in Mexico

- Lack of local support organization
- Competitors with excess capacity (86% operating rates)
- Expected competitive reaction to reduce price 5-10%
- Lack of experience of customers with CUK
- Ponderosa smoother than PK
- Lack of relationships in the Mexican market
- The anticipated time it will take to realize significant tonnage in this market, against the time and expected windfall potential

Value Proposition

Attribute	Important to Market
Improved Quality	???
Increase Press Speed	No
Better Filling Line Efficiencies at End Users	?
Product Differentiation	Yes
More Environmental	No
Carton Performance	Yes
Better Printing Surface	? (no against PK)

Opportunities For Riverwood in Mexico

- Two of our major customers have plants in Mexico
- End users might need improvement in line efficiencies
- No local supply of heavy calipers
  - Substitute folding carton for microflute
- Demand for seconds due to price
- Overall price reduction by SBS replacement
- Small accounts are paying higher prices
- Monterrey accounts have a lower cost to serve
- Demand for trim rolls due to pricing (15 & 17 pt - Universal?)

Action Plan

- Define Riverwood minimum satisfactory entry price
- Evaluate converters reaction to entry price
- Identify and target small accounts where RVW is more price competitive
- Target accounts in Monterrey with lower cost to serve
- Identify more potential converters
- Push-pull presentations to help develop product positioning
  - Gamesa, Warner Lambert, Nestle, Tres Estrellas, Nabisco & Bimbo
- Develop a strategy to leverage Field and Malnove relationship
- Identify SBS, micro flute and heavy caliper substitution opportunities
- Communicate trim roll/seconds price to converters and evaluate response
- Identify and evaluate potential non exclusive agents
- Reevaluate market in 90 days