Neenah Paper, Inc. / Annual Report 2007

all together now.

in the three short
years since
our founding, neenah
paper has
changed greatly.

We’ve grown, to be sure, with important acquisitions in fine paper and technical products. And our portfolio of businesses has become more balanced and profitable. Most importantly, we continue to gather the elements needed to support our long-range vision – from people to new products and technology to new channels and geographic areas. We are bringing them all together. Now. They are essential building blocks for a bright future.

Europe

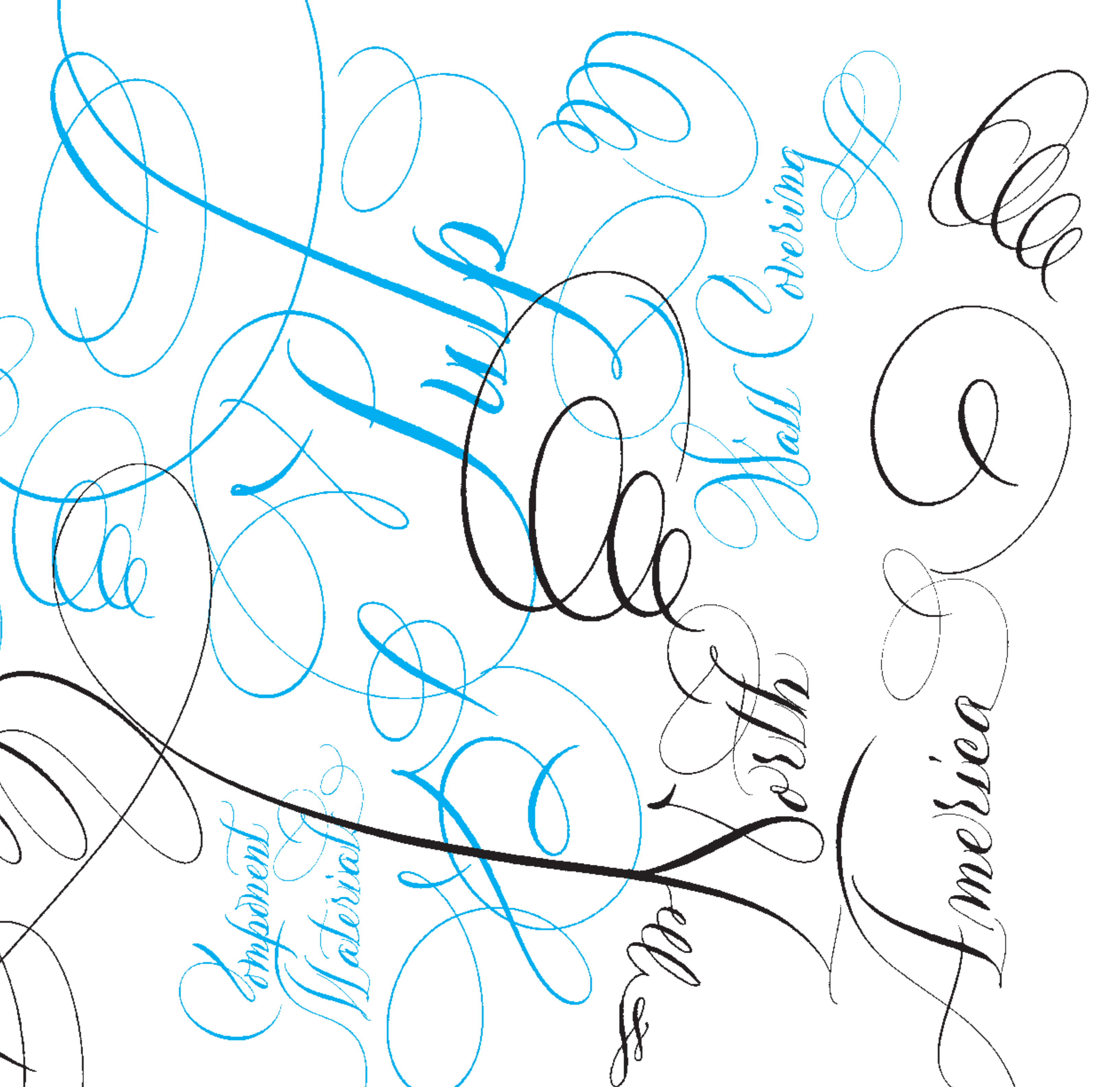
Fine Paper

Filtration

Tape

Asia

Graphics
&
Identification

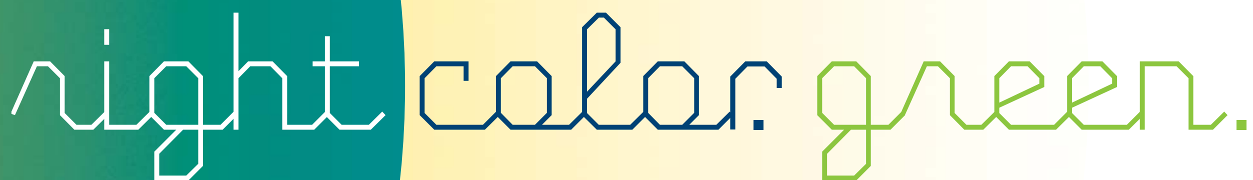


connecting the dots. profitably.

We're proud of our employees for reshaping the company. Neenah started life as a North American pulp and paper company, with revenues about equally split between the two. Today, we operate three profitable lines of business: fine paper, technical products and pulp, with approximately 80 percent of our revenues in premium paper products. With recent acquisitions of our German technical products business and Fox River Paper, the past year has been one of integration and execution, just as we said it would be. Both acquisitions are delivering expected benefits and positioning us more solidly in our markets. Furthermore, we have accomplished this while maintaining a stronger than ever balance sheet. Naturally, the dots will continue.

We're adding to our lead in premium fine paper. There's no substitute for the look, feel and quality of premium paper. That's why so many designers select Neenah fine paper. Our heritage paper brands – CLASSIC® Laid, CLASSIC CREST®, ENVIRONMENT® and EAMES™ – have defined the words "quality paper" for the entire industry. With our purchase of Fox River Paper Company, we've added recognized brands, including STARWHITE,® SUNDANCE,® ESSE® and OXFORD.® We optimized our asset base, consolidating from six mills to four. In addition, we combined the best of sales, marketing and back office functions from both companies. The acquisition not only provided cost efficiencies, but also better positioned us to serve our customers. When it comes to premium paper, Neenah offers a full selection.

focusing on the



We're meeting a growing need for green. Printers, designers, corporations and individuals – all are looking for ways to work in harmony with the environment. And Neenah Paper continues to help them with an ever-widening array of eco-friendly product offerings. Many of our leading brands are Green-e certified, made with clean, green renewable energy. They also carry the Forest Stewardship Council (FSC) chain of custody certification. Our ENVIRONMENT® line includes papers made with 100 percent post consumer recycled, FSC certified fibers. STARWHITE® is made entirely from 100 percent pure, FSC certified virgin fiber and 100 percent Green-e certified renewable energy. It's also made Carbon Neutral and elemental chlorine free. Many of our CLASSIC® brands now also offer Carbon Neutral alternatives. In 2007, we joined the Chicago Climate Exchange, making a commitment to reduce future carbon dioxide emissions. We will continue to look for new opportunities to decrease our ecological footprint. At Neenah, thinking green puts us well in the black.

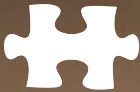
Frankfurter Allgemeine
Steinmeier bezeichnet Bericht über Kanzlerkandidatur als Unsinn
Morgen in

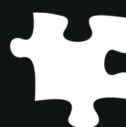
growing in technical products. globally.

We're opening a world of new opportunities. It's been more than a year since we added our German-based operations to the Neenah map. But the acquisition of what is now Neenah Germany did more than just establish a solid European footprint for Neenah Technical Products. It also took us into profitable new growth markets – such as filter media for transportation and other applications and specialized nonwoven wall coverings, an increasingly popular decorating alternative in Europe to traditional wallpapers. It also expanded our global presence in markets for specialized tapes and abrasives. Ultimately, it gave us something even more valuable: a global gateway to new sales, technologies and employees.

Looking at the big picture. up close.

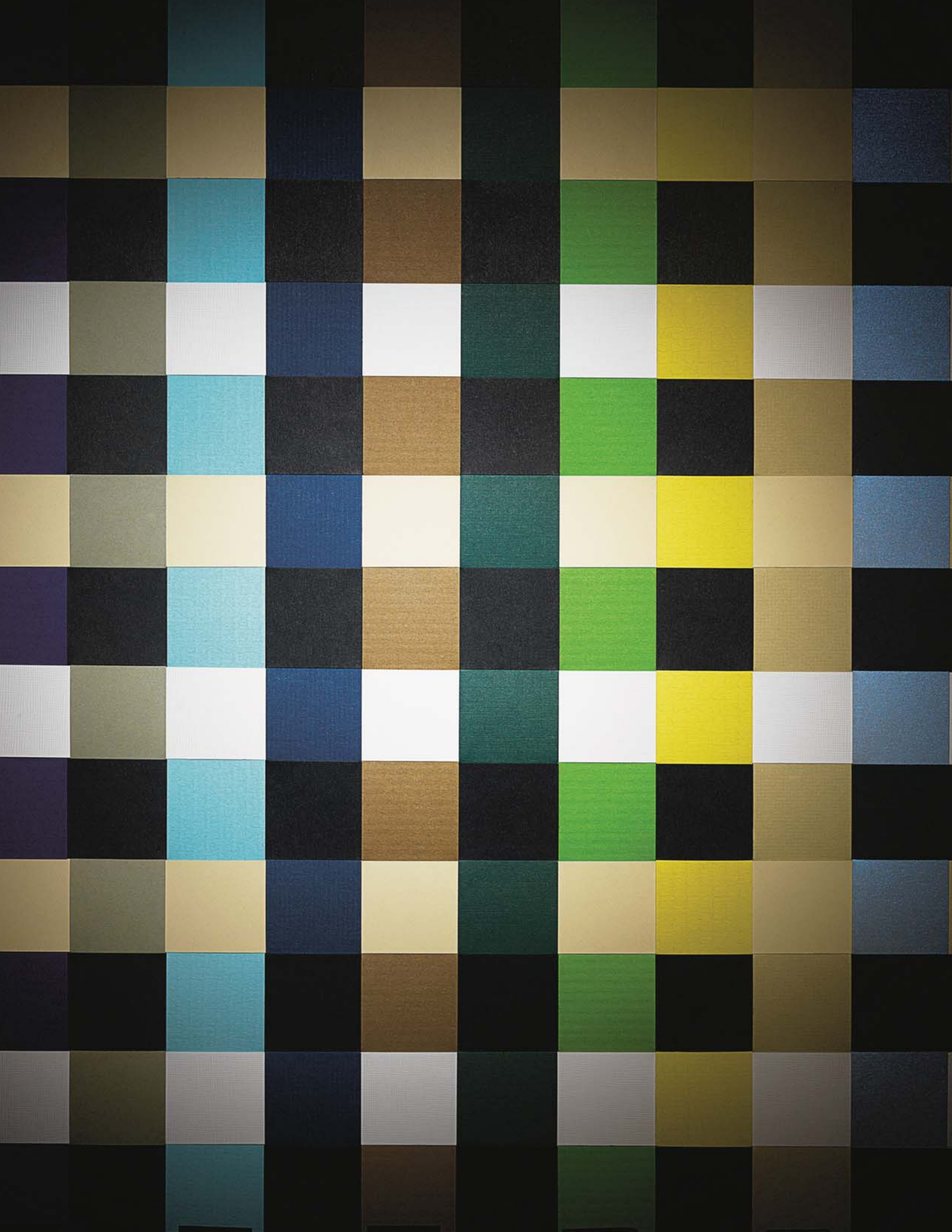
We're building a global company, one product line at a time. At Neenah Paper, we continue to direct our company into strong niche markets, like filtration, graphics & identification products, wall covering and premium printing and writing papers. Rather than manage our businesses geographically, we've organized our global businesses along product lines. Technical Products, for example, now breaks down into five categories – filtration, component materials, tape, graphics & identification, and wall covering – regardless of where the products are manufactured or sold. This arrangement gives us more flexibility in sourcing and sales, and more balance for managing profitable growth opportunities. Today, we don't make decisions based on what's best for a particular country or region. We look at what's best for Neenah as a whole.





adding capability. everywhere.

We're putting the pieces into place. And building a stronger Neenah Paper. In 2007, we expanded our filtration capabilities, investing more than $20 million to add a third saturating line at our Weidach technical products mill in Germany. At our Lahnstein mill, where we produce wall coverings, we invested more than $2 million to upgrade our paper-manufacturing capabilities for increased throughput and quality. We extended our fine paper and technical products lines, adding new premium brands. The successful implementation of a new ERP system in the U.S. gave us tools to help us improve customer service and operational performance. Our wider footprint has given us greater access to new technologies, which in turn helps us make existing products better. It also points the way to new products. We are building organizational strength through acquisitions. Last but not least, we are continuing to invest in our future. The more we grow our capabilities, the more we can grow. Period.



To Neenah Paper Shareholders:

It was another busy year at Neenah Paper. Since becoming a separate public company in late 2004, Neenah Paper's strategic vision has centered on profitable growth and transformation. Our plan was to sustain and improve our very profitable, branded fine paper business and to gain scale and enhance technical products. At the same time, we worked on strengthening our pulp operation, making it profitable. We have made significant progress on each of these fronts in 2007, and in the process, continued to reshape our company.

2007 was a year of integration and execution, establishing the groundwork for our future. Following our acquisition of Neenah Germany in late 2006, we implemented a new structure in Technical Products in order to manage this segment as five global business units to take advantage of our new global footprint. We also invested capital in Germany, supporting future growth in filtration, wall covering and other durable printing products. In our fine paper business, the acquisition of the Fox River Paper Company in early March set the stage for a very busy and important year in this segment. We executed a detailed business integration plan, aligning our brands and our distribution network, merging sales and administrative functions, and consolidating our manufacturing footprint. Our remaining pulp operation in Pictou, Nova Scotia achieved record productivity levels and implemented other initiatives to control costs. Finally, we successfully started up Phase II of our ERP (Enterprise Resource Planning) system in the U.S., which drove important change in how we do our jobs and provides us with another tool for improving customer service, operations and supply chain capabilities. As I said, it was a busy year.

When is the last time you read an annual report that said that the markets and competitive situation are getting easier? At Neenah Paper, we accept that such challenges are our reality. As expected, our businesses faced difficult external conditions in 2007. Input costs rose rapidly and in total, costs of fiber, energy and distribution increased almost $20 million from prior year levels. In our paper businesses, we were able to offset more than half of these higher costs with selling price increases. In pulp, while selling prices also rose, about half of these gains were offset due to a stronger Canadian dollar. In response to these conditions, our teams remained focused on improving efficiencies and delivering cost savings, while at the same time successfully executing key tasks associated with the integration of our acquisitions and ERP start-up.

As a result, Neenah has emerged a larger and stronger company than ever before. Consolidated net sales for 2007 reached nearly $1 billion, an increase of almost 67 percent versus the prior year. After excluding gains in 2006 and 2007 related to the sale of our timberlands, our EBIT increased approximately 43 percent and earnings per share grew even more rapidly.

We maintained a strong balance sheet in 2007, despite spending for acquisitions and strategic capital investments. Following the Fox River acquisition in the first quarter, we consecutively reduced net debt in each of the second, third and fourth quarters of 2007. Cash from operations increased in 2007 versus 2006 and credit ratios such as debt to EBITDA and interest coverage also improved. Despite recent turmoil in the credit markets, Neenah has the cash flows, liquidity and financial flexibility to allow us to continue to grow.

In fine paper, the Fox River acquisition added to our already very strong franchise. Acquiring Fox River Paper boosted Neenah's brand portfolio, distribution and market share, making us the clear leader in premium fine paper in the United States. Fine Paper net sales in 2007 climbed to $367 million, a 64 percent increase over the previous year.

While still very profitable, our Fine Paper business earned $47 million in 2007 versus $56 million in 2006. In addition to higher input costs and a weaker paper market, 2007 results included planned transition and integration costs of over $5 million related to the Fox River acquisition. At the time we purchased Fox River, we said the benefits from the acquisition would become more visible in 2008, and the work done in 2007 laid the groundwork for this future benefit realization.

Part of our integration plan involved the closing of paper mills at Housatonic, Massachusetts, and Urbana, Ohio. Consolidating our manufacturing footprint from six paper mills into four provides a more cost-effective manufacturing platform with capabilities and capacity aligned with our new business. We also merged sales and other functions, allowing us to build a stronger combined organization, drawing from the best in both companies. Remaining 2008 activities include the consolidation of finishing operations in Wisconsin and the closure of the Urbana finishing and distribution operations. Also in 2008, we will add Fox River sites to our ERP platform, enabling Neenah Paper to present "one face" to our customers.

Acquiring Fox River Paper provided Neenah with added scale and a larger footprint. Not only that, it allows us to offer a broader range of premium branded papers through a stronger distributor network – better serving graphic designers, printers and direct corporate markets. The acquisition brought us some of the industry's best known brands, including STARWHITE,® SUNDANCE,® ESSE® and OXFORD.® We are excited to be "Neenahtizing" these brands and integrating them as key parts of our portfolio.

With the integration in 2007 of what we now call Neenah Germany, we markedly changed the scale of our technical products segment. We went from a predominantly North American business to one that operates globally. Rather than managing our wide range of technical products geographically, we grouped them (based on markets and end-usage) into five businesses: filtration, tape, graphics & identification, component materials and wall covering.

Net sales for Technical Products were $401 million for 2007, compared to $183 million the prior year. This made Technical Products Neenah Paper's single largest segment in terms of revenues. The increase was primarily driven by the addition of Neenah Germany and reflected growth in key markets such as filtration, tape, graphics & identification and wall covering. Operating income for 2007 was $25 million, up more than two and one-half times from 2006.

To support future growth, we expanded our filtration and wall covering capacities. Capital projects in Germany included the addition of a third filtration saturator at our Weidach mill and upgrades to a paper machine at our Lahnstein mill. Both projects were completed on schedule and on budget, providing us with the capacity to grow.

We will continue to seek out ways to expand our presence and leverage our broader technological base in these growing specialty markets. In addition, we remain focused on margin improvement through improved manufacturing efficiencies, mix optimization and enhanced product designs.

Our Pictou pulp mill turned in a solid performance in 2007—increasing production to 269,000 tons, an all-time record, while continuing to control costs.

Net sales for pulp climbed to $223 million in 2007, an 18 percent gain over 2006. Higher sales were due to increased selling prices and a four percent rise in volume over the previous year, supported by the record production. Excluding gains on timberland sales, operating income increased almost $13 million compared with 2006. This reflected the benefits of higher selling prices, productivity increases and the elimination of losses on pulp hedges in 2006 that offset the impact of a weaker U.S. dollar and higher costs for fiber and energy.

We are pleased with the 2007 performance of our pulp operation, which resulted from the strong commitment and efforts of our Pictou Mill team. The segment contributed positively to Neenah Paper results. At the same time, we are committed to finding ways to unlock additional value for our shareholders from our pulp operations and ownership of approximately 500,000 acres of timberlands and have communicated our intent to exit this business segment.

As we enter our fourth year in business, Neenah Paper is positioned to take full advantage of our hard work this past year. The pieces are coming together. The investments we made in acquiring Fox River Paper and Neenah Germany are showing results and will continue to do so.

Neenah Paper has the financial strength and cash flow generation that allow us to invest in and support profitable growth. We will continue to evaluate strategic opportunities, including acquisitions, but will proceed only if we firmly believe we can create real value for our shareholders and have a detailed plan for how we will accomplish it. We take the job of creating value for shareholders very seriously. We know what our core businesses are and where our strengths lie. We will play to those strengths.

In 2007, our stock did not perform well, declining 17 percent in a difficult market. We are not pleased with this performance. It belies Neenah's strengths and capabilities. We firmly believe that by continuing to execute our strategy successfully, and delivering on the potential of our core businesses, we can create real value for our shareholders and we are committed to doing so.

In past annual reports, we've stated that we are transforming Neenah Paper from a commodity (pulp and paper) company into a more profitable premium fine paper and technical products company. Our transformation will remain an ongoing process – one designed to produce a steady stream of value for our shareholders.

With Neenah Germany and Fox River Paper, we expect to deliver benefits to our shareholders for years to come. We have grown into a global company, one more profitable with the financial stability and cash flows needed to pursue growth. At the same time, we never lose sight of our core businesses, and remain focused on driving growth in technical products, delivering strong cash flows from fine paper, including synergies from the Fox River acquisition, creating value from our pulp operations and improving margins in all our businesses, all while carefully controlling capital.

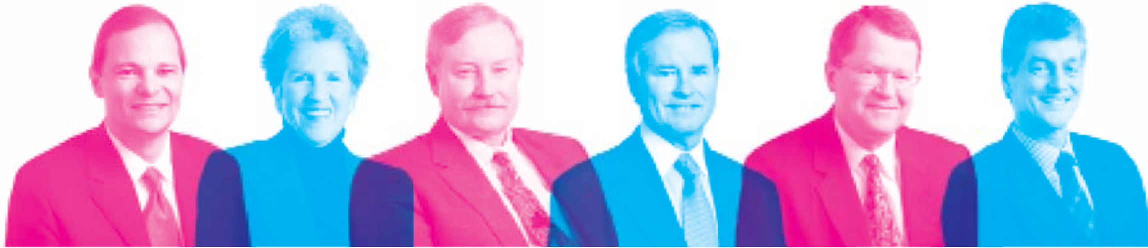
We believe change is the new reality. At Neenah Paper, we saw a great deal of change in 2007. We integrated two companies, one in the U.S. and one in Germany. We consolidated mills and organizations. In addition, we implemented a new ERP system throughout the U.S. We consider these important accomplishments for Neenah, but in reality, they are a way of life if we are to succeed as a company. None of this could happen without the dedication, flexibility and hard work of our employees.

I would also like to express my appreciation to our Board of Directors for their continuing support and guidance. As shareholders, you should be confident that you have a first-rate board that takes their role as your representative very seriously.

And finally, I would like to thank our shareholders for the confidence you have shown with your investment in Neenah Paper. We will continue to work hard to create value on your investment in our company. Thank you.

Sean T. Erwin
Chairman, President and
Chief Executive Officer

leadership



Executive Team
(top row, from left)

Sean T. Erwin
Chairman of the Board,
President and
Chief Executive Officer,
Neenah Paper, Inc.

Bonnie C. Lind
Senior Vice President,
Chief Financial Officer
and Treasurer

Steven S. Heinrichs
Senior Vice President,
General Counsel and
Secretary

Walter M. Haegler, Ph.D.
Managing Director,
Neenah Germany

John P. O'Donnell
President, Fine Paper

James R. Piedmonte
Senior Vice President,
Operations

Dennis P. Runsten
President, Technical
Products – U.S.

Board of Directors
(bottom row, from left)

Sean T. Erwin
(pictured, top row)
Chairman of the Board,
President and
Chief Executive Officer,
Neenah Paper, Inc.

Edward Grzedzinski
Former Chief Executive
Officer, NOVA
Information Systems

Mary Ann Leeper, Ph.D.
Senior Strategic Advisor,
Female Health Company
and Former President
and Chief Operating
Officer, Female Health
Company

Timothy S. Lucas, CPA
Independent Consultant,
Lucas Financial Reporting
and Former Director of
Research, FASB

John F. McGovern
Partner, Aurora Capital
and Former Executive
Vice President and
Chief Financial Officer,
Georgia Pacific
Corporation

Philip C. Moore
Partner,
McCarthy Tétrault, L.L.P.

Stephen M. Wood, Ph.D.
President and
Chief Executive Officer,
FiberVisions Corporation

Profile by % of Net Sales

2005

total net sales: $754 million

Fine Paper
30%

Technical Products
17%

Pulp
53%

Profile by % of Net Sales

2007

total net sales: $991 million

Fine Paper
37%

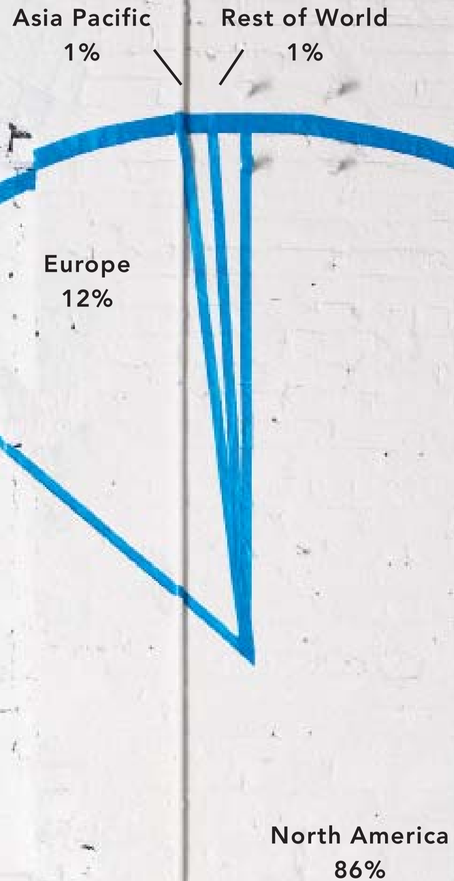
Technical Products
40%

Pulp
23%

Profile by Geography

2005

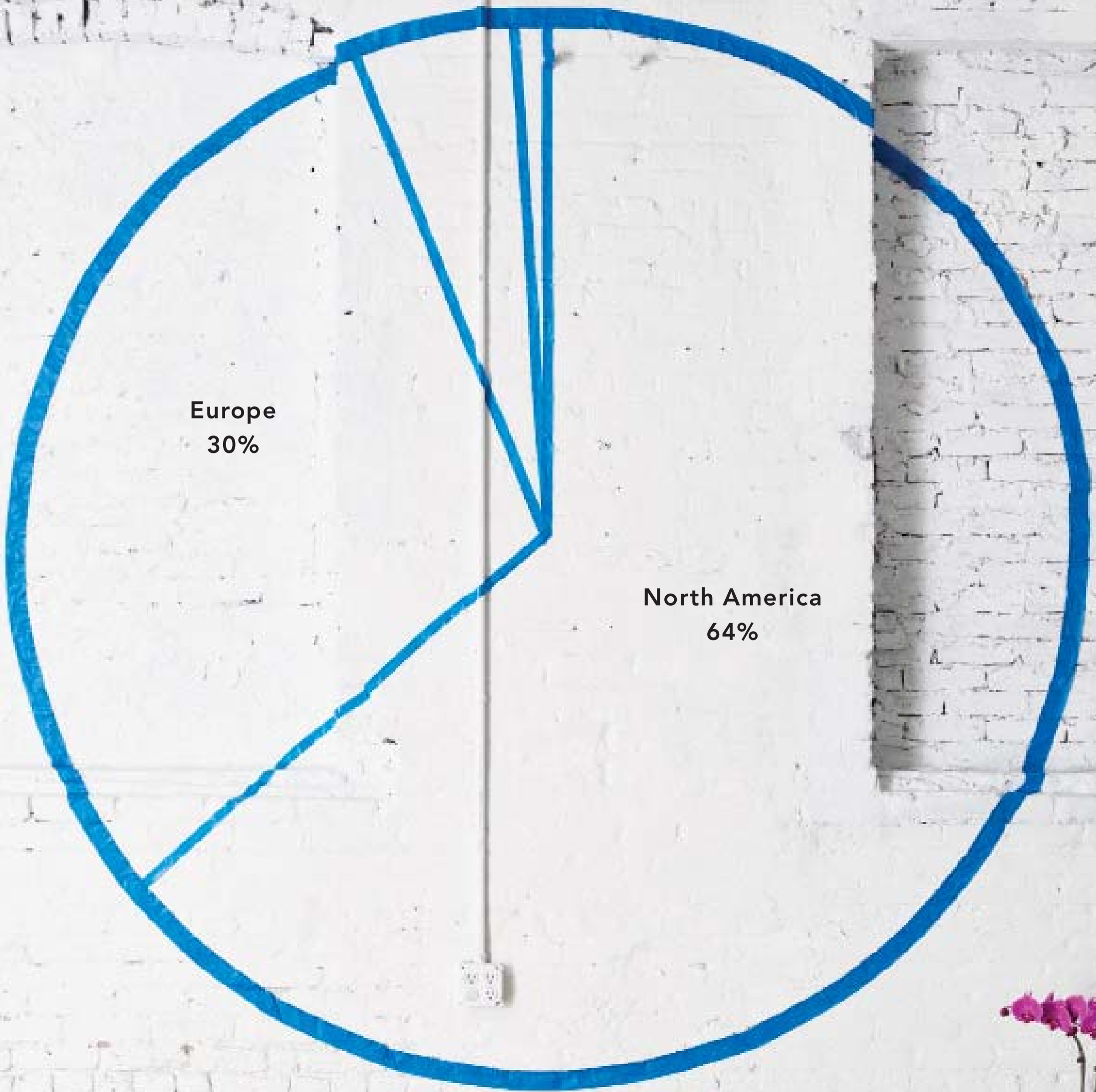
% of total net sales



Profile by Geography

2007

% of total net sales



Sales–Technical Products

2005

total net sales: $131 million

Graphics & Identification
25%

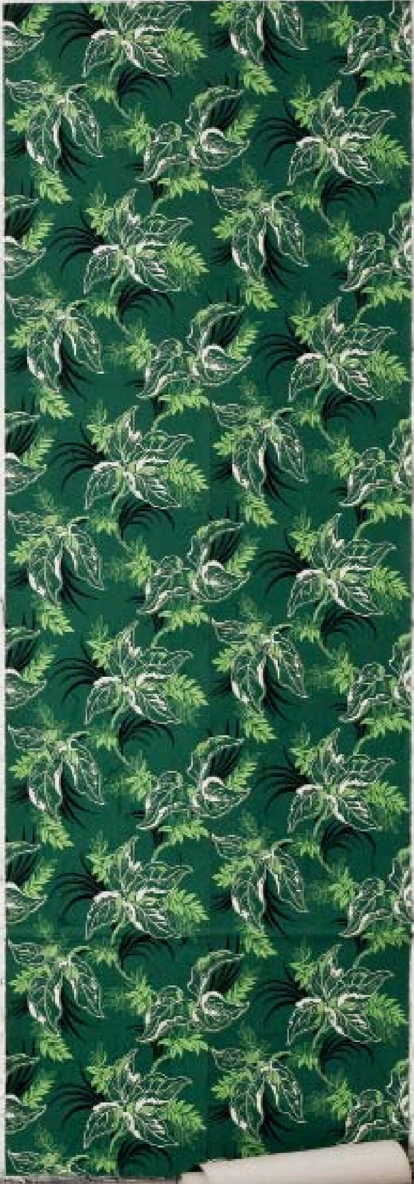
Component Materials
52%

Tape
23%

Sales–Technical Products

2007

total net sales: $401 million



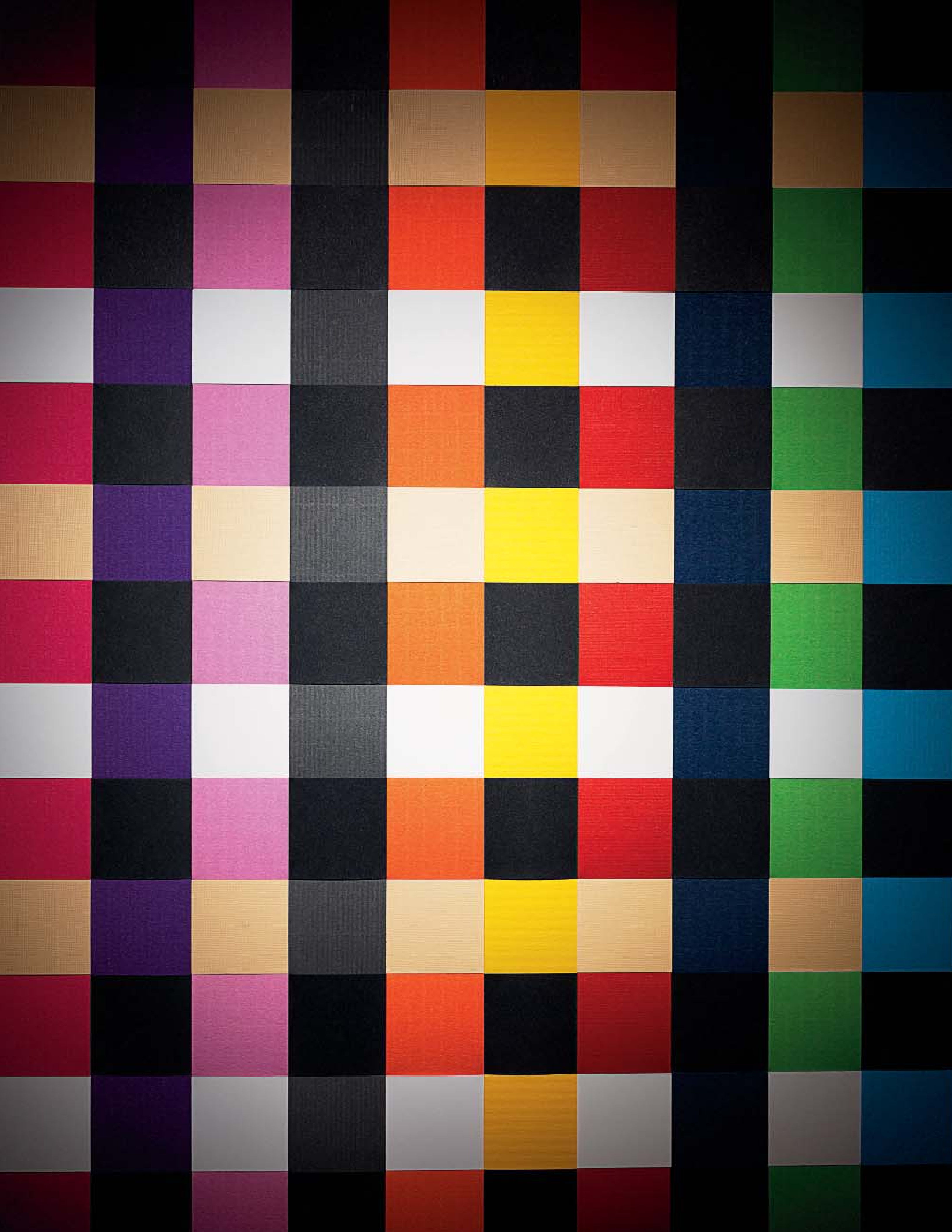
Wall Covering
11%

Filtration
30%

Graphics &
Identification
14%

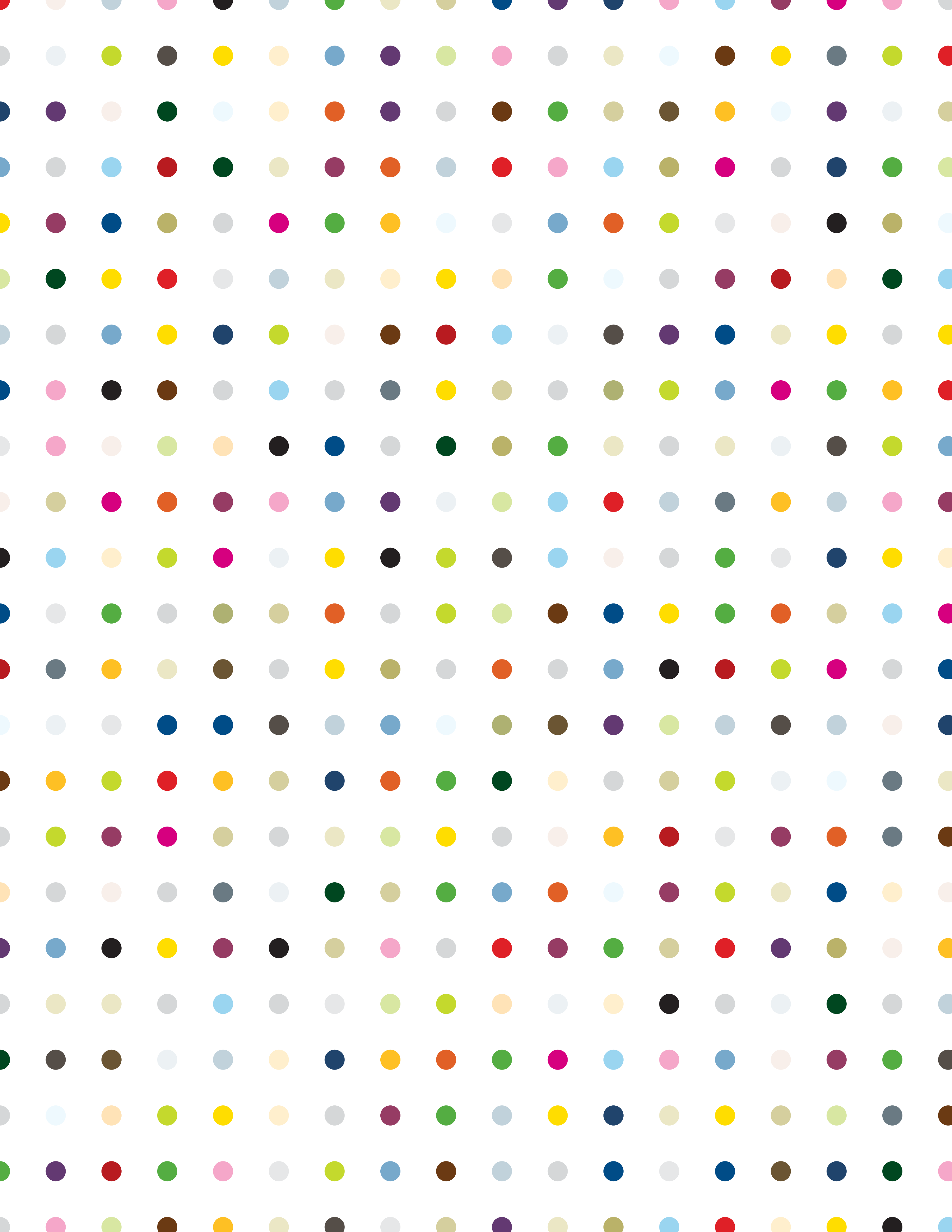
Component
Materials
19%

Tape
26%



neenah paper at a glance

the neenah paper of today is quite different from the neenah paper you read about in last year's annual report. our three business segments—fine paper technical products and pulp—have been reshaped in 2007 by new acquisitions, products, markets and initiatives. taken together, they offer a broad view of our business today.

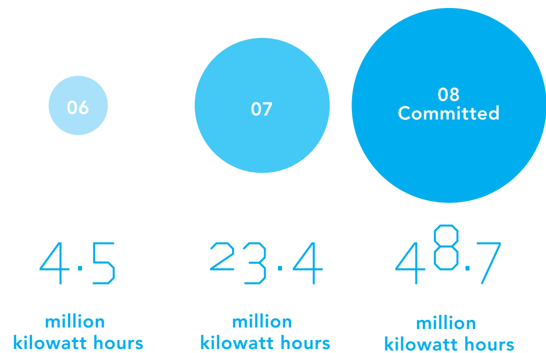


neenah fine paper

Neenah is the brand leader for world-class premium fine paper. In fact, we are number one in market share in four out of the five categories in which we compete. We are also leaders in value-added color and texture capabilities. You'll find us everywhere image counts – from the home office to the boardroom. Neenah brand fine paper is the first choice for letterhead, business cards, private watermark stationery, invitations, note cards, high-end packaging, annual reports, brochures and more. With our array of premium brands, we offer many ways to make an impression.

FINE PAPER:
SERVING NORTH AMERICAN PRINTING MARKETS

GREEN ENERGY



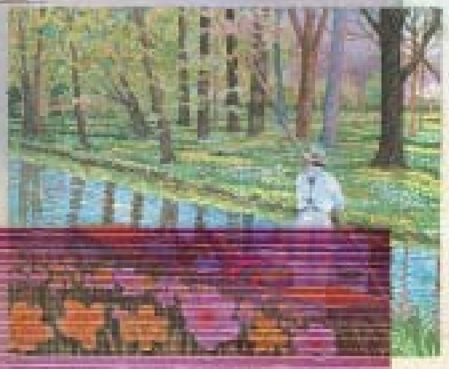
4.5 million kilowatt hours

23.4 million kilowatt hours

48.7 million kilowatt hours

FINE PAPER BRANDS

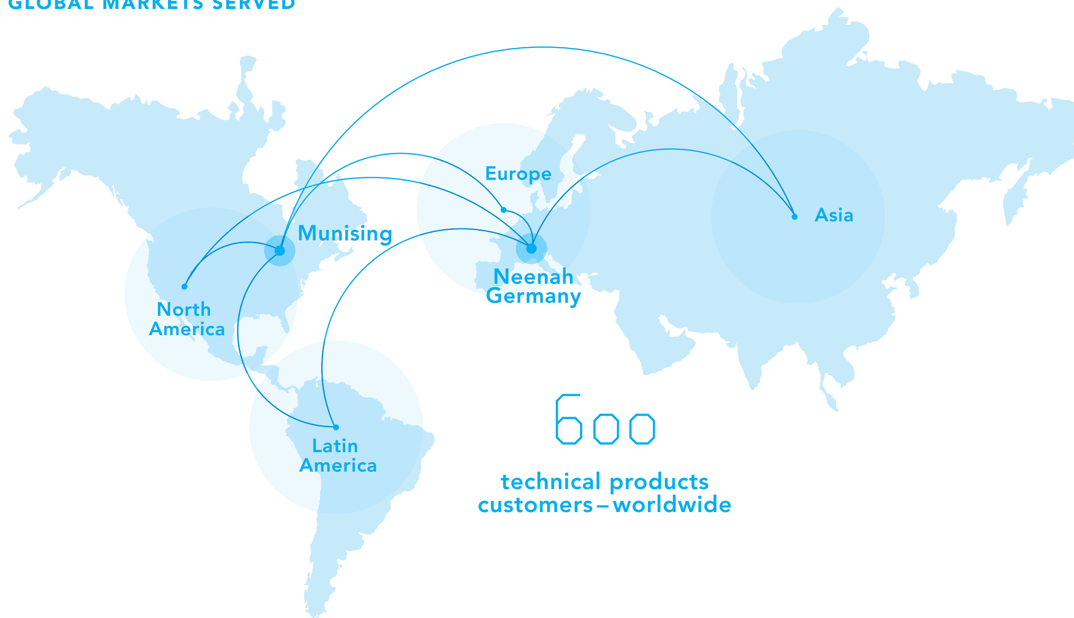
Writing Brands	Text & Cover Brands	Specialty Brands
CLASSIC CREST® Papers	STARWHITE® Papers	EAMES™ Paper Collection
CLASSIC® Linen Papers	ENVIRONMENT® Papers	CLEARFOLD® Papers
CLASSIC® Laid Papers	ESSE® Papers	UV/ULTRA® II Papers
FOX RIVER SELECT® Papers	SUNDANCE® Papers	
NEUTECH® Papers	OXFORD® Papers	
CAPITOL BOND® Papers	CLASSIC COLUMNS® Papers	
	CORONADO® SST Papers	


JET-PRO SofStretch

neenah technical products

Around the globe, there's an ever-expanding list of products that incorporate essential components from Neenah's wide range of technical products. A partial list includes: air, oil and fuel filtration for transportation; medical packaging; specialized abrasive backings; tapes and labels; heat transfer for T-shirts and other apparel; furniture components and wall covering; and more. In 2007, Neenah successfully integrated Neenah Germany and executed a variety of other global growth initiatives. We are getting closer to our key customers. We offer a solution for nearly every manufacturing need. If not, we'll invent it.

TECHNICAL PRODUCTS:
GLOBAL MARKETS SERVED



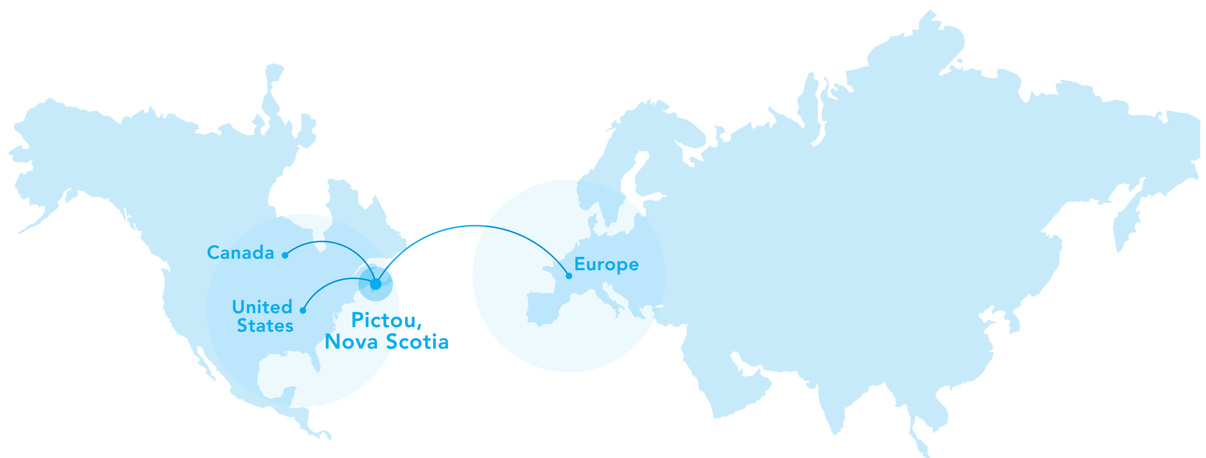
TECHNICAL PRODUCTS / GLOBAL BUSINESS UNITS

Filtration	Component Materials	Tape	Graphics & Identification	Wall Covering
Transportation	Medical Packaging	Crepe Base	Label & Tag	Nonwoven
Other	Abrasives	Specialty Flatbacks	Image Transfer	Saturated Wetlaids
	Release Base		Decorative Components	
	Application Masking		Clean Room	
	Veneer Backings		Durable Printing	

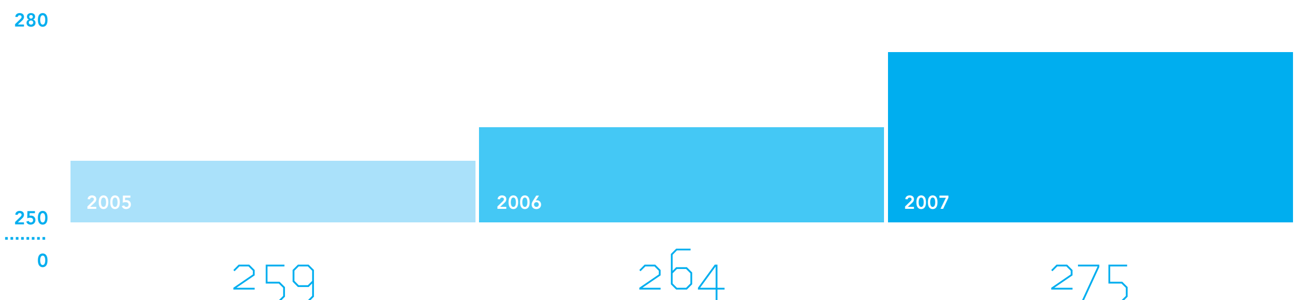
neenah pulp

From seedling, to timberlands and saw mills, and ultimately to our pulp mill in Pictou, Nova Scotia – it's the path Neenah Paper's sustainable pulp operation follows. From there, we ship to customers in North America and Europe. Our mill has the capability to manufacture both softwood and hardwood kraft pulp and various blends of each. In addition, we own over 500,000 acres of timberland.

PULP:
GLOBAL MARKETS SERVED



PULP SALES VOLUME
(metric tons in thousands)



corporate social responsibility

Paper products are an integral and necessary part of our society and economy. Neenah Paper recognizes that to achieve its vision of being the first choice for branded and customized paper products, we must continue to be a leader in our field. Our corporate responsibilities, as we see them, address a continuum of environmental, community, stakeholder and employee needs.

Safety

We continue to make the safety of our employees a top priority. Our facilities have implemented proven behavior-based safety programs to reduce hazards, improve processes and reduce injuries. These efforts have been successful, with a company-wide injury rate about half of the industry average.

Environmentally Friendly Products

Customers are asking for more environmentally friendly choices. Neenah is answering by certifying our eco-friendly papers through independent third-party organizations such as the Forest Stewardship Council (FSC) and Green-e Certified. The fibers we use come from sustainably managed forests, also certified by one or more international groups, such as the FSC and Programme for the Endorsement of Forest Certification Schemes (PEFC). In Technical Products, Heirloom® NAFTM, our new premium veneer and furniture backer, is one of the first to be made with saturants and adhesives that contain no formaldehyde. In Fine Paper, we offer customers a variety of environmentally friendly choices including FSC certified papers, as well as Carbon Neutral papers made from 100 percent recycled fibers and renewable energy.

Preserving Our Natural Heritage

Neenah Paper works diligently to protect the natural environment where we live, work and play. In 2007, we worked with local Canadian environmental organizations, the Provincial government and general public to designate a new 35,000 acre wilderness area near Halifax, Nova Scotia. In Wisconsin, we are working with The Natural Resources Foundation of Wisconsin (NRF) and the Wisconsin Natural Heritage Corps (WNHC) to help protect the state's most pristine natural areas.

Climate Change and Air Quality

Neenah is reducing air emissions by improving energy efficiencies in our operations, and through the use of renewable, clean energy sources. We have demonstrated our commitment to achieving real reductions in greenhouse gases by joining the Chicago Climate Exchange (CCX), the world's first and North America's only voluntary, legally binding integrated trading system to reduce greenhouse gas emissions.

Corporate Governance

At Neenah Paper, we are as committed to protecting our shareholders as we are to protecting our natural resources. Our Board of Directors has adopted strong corporate governance policies that represent and protect shareholders' interests. Our Code of Business Conduct and Ethics is applicable to all directors, officers and employees and ensures Neenah Paper conducts its business in a manner that will always reflect a high standard of ethics.

We believe all of these actions help deliver value and returns to our shareholders.

financial index

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In this report, unless the context requires otherwise, references to "we," "us," "our," "Neenah" or the "Company" are intended to mean Neenah Paper, Inc. and its consolidated subsidiaries.

OVERVIEW

Neenah, a Delaware corporation, was incorporated in April 2004 in contemplation of the spin-off by Kimberly-Clark Corporation ("Kimberly-Clark") of its fine paper and technical products businesses in the United States and its Canadian pulp business (collectively, the "Pulp and Paper Business"). We had no material assets or activities until Kimberly-Clark's transfer to us of the Pulp and Paper business on November 30, 2004. On that date, Kimberly-Clark completed the distribution of all of the shares of our common stock to the stockholders of Kimberly-Clark (the "Spin-Off"). Following the Spin-Off, we are an independent public company and Kimberly-Clark has no ownership interest in us.

We are a leading international producer of premium fine papers and technical products. We also produce bleached kraft market pulp in Canada, where we own approximately 500,000 acres of timberlands and have non-exclusive rights to harvest wood off approximately 200,000 acres of other timberlands. We have three primary operations: our fine paper business, our technical products business and our pulp business.

Our fine paper business is a leading producer of premium writing, text, cover and specialty papers used in corporate identity packages, corporate annual reports, invitations, personal stationery and high-end packaging for point of purchase advertising. Our products include some of the most recognized and preferred papers in North America, where we enjoy leading market positions in many of our product categories. We sell our products primarily to authorized paper distributors, converters and specialty businesses. Our fine paper manufacturing facilities are located in Appleton, Neenah and Whiting, Wisconsin; Ripon, California and Urbana, Ohio. In June 2007, we announced plans to permanently close the fine paper mill located in Urbana, Ohio (the "Urbana mill"). Manufacturing operations at the Urbana mill ceased in September 2007. Converting operations at the Urbana mill are expected to be phased out during the first six months of 2008.

Our technical products business is a leading producer of transportation and other filter media, durable, saturated and coated substrates for a variety of end uses; and nonwoven wall coverings. Our technical products business is organized into five global strategic business units ("SBUs") which sell into 17 product categories, and we focus on categories where we believe we are a market leader or have a competitive advantage, which include, among others, transportation and other filter media, nonwoven wall coverings, specialty tape, label, abrasive, medical packaging and image transfer technical products markets. We are also a global supplier of materials used for customer-specific applications in furniture, book covers and original equipment manufacturers' products. Our customers are located in more than 35 countries. Our technical products manufacturing facilities are located in Munising, Michigan and near Munich and Frankfurt, Germany.

Our pulp business primarily produces northern bleached softwood kraft pulp used by paper mills to manufacture tissue and printing and writing papers. Our pulp business consists of a mill located in Pictou, Nova Scotia, Canada together with related timberlands. The Pictou mill is comprised of a single-line pulp facility, which produces primarily softwood pulp, as well as timberlands encompassing approximately 500,000 acres of owned and 200,000 acres of licensed or managed land in Nova Scotia. Timberland operations on land owned and licensed by the Pictou mill are provided by third-party contractors.

RECENT DEVELOPMENTS

In February 2008, we committed to a plan to sell the Pictou mill and our remaining woodland assets in Nova Scotia. We believe it is probable that a sale of the Pictou mill and the woodland assets will be completed within 12 months.

PRODUCTS

FINE PAPER. The fine paper business manufactures and sells branded world-class premium writing, text, cover and specialty papers used in corporate identity packages, corporate annual reports, invitations, personal stationery and high-end packaging for point of purchase advertising. Our fine paper business had net sales of approximately $367 million in 2007, $224 million in 2006 and $222 million in 2005.

Premium writing papers are used for business and personal stationery, corporate letterhead, corporate identity packages, private watermarked papers, envelopes and similar end-use applications. Market leading writing papers are sold by the fine paper business under the CLASSIC,® ENVIRONMENT,® NEENAH,® CAPITOL BOND® and NEUTECH® trademarks, which are denoted by a brand watermark in each sheet of writing paper. During 2006, we successfully introduced the NEENAH GREEN environmental platform. Key components of the platform include (1) becoming the largest purchaser of green energy in the State of Wisconsin, (2) using papermaking waste by-products at a third-party reprocessing site to create steam that is reused in papermaking, reducing carbon dioxide emissions by 80 percent at our Neenah mill, and (3) introducing the first Forest Stewardship Council ("FSC") watermarked paper and introducing it across all our CLASSIC® brands. We are the first premium text and cover manufacturer to be certified as "Processed Chlorine Free" in our 100 percent post-consumer products. The fine paper business also sells private watermarked and other custom manufactured writing papers.

Text and cover papers are used in applications such as corporate identity packages, corporate annual reports, insert advertising, direct mail, facility brochures, business cards, hang tags, scrapbooks, and a variety of other uses where colors, textured finishes or heavier weight papers are desired. Our brands in this category include CLASSIC,® CLASSIC CREST,® STARWHITE,® SUNDANCE,® CORONADO,® ESSE and ENVIRONMENT.® We also sell a variety of custom paper colors, paper finishes, and duplex/laminated papers.

The fine paper business produces and sells other specialty papers, including translucent papers, art papers, papers for optical scanning and other specialized applications, under the UV/ULTRA® II trademark and other brands.

TECHNICAL PRODUCTS. The technical products business is a leading producer of filtration media and durable, saturated and coated substrates for a variety of end uses, including tapes, premask, abrasives, labels, medical packaging, decorative components, wall covering, and image transfer papers. Our technical products business had net sales of approximately $401 million in 2007, $183 million in 2006 and $131 million in 2005. JET-PRO,® SofStretch™, KIMDURA,® MUNISING LP,® PREVAIL,™ NEENAH,® Gessner® and varitess® are brands of our technical products business.

Products of the technical products business are typically sold to other manufacturers as raw materials for their finished products. The technical products business sells its products into major market segments by five SBUs: Tape; Filtration; Component Materials, which includes our abrasives business; Graphics & Identification; and Wall Covering. Several key market segments served, including tape and abrasives, are global in scope.

The Filtration SBU produces filtration media for automotive induction air, fuel, oil, and cabin air applications and vacuum cleaner bags and filters. Transportation filtration media are sold to suppliers of automotive companies and of the automotive aftermarket.

The Tape SBU produces tape base sheets from latex saturated crepe and flat papers and sells them to manufacturers to produce finished pressure sensitive products for sale in automotive, automotive aftermarket, transportation, manufacturing and building construction, and industrial general purpose applications.

The Component Materials SBU is a leading producer of latex saturated and coated papers for use by a wide variety of manufacturers. Finished lightweight sandpaper is sold in the automotive, automotive aftermarket, construction, metal and woodworking industries for both waterproof and dry sanding applications. Premask paper is used as a protective over wrap for products during the manufacturing process and for applying signs, labeling and other finished products. Medical packaging paper is a polymer impregnated base sheet that provides a breathable sterilization barrier. When sealed together with film, this paper becomes a medical packaging material that allows sterilization from steam, ethylene oxide, or gamma radiation and at the same time provides unique barrier properties. The Component Materials SBU also produces a line of release papers and furniture backers.

The Graphics & Identification SBU produces label and tag products from saturated (latex impregnated) base label stock and purchased synthetic base label stock. Top coatings are applied to the base label stock to allow for high quality variable and digital printing. The synthetic label stock is recognized as a high quality, UV (ultra-violet) stable product used for outdoor applications. The business sells its label and tag stock to pressure sensitive coaters, who in turn, sell the coated label and tag stock to the label printing community. Image transfer papers are used to transfer an image from paper to tee shirts, hats, coffee mugs and other

surfaces. The technical products business produces and applies a proprietary imaging coating to its image transfer papers for use in digital printing applications. Image transfer papers are primarily sold through large retail outlets and through master distributors. Decorative components papers are made from light and medium weight latex saturated papers which can then be coated for printability. Decorative components papers are primarily sold to coater converters, distributors, publishers and printers for use in book covers, stationery and fancy packaging. The Graphics & Identification SBU also produces and sells clean room papers and durable printing papers into their respective markets.

The Wall Covering SBU produces a line of substrates made from saturated and coated wet-laid nonwovens and markets to converters serving primarily European commercial and do-it-yourself markets.

PULP. Our Pictou pulp mill produces virgin northern bleached softwood and hardwood kraft pulp and various blends of each for sale to paper mill customers located primarily in North America and Europe. In 2007, the Pictou mill produced approximately 270,000 metric tons of bleached kraft pulp, of which more than 60 percent was sold to Kimberly-Clark. The Pictou pulp mill's major products are Pictou HARMONY® Softwood (northern bleached softwood kraft pulp) and Pictou Hardwood (northern bleached hardwood kraft pulp).

Our pulp business had net sales of approximately $223 million in 2007, $189 million in 2006 and $184 million in 2005.

MARKETS AND CUSTOMERS

FINE PAPER. Premium papers are used primarily for stationery and corporate identification applications and represent approximately 3 percent of the uncoated free sheet market. Growth in the uncoated free sheet market has been restrained due to the increasing use of electronic media for communication. The stationery segment of this market is divided into cotton and sulfite grades. The text and cover paper segment of the market, used in corporate identification applications, is split between smooth papers and textured papers. Text papers have traditionally been utilized for special, high-end collateral material such as corporate brochures, annual reports and special edition books. Cover papers are used as covers primarily for business cards, pocket folders, brochures and report covers including corporate annual reports.

The fine paper business sells its products through our sales and marketing organizations primarily in three channels: authorized paper distributors, converters and direct sales. Distributor sales account for approximately 70 percent of our customer base in the fine paper business, including distributor owned paper stores. Less than 5 percent of the sales of our fine paper business are exported to international distributors in Europe, South Africa, Asia, Australia and South America.

Sales to the fine paper business's two largest customers (both of which are distributors) represented approximately 30 percent of its total sales in 2007. We practice limited distribution to improve our ability to control the marketing of our products. Although a complete loss of either of these customers would cause a temporary decline in the business's sales volume, the decline could be partially offset by expanding sales to existing distributors, and further offset over a several month period with the addition of new distributors.

TECHNICAL PRODUCTS. The technical products business relies on five SBUs to sell its products globally into 17 product categories. Such categories, broadly defined as polymer impregnated and synthetic paper, include papers used as raw materials in the following applications: tape, filtration, component materials for manufactured products, graphics and identification, and wall covering.

Several products (abrasives, tapes, labels) are used in markets that are directly affected by economic business cycles. Other market segments such as image transfer papers used in small/home office and consumer applications are relatively stable. Price competition is common in most of the segments served by the technical products business and has increased due to a trend of using film and other lower cost substrates instead of paper in some applications.

The technical products business relies on a team of direct sales representatives and customer service representatives to market and sell approximately 95 percent of its sales volume directly to customers and converters. Less than 5 percent of the sales of the technical products business are sold through industrial distributors.

The technical products business has over 500 customers worldwide. The distribution of sales in 2007 was approximately 55 percent in Europe, 25 percent in North America and 20 percent in Latin America and Asia. Customers typically convert and transform base papers and film into finished rolls and sheets by adding adhesives, coatings and finishes. Such transformed product is then sold to end-users.

PULP. Northern bleached softwood kraft pulp is used by paper mills to manufacture tissue and printing and writing paper. In 2007, worldwide demand for northern bleached softwood kraft market pulp (which excludes pulp produced for internal consumption by integrated pulp manufacturers) was estimated to be 12.6 million metric tons, of which about 6.3 million metric tons were produced in Canada. Western Europe consumed an estimated 5.6 million metric tons of northern bleached softwood kraft pulp in 2007, followed by the United States at 3.1 million metric tons and China at 1.5 million metric tons.

In 2007, Pictou produced about 245,000 metric tons of northern bleached softwood kraft pulp. In 2007, approximately 60 percent of the northern bleached softwood kraft pulp production at the Pictou mill was sold to Kimberly-Clark. Our Pictou mill has historically sold or transferred more than 90 percent of its output of northern bleached softwood kraft pulp to Kimberly-Clark.

In 2007, worldwide demand for northern bleached hardwood market pulp was estimated to be 4.6 million metric tons of which an estimated 1.7 million metric tons were northern bleached hardwood kraft pulp produced in Canada. In 2007, the United States consumed approximately 0.8 million metric tons of Canadian northern bleached hardwood kraft pulp, followed by Asia at 0.6 million metric tons and Europe at 0.2 million metric tons.

In 2007, our Pictou mill produced about 25,000 metric tons of northern bleached hardwood kraft pulp and sold approximately 70 percent of such production to Kimberly-Clark. The balance of the pulp mill's output of northern bleached hardwood kraft pulp was sold to paper mills in the northeastern and midwestern United States.

Northern bleached softwood kraft pulp and northern bleached hardwood kraft pulp are commodity products whose prices are subject to substantial increase or decrease depending on production capacity and customer demand. Northern bleached hardwood kraft pulp is subject to increasing competition, primarily from lower cost South American eucalyptus pulp and excess capacity for northern bleached hardwood kraft pulp.

Historically, our Pictou mill has transferred its pulp directly to Kimberly-Clark and used brokers for sales to external customers. We utilize an internal sales team to generate sales to external customers.

For the years ended December 31, 2007, 2006 and 2005, we had pulp sales to Kimberly-Clark of $115 million, $163 million and $135 million, respectively. Such sales represented approximately 60 percent, 85 percent and 75 percent of sales for our Pulp business for the years ended December 31, 2007, 2006 and 2005, respectively. No single customer, other than Kimberly-Clark, accounted for more than 10 percent of our pulp net sales in those years.

GEOGRAPHIC INFORMATION

The following tables present further information about our businesses by geographic area (dollars in millions):

	Year Ended December 31,		
	2007	2006	2005
Net sales			
United States	**$502.9**	$357.3	$352.9
Canada	**223.5**	189.3	183.8
Europe	**264.4**	49.7	–
Intergeographic Items	**(0.3)**	(2.0)	(2.0)
Consolidated	**$990.5**	$594.3	$534.7

	Year Ended December 31,		
	2007	2008	2005
Total Assets			
United States	**$332.5**	$223.5	$231.9
Canada	**201.6**	180.8	305.1
Europe	**398.7**	340.4	–
Total	**$932.8**	$744.7	$537.0

Net sales and total assets are attributed to geographic areas based on the physical location of the selling entities and the physical location of the assets.

selected financial data

The following table sets forth our selected historical financial and other data. You should read the information set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and the notes to those consolidated financial statements included elsewhere in this Annual Report. The statement of operations data for the years ended December 31, 2007, 2006 and 2005 and the balance sheet data as of December 31, 2007 and 2006 set forth below are derived from our audited historical consolidated financial statements included elsewhere in this Annual Report. The balance sheet data as of December 31, 2005 and 2004 set forth below is derived from our audited historical consolidated financial statements not included in this Annual Report. The statement of operations data for the years ended December 31, 2004 and 2003 and the balance sheet data as of December 31, 2003 set forth below are derived from our audited historical combined financial statements not included in this Annual Report.

The consolidated and combined financial statements reflect the consolidated operations of Neenah and its subsidiaries as a separate, stand-alone entity subsequent to November 30, 2004. The historical financial and other data for periods through November 30, 2004 have been prepared on a combined basis from Kimberly-Clark's consolidated financial statements using the historical results of operations and bases of the assets and liabilities of Kimberly-Clark's fine paper and technical products businesses in the United States and its pulp business in Canada and give effect to allocations of expenses from Kimberly-Clark. The historical financial and other data for periods prior to November 30, 2004 are not indicative of our future performance and do not reflect what our financial position and results of operations would have been had we operated as a separate, independent company during the periods presented.

Prior to the Spin-Off, all of the operations of our pulp and paper business were included in the consolidated income tax returns of Kimberly-Clark. Under the tax sharing agreement, Kimberly-Clark will indemnify us for all income tax liabilities and retain rights to all tax refunds relating to operations in the consolidated income tax returns for periods through the date of the Spin-Off. Accordingly, the combined balance sheet as of December 31, 2003 does not include current or prior period income tax receivables or payables related to our operations, which were filed on a consolidated basis with Kimberly-Clark. The income tax provisions were determined as if our business were a separate taxpayer.

	Year Ended December 31,				
(Dollars in millions, except per share data)	**2007[(a)]**	2006[(b)]	2005	2004[(j)]	2003[(j)]
Consolidated and Combined Statement of Operations Data					
Net sales	**$ 990.5**	$ 594.3	$ 534.7	$ 528.8	$ 462.7
Cost of products sold	**852.9**	502.3	438.7	399.4	352.2
Gross profit	**137.6**	92.0	96.0	129.4	110.5
Selling, general and administrative expenses	**82.4**	56.9	49.4	42.0	30.0
Gain on sale of woodlands[(d)]	**(6.2)**	(125.5)	–	–	–
Other (income) expense – net	**(5.5)**	(7.8)	(6.8)	1.6	4.0
Operating income	**66.9**	168.4	53.4	85.8	76.5
Interest expense – net	**25.1**	16.5	18.2	1.4	–
Income from continuing operations before income taxes	**41.8**	151.9	35.2	84.4	76.5
Provision for income taxes	**3.9**	56.5	12.9	30.4	29.2
Income from continuing operations	**37.9**	95.4	22.3	54.0	47.3
Loss from discontinued operations[(c)(e)(f)(g)(h)]	**(27.7)**	(32.9)	(52.0)	(80.4)	(8.4)
Net income (loss)	**$ 10.2**	$ 62.5	$ (29.7)	$ (26.4)	$ 38.9
Earnings from continuing operations per basic share[(i)]	**$ 2.55**	$ 6.47	$ 1.51	$ 3.66	$ 3.22
Earnings from continuing operations per diluted share[(i)]	**$ 2.50**	$ 6.43	$ 1.51	$ 3.65	$ 3.22
Cash dividends per common share	**$ 0.40**	$ 0.40	$ 0.40	$ –	$ –
Other Financial Data					
Net cash flow provided by (used in):					
Operating activities	**$ 69.5**	$ 65.8	$ 22.8	$ 76.0	$ 73.6
Investing activities[(a)(b)(c)]	**(113.4)**	(127.7)	(25.8)	(19.1)	(23.6)
Financing activities[(a)(b)]	**43.8**	50.8	(3.6)	(37.8)	(50.0)
Capital expenditures	**(58.3)**	(25.1)	(25.7)	(19.1)	(24.4)
Ratio of earnings to fixed charges[(k)]	**2.6x**	8.6x	2.9x	50.6x	383.5x

	As of December 31,				
(Dollars in millions)	**2007[(a)]**	2006[(b)]	2005	2004	2003
Consolidated and Combined Balance Sheet Data					
Working capital	**$ 120.3**	$ 92.9	$ 123.9	$ 116.4	$ 101.7
Total assets	**932.8**	744.7	537.0	557.3	592.0
Long-term debt	**321.2**	282.3	226.3	225.0	–
Total liabilities	**644.8**	559.8	371.7	360.2	158.3
Total stockholders' and invested equity	**288.0**	184.9	165.3	197.1	433.7

(a) In March 2007, we acquired the stock of Fox Valley Corporation and its subsidiary, Fox River Paper Company, LLC (collectively, "Fox River") for approximately $54.7 million in cash. We financed the acquisition through a combination of cash and debt drawn against our existing revolving credit facility. The results of Fox River are being reported as part of our Fine Paper segment and have been included in our consolidated financial results since the acquisition date.

(b) In October 2006, we purchased the outstanding interests of Neenah Germany. Neenah Germany was acquired from FiberMark, Inc. and FiberMark International Holdings LLC (collectively "Neenah Germany") for approximately $220.1 million in cash. We financed the acquisition through a combination of cash and debt drawn against our existing revolving credit facility. The results of Neenah Germany are being reported as part of our Technical Products segment and have been included in our consolidated financial results since the acquisition date.

(c) In August 2006, we transferred our Terrace Bay mill and related woodlands operations to certain affiliates of Buchanan Forest Products Ltd. ("Buchanan") for a payment of approximately $18.6 million. The results of operations of the Terrace Bay mill and the loss on transfer are reflected as discontinued operations in the consolidated statements of operations.

(d) In June 2006, our wholly owned subsidiary, Neenah Paper Company of Canada ("Neenah Canada") sold approximately 500,000 acres of woodlands in Nova Scotia for gross proceeds of $139.1 million. The agreement includes a fiber supply agreement to secure a source of fiber for Neenah Canada's Pictou pulp mill. The transaction resulted in a net pre-tax gain of $131.7 million. Neenah Canada immediately recognized approximately $122.6 million of such gain and deferred approximately $9.1 million which was recognized in income pro-rata through December 2007. For the years ended December 31, 2007 and 2006, Neenah Canada recognized $6.2 million and $2.9 million, respectively, of such deferred gain in income.

(e) In December 2007, the Ontario Plan was terminated and all outstanding pension obligations for active employees were settled through the purchase of annuity contracts or lump-sum payments pursuant to participant elections. For the year ended December 31, 2007, Neenah Canada recognized a non-cash pre-tax settlement loss of $38.7 million upon termination of the Ontario Plan.

(f) In August 2006, Neenah Canada made a payment to the pension trust of approximately $10.8 million for the purchase of annuity contracts to settle its pension liability for current retirees. As a result, Neenah Canada recognized a pension curtailment and settlement loss of approximately $26.4 million in the year ended December 31, 2006.

(g) In 2005, we recorded a $53.7 million non-cash pre-tax impairment loss to write off the carrying value of the Terrace Bay facility's tangible long-lived assets. In addition, we recorded a $6.1 million pre-tax charge for exit costs in connection with the closure of the smaller of the two single-line pulp mills at our Terrace Bay facility. The charge included $5.0 million for one-time termination benefits related to early retirement, severance and defined benefit pension plans, $0.3 for other associated exit costs and $0.8 million for a non-cash asset impairment loss.

(h) In 2004, we recorded a $112.8 million non-cash pre-tax impairment loss to reduce the carrying amount of the Terrace Bay facility.

(i) For 2003, basic and diluted earnings per share were computed using the number of shares of Neenah common stock outstanding at the Spin-Off date.

(j) As noted elsewhere in this Annual Report, for periods prior to the Spin-Off, our historical financial results are not indicative of our future performance, and do not reflect what our financial position and results of operations would have been had we operated as a separate, independent company during the periods presented.

(k) For purposes of determining the ratio of earnings to fixed charges, earnings consist of income before income taxes (less interest) plus fixed charges. Fixed charges consist of interest expense, including amortization of debt issuance costs, and the estimated interest portion of rental expense.

management's discussion and analysis of financial condition and results of operations

The following discussion and analysis presents the factors that had a material effect on our results of operations during the years ended December 31, 2007, 2006 and 2005. Also discussed is our financial position as of the end of those periods. You should read this discussion in conjunction with our consolidated financial statements and the notes to those consolidated financial statements included elsewhere in this Annual Report. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See "Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements.

INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations are intended to provide investors with an understanding of the historical performance of our business, its financial condition and its prospects. We will discuss and provide our analysis of the following:

- Overview of Business;
- Business Segments;
- Results of Operations and Related Information;
- Adoption of New Accounting Pronouncements;
- Liquidity and Capital Resources; and
- Critical Accounting Policies and Use of Estimates.

OVERVIEW OF BUSINESS

We are a leading international producer of premium fine papers and technical products. We also produce bleached kraft pulp in Canada, where we own approximately 500,000 acres of timberlands and have non-exclusive rights to harvest wood from approximately 200,000 acres of other timberlands. We have three primary operations: our fine paper business, our technical products business and our pulp business.

In managing this diverse paper and pulp business, management believes that achieving and maintaining a leadership position for our fine paper and technical products businesses, responding effectively to competitive challenges, employing capital optimally, controlling costs and managing currency, commodity and other risks are important to the long-term success of the business. The pulp cycle and general economic conditions also impact our results. In this discussion and analysis, we will refer to these factors.

- **MARKET LEADERSHIP.** Achieving and maintaining leadership for our fine paper and technical products businesses have been an important part of our past performance. Our fine paper business has long been recognized as a leading manufacturer of world-class premium writing, text and cover papers used in corporate identity packages, corporate annual reports, invitations, personal stationery and high-end packaging. Our technical products business is recognized as a leading supplier in the tape, filtration, component materials, graphics & identification, and wall covering markets. Maintaining our leadership is important to our results, particularly in light of the competitive environment in which we operate.

- **COMPETITIVE ENVIRONMENT.** Our past results have been and future prospects will be significantly affected by the competitive environment in which we operate. We experience intense competition for sales of our principal products in our major markets. Our paper business competes directly with well-known competitors, some of which are larger and more diversified in most of our markets. In our pulp business, we have experienced, and will continue to experience, intense competition from suppliers of softwood pulps and southern hemisphere suppliers of hardwood pulps. We expect our competitors to continue to be aggressive in the future.

- **COST CONTROL.** To improve and maintain our competitive position, we must control our raw material, manufacturing, distribution and other costs. A portion of our investments in capital improvements are intended to achieve cost savings and improvements in productivity.

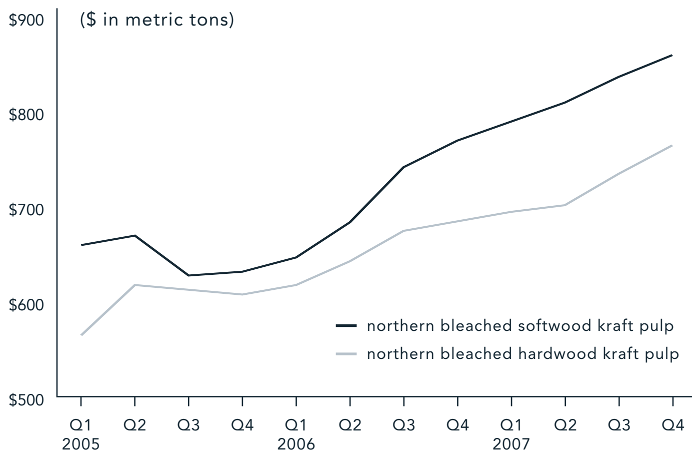
- **CYCLICAL NATURE OF THE PULP INDUSTRY.** Revenues in the pulp industry and our pulp business tend to be cyclical, with periods of shortage and rapidly rising market prices, leading to increased production and increased industry investment until supply exceeds demand. Those periods are then typically followed by periods of reduced market prices and excess and idle capacity until the cycle is repeated.

- **GENERAL ECONOMIC CONDITIONS.** The markets for all of our products are affected to a significant degree by general economic conditions. Downturns and improvements in the U.S. and European economies or in our export markets affect the demand for our products.

- **FOREIGN CURRENCY AND COMMODITY RISK.** Sales of pulp by our Pictou mill are invoiced in U.S. dollars in accordance with industry practice; therefore, no currency effects are presented in our analysis of the change in net sales for our pulp operation. However, we are exposed to changes in foreign currency exchange rates because most of the costs relating to our pulp business are incurred in Canadian dollars. These risks could have a material impact

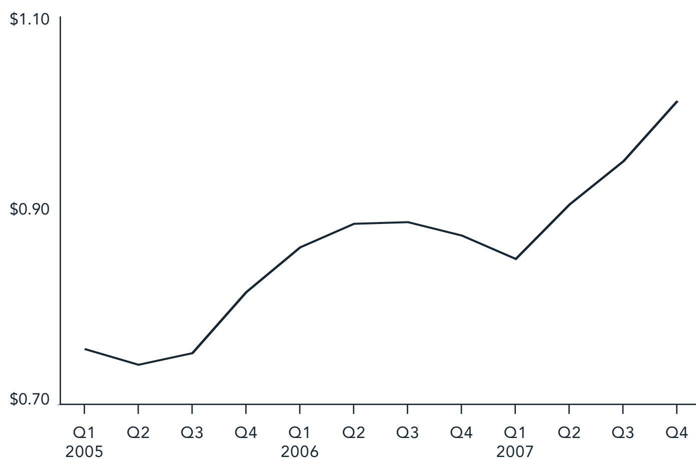
on our results of operations if not effectively managed. The following charts illustrate changes in currency and pulp prices that occurred during the periods covered by this Management's Discussion and Analysis of Financial Condition and Results of Operations:

PULP PRICE HISTORY AVERAGE QUARTERLY PRICES



Source: Resource Information Systems, Inc.

U.S. $/CANADIAN $ EXCHANGE RATE HISTORY AVERAGE QUARTERLY EXCHANGE RATES



Source: Thomson Financial, an operating unit of The Thomson Corporation

BUSINESS SEGMENTS

Our fine paper business is a leading producer of premium writing, text, cover and specialty papers used in corporate identity packages, corporate annual reports, invitations, personal stationery and high-end packaging. Our products include some of the most recognized and preferred papers in North America, where we enjoy leading market positions in many of our product categories. We sell our products primarily to authorized paper distributors, converters and specialty businesses, with sales to distributors and distributor-owned paper stores accounting for approximately 70 percent of sales. We believe that our fine paper manufacturing facilities located in Appleton, Neenah and Whiting, Wisconsin; and Ripon, California are among the most efficient in their markets and make us one of the lowest cost producers.

Our technical products business is a leading producer of transportation and other filter media; durable, saturated and coated base papers for a variety of end uses and nonwoven wall coverings. We sell our technical products globally via five SBUs in 17 product categories, and we focus on major categories where we believe we are a market leader, which include, among others, the tape, label, abrasive, transportation and other filter media, nonwoven wall coverings, medical packaging and image transfer technical products markets. We are also a global supplier of materials used for customer-specific applications in furniture, book covers and original equipment manufacturers' products. Our customers are located in more than 35 countries. Our technical products manufacturing facilities are located in Munising, Michigan and near Munich and Frankfurt, Germany.

Our pulp business consists of a mill located in Pictou, Nova Scotia together with related timberlands (the "Pictou Mill"). The Pictou Mill is comprised of a single-line pulp facility which produces primarily softwood pulp, as well as timberlands encompassing approximately 500,000 acres of owned and 200,000 acres of licensed or managed land in Nova Scotia. In 2007, the Pictou Mill produced approximately 270,000 metric tons of bleached kraft pulp.

RESULTS OF OPERATIONS AND RELATED INFORMATION

In this section, we discuss and analyze our net sales, income before interest and income taxes (which we refer to as "operating income" in this Management's Discussion and Analysis of Financial Condition and Results of Operations) and other information relevant to an understanding of our results of operations for the years ended December 31, 2007, 2006 and 2005.

EXECUTIVE SUMMARY

During 2006, we completed several complementary strategic initiatives: (1) we sold 500,000 acres of woodlands in Nova Scotia, (2) we divested our Terrace Bay pulp operations and (3) we acquired the German technical and specialty paper business of FiberMark, Inc. ("FiberMark"). During the first quarter of 2007, our strategic initiatives continued with the

purchase of Fox River (as defined below) to add scale, well-known brands and integration benefits as we combine Fox River with our existing fine paper business.

These strategic initiatives substantially changed the composition of our business and reduced our exposure to the cyclical pulp market. For the year ended December 31, 2007, our paper businesses (fine paper and technical products) represented more than 75 percent of our consolidated net sales. This compares to our paper businesses representing approximately 55 percent of our consolidated net sales for the first quarter of 2006, prior to the transfer of the Terrace Bay pulp operations.

In February 2008, we committed to a plan to sell the Pictou mill and our remaining woodland assets in Nova Scotia. We believe it is probable that a sale of the Pictou mill and the woodland assets will be completed within 12 months.

Following is a more detailed discussion of the completed strategic activities:

SALE OF WOODLANDS

In June 2006, our wholly owned subsidiary, Neenah Paper Company of Canada ("Neenah Canada") sold approximately 500,000 acres of woodlands in Nova Scotia to Atlantic Star Forestry LTD and Nova Star Forestry LTD (collectively, the "Purchaser") for net cash proceeds of $134.8 million. Neenah Canada also entered into a fiber supply agreement (the "FSA") with the Purchaser to secure a source of fiber for the Pictou mill. Following the sale, Neenah Canada has approximately 500,000 acres of owned and 200,000 acres of licensed or managed woodlands in Nova Scotia.

Pursuant to the terms of the FSA, the Purchaser is required to make available to the Pictou Mill sufficient woodlands acreage to yield 200,000 metric tons of softwood timber annually. The FSA expires in December 2010 and Neenah Canada has the option to unilaterally extend the FSA for an additional five years. Also, the FSA can be extended for an additional five years upon the mutual agreement of Neenah Canada and the Purchaser.

The sale qualified for gain recognition under the "full accrual method" described in Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate* ("SFAS 66"). As a result, Neenah Canada recognized a pre-tax gain on the sale of approximately $122.6 million and deferred approximately $9.1 million, which represents Neenah Canada's estimated "maximum exposure to loss" under the FSA.

DIVESTITURE OF TERRACE BAY

We suspended manufacturing at our Terrace Bay, Ontario pulp operation in February 2006 when the mill's fiber supply was exhausted as a result of a strike initiated in January 2006 by workers employed by the woodlands operations that supplied wood fiber to the mill. In August 2006, Neenah Canada transferred the Terrace Bay, Ontario pulp mill and related woodlands operations ("Terrace Bay") to certain affiliates of Buchanan Forest Products Ltd. ("Buchanan"). Buchanan acquired substantially all of the assets of Terrace Bay and assumed responsibility for substantially all of the liabilities related to its future operation in exchange for a cash payment of $18.6 million. At closing, in addition to certain working capital amounts, Neenah Canada retained pension and long-term disability obligations for current and former mill employees and post-employment medical and life insurance obligations for current retirees.

In December 2007, Neenah Canada settled its pension obligations under the Ontario, Canada defined benefit pension plan (the "Ontario Plan") and terminated the plan. Upon termination of the Ontario Plan, Neenah Canada recognized a non-cash pre-tax settlement loss of $38.7 million. See "Executive Summary – Results of Discontinued Operations." In addition, in the fourth quarter of 2007, Neenah Canada reached an agreement to settle a proposed class action lawsuit alleging the wrongful reduction and/or elimination of certain retiree benefits following the transfer of Terrace Bay to Buchanan. We agreed to pay the plaintiffs approximately $5.5 million Canadian dollars as part of the settlement and recorded a charge of $5.2 million to continuing operations.

ACQUISITION OF NEENAH GERMANY

In October 2006, we purchased the stock of FiberMark Services GmbH & Co. KG and the stock of FiberMark Beteiligungs GmbH (collectively, "Neenah Germany") for $220.1 million in cash, including $1.5 million paid in the first quarter of 2007 primarily for the adjusted value of working capital at the acquisition date. The transaction was financed through available cash and debt drawn against our existing revolving credit facility.

The Neenah Germany assets consist of two mills located near Munich, Germany and a third mill near Frankfurt, Germany that produce a wide range of products, including transportation and other filter media, nonwoven wall coverings, masking and other tapes, abrasive backings, and specialized printing and coating substrates. The results of Neenah Germany are being reported as part of our Technical Products segment and have been included in our consolidated financial results since the acquisition date.

ACQUISITION OF FOX RIVER

In March 2007, we acquired the stock of Fox Valley Corporation and its subsidiary Fox River Paper Company, LLC (collectively, "Fox River") for $54.7 million in cash (net of cash acquired). Included in such acquisition costs were

amounts for the repayment of debt, the payment of deferred employee compensation obligations of the acquired companies and fees and expenses directly related to the acquisition. We financed the acquisition through a combination of cash and debt drawn against our existing revolving credit facility. The Fox River assets consist of four U.S. paper mills and various related assets, producing premium fine papers with well-known brands including STARWHITE,® SUNDANCE,® ESSE® and OXFORD.® The acquisition of Fox River strengthens our fine paper business by providing added scale and the ability to offer a broader array of premium branded products and better service to our customers. We believe that the added scale provided by Fox River will result in improved earnings, but profit margins that are lower than those historically reported for our existing fine paper business. The results of Fox River are being reported as part of our Fine Paper segment and have been included in our consolidated financial results since the acquisition date.

During the second quarter of 2007, we closed the Housatonic mill, located near Great Barrington, Massachusetts. In June 2007, we announced plans to permanently close the fine paper mill located in Urbana, Ohio (the "Urbana mill"). Manufacturing operations at the Urbana mill ceased in September 2007. Converting operations at the Urbana mill are expected to be phased out over the first six months of 2008. The closure of the Housatonic and Urbana mills, will allow us to maximize cost efficiencies by shifting fine paper manufacturing to utilize available capacity at our other fine paper mills. In addition, we have completed the process of identifying and notifying certain Fox River sales and administrative employees who were terminated as the acquired business was integrated with our existing fine paper business.

In conjunction with the acquisition of Fox River, we recorded liabilities of approximately $12.5 million for the cost of post-acquisition restructuring activities in accordance with Emerging Issues Task Force Issue 95-3 *Recognition of Liabilities in Connection with a Purchase Business Combination*. Such costs include severance benefits, contract termination costs and environmental clean-up and monitoring costs. For the year ended December 31, 2007, we made payments of approximately $4.8 million related to post-acquisition restructuring activities.

RESULTS OF CONTINUING OPERATIONS

For the year ended December 31, 2007, our operating results benefited from the strategic initiatives described above as consolidated net sales increased 67 percent. Consolidated net sales were $396.2 million higher in the year ended December 31, 2007 compared to the prior year primarily due to increased volume in our paper businesses from the acquisitions of Neenah Germany and Fox River. Consolidated operating income of $66.9 million for the year ended December 31, 2007 decreased $101.5 million compared to the prior year primarily due to a gain of $125.5 million on the sale of woodlands in the prior year. Excluding the gain on sale of the woodlands and the related recognition of $6.2 million of the deferred gain on the sale of woodlands in the current year, operating income increased by $17.8 million. The increase versus the prior year was primarily due to incremental earnings of Neenah Germany, higher average selling prices, particularly prices for softwood pulp at our Pictou Mill, and the absence in 2007 of losses on pulp price hedges in the prior year. The benefits of increased volume from Fox River were largely offset by a less favorable product mix due to the inclusion of Fox River volume with relatively lower margins, the addition of direct selling and administrative costs for Fox River, and costs related to the integration of Fox River and our existing fine paper operations.

RESULTS OF DISCONTINUED OPERATIONS

For the year ended December 31, 2007, we incurred an after-tax loss from discontinued operations of $27.7 million compared to an after-tax loss of $32.9 million in the prior year period. The loss in the current year is primarily due to costs associated with employee benefit obligations retained by Neenah Canada.

In August 2006, we initiated the process to settle our pension obligations under the Ontario, Canada defined benefit pension plan (the "Ontario Plan"). In July 2007, the Financial Services Commission of Ontario approved our request to settle our pension obligations for active employees and terminate the Ontario Plan. In December 2007, the Ontario Plan was terminated and all outstanding pension obligations for active employees were settled through the purchase of annuity contracts or lump-sum payments pursuant to participant elections. Neenah Canada recognized a non-cash pre-tax settlement loss of $38.7 million upon termination of the Ontario Plan. No additional funding was required to settle the Ontario Plan.

For the year ended December 31, 2006, net sales from discontinued operations of $46.0 million were primarily due to the liquidation of finished goods inventory during the suspension of manufacturing operations at Terrace Bay. For the year ended December 31, 2007, we did not have any sales from discontinued operations due to the transfer of Terrace Bay to Buchanan in August 2006. For the year ended December 31, 2006, the loss from discontinued operations includes pre-tax losses of $26.4 million related to the curtailment of the Ontario Plan and $6.5 million to recognize the loss on the assets transferred to Buchanan.

INCOME TAXES

For the year ended December 31, 2007, we recorded income tax expense related to continuing operations of $3.9 million compared to income tax expense of $56.5 million in the prior year period. As a result, our effective income tax rate for the years ended December 31, 2007 and 2006 was approximately 9 percent and 37 percent, respectively. During the year ended December 31, 2007, German tax laws were amended to reduce statutory income tax rates effective as of January 1, 2008. Application of the new rates to our existing deferred tax assets and liabilities reduced our net deferred tax liabilities at December 31, 2007. The reduction in our net deferred tax liabilities due to the benefit of the tax rate change resulted in an income tax benefit of $8.8 million and was treated as a discrete item for the year ended Decembe 31, 2007 in accordance with Statement of Financial Accounting Standards No. 109, *"Accounting for Income Taxes"* and had no further impact on our effective tax rate in 2007. Excluding the impact of the German tax law amendment on our deferred tax liabilities and other tax adjustments, our effective tax rate for the year ended December 31, 2007 was approximately 28.6 percent and we expect an additional three percentage point decrease in our effective income tax rate in 2008 when the new German tax law becomes effective.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. There was no material effect on the financial statements and no cumulative effect on retained earnings from our adoption of FIN 48. However, certain amounts have been reclassified in the consolidated balance sheet to comply with the requirements of FIN 48. As of January 1, 2007, the total amount of unrecognized tax benefits was $6.5 million and, as a result of the adoption of FIN 48, we recognized a $1.0 million increase in our liability for unrecognized tax benefits. As of December 31, 2007, our liability for unrecognized tax benefits was $1.0 million.

If recognized, approximately $0.6 million of the unrecognized income tax benefits at December 31, 2007 would favorably affect our effective tax rate in future periods. We do not anticipate that the expiration of the statute of limitations or the settlement of audits in the next 12 months will result in liabilities for uncertain income tax positions that are materially different than the amounts accrued as of December 31, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements.

The definition of fair value in SFAS 157 retains the exchange price notion in earlier definitions of fair value and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. SFAS 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of SFAS 157 to have a material effect on our financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Most of the provisions of SFAS 159 apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. We do not expect the adoption of SFAS 159 to have a material effect on our financial position, results of operations or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (iii) determines what information to disclose to

enable users of the financial statements to evaluate the nature and financial effects of the business combination. In addition, SFAS 141R will require, subsequent to the acquisition period, changes in the valuation allowance for deferred tax assets and liabilities for unrecognized tax benefits related to an acquisition to be recognized as a component of income tax expense. SFAS 141R applies prospectively to business combinations completed during annual reporting period beginning on or after December 15, 2008. We are evaluating SFAS 141R and will apply the provisions of the new standard to business combinations completed on or after January 1, 2009.

ANALYSIS OF NET SALES – YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

The following table presents net sales by segment, expressed as a percentage of total net sales before intersegment eliminations:

	Year Ended December 31,		
	2007	2006	2005
Fine Paper	**37%**	37%	42%
Technical Products	**40%**	31%	24%
Pulp	**23%**	32%	34%
Total	**100%**	100%	100%

The following table presents our net sales by segment for the periods indicated:

	Year Ended December 31,		
	2007	2006	2005
Net Sales			
Fine Paper	**$366.5**	$223.9	$222.3
Technical Products	**400.8**	183.1	130.6
Pulp	**223.5**	189.3	183.8
Intersegment sales	**(0.3)**	(2.0)	(2.0)
Consolidated	**$990.5**	$594.3	$534.7

COMMENTARY:

YEAR 2007 VERSUS 2006

	Change in Net Sales Compared to the Prior Year		
		Change Due to	
	Total Change	Volume	Average Net Price
Fine Paper	$142.6	$160.7	$(18.1)
Technical Products	217.7	208.5	9.2
Pulp[(a)(b)]	34.2	7.5	26.7
Intersegment sales	1.7	1.7	–
Consolidated	$396.2	$378.4	$ 17.8

(a) Sales of pulp by our Canadian manufacturing facilities are invoiced in U.S. dollars in accordance with industry practice; therefore, no currency effects are presented in our analysis of the change in net sales for our pulp operations.
(b) Average net price includes an $11.2 million benefit due to the absence in 2007 of losses on pulp price hedges in the prior year.

Consolidated net sales of $990.5 million in the year ended December 31, 2007 were $396.2 million higher than the prior year primarily as a result of increased volume in our paper businesses due to the acquisitions of Neenah Germany and Fox River. In addition, the current year benefited from higher market prices for softwood pulp and the realization of price increases in our technical products business, partially offset by a less favorable product mix in our fine paper business.

- Net sales in our fine paper business of $366.5 million increased $142.6 million or 64 percent as shipment volume improved more than 70 percent primarily due to the acquisition of Fox River. The benefit from higher volume was partially offset by lower average net price resulting from a less favorable product mix due to selling a higher proportion of lower priced grades, primarily Fox River grades, partially offset by improved pricing for branded products.
- Net sales in our technical products business of $400.8 million increased $217.7 million or more than double the prior year primarily due to the acquisition of Neenah Germany, and to a lesser extent, improved product mix, favorable currency effects due to a stronger Euro relative to the U.S. dollar and prices. The improvement in average net price reflected a more favorable product mix due to higher priced grades representing a larger proportion of sales and increased selling prices for most products.
- Net sales in our pulp business of $223.5 million increased $34.2 million or 18 percent primarily as a result of higher market prices for softwood pulp, the absence in 2007 of losses on pulp price hedges in the prior year and a four percent increase in pulp shipment volume. Average market prices for softwood pulp increased approximately 16 percent versus the prior year. The increase in pulp prices was partially offset by lower shipments of logs to sawmills and veneer manufacturers due to the sale of a portion of our woodlands in June 2006.

YEAR 2006 VERSUS 2005

	Change in Net Sales Compared to the Prior Year		
		Change Due to	
	Total Change	Volume	Average Net Price
Fine Paper	$ 1.6	$ (0.8)	$2.4
Technical Products	52.5	47.4	5.1
Pulp[(a)(b)]	5.5	3.6	1.9
Consolidated	$59.6	$50.2	$9.4

(a) Sales of pulp by our Canadian manufacturing facilities are invoiced in U.S. dollars in accordance with industry practice; therefore, no currency effects are presented in our analysis of the change in net sales for our pulp operations.
(b) Average net price includes a net reduction of $11.4 million due to pulp hedging activities.

Consolidated net sales increased $59.6 million or 11 percent in 2006 versus 2005, primarily due to the acquisition of Neenah Germany in October 2006. Excluding Neenah Germany, sales increased $9.9 million or 1 percent, primarily due to favorable average net selling prices for all our businesses and increased pulp shipments.

- Net sales in our fine paper business increased $1.6 million, or 1 percent, primarily due to higher average net prices. Higher average net selling prices reflected the realization of price increases on branded products implemented in January and June 2006. Unit volumes were essentially unchanged from the prior year.
- Net sales in our technical products business increased $52.5 million, or 40 percent, primarily due to the acquisition of Neenah Germany in October 2006. Excluding Neenah Germany, sales increased $2.8 million or 2 percent due to higher average net selling prices partially offset by lower volume. The increase in average net selling prices was primarily due to the implementation of a surcharge to recover higher raw material costs and a general price increase in January 2006.
- Net sales in our pulp business increased $5.5 million, or 3 percent, primarily due to higher selling prices and an increase in shipments. Average net selling prices were favorable due to a 10 percent increase in average market prices for softwood pulp, partially offset by losses on pulp future contracts ($11.4 million). The increase in shipments was primarily due to increased production.

The following table sets forth line items from our consolidated statements of operations as a percentage of net sales for the periods indicated and is intended to provide a perspective of trends in our historical results:

	Year Ended December 31,		
	2007	2006	2005
Net sales	**100.0%**	100.0%	100.0%
Cost of products sold	**86.1**	84.5	82.0
Gross profit	**13.9**	15.5	18.0
Selling, general and administrative expenses	**8.3**	9.6	9.3
Gain on sale of woodlands	**(0.6)**	(21.1)	–
Other income – net	**(0.5)**	(1.3)	(1.3)
Operating income	**6.7**	28.3	10.0
Interest expense – net	**2.5**	2.8	3.4
Income from continuing operations before income taxes	**4.2**	25.5	6.6
Provision for income taxes	**0.4**	9.5	2.4
Income from continuing operations	**3.8%**	16.0%	4.2%

ANALYSIS OF OPERATING INCOME – YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

The following table sets forth our operating income (loss) by segment for the periods indicated:

	Year Ended December 31,		
	2007	2006	2005
Operating income			
Fine Paper	**$ 46.6**	$ 56.2	$58.4
Technical Products	**24.7**	9.2	10.5
Pulp	**9.2**	115.8	(9.0)
Unallocated corporate costs	**(13.6)**	(12.8)	(6.5)
Consolidated	**$ 66.9**	$168.4	$53.4

COMMENTARY:

YEAR 2007 VERSUS 2006

	Change in Operating Income Compared to the Prior Year					
		Change Due To				
	Total Change	Volume	Net Price[a]	Material Costs[b]	Currency	Other[c][d]
Fine Paper	$ (9.6)	$55.7	$(45.0)	$ (2.8)	$ –	$ (17.5)
Technical Products	15.5	15.6	6.3	(2.8)	–	(3.6)
Pulp	(106.6)	(0.3)	33.5	(9.7)	(13.2)	(116.9)
Unallocated corporate costs	(0.8)	–	–	–	–	(0.8)
Consolidated	$(101.5)	$71.0	$ (5.2)	$(15.3)	$(13.2)	$(138.8)

(a) Includes price changes, net of pulp discounts, changes in product mix and results of pulp hedging activities.
(b) Includes price changes for raw materials and energy.
(c) Includes annual maintenance-related downtime spending, other materials, manufacturing labor, distribution and selling, general and administrative expenses.
(d) Includes $6.2 million and $125.5 million for gain on sale of woodlands and amortization of the deferred gain on sale for the years ended December 31, 2007 and 2006, respectively.

Consolidated operating income of $66.9 million for the year ended December 31, 2007 decreased $101.5 million compared to 2006 primarily due to the gain on the sale of woodlands in the prior year. Excluding the gain on sale of woodlands in 2006 and the recognition of $6.2 million of the deferred gain on the sale of woodlands in the current year, operating income increased $17.8 million compared to the prior year primarily due to the added earnings of Neenah Germany, higher selling prices, particularly for softwood pulp and an improved sales mix in our technical products business. These factors were partially offset by increased manufacturing cost inputs, unfavorable currency effects due to a stronger Canadian dollar and higher spending associated with scheduled maintenance downtime at our Pictou Mill. The benefit of increased volume in our fine paper business associated with the acquisition of Fox River was largely offset by a less favorable product mix, direct selling and administrative expenses of Fox River and costs related to the integration of Fox River.

- Operating income for our fine paper business of $46.6 million decreased $9.6 million from the prior year primarily due to higher fiber and other costs. The increase in other costs was primarily due to higher distribution costs, additional direct selling and administrative expenses for the Fox River business and approximately $3.3 million in costs related to the integration of Fox River and our existing fine paper operations. In addition, approximately $1.9 million of profits associated with the Fox River acquisition were capitalized as part of beginning inventory values under purchase accounting. These unfavorable factors were only partially offset by the combined factors of increased volume and a less favorable product mix related to the acquisition of Fox River and higher average selling prices.
- Operating income for our technical products business of $24.7 million increased $15.5 million from the prior year primarily as a result of the incremental earnings of Neenah Germany, including favorable currency effects due to a stronger Euro relative to the U.S. dollar, and favorable average net price, partially offset by higher fiber costs. Favorable average prices were primarily due to an improved product mix and higher selling prices for most products.
- Operating income for our pulp business of $9.2 million decreased $106.6 million from the prior year primarily due to the gain on the sale of woodlands in 2006. Excluding the $125.5 million gain on sale of woodlands and the recognition of $6.2 million of the deferred gain on the sale of woodlands in the current year, our pulp business had operating income of $3.0 million compared to an operating loss of $9.7 million in the prior year. The improvement in operating results was primarily due to higher market prices for softwood pulp and the absence in 2007 of losses of $11.2 million on pulp price hedges in the prior year. These favorable factors were partially offset by increased costs associated with scheduled maintenance downtime, higher fiber costs and unfavorable currency translation effects.
- Unallocated corporate expenses increased by $0.8 million primarily due to costs associated with an executive retirement.

YEAR 2006 VERSUS 2005

	Change in Operating Income (Loss) Compared to the Prior Year					
		Change Due To				
	Total Change	Volume	Net Price[a]	Material Costs[b]	Currency	Other[c][d]
Fine Paper	$ (2.2)	$(0.4)	$ 3.1	$ (4.0)	$ –	$ (0.9)
Technical Products	(1.3)	1.5	4.0	(3.5)	–	(3.3)
Pulp	124.8	2.8	3.5	(3.1)	(12.0)	133.6
Unallocated corporate costs	(6.3)	–	–	–	–	(6.3)
Consolidated	$115.0	$ 3.9	$10.6	$(10.6)	$(12.0)	$123.1

(a) Includes price changes, net of pulp discounts, changes in product mix and results of pulp hedging activities.
(b) Includes price changes for raw materials and energy.
(c) Includes restructuring costs, annual maintenance-related downtime spending, other materials, manufacturing labor, distribution and selling, general and administrative expenses.
(d) Includes $125.5 million gain on sale of woodlands.

Consolidated operating income in 2006 increased $115.0 million compared to 2005 due to the $125.5 million gain on the sale of woodlands. Excluding the gain on sale, consolidated operating income was $10.5 million lower than the prior year primarily due to unfavorable currency effects related to the strengthening of the Canadian dollar compared to the U.S. dollar, an unfavorable comparison on pulp hedging activities, higher manufacturing input costs, and increased corporate expenses for stock-based compensation and depreciation related to our ERP software. These unfavorable effects were partially offset by higher average net prices in all our businesses.

- Operating income for our fine paper business decreased $2.2 million, or 4 percent, primarily due to higher raw material, energy and labor costs. The increase in manufacturing costs was partially offset by higher average net selling prices due to the realization of price increases on branded products implemented in January and June 2006.
- Operating income for our technical products business decreased $1.3 million, or 12 percent, primarily due to higher raw material (primarily latex and pulp), energy, labor and research and development costs. The increase in manufacturing costs was partially offset by higher average net selling prices due to the realization of a general price increase in January 2006 and the implementation of a surcharge to recover increased latex costs, and favorable volume due to Neenah Germany.
- Operating income for our pulp business increased $124.8 million from the prior year due to the gain on the sale of the woodlands of $125.5 million. Excluding the gain on the sale of the woodlands, our pulp business had an operating loss of $9.7 million, a $0.7 million increase from 2005. The increase in the operating loss for the pulp business was primarily due to unfavorable currency effects related to the strengthening of the Canadian dollar compared to the U.S. dollar, an unfavorable comparison on pulp hedging activities ($11.5 million) and higher raw material and energy costs. These effects were partially offset by higher selling prices, gains on currency hedges and cost savings.
- Unallocated corporate expenses increased by $6.3 million primarily due to stock-based compensation costs and depreciation related to our ERP software. Stock-based compensation increased approximately $5.0 million primarily due to the adoption on January 1, 2006 of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

ADDITIONAL STATEMENT OF OPERATIONS COMMENTARY:

- For the years ended December 31, 2007, 2006 and 2005, we incurred $25.5 million, $19.4 million and $18.5 million, respectively, of interest expense. The increase in net interest expense was primarily due to borrowings under our bank credit agreement to partially finance the acquisitions of Neenah Germany and Fox River.
- Our effective income tax rate was 9.3 percent, 37.2 percent and 36.6 percent for the years ended December 31, 2007, 2006 and 2005, respectively. The decrease in our effective income tax rate between 2007 and 2006 was primarily due to the application of a new tax law in Germany to our existing deferred tax assets and liabilities. See "Executive Summary – Income Taxes." The increase in our effective tax rate between 2006 and 2005 was primarily due to a change in the proportion of pretax income in tax jurisdictions with different marginal tax rates. See Note 7 of Notes to Consolidated Financial Statements included elsewhere in this Annual Report for a reconciliation of the annual effective tax rates.

LIQUIDITY AND CAPITAL RESOURCES

	Year Ended December 31,		
	2007	2006	2005
Net cash flow provided by (used in):			
Operating activities	**$ 69.5**	$ 65.8	$ 22.8
Investing activities, including capital expenditures	**(113.4)**	(127.7)	(25.8)
Financing activities	**43.8**	50.8	(3.6)
Capital expenditures	**(58.3)**	(25.1)	(25.7)

OPERATING CASH FLOW COMMENTARY

- Cash provided by operations of $69.5 million for the year ended December 31, 2007 increased $3.7 million from the prior year primarily due to higher earnings (excluding the non-cash effects of deferred income taxes, the gain on sale of woodlands and pension curtailment losses), partially offset by the liquidation of Terrace Bay working capital in 2006. The improvement in earnings was primarily due to the added earnings of Neenah Germany, higher selling prices, particularly for softwood pulp and an improved sales mix in our technical products business. Cash provided by working capital for the year ended December 31, 2006 of $39.8 million compares to no change in working capital in 2007. Cash used for working capital in the current year was primarily the result of higher accounts receivable for Neenah Germany and our pulp business, partially offset by an increase in amounts payable for income taxes and interest and foreign currency effects.
- Cash provided by operations of $65.8 million for the year ended December 31, 2006 increased $43.0 million from the prior year. This increase was primarily due to a decrease in our investment in operating working capital,

partially offset by pension contributions to settle liabilities for current retirees in the Ontario Plan. The increase in cash provided by operating working capital was primarily due to the depletion of finished goods inventory and the collection of accounts receivable at the Terrace Bay mill.

- Our investment in operating working capital at December 31, 2007 of $120.3 was $27.4 million higher than the prior year. The increase was primarily due to working capital acquired in the Fox River acquisition and currency effects related to the strengthening of the Canadian dollar and the Euro relative to the U.S. dollar. Our investment in operating working capital at December 31, 2006 decreased $31.0 million from the prior year primarily due to the depletion of finished goods inventory and the collection of related receivables at Terrace Bay prior to the transfer to Buchanan. This reduction was partially offset by working capital acquired in the Neenah Germany acquisition.

INVESTING COMMENTARY:

- For the year ended December 31, 2007, cash used in investing activities was $113.4 million versus cash used in investing activities of $127.7 million in the prior year. Cash used in investing activities for the year ended December 31, 2007 was primarily due to spending of $54.7 million for the acquisition of Fox River and capital expenditures of $58.3 million. Cash used in investing activities in the year ended December 31, 2006 was primarily due to the acquisition of Neenah Germany for $218.6 million (net of cash acquired) and a payment of $18.6 million to Buchanan to transfer the Terrace Bay mill, partially offset by net proceeds from the sale of woodlands of $134.8 million. Capital expenditures of $58.3 million for the year ended December 31, 2007 more than doubled from the prior year. Capital expenditures in the year ended December 31, 2007 were primarily for major projects to increase capacity and improve efficiency at Neenah Germany. In general, our 2007 capital expenditures in Neenah Germany were financed from locally generated cash flow and government subsidized financing.

  Capital spending for 2006 of $25.1 million was $0.6 million lower than the comparable prior year period. Capital spending in 2006 included significant amounts for the acquisition and installation of ERP software and general projects in North America.
- We anticipate capital expenditures for 2008 will be approximately $45 million, including approximately $5 to $10 million for projects related to the integration of Fox River with our existing fine paper business. These capital expenditures are not expected to have a material adverse effect on our financial condition, results of operations or liquidity.

FINANCING COMMENTARY:

- Our liquidity requirements are being provided by cash generated from operations, proceeds from asset sales and short- and long-term borrowings. Availability under our revolving credit facility varies over time depending on the value of our inventory, receivables and various capital assets. As of December 31, 2007, we had $66.2 million outstanding under our revolving credit facility, outstanding letters of credit of $1.6 million and $114.9 million of available credit.

  During the year ended December 31, 2007, we amended our bank credit agreement to increase available borrowing capacity from $165 to $210 million. Despite the increase in the total commitment, our ability to borrow under the revolving credit facility is limited to the lowest of (a) $210 million, (b) our borrowing base (as defined in the credit agreement), and (c) the applicable cap on the amount of "credit facilities" under the indenture for our senior notes.
- For the year ended December 31, 2007, net borrowings under our revolving credit facility increased by $8.9 million primarily due to borrowings to partially finance the acquisition of Fox River.
- In March 2007, we entered into a term loan agreement to provide borrowings of up to $25 million (the "Term Loan"). The Term Loan is secured by substantially all of the property, plant and equipment we acquired in the Fox River acquisition and is fully and unconditionally guaranteed by substantially all of our other subsidiaries, except Neenah Germany. The term loan agreement terminates in November 2010. During the second quarter, we borrowed $25 million under the Term Loan to repay amounts outstanding under our revolving credit facility.
- For the year ended December 31, 2007, Neenah Germany incurred €10 million ($14.7 million) of government subsidized project financing. Neenah Germany's use of such funds was restricted to the payment of costs directly related to the construction of a saturator. In addition, Neenah Germany has an unsecured revolving line of credit to finance working capital needs. At December 31, 2007, $3.1 million was outstanding under such facility.
- For the year ended December 31, 2006, net borrowings under our revolving credit agreement increased from $0 to $57.3 million primarily to partially finance the acquisition of Neenah Germany.
- For each of the years ended December 31, 2007, 2006 and 2005, we paid cash dividends of $0.40 per share or $6.0 million, $5.9 million and $5.9 million, respectively.

Management believes our ability to generate cash from operations and our borrowing capacity are adequate to fund working capital, capital spending and other cash needs

for the next twelve months. Our ability to generate adequate cash from operations beyond 2008, however, will depend on, among other things, our ability to successfully implement our business strategies and cost cutting initiatives and to manage the impact of changes in pulp prices and currencies. We can give no assurance we will be able to successfully implement those strategies and cost cutting initiatives or successfully manage our pulp pricing and currency exposures.

CONTRACTUAL OBLIGATIONS

The following table presents the total contractual obligations for which cash flows are fixed or determinable as of December 31, 2007:

(In millions)	2008	2009	2010	2011	2012	Beyond 2012	Total
Unconditional purchase obligations	$ 50.9	$47.8	$ 45.0	$35.3	$21.7	$184.1	$384.8
Long-term debt payments	10.9	9.5	75.7	1.8	1.8	232.4	332.1
Interest payments on long-term debt	23.0	22.2	21.2	17.0	16.9	33.1	133.4
Other post-employment benefit obligations	4.5	2.4	2.6	2.9	3.2	19.8	35.4
Operating leases	3.4	3.3	2.3	1.9	1.4	2.3	14.6
Open purchase orders	20.2	–	–	–	–	–	20.2
Contributions to pension trusts	11.3	–	–	–	–	–	11.3
Liability for uncertain tax positions	–	1.0	–	–	–	–	1.0
Total contractual obligations	$124.2	$86.2	$146.8	$58.9	$45.0	$471.7	$932.8

The unconditional purchase obligations are for the purchase of raw materials, primarily wood chips and timber under the FSA. Although we are primarily liable for payments on the above operating leases and unconditional purchase obligations, based on historic operating performance and forecasted future cash flows, we believe our exposure to losses, if any, under these arrangements is not material.

Interest payments on long-term debt includes interest on variable rate debt at December 31, 2007 weighted average interest rates.

The open purchase orders displayed in the above table represent amounts we anticipate will become payable within the next year for goods and services that we have negotiated for delivery.

The table also includes future payments that we will make for post-employment benefits other than pensions. Those amounts are estimated using actuarial assumptions, including expected future service, to project the future obligations.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") in the United States requires estimates and assumptions that affect the reported amounts and related disclosures of assets and liabilities at the date of the financial statements and net sales and expenses during the reporting period. Actual results could differ from these estimates, and changes in these estimates are recorded when known. The critical accounting policies used in the preparation of the consolidated financial statements are those that are important both to the presentation of financial condition and results of operations and require significant judgments with regard to estimates used. These critical judgments relate to the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses.

The following summary provides further information about the critical accounting policies and should be read in conjunction with the notes to the Consolidated Financial Statements. We believe that the consistent application of our policies provides readers of Neenah's financial statements with useful and reliable information about our operating results and financial condition.

We have discussed the application of these critical accounting policies with our Board of Directors and Audit Committee.

REVENUE RECOGNITION

We recognize sales revenue when all of the following have occurred: (1) delivery has occurred, (2) persuasive evidence of an agreement exists, (3) pricing is fixed or determinable, and (4) collection is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. The timing of revenue recognition is largely dependent on shipping terms. Revenue is recorded at the time of shipment for terms designated free on board ("FOB") shipping point. For pulp sales to Kimberly-Clark and other customers that are designated FOB destination, revenue is recognized when the product is delivered to the customer's delivery site. Sales are reported net of allowable discounts and estimated returns. Reserves for cash discounts, trade allowances and sales returns are estimated using historical experience.

INVENTORIES

We value U.S. inventories at the lower of cost, using the Last-In, First-Out ("LIFO") method for financial reporting purposes, or market. Canadian and German inventories are valued at the lower of cost, using either the First-In, First-Out ("FIFO") or a weighted-average cost method, or market. The FIFO value of U.S. inventories valued on the LIFO method was $45.2 million and $37.9 million at December 31, 2007 and 2006, respectively and exceeded such LIFO value by $9.6 million and $8.3 million, respectively. Cost includes labor, materials and production overhead. Inventories of the Canadian pulp operations include both roundwood (logs) and wood chips. These inventories are located both at the pulp mills and at various timberlands locations. In accordance with industry practice, physical inventory counts utilize "scaling" techniques to estimate quantities of roundwood, as well as various electronic devices to calculate wood chip inventory amounts. These techniques historically have provided reasonable estimates of such inventories.

INCOME TAXES

As of December 31, 2007, we have recorded aggregate deferred income tax assets of $57.3 million related to temporary differences, and have established no valuation allowances against these deferred income tax assets. As of December 31, 2006, our aggregate deferred income tax assets were $34.2 million. In determining the need for valuation allowances, we consider many factors, including specific taxing jurisdictions, sources of taxable income, income tax strategies and forecasted earnings for the entities in each jurisdiction. A valuation allowance would be recognized if, based on the weight of available evidence, we conclude that it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

On January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. As of December 31, 2007, our liability for uncertain income taxes positions was $1.0 million. In evaluating and estimating tax positions and tax benefits, we consider many factors which may result in periodic adjustments and which may not accurately anticipate actual outcomes.

PENSION BENEFITS

Substantially all active employees of our U.S. paper operations participate in defined benefit pension plans and defined contribution retirement plans. In November 2004, we assumed responsibility for pension and post-employment benefit obligations for active employees of the Pulp and Paper business and former employees of the pulp business in Canada. In August 2006, Neenah Canada purchased annuity contracts to settle its obligations under the Ontario, Canada defined benefit pension plan (the "Ontario Plan") for former employees of Terrace Bay. In July 2007, the Financial Services Commission of Ontario approved our request to settle our pension obligations for active employees and terminate the Ontario Plan. In December 2007, the Ontario Plan was terminated and all outstanding pension obligations were settled through the purchase of annuity contracts or lump-sum payments pursuant to participant elections. For the year ended December 31, 2007, Neenah Canada recognized a non-cash pre-tax settlement loss of $38.7 million upon termination of the Ontario Plan. Substantially all of Neenah Germany's hourly employees participate in defined benefit plans designed to provide a monthly pension benefit upon retirement.

Our funding policy for qualified defined benefit plans is to contribute assets to fully fund the accumulated benefit obligation, as required by the Pension Protection Act. Subject to regulatory and tax deductibility limits, any funding shortfall is to be eliminated over a reasonable number of years. Nonqualified plans providing pension benefits in excess of limitations imposed by the taxing authorities are not funded. There is no legal or governmental obligation to fund Neenah Germany's benefit plans and as such the plans are currently unfunded.

Consolidated pension expense for defined benefit pension plans was $49.5 million, $35.5 million and $13.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. Pension expense for the year ended December 31, 2007, includes $38.7 million for losses related to the settlement of pension obligations for active employees in the Ontario Plan. In addition, we recognized a reduction in pension expense of $1.2 million related to an amendment to the Fox River defined benefit pension plan to freeze the vested pension benefit for salaried employees born after December 31, 1957. Pension expense for the year ended December 31, 2006, includes $26.4 million for settlement and curtailment losses related to the settlement of pension obligations for current retirees in the Ontario Plan. Pension expense for the year ended December 31, 2005 includes a pre-tax charge of $1.6 million for a partial settlement of certain pension obligations related to the closure of the No. 1 pulp mill at Terrace Bay. Pension expense is calculated based upon a number of actuarial assumptions applied to each of the defined benefit plans.

The weighted-average expected long-term rate of return on pension fund assets used to calculate pension expense was 7.90 percent, 8.39 percent and 8.41 percent for the years ended December 31, 2007, 2006 and 2005,

respectively. The expected long-term rate of return on pension fund assets held by our pension trusts was determined based on several factors, including input from pension investment consultants and projected long-term returns of broad equity and bond indices. We also considered the plans' historical 10-year and 15-year compounded annual returns. We anticipate that on average the investment managers for both our U.S. and Canadian plans will generate annual long-term rates of return of at least 8.0 percent. Our expected long-term rate of return on the assets in the plans is based on an asset allocation assumption of about 60 percent with equity managers, with expected long-term rates of return of approximately 10 percent, and 40 percent with fixed income managers, with an expected long-term rate of return of about 6 percent. The actual asset allocation is regularly reviewed and periodically rebalanced to the targeted allocation when considered appropriate. We evaluate our investment strategy and long-term rate of return on pension asset assumptions at least annually.

Pension expense is estimated based on the fair value of assets rather than a market-related value that averages gains and losses over a period of years. Investment gains or losses represent the difference between the expected return calculated using the fair value of the assets and the actual return based on the fair value of assets. The variance between the actual and the expected gains and losses on pension assets is recognized in pension expense more rapidly than it would be if a market-related value for plan assets was used. As of December 31, 2007, our pension plans had cumulative unrecognized investment losses and other actuarial losses of approximately $45.4 million. These unrecognized net losses may increase our future pension expense if not offset by (i) actual investment returns that exceed the assumed investment returns, (ii) other factors, including reduced pension liabilities arising from higher discount rates used to calculate our pension obligations or (iii) other actuarial gains, including whether such accumulated actuarial losses at each measurement date exceed the "corridor" determined under SFAS 87, *Employers' Accounting for Pensions*.

The discount (or settlement) rate that is utilized for determining the present value of future pension obligations in the U.S. is generally based on the yield for a theoretical basket of AA-rated corporate bonds currently available in the market place, whose duration matches the timing of expected pension benefit payments. The discount (or settlement) rate that is utilized for determining the present value of future pension obligations in Canada is generally based on the Government of Canada long bond rate plus the spread for a long-term AA-rated bond index over the yield on 30-year U.S. Treasury bonds converted to an equivalent one year compound basis. The weighted average discount rate utilized to determine the present value of future pension obligations at December 31, 2007 and 2006 was 6.10 percent and 5.25 percent, respectively.

Our consolidated pension expense in 2007 is based on the expected weighted-average long-term rate of return on assets and the weighted-average discount rate described above and various other assumptions. Pension expense beyond 2007 will depend on future investment performance, our contributions to the pension trusts, changes in discount rates and various other factors related to the covered employees in the plans.

The fair value of the assets in our defined benefit plans at December 31, 2007 of approximately $344 million decreased approximately $7 million from the fair value of about $351 million at December 31, 2006, as assets transferred from the Fox River pension plans of $90.5 million and currency effects of $38.0 million, were more than offset by benefit payments (including payments to settle the Ontario Plan) of $162.0 million. At December 31, 2007, the projected benefit obligations of the defined benefit plans exceeded the fair value of plan assets by approximately $64 million which was approximately $5 million lower than the $69 million deficit at December 31, 2006. The accumulated benefit obligation exceeded the fair value of plan assets by approximately $24.7 million and $31.4 million at December 31, 2007 and 2006, respectively. Contributions to pension trusts for the year ended December 31, 2007 were $10.1 million compared with $24.2 million for the year ended December 31, 2006 (including $10.8 million to purchase annuity contracts to settle pension obligations for current retirees in the Ontario Plan). In addition, we made direct benefit payments of approximately $0.3 million for the year ended December 31, 2007 and approximately $0.1 million in each of the years ended December 31, 2006 and 2005 for unfunded supplemental retirement benefits.

IMPAIRMENT

Property, plant and equipment are tested for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amounts of such long-lived assets may not be recoverable from future net pre-tax cash flows. Impairment testing requires significant management judgment including estimating the future success of product lines, future sales volumes, growth rates for selling prices and costs, alternative uses for the assets and estimated proceeds from disposal of the assets. Impairment testing is conducted at the lowest level where cash flows can be measured and are independent of cash flows of other assets. An asset impairment would be indicated if the sum of the expected future net pre-tax cash flows from the use of

the asset (undiscounted and without interest charges) is less than the carrying amount of the asset. An impairment loss would be measured based on the difference between the fair value of the asset and its carrying amount. We determine fair value based on an expected present value technique in which multiple cash flow scenarios that reflect a range of possible outcomes and a risk free rate of interest are used to estimate fair value.

The estimates and assumptions used in the impairment analysis are consistent with the business plans and estimates we use to manage our business operations. The use of different assumptions would increase or decrease the estimated fair value of the asset and would increase or decrease the impairment charge. Actual outcomes may differ from the estimates.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arising from a business combination is recorded as the excess of purchase price and related costs over the fair value of identifiable assets acquired and liabilities assumed in accordance with the guidance of Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"). All of our goodwill was acquired in conjunction with the acquisition of Neenah Germany in October 2006.

Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is subject to impairment testing at least annually. A fair-value-based test is applied at the reporting unit level, which is generally one level below the segment level. The test compares the fair value of an entity's reporting units to the carrying value of those reporting units. This test requires various judgments and estimates. The fair value of the reporting unit is determined using a market approach in combination with an estimate of future cash flows and a risk adjusted discount rate to compute a net present value of future cash flows. An adjustment to goodwill will be recorded for any goodwill that is determined to be impaired. Impairment of goodwill is measured as the excess of the carrying amount of goodwill over the fair values of recognized assets and liabilities of the reporting unit. The Company tests goodwill for impairment at least annually on November 30 in conjunction with preparation of its annual business plan, or more frequently if events or circumstances indicate it might be impaired. Goodwill was last tested for impairment as of November 30, 2007 and no impairment was indicated.

Acquired intangible assets with estimable useful lives are amortized on a straight-line basis over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144. Intangible assets consist primarily of customer relationships, trade names and acquired intellectual property. Such intangible assets are being amortized using the straight-line method over estimated useful lives of between 10 and 15 years. Certain trade names are estimated to have indefinite useful lives and as such are not being amortized. Intangible assets with indefinite lives are annually reviewed for impairment in accordance with SFAS 144.

STOCK-BASED COMPENSATION

We account for stock-based compensation in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). Stock-based compensation cost recognized under SFAS 123R consists of (a) compensation cost for all unvested stock-based grants outstanding as of January 1, 2006, based on the grant date fair value estimated in accordance with the pro forma provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123") and (b) compensation cost for all stock-based awards granted subsequent to adoption based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The amount of stock-based compensation cost recognized is based on the fair value of grants that are ultimately expected to vest and is recognized pro-rata over the requisite service period for the entire award.

SFAS 123R amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*, to require the reporting of excess tax benefits related to the exercise or vesting of stock-based awards as cash provided by financing activities rather than as a reduction in income taxes paid and reported as cash provided by operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a multinational enterprise, we are exposed to risks such as changes in commodity prices, foreign currency exchange rates, interest rates and environmental regulation. A variety of practices are employed to manage these risks, including operating and financing activities and, where deemed appropriate, the use of derivative instruments. Derivative instruments are used only for risk management purposes and not for speculation or trading.

Presented below is a description of our most significant risks.

FOREIGN CURRENCY RISK

Our results of operations and cash flows are affected by changes in the Canadian dollar exchange rate relative to the U.S. dollar. In addition, our reported results of operations are affected by changes in the Euro exchange rate relative to the U.S. dollar. Exchange rate fluctuations can have a material impact on our financial results because substantially all of our

pulp mill's expenses are incurred in Canadian dollars and our pulp revenues are denominated in U.S. dollars. For the year ended December 31, 2007, a hypothetical $0.01 increase in the Canadian dollar relative to the U.S dollar would have decreased our income before income taxes by approximately $2 million, excluding additional currency re-measurement losses. In addition, our reported operating results are affected by changes in the exchange rates of the Canadian dollar and Euro relative to the U.S. dollar. For the year ended December 31, 2007, a hypothetical 10 percent increase in the exchange rates of the Canadian dollar and the Euro relative to the U.S dollar would have decreased our income before income taxes by approximately $1.6 million and $2.1 million, respectively. Our exposure to such exchange risk on reported operating results is not hedged.

From time-to-time, we use hedging arrangements to reduce our exposure to Canadian dollar exchange rate fluctuations, although these arrangements could result in us incurring higher costs than we would incur without the arrangements. At December 31, 2007 we had foreign currency contracts outstanding in a notional amount of $3.4 million Canadian dollars designated as cash flow hedges of U.S. dollar denominated pulp sales. The fair value of the contracts was a current asset of $0.5 million U.S. dollars. The weighted average exchange rate for the foreign currency contracts at December 31, 2007 was $0.852 U.S. dollars per Canadian dollar and the contracts extend through February 2008.

Currency transactional exposures are also sensitive to changes in the exchange rate of the U.S. dollar against the Canadian dollar and the Euro. We performed a sensitivity test to quantify the effects that possible changes in the exchange rate of the U.S. dollar would have on our pre-tax income based on the transactional exposure at December 31, 2007. The effect is calculated by multiplying our net monetary asset or liability position by a 10 percent change in the exchange rate of the Canadian dollar and the Euro versus the U.S. dollar. The results of this sensitivity test are as follows. As of December 31, 2007, a 10 percent unfavorable change in the exchange rate of the U.S. dollar against the Canadian dollar and the Euro involving balance sheet transactional exposure would have resulted in net pre-tax losses of approximately $2 million and $4 million, respectively.

Finally, the translation of the balance sheets of our Canadian operations from Canadian dollars into U.S. dollars and our German operations from Euros into U.S. dollars also are sensitive to changes in the exchange rate of the U.S. dollar against the Canadian dollar and Euro, respectively. Consequently, we performed a sensitivity test to determine if changes in the exchange rate would have a significant effect on the translation of the balance sheets of our Canadian operations and German operations into U.S. dollars. These translation gains or losses are recorded as unrealized translation adjustments ("UTA", a component of comprehensive income) within stockholders' equity. The hypothetical change in UTA is calculated by multiplying the net assets of our Canadian and German operations by a 10 percent change in the U.S.$/Canadian$ and U.S.$/Euro exchange rates, respectively. The results of this sensitivity test are presented in the following paragraph.

As of December 31, 2007, a 10 percent unfavorable change in the exchange rate of the U.S. dollar against the Canadian dollar and the U.S. dollar against the Euro would have decreased our stockholders' equity by approximately $13 million and $28 million, respectively. The hypothetical increase in UTA is based on the difference between the December 31, 2007 exchange rate and the assumed exchange rate.

COMMODITY RISK

PULP

Our results of operations, cash flows and financial position are sensitive to the selling prices of wood pulp. Wood pulp is a commodity for which there are multiple other suppliers. Typically, commodities businesses compete primarily on the basis of price and availability. The revenues from producing a commodity tend to be cyclical, with periods of shortage and rapidly rising prices leading to increased production and increased industry investment until supply exceeds demand. Those periods are then typically followed by periods of reduced prices and excess and idle capacity until the cycle is repeated.

The markets and profitability of pulp have been, and are likely to continue to be, cyclical. Because our pulp business competes primarily on the basis of price and availability, the financial success of our pulp mills depends on their ability to produce pulp at a competitive cost. Accordingly, we must continuously and effectively manage our cost structure and production capacity to be able to respond effectively to business cycles in the pulp industry.

From time-to-time, we have used hedging arrangements to reduce our exposure to pulp price fluctuations, although these arrangements could result in us incurring higher costs than we would incur without the arrangements. During 2005 and 2006, we entered into a series of pulp futures contracts to hedge fluctuations in pulp prices through December 2006. At December 31, 2007 and 2006, we had no outstanding pulp future contracts.

Based on 2007 shipment volume, a 10 percent decrease in the market price for northern bleached softwood kraft pulp (excluding the impact of volume and other discounts) would reduce pretax income of our Pulp segment by approximately $22.6 million.

RAW MATERIALS

We purchase a substantial portion of the raw materials and energy necessary to produce our products on the open market, and, as a result, the price and other terms of those purchases are subject to change based on factors such as worldwide supply and demand and government regulation. We do not have significant influence over our raw material or energy prices and generally do not possess enough power to pass increases in those prices along to purchasers of our products, unless those increases coincide with increased demand for the product. Therefore, an increase in raw material or energy prices could occur at the same time that prices for our products are decreasing and have an adverse effect on our results of operations, financial position and cash flows.

We obtain a portion of the wood fiber required for the Pictou pulp mill from timberland areas licensed by the Nova Scotia provincial government. The government has granted us non-exclusive licenses for substantial timberland areas from which we obtain fiber, and we also obtain fiber harvested from timberland areas licensed to others by this government. There can be no assurance that the amount of fiber that we are allowed to harvest from these licensed areas will not be decreased, or that our licenses will continue to be renewed or extended by the governments on acceptable terms. In the area where our Pictou mill is located, there is increasing competition for wood fiber from various other users. Changes in governmental practices and policies as they apply to us and to others from whom we obtain fiber may result in less fiber being available, increased costs to obtain the fiber and additional expense in meeting forestry standards. These results could have a material adverse effect upon our financial position, liquidity and results of operations.

In 2007, two suppliers provided over 60 percent of the wood chips used by the Pictou mill. While we believe that alternative sources of critical supplies, such as wood chips, would be available, disruption of our primary sources could create a temporary, adverse effect on product shipments. Also, an interruption in supply of single source specialty grade latex or specialty softwood pulp to our technical products business could disrupt and eventually cause a shutdown of production of certain technical products.

We generate substantially all of the electrical energy used by our Munising and Pictou mills and approximately 20 percent of the electrical energy at our Bruckmühl and Appleton mills. Availability of energy is not expected to be a problem in the foreseeable future, but the purchase price of such energy can and likely will fluctuate significantly based on fluctuations in demand and other factors. In January 2006, we entered into an agreement to purchase 350 thousand pounds per year of "Green Steam" to supply energy at our Neenah paper mill. We anticipate that the agreement will substantially reduce the mill's annual consumption of natural gas. There is no assurance that that we will be able to obtain electricity or natural gas purchases on favorable terms in the future.

INTEREST RATE RISK

We are exposed to interest rate risk on our fixed rate long-term debt and our variable-rate bank debt. Our objective is to manage the impact of interest rate changes on earnings and cash flows from our variable-rate debt and on the market value of our fixed-rate debt. At December 31, 2007, we had $239.6 million of long-term fixed-rate debt outstanding and $81.6 million of long-term variable-rate borrowings outstanding. We are exposed to fluctuations in the fair value of our fixed-rate long-term debt resulting from changes in market interest rates, but not to fluctuations in our earnings or cash flows. At December 31, 2007, the fair market value of our fixed-rate long-term debt was $215.5 million based upon the quoted market price of the senior notes or rates currently available to us for debt of the same remaining maturities. A 100 basis point increase in interest rates would increase our annual interest expense on outstanding variable-rate borrowings by approximately $0.9 million.

We could in the future, reduce our exposure to interest rate fluctuations on our variable-rate debt by entering into interest rate hedging arrangements, although those arrangements could result in us incurring higher costs than we would incur without the arrangements.

ENVIRONMENTAL REGULATION

Our manufacturing operations are subject to extensive regulation primarily by U.S., Canada, Germany and other international authorities. We have made significant capital expenditures to comply with environmental laws, rules and regulations. Due to changes in environmental laws and regulations, the application of such regulations and changes in environmental control technology, we are not able to predict with certainty the amount of future capital spending to be incurred for environmental purposes. Taking these uncertainties into account, we have planned capital expenditures for environmental projects during the period 2007 through 2010 of approximately $2 million to $3 million annually. Following the completion of engineering studies and negotiations with local authorities and other interested parties in Canada, we do not currently anticipate any material capital expenditures would be required at the Pictou mill related to the effluent treatment system, total sulphur emissions or other environmental matters until 2009 or later.

We believe these risks can be managed and will not have a material adverse effect on our business or our consolidated financial position, results of operations or cash flows.

management's annual report on internal control over financial reporting

The Company's management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) or 15a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. The scope of management's assessment of the effectiveness of internal control over financial reporting includes all of the Company's businesses except for Fox River manufacturing operations acquired in March 2007. Fox River constituted approximately 15 percent and 9 percent of net and total assets, respectively, and 15 percent of revenues, and 27 percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2007. Further discussion of this acquisition can be found in Note 4 to our consolidated financial statements. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based upon its assessment, management believes that as of December 31, 2007, the Company's internal controls over financial reporting were not effective. As a result of identifying the material weakness described below, the Company performed additional analysis and other post-closing procedures to ensure its consolidated financial statements are prepared in accordance with generally accepted accounting principles.

A material weakness is a significant control deficiency, or a combination of significant control deficiencies, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

CONTROLS OVER INCOME TAX ACCOUNTING: The Company did not maintain effective controls over the determination and reporting of the provision for income taxes and related income tax balances. Specifically, the requisite level of skills and resources in accounting for income taxes is inadequate and the Company's procedures for preparing, analyzing, reconciling and reviewing its income tax provision and income tax balance sheet accounts did not provide effective internal control. Spreadsheets supporting the calculation of income tax balances are inadequately controlled and are susceptible to manual input errors.

Despite these control deficiencies, management believes that the consolidated financial statements are fairly stated in all material respects as of and for the year ended December 31, 2007. However, until such control deficiency is remediated, it is reasonably possible that these control deficiencies could result in a material misstatement of the provision for income taxes and related income tax balances in the Company's annual or interim consolidated financial statements that would not be prevented or detected on a timely basis. Therefore, management has concluded that, as of December 31, 2007, there is a material weakness in internal control over financial reporting as it relates to accounting for income taxes that resulted from a deficiency in the operation of internal control.

The effectiveness of internal control over financial reporting as of December 31, 2007, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements. Deloitte & Touche's attestation report on the Company's internal control over financial reporting is included herein.

Neenah Paper, Inc.
March 13, 2008

report of independent registered public accounting firm on internal control over financial reporting

To the Board of Directors and Stockholders of
Neenah Paper, Inc., Alpharetta, Georgia

We have audited Neenah Paper, Inc. and subsidiaries' (the "Company's") internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Fox River, which was acquired in March 2007 and whose financial statements constitute 15 percent and 9 percent of net and total assets, respectively, 15 percent of revenues and 27 percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at Fox River. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following material weakness has been identified and included in management's assessment: The Company did not maintain effective internal controls over the determination and reporting of the provision for income taxes and related income tax balances. Specifically, the requisite level of skills and resources in accounting for income taxes is inadequate and the Company's procedures for preparing, analyzing, reconciling and reviewing its income tax provision and income tax balance sheet accounts do not provide for effective internal controls to account for income taxes and the related income tax balances in accordance with generally accepted accounting principles. Spreadsheets supporting the calculation of income tax balances are inadequately controlled and are susceptible to manual input errors. These control deficiencies result in a reasonable possibility that material misstatements of the Company's annual or interim consolidated financial

statements will not be prevented or detected on a timely basis. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2007, of the Company and this report does not affect our report on such financial statements.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007, of the Company and our report dated March 13, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the adoption of Financial Accounting Standards Board Interpretation No. 48 *"Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109"* on January 1, 2007 and the adoption of the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *"Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,"* on December 31, 2006 and the provisions of Statement of Financial Accounting Standards No 123(R), *"Share-Based Payment,"* on January 1, 2006.

Atlanta, Georgia
March 13, 2008

report of independent registered public accounting firm

To the Board of Directors and Stockholders of
Neenah Paper, Inc., Alpharetta, Georgia

We have audited the accompanying consolidated balance sheets of Neenah Paper, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Neenah Paper, Inc. and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109"* on January 1, 2007. Also, as discussed in Notes 9 and 10, respectively, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *"Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,"* on December 31, 2006 and the provisions of Statement of Financial Accounting Standards No 123(R), *"Share-Based Payment,"* on January 1, 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2008 expressed an adverse opinion on the Company's internal control over financial reporting.

Deloitte + Touche LLP

Atlanta, Georgia
March 13, 2008

consolidated statements of operations

(In millions, except share and per share data)	Year Ended December 31, 2007	2006	2005
Net sales	**$ 990.5**	$ 594.3	$ 534.7
Cost of products sold	**852.9**	502.3	438.7
Gross profit	**137.6**	92.0	96.0
Selling, general and administrative expenses	**82.4**	56.9	49.4
Gain on sale of woodlands (Note 6)	**(6.2)**	(125.5)	–
Other income – net	**(5.5)**	(7.8)	(6.8)
Operating income	**66.9**	168.4	53.4
Interest expense	**25.5**	19.4	18.5
Interest income	**(0.4)**	(2.9)	(0.3)
Income from continuing operations before income taxes	**41.8**	151.9	35.2
Provision for income taxes	**3.9**	56.5	12.9
Income from continuing operations	**37.9**	95.4	22.3
Loss from discontinued operations, net of taxes (Note 5)	**(27.7)**	(32.9)	(52.0)
Net income (loss)	**$ 10.2**	$ 62.5	$ (29.7)
Earnings (Loss) Per Common Share			
Basic			
Continuing operations	**$ 2.55**	$ 6.47	$ 1.51
Discontinued operations	**(1.86)**	(2.23)	(3.53)
	$ 0.69	$ 4.24	$ (2.02)
Diluted			
Continuing operations	**$ 2.50**	$ 6.43	$ 1.51
Discontinued operations	**(1.83)**	(2.22)	(3.52)
	$ 0.67	$ 4.21	$ (2.01)
Weighted Average Common Shares Outstanding (in thousands)			
Basic	**14,874**	14,757	14,739
Diluted	**15,141**	14,847	14,787

See Notes to Consolidated and Combined Financial Statements

consolidated balance sheets

(In millions)	December 31, 2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 2.4**	$ 1.6
Accounts receivable, net	**145.4**	112.5
Inventories	**110.6**	74.9
Deferred income taxes	**1.9**	1.5
Prepaid and other current assets	**29.9**	31.9
Total Current Assets	**290.2**	222.4
Property, Plant and Equipment – net	**432.3**	355.6
Deferred Income Taxes	**55.4**	32.7
Goodwill (Note 4)	**106.6**	92.0
Intangible Assets – net (Note 4)	**33.6**	29.5
Other Assets	**14.7**	12.5
TOTAL ASSETS	**$ 932.8**	$ 744.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Debt payable within one year	**$ 10.9**	$ 1.3
Accounts payable	**86.9**	74.7
Accrued expenses	**72.1**	53.5
Total Current Liabilities	**169.9**	129.5
Long-term Debt	**321.2**	282.3
Deferred Income Taxes	**30.4**	35.8
Noncurrent Employee Benefits and Other Obligations	**123.3**	112.2
TOTAL LIABILITIES	**644.8**	559.8
Commitments and Contingencies (Notes 12 and 13)		
Stockholders' Equity		
Common stock, par value $0.01 – authorized: 100,000,000 shares; issued and outstanding: 14,968,650 shares and 14,811,520 shares	**0.1**	0.1
Treasury stock, at cost: 13,544 shares and 1,999 shares	**(0.4)**	(0.1)
Additional paid-in capital	**235.3**	224.7
Accumulated deficit	**(45.5)**	(49.7)
Accumulated other comprehensive income	**98.5**	9.9
Total Stockholders' Equity	**288.0**	184.9
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 932.8**	$ 744.7

See Notes to Consolidated Financial Statements

consolidated statements of change in stockholders' equity

(In millions, shares in thousands)	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Unearned Compensation on Restricted Stock	Comprehensive Income/(Loss)
Balance, December 31, 2004	14,763	$0.1	$ –	$218.3	$ (70.7)	$ 51.6	$(2.2)	
Net loss					(29.7)			$(29.7)
Other comprehensive income								
Unrealized foreign currency translation						10.1		10.1
Minimum pension liability						(12.5)		(12.5)
Gain on cash flow hedges						4.7		4.7
Dividends declared					(5.9)			$(27.4)
Restricted stock unit vesting	3							
Stock-based compensation awards, less amortization				0.4			0.4	
Other (Note 9)				0.7				
Balance, December 31, 2005	14,766	0.1	–	219.4	(106.3)	53.9	(1.8)	
Net income					62.5			$ 62.5
Other comprehensive income								
Unrealized foreign currency translation						12.8		12.8
Minimum pension liability						2.9		2.9
Loss on cash flow hedges						(4.3)		(4.3)
Dividends declared					(5.9)			$ 73.9
Transfer of unearned compensation to additional paid-in-capital				(1.8)			1.8	
Adjustment to initially adopt SFAS 158 (Note 9)						(55.4)		
Stock options exercised	43			1.3				
Restricted stock vesting (Note 11)	3		(0.1)					
Stock-based compensation				5.8				
Balance, December 31, 2006	14,812	0.1	(0.1)	224.7	(49.7)	9.9	–	
Net income					10.2			$ 10.2
Other comprehensive income								
Unrealized foreign currency translation						58.0		58.0
Adjustment to pension and other benefit liabilities						30.7		30.7
Loss on cash flow hedges						(0.1)		(0.1)
Dividends declared					(6.0)			$ 98.8
Excess tax benefits from stock-based compensation				0.5				
Stock options exercised	124			3.7				
Restricted stock vesting (Note 11)	33		(0.3)					
Stock-based compensation				6.4				
Balance, December 31, 2007	**14,969**	**$0.1**	**$(0.4)**	**$235.3**	**$ (45.5)**	**$ 98.5**	**$ –**	

See Notes to Consolidated Financial Statements

consolidated statements of cash flows

(In millions)	Year Ended December 31, 2007	2006	2005
OPERATING ACTIVITIES			
Net income (loss)	**$ 10.2**	$ 62.5	$ (29.7)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**45.3**	30.2	29.0
Stock-based compensation	**6.4**	5.8	0.8
Deferred income tax provision	**(26.8)**	30.0	(20.1)
Gain on sale of woodlands (Note 6)	**(6.2)**	(125.5)	–
Asset impairment loss	**–**	–	54.5
Loss on disposal of Terrace Bay (Note 5)	**–**	6.5	–
(Gain) loss on other asset dispositions	**(0.8)**	0.8	0.5
Net cash provided by (used in) changes in operating working capital, net of effects of acquisitions (Note 16)	**–**	39.8	(10.1)
Excess tax benefit from stock-based compensation	**(0.5)**	–	–
Pension and other post-employment benefits	**4.1**	0.3	(2.7)
Loss on curtailment and settlement of pension plan (Note 5)	**38.7**	26.4	–
Contribution to settle pension liabilities (Note 5)	**–**	(10.8)	–
Other	**(0.9)**	(0.2)	0.6
NET CASH PROVIDED BY OPERATING ACTIVITIES	**69.5**	65.8	22.8
INVESTING ACTIVITIES			
Capital expenditures	**(58.3)**	(25.1)	(25.7)
Acquisition of Fox River, net of cash acquired (Note 4)	**(54.7)**	–	–
Net proceeds from sale of woodlands (Note 6)	**–**	134.8	–
Payment for transfer of Terrace Bay	**–**	(18.6)	–
Acquisition of Neenah Germany, net of cash acquired (Note 4)	**(1.5)**	(218.6)	–
Other	**1.1**	(0.2)	(0.1)
NET CASH USED IN INVESTING ACTIVITIES	**(113.4)**	(127.7)	(25.8)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	**78.1**	84.3	3.6
Debt issuance costs	**(1.1)**	(0.7)	(0.2)
Repayments of long-term debt	**(34.1)**	(28.2)	(1.1)
Short-term borrowings	**8.0**	0.6	2.5
Repayments of short-term borrowings	**(5.0)**	(0.6)	(2.5)
Cash dividends paid	**(6.0)**	(5.9)	(5.9)
Proceeds from exercise of stock options	**3.7**	1.3	–
Excess tax benefit from stock-based compensation	**0.5**	–	–
Other	**(0.3)**	–	–
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**43.8**	50.8	(3.6)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**0.9**	0.1	0.1
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**0.8**	(11.0)	(6.5)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**1.6**	12.6	19.1
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 2.4**	$ 1.6	$ 12.6

See Notes to Consolidated Financial Statements

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Background and Basis of Presentation

BACKGROUND

Neenah Paper, Inc. ("Neenah" or the "Company"), a Delaware corporation, was incorporated in April 2004 in contemplation of the spin-off by Kimberly-Clark Corporation ("Kimberly-Clark") of its fine paper and technical products businesses in the United States and its pulp business in Canada (collectively, the "Pulp and Paper Business"). In November 2004, Kimberly-Clark completed the distribution of all of the shares of Neenah's common stock to the stockholders of Kimberly-Clark (the "Spin-Off"). As a result of the Spin-Off, Kimberly-Clark transferred all of the assets and liabilities of the Pulp and Paper Business to Neenah. Following the Spin-Off, Neenah continued as an independent publicly held company. Kimberly-Clark has no continuing stock ownership in Neenah.

The Company's fine paper business is a leading producer of premium writing, text, cover and specialty papers. The Company's technical products business is a leading producer of transportation and other filter media, durable, saturated and coated base papers for a variety of end uses and nonwoven wall coverings. The Company's pulp business primarily produces northern bleached softwood kraft pulp used by paper mills to manufacture tissue and printing and writing papers. At the time of the Spin-Off, the pulp business consisted of pulp mills in Terrace Bay, Ontario and Pictou, Nova Scotia and the related woodlands (including 1,000,000 acres in Nova Scotia).

In June 2006, the Company's wholly owned subsidiary, Neenah Paper Company of Canada ("Neenah Canada") sold approximately 500,000 acres of woodlands in Nova Scotia for $139.1 million (proceeds net of transaction costs were $134.8 million). The woodlands sale agreement included a fiber supply agreement to secure a source of fiber for Neenah Canada's Pictou pulp mill. The transaction resulted in a net pre-tax gain of $131.7 million. Approximately $9 million of such gain was deferred and was recognized in income pro rata through December 2007. See Note 6, "Sale of Woodlands."

In August 2006, Neenah Canada transferred the Terrace Bay, Ontario pulp mill and related woodlands operations ("Terrace Bay") to certain affiliates of Buchanan Forest Products Ltd. ("Buchanan"). Buchanan acquired substantially all of the assets of Terrace Bay and assumed responsibility for substantially all of the liabilities related to its future operation in exchange for a cash payment of $18.6 million. For the year ended December 31, 2007, the loss from discontinued operations primarily reflects costs associated with Terrace Bay's defined benefit pension plan. The results of operations of Terrace Bay are reported as discontinued operations on the consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005. See Note 5, "Discontinued Operations."

In October 2006, the Company purchased the stock of FiberMark Services GmbH & Co. KG and the stock of FiberMark Beteiligungs GmbH (collectively, "Neenah Germany"). Neenah Germany was acquired from FiberMark, Inc. ("FiberMark") and FiberMark International Holdings LLC for $220.1 million in cash (net of cash acquired). The transaction was financed from available cash and debt drawn against the Company's existing revolving credit facility. The Neenah Germany assets consist of two mills located near Munich, Germany and a third mill near Frankfurt, Germany, that produce a wide range of products, including transportation and other filter media, nonwoven wall coverings, masking and other tapes, abrasive backings, and specialized printing and coating substrates. The results of Neenah Germany are being reported as part of the Company's Technical Products segment and have been included in the Company's consolidated financial results since the acquisition date. See Note 4, "Acquisitions."

In March 2007, the Company acquired the stock of Fox Valley Corporation and its subsidiary, Fox River Paper Company, LLC (collectively, "Fox River") for approximately $54.7 million in cash (net of cash acquired). The Company financed the acquisition through a combination of cash and debt drawn against its existing revolving credit facility. The Fox River assets consist of four U.S. paper mills and various related assets. The results of Fox River are being reported as part of the Company's Fine Paper segment and have been included in the Company's consolidated financial results since the acquisition date. See Note 4, "Acquisitions," for a summary of the allocation of the purchase price to the fair value of assets acquired and liabilities assumed, and a description of certain post-acquisition restructuring activities.

BASIS OF PRESENTATION

The consolidated financial statements include the financial statements of the Company and its wholly owned and majority owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Summary of Significant Accounting Policies

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Actual results could differ from these estimates, and changes in these estimates are recorded when known. Significant management judgment is required in determining the accounting for, among other things, pension and post-employment benefits, retained insurable risks, allowances for doubtful accounts and reserves for sales returns and cash discounts, purchase price allocations, useful lives for depreciation, depletion and amortization, future cash flows associated with impairment testing for tangible and intangible long-lived assets, income taxes, contingencies, inventory obsolescence and market reserves, valuation of stock-based compensation and derivative instruments.

REVENUE RECOGNITION

The Company recognizes sales revenue when all of the following have occurred: (1) delivery has occurred, (2) persuasive evidence of an agreement exists, (3) pricing is fixed or determinable, and (4) collection is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. The timing of revenue recognition is largely dependent on shipping terms. Revenue is recorded at the time of shipment for terms designated free on board ("FOB") shipping point. For pulp sales to Kimberly-Clark and other customers that are designated FOB destination, revenue is recognized when the product is delivered to the customer's delivery site. Sales are reported net of allowable discounts and estimated returns. Reserves for cash discounts, trade allowances and sales returns are estimated using historical experience.

EARNINGS PER SHARE ("EPS")

Basic EPS are computed by dividing net income (loss) by the number of weighted average shares of common stock outstanding. Diluted earnings (loss) per share are calculated to give effect to all potentially dilutive common shares applying the "Treasury Stock" method. Outstanding stock options, restricted shares, restricted stock units and restricted stock units with performance conditions represent the only potentially dilutive effects on the Company's weighted-average shares. For the years ended December 31, 2007, 2006 and 2005, approximately 335,000, 1,095,000 and 790,000 potentially dilutive options, respectively, were excluded from the computation of dilutive common shares because their inclusion would be antidilutive.

The following table presents the computation of basic and diluted shares of common stock used in the calculation of EPS (amounts in thousands):

	Year Ended December 31,		
	2007	2006	2005
Basic shares outstanding	**14,874**	14,757	14,739
Add: Assumed incremental shares under stock compensation plans	**267**	90	48
Assuming dilution	**15,141**	14,847	14,787

FINANCIAL INSTRUMENTS

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Company places its temporary cash investments with high credit quality financial institutions.

From time-to-time, the Company uses derivative instruments to manage exposures to foreign currency and commodity price risks. The Company principally uses foreign currency forward and pulp future contracts to hedge against these exposures. Derivative instruments are recorded on the balance sheet as assets or liabilities and measured at fair market value. Derivative instruments that have been designated as hedges of anticipated future cash flows are marked-to-market through accumulated other comprehensive income (balance sheet adjustments) until such time as the related forecasted transactions affect earnings. Derivatives that are not designated as hedges are adjusted to fair value through Other (income) expense – net. Fair value estimates are based on relevant market information, including current market rates and prices. The Company documents relationships between hedging instruments and hedged items, and links derivatives designated as cash flow hedges to specific forecasted transactions. The Company also assesses and documents, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. Any hedge ineffectiveness is charged to expense in the period incurred.

INVENTORIES

U.S. inventories are valued at the lower of cost, using the Last-In, First-Out (LIFO) method for financial reporting purposes, or market. Canadian and German inventories are

valued at the lower of cost, using either the First-In, First-Out (FIFO) or a weighted-average cost method, or market. The FIFO value of inventories valued on the LIFO method was $45.2 million and $37.9 million at December 31, 2007 and 2006, respectively. Cost includes labor, materials and production overhead. Inventories of the Canadian pulp operations include both roundwood (logs) and wood chips. These inventories are located both at the pulp mill and at various timberlands locations. In accordance with industry practice, physical inventory counts utilize "scaling" techniques to estimate quantities of roundwood, as well as various electronic devices to calculate wood chip inventory amounts. These techniques historically have provided reasonable estimates of such inventories.

FOREIGN CURRENCY

Balance sheet accounts of the Canadian pulp operations and Neenah Germany are translated from Canadian dollars and Euros, respectively, into U.S. dollars at period-end exchange rates, and income and expense accounts are translated at average exchange rates during the period. Translation gains or losses related to net assets located in Canada and Germany are recorded as unrealized foreign currency translation adjustments within comprehensive income (loss) in stockholders' equity. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency) are included in Other (income) expense-net in the consolidated statements of operations.

PROPERTY AND DEPRECIATION

Property, plant and equipment are stated at cost, less accumulated depreciation. Certain costs of software developed or obtained for internal use are capitalized. When property, plant and equipment is sold or retired, the costs and the related accumulated depreciation are removed from the accounts, and the gains or losses are recorded in other (income) and expense – net. For financial reporting purposes, depreciation is principally computed on the straight-line method over the estimated useful asset lives. Weighted average useful lives are approximately 33 years for buildings, nine years for land improvements and 17 years for machinery and equipment. The cost of permanent and secondary logging roads is capitalized and amortized over the estimated useful lives of the roads, generally 20 years. The cost of tertiary roads (which are not permanent) is expensed as incurred. For income tax purposes, accelerated methods of depreciation are used.

Estimated useful lives are periodically reviewed and, when warranted, changes are made to them. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their cost may not be recoverable. An impairment loss would be recognized when estimated undiscounted future pre-tax cash flows from the use of the asset are less than its carrying amount.

Measurement of an impairment loss is based on the excess of the carrying amount of the asset over its fair value. Fair value is generally measured using discounted cash flows. See Note 5 "Discontinued Operations" for a discussion of asset impairment losses recorded for the year ended December 31, 2005 related to Terrace Bay's long-lived assets.

The costs of major rebuilds and replacements of plant and equipment are capitalized, and the cost of maintenance performed on manufacturing facilities, composed of labor, materials and other incremental costs, is charged to operations as incurred. Start-up costs for new or expanded facilities are expensed as incurred.

TIMBERLANDS

Timberlands are stated at cost, less the accumulated cost of timber previously harvested. The Company's owned timberlands have long-rotation and growing cycles averaging over 40 years. Capitalized costs for these timberlands include site preparation, initial planting and seeding. The costs of fertilization, control of competition (brush control) and seedling protection activities (principally herbicide and insecticide applications) during the stand establishment period also are capitalized. The Company charges capitalized costs, excluding land, to operations at the time the wood is harvested, based on periodically determined depletion rates.

Fertilization, control of competition and seedling protection activities following the stand establishment period are expensed as incurred. The Company pays stumpage fees for wood harvested under long-term licenses and charges such costs to operations as incurred. Costs of administration, insurance, property taxes and interest are expensed as incurred.

The Company distinguishes between costs associated with pre-merchantable timber and costs associated with merchantable timber. Costs of merchantable timber are currently depletable, whereas costs of pre-merchantable timber are not yet depletable. Timberland depletion rates for owned timberlands are calculated periodically, based on capitalized costs and the total estimated volume of timber that is mature enough to be harvested and processed. Timber inventory volume is determined by adding an estimate of current-year growth to the prior-year ending balance, less the current-year harvest. The volume and growth estimates are tested periodically using statistical sampling techniques. The depletion rate calculated at the end of the year is used to calculate the cost of timber harvested in the subsequent year.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company follows the guidance of Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"), in recording goodwill arising from a business combination as the excess of purchase price and related costs over the fair value of identifiable assets acquired and liabilities assumed. All of the Company's goodwill was acquired in conjunction with the acquisition of Neenah Germany in October 2006. See Note 4, "Acquisitions."

Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is subject to impairment testing at least annually. A fair-value-based test is applied at the reporting unit level, which is generally one level below the segment level. The test compares the fair value of an entity's reporting units to the carrying value of those reporting units. This test requires various judgments and estimates. The fair value of the reporting unit is determined using a market approach in combination with an estimate of future cash flows and a risk adjusted discount rate to compute a net present value of future cash flows. An adjustment to goodwill will be recorded for any goodwill that is determined to be impaired. Impairment of goodwill is measured as the excess of the carrying amount of goodwill over the fair values of recognized and unrecognized assets and liabilities of the reporting unit. The Company tests goodwill for impairment at least annually on November 30 in conjunction with preparation of its annual business plan, or more frequently if events or circumstances indicate it might be impaired. Goodwill was last tested for impairment as of November 30, 2007 and no impairment was indicated.

Intangible assets with estimable useful lives are amortized on a straight-line basis over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). Intangible assets consist primarily of customer relationships, trade names and acquired intellectual property. Such intangible assets are being amortized using the straight-line method over estimated useful lives of between 10 and 15 years. Certain trade names valued at $10.0 million are estimated to have indefinite useful lives and as such are not being amortized. Intangible assets with indefinite lives are annually reviewed for impairment in accordance with SFAS 144.

RESEARCH EXPENSE

Research and development costs are charged to expense as incurred and are recorded in "Selling, general and administrative expenses" on the consolidated statement of operations.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short maturities. The fair value of long-term debt is estimated using current market prices for the Company's publicly traded debt or rates currently available to the Company for debt of the same remaining maturities. The following table presents the carrying value and the fair value of the Company's long-term debt at December 31, 2007 and 2006.

	December 31, 2007		December 31, 2006	
	Carrying Value	Fair Fair Value	Carrying Value	Fair Value
Senior Notes (7.375% fixed rate)	**$225.0**	**$204.9**	$225.0	$216.0
Neenah Germany project financing (3.8% fixed rate)	**14.6**	**10.6**	–	–
Revolving bank credit facility (variable rates)	**66.2**	**66.2**	57.3	57.3
Term Loan (variable rates)	**15.4**	**15.4**	–	–
Long-term debt	**$321.2**	**$297.1**	$282.3	$273.3

OTHER COMPREHENSIVE INCOME

Comprehensive income includes, in addition to net income, gains and losses recorded directly into a separate section of stockholders' equity on the consolidated balance sheet. These gains and losses are referred to as other comprehensive income items. The accumulated other comprehensive income (loss) shown on the consolidated balance sheets consists of foreign currency translation gains and (losses), deferred gains and (losses) on cash flow hedges, and deferred gains and (losses) related to pensions and other post-employment benefits. The foreign currency translation adjustments are not adjusted for income taxes since they relate to indefinite investments in the Canadian pulp operations and Neenah Germany.

Changes in the components of other comprehensive income (loss) are as follows:

	Year Ended December 31,								
	2007			2006			2005		
	Pretax Amount	**Tax Effect**	**Net Amount**	Pretax Amount	Tax Effect	Net Amount	Pretax Amount	Tax Effect	Net Amount
Foreign currency translation	**$ 58.0**	**$ –**	**$58.0**	$12.8	$ –	$12.8	$ 10.1	$ –	$ 10.1
Adjustment to pension and other benefit liabilities	**48.2**	**(17.5)**	**30.7**	–	–	–	–	–	–
Minimum pension liability	–	–	–	4.6	(1.7)	2.9	(20.5)	8.0	(12.5)
Deferred gain (loss) on cash flow hedges	**(0.1)**	–	**(0.1)**	(6.8)	2.5	(4.3)	7.4	(2.7)	4.7
Other comprehensive income (loss)	**$106.1**	**$(17.5)**	**$88.6**	$10.6	$ 0.8	$11.4	$ (3.0)	$ 5.3	$ 2.3

The components of accumulated other comprehensive income (loss), net of applicable income taxes are as follows:

	December 31,	
	2007	2006
Foreign currency translation	**$138.8**	$80.8
Adjustment to pension and other benefit liabilities (net of income tax benefits of $25.6 million and $43.1 million, respectively)[a]	**(40.6)**	(71.3)
Deferred gain on cash flow hedges (net of income tax expense of $0.2 million and $0.2 million, respectively)	**0.3**	0.4
Accumulated other comprehensive income	**$ 98.5**	$ 9.9

(a) Adjustment to pension and other liabilities at December 31, 2006, includes an adjustment of ($55.4) million, net of income tax benefits of $33.2 million related to the Company's initial adoption of SFAS No. 158. See Note 9, "Post-Employment and Other Benefits."

ACCOUNTING STANDARDS CHANGES

On January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. The Company's adoption of FIN 48 resulted in a $1.0 million increase in its liability for uncertain income tax positions. See Note 7, "Income Taxes."

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements.

The definition of fair value in SFAS 157 retains the exchange price notion in earlier definitions of fair value and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. SFAS 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Most of the provisions of SFAS 159 apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or

before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The adoption of SFAS 159 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. In addition, SFAS 141R will require, subsequent to the acquisition period, changes in the valuation allowance for deferred tax assets and liabilities for unrecognized tax benefits related to an acquisition to be recognized as a component of income tax expense. SFAS 141R applies prospectively to business combinations completed during annual reporting period beginning on or after December 15, 2008. The Company is evaluating SFAS 141R and will apply the provisions of the new standard to business combinations completed on or after January 1, 2009.

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Risk Management

The Company is exposed to risks such as changes in foreign currency exchange rates and pulp prices. A variety of practices are employed to manage these risks, including operating and financing activities and, where deemed appropriate, the use of derivative instruments. Derivative instruments are used only for risk management purposes and not for speculation or trading. All foreign currency derivative instruments are either exchange traded or entered into with major financial institutions. Credit risk with respect to the counterparties is considered minimal in view of the financial strength of the counterparties. The notional amounts of the Company's derivative instruments do not represent amounts exchanged by the parties and, as such, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amounts and the other terms of the contracts.

In accordance with Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, the Company records all derivative instruments as assets (included in Prepaid and other current assets and Other Assets) or liabilities (included in Accrued expenses or Other Noncurrent Obligations) on the consolidated balance sheet at fair value. Changes in the fair value of derivative instruments are either recorded in income or other comprehensive income, as appropriate. Unrealized gains or losses from changes in the fair value of highly effective derivatives designated as cash flow hedges are recorded in Accumulated other comprehensive income (loss) in the period that changes in fair value occur and are reclassified to income in the same period that the hedged item affects income.

PULP PRICE AND FOREIGN CURRENCY RISK

The operating results, cash flows and financial condition of the Company are subject to pulp price risk. Because the price of pulp is established in U.S. dollars and the Company's cost of producing pulp is incurred principally in Canadian dollars, the profitability of the Company's pulp operations is subject to foreign currency risk. The Company uses foreign currency forward contracts to manage its foreign currency risks. In addition, the Company has used, from time-to-time, pulp futures contracts to manage its pulp price risks. The use of these instruments allows management of this transactional exposure to exchange rate and pulp price fluctuations because the gains or losses incurred on the derivative instruments are intended to offset, in whole or in part, losses or gains on the underlying transactional exposure. (See "Cash Flow Hedges" below). The translation exposure related to the Company's net investment in its Canadian and German subsidiaries is not hedged. In addition, the Company's reported operating results are affected by changes in the Euro exchange rate relative to the U.S. dollar. The Company's exposure to such Euro risk is not hedged.

The Company is also subject to price risk for electricity used in its manufacturing operations. At the Spin-Off, Kimberly-Clark transferred to the Company a fixed price forward purchase contract to hedge fluctuations in the price of electricity at the Terrace Bay mill. The contract matured on December 31, 2005 and was not replaced.

CASH FLOW HEDGES

At December 31, 2007, the Company had outstanding foreign currency forward exchange contracts designated as cash flow hedges of U.S dollar denominated pulp sales in a notional amount of $3.4 million Canadian dollars. The fair value of the contracts was a current asset of $0.5 million U.S. dollars. The weighted-average exchange rate for the foreign currency contracts at December 31, 2007

was $0.852 U.S. dollars per Canadian dollar. The contracts extend through February 2008. At December 31, 2006, the Company had outstanding foreign currency forward exchange contracts designated as cash flow hedges of U.S dollar denominated pulp sales in a notional amount of $93 million Canadian dollars. The fair value of the contracts was a current asset of $0.7 million U.S. dollars. The weighted-average exchange rate for the foreign currency contracts at December 31, 2007 was $0.854 U.S. dollars per Canadian dollar.

The Company realized total pre-tax gains of $6.7 million, $10.2 million and $4.3 million on foreign currency contracts as the forecasted transactions occurred in the years ended December 31, 2007, 2006 and 2005, respectively. Realized gains and losses on foreign currency forward exchange contracts related to the Pictou mill are recorded in Other (income) expense – net on the consolidated statements of operations. Pre-tax gains of $2.6 million and $2.3 million on foreign currency forward exchange contracts related to the operations of Terrace Bay were recorded in Loss from discontinued operations for the years ended December 31, 2006 and 2005, respectively.

During 2006 and 2005, the Company entered into a series of pulp futures contracts to hedge fluctuations in pulp prices through December 2006. At December 31, 2007 and 2006, the Company had no outstanding pulp futures contracts. The Company realized total pre-tax gains (losses) of $(12.7) million and $0.6 million on pulp futures contracts as the forecasted transactions occurred in the years ended December 31, 2006 and 2005, respectively. Realized gains and losses on pulp derivatives related to the Pictou mill are recorded in Net sales on the consolidated statements of operations. Pre-tax gains (losses) of $(1.5) million and $0.4 million on pulp futures contracts related to the operations of Terrace Bay were recorded in Loss from discontinued operations for the years ended December 31, 2006 and 2005, respectively.

For the year ended December 31, 2007, changes in the fair value of the Company's derivative instruments were reflected in other comprehensive income. During the same period in which the hedged forecasted transactions affected earnings, the Company reclassified approximately $0.4 million, $3.8 million and $(36,000) of after-tax gains (losses) from accumulated other comprehensive income to earnings for the years ended December 31, 2007, 2006 and 2005, respectively. If future market rates are consistent with the rates assumed at December 31, 2007, a net pre-tax gain of approximately $0.5 million (or $0.3 million after-tax) is expected to be recognized in earnings during the next 12 months.

FOREIGN CURRENCY TRANSACTIONS

In May 2006, the Company entered into a foreign currency forward contract to eliminate variability in the U.S. dollar proceeds from the sale of woodlands in Nova Scotia, Canada (see Note 3 "Sale of Woodlands"). The Company settled the contract in June 2006 and had no realized gain or loss on settlement. The foreign currency forward contract had a notional value of $155 million Canadian dollars and an exchange rate of $0.902 U.S. dollars per Canadian dollar. Realized gains and losses on the foreign currency forward contract are recorded in Other (income) expense – net on the consolidated statements of operations.

Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency) are included in Other (income) expense – net in the consolidated statements of operations. Total foreign currency transaction gains (losses) for the years ended December 31, 2007, 2006 and 2005 were $(2.3) million, $(0.4) million and $0.1 million, respectively. Losses of $0.4 million and $4.5 million on foreign currency transactions related to the operations of Terrace Bay were recorded in Loss from discontinued operations in the consolidated statements of operations for the years ended December 31, 2006 and 2005, respectively.

Acquisitions

FOX RIVER

In March 2007, the Company acquired the stock of Fox River for $54.7 million in cash (net of cash acquired). Included in the cost of the acquisition were amounts for the repayment of debt, the payment of deferred employee compensation obligations of the acquired companies and fees and

expenses directly related to the acquisition. The Company financed the acquisition through a combination of cash and debt drawn against its existing revolving credit facility. The Fox River assets consist of four U.S. paper mills and various related assets, producing premium fine papers with well-known brands including STARWHITE,® SUNDANCE,® ESSE® and OXFORD.® The results of Fox River are reported as part of the Company's Fine Paper segment and have been included in the Company's consolidated financial results since the acquisition date.

During the second quarter of 2007, the Company closed the Housatonic mill, located near Great Barrington, Massachusetts. At December 31, 2007, the long-lived assets of the Housatonic mill are classified as assets held for sale and are recorded on the consolidated balance sheet in Prepaid and other current assets at their estimated fair values less costs to sell of $2.2 million. In June 2007, the Company announced plans to permanently close the fine paper mill located in Urbana, Ohio (the "Urbana mill"). Manufacturing operations at the Urbana mill ceased in September 2007. Converting operations at the Urbana mill are expected to be phased out over the first six months of 2008. The closure of the Housatonic and Urbana mills will allow the Company to maximize cost efficiencies by shifting fine paper manufacturing to utilize available capacity at its other fine paper mills. In addition, the Company has completed the process of notifying certain Fox River sales and administrative employees who will be terminated as the acquired business is integrated with its existing fine paper business. Approximately 325 former Fox River employees will receive severance benefits in conjunction with the closure and integration activities. All the preceding integration activities were components of the Company's plan to exit certain activities of the acquired business and were accounted for in accordance with Emerging Issues Task Force Issue 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* ("EITF 95-3").

The total cost of the acquisition has been allocated to the assets acquired and liabilities assumed in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"). The values of certain assets and liabilities are based on preliminary valuations and are subject to adjustment as additional information is obtained. Such additional information includes, but is not limited to, gains or losses related to the settlement of post-retirement obligations at closed facilities and the liability for post-acquisition restructuring activities. The Company is in the process of finalizing its valuations and purchase price allocations which will be completed no later than one year from the acquisition date. Changes to the valuation of assets and liabilities acquired may result in adjustments to the carrying value of property, plant and equipment acquired. The Company did not acquire any in-process research and development assets as part of the acquisition. The following table summarizes the preliminary allocation of the purchase price to the estimated fair value of the assets acquired and liabilities assumed at March 1, 2007:

Accounts receivable	$ 18.8
Inventories	34.6
Current deferred income taxes	0.1
Assets held for sale	2.2
Prepaid and other current assets	1.8
Property, plant and equipment at cost	32.1
Unamortizable intangible assets	2.6
Amortizable intangible assets	0.3
Deferred income taxes	17.8
Other noncurrent assets	0.1
Total assets acquired	110.4
Accounts payable	13.3
Accrued salaries and employee benefits	5.5
Accrued expenses	13.9
Noncurrent employee benefits	17.6
Other noncurrent obligations	5.4
Total liabilities assumed	55.7
Net assets acquired	$ 54.7

The preceding table includes approximately $12.5 million for the cost of post-acquisition exit activities that the Company recognized in accordance with EITF 95-3. For the year ended December 31, 2007, severance benefits of approximately $3.1 million had been paid to 230 employees and severance benefits of approximately $3.3 million due to approximately 95 former Fox River employees remained unpaid. Included in such amounts are approximately $2.2 million in severance benefits which will be paid over a period of 18 to 36 months from the date of acquisition pursuant to the terms of employment agreements with certain former Fox River executives. For the year ended December 31, 2007, the Company made payments of approximately $0.7 million under such agreements. The Company expects the payment of all other severance benefits to be substantially complete by December 31, 2008.

The following table presents the status of post-acquisition restructuring activities as of and for the year ended December 31, 2007.

	Post-Acquisition Exit Costs	Payments through December 31, 2007	Accrued Exit Costs as of December 31, 2007
Severance benefits	$ 6.4	$(3.1)	$3.3
Contract termination costs	4.9	(1.5)	3.4
Environmental clean-up and monitoring	1.2	(0.2)	1.0
Total	$12.5	$(4.8)	$7.7

The following selected unaudited pro forma consolidated statements of operations data for the years ended December 31, 2007 and 2006 was prepared as though the acquisition of Fox River had occurred on January 1, 2007 and 2006 (in millions, except per share data):

	Year Ended December 31, 2007	Year Ended December 31, 2006
Net Sales	**$1,023.3**	$796.3
Operating income[(a)(b)]	**67.4**	174.2
Income from continuing operations	**37.8**	99.6
Loss from discontinued operations	**(27.7)**	(32.9)
Net income (loss)	**10.1**	66.7
Earnings Per Common Share:		
Basic		
Continuing operations	**$ 2.54**	$ 6.75
Discontinued operations	**(1.86)**	(2.23)
	$ 0.68	$ 4.52
Diluted		
Continuing operations	**$ 2.50**	$ 6.71
Discontinued operations	**(1.83)**	(2.22)
	$ 0.67	$ 4.49

(a) Results for the year ended December 31, 2007, include $6.2 million for the gain on sale of woodlands.
(b) Results for the year ended December 31, 2006, include $125.5 million for the gain on sale of woodlands.

NEENAH GERMANY

In October 2006, the Company purchased the stock of Neenah Germany from FiberMark and FiberMark International Holdings LLC for $220.1 million in cash (net of cash acquired). In addition, $1.5 million was paid in the first quarter of 2007 primarily for the adjusted value of working capital at the acquisition date. The acquisition of Neenah Germany was financed through available cash and debt drawn against the Company's revolving credit facility. The primary source of available cash used to finance the acquisition was proceeds from the sale of woodlands in June 2006. The results of Neenah Germany are reported as part of the Company's Technical Products segment and have been included in the Company's consolidated financial results since the acquisition date.

The total cost of the acquisition has been allocated to the assets acquired and liabilities assumed in accordance with SFAS 141. The following table summarizes the final allocation of the purchase price to the estimated fair value of the assets acquired and liabilities assumed at October 11, 2006:

Cash	$ 3.0
Accounts receivable	36.4
Inventories	23.8
Receivable from FiberMark for income taxes	10.6
Prepaid and other current assets	2.3
Property, plant and equipment at cost	133.4
Goodwill	90.7
Unamortizable intangible assets	6.9
Amortizable intangible assets	21.1
Other noncurrent assets	0.5
Total assets acquired	328.7
Accounts payable	21.4
Income taxes payable	9.8
Accrued expenses	6.5
Deferred income taxes	34.1
Employee benefits and other obligations	33.0
Total liabilities assumed	104.8
Net assets acquired	$223.9

The following unaudited condensed pro forma consolidated statement of operations for the year ended December 31, 2006, was prepared as though the Acquisition had occurred on January 1, 2006 (in millions, except per share data):

	2006
Net Sales	$770.0
Operating income	183.9
Income from continuing operations	101.4
Loss from discontinued operations	(32.9)
Net income	68.5
Earnings Per Common Share:	
Basic	
Continuing operations	$ 6.87
Discontinued operations	(2.23)
	$ 4.64
Diluted	
Continuing operations	$ 6.83
Discontinued operations	(2.22)
	$ 4.61

The pro forma statement has been prepared for comparative purposes only and is not intended to be indicative of the Company's results had the acquisition of Neenah Germany occurred on January 1, 2006 or of its results in the future. The Company used the proceeds from the sale of woodlands in June 2006 (see Note 6 "Sale of Woodlands") to provide a substantial portion of the financing for the acquisition. As a result, the pro forma financial statements have been adjusted to present the effects of the sale of the woodlands as if the sale occurred on January 1, 2006.

GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, 2007, the Company had goodwill of $106.6 million which is not amortized. The following table presents changes in goodwill (all of which relates to the Company's Technical Products segment) for the years ended December 31, 2007 and 2006:

Balance at December 31, 2005	$ –
Goodwill acquired in the acquisition of Neenah Germany	87.6
Foreign currency translation	4.4
Balance at December 31, 2006	92.0
Foreign currency translation	10.6
Finalization of Neenah Germany purchase price allocation	4.0
Balance at December 31, 2007	**$106.6**

OTHER INTANGIBLE ASSETS

As of December 31, 2007, the Company had net identifiable intangible assets of $33.6 million. The following table details amounts related to those assets.

	Trade names	Customer based intangibles	Trade names and Trademarks	Acquired Technology	Total Intangible Assest
Cost					
Balance at December 31, 2005	$ –	$ –	$ –	$ –	$ –
Amounts acquired in the acquisition of Neenah Germany	7.2	16.2	5.3	1.1	29.8
Balance at December 31, 2006	7.2	16.2	5.3	1.1	29.8
Less: Accumulated amortization					
Balance at December 31, 2005	$ –	$ –	$ –	$ –	$ –
Amortization	–	(0.2)	(0.1)	–	(0.3)
Balance at December 31, 2006	–	(0.2)	(0.1)	–	(0.3)
Intangible assets – net at December 31, 2006	$ 7.2	$16.0	$ 5.2	$ 1.1	$29.5
Cost					
Balance at December 31, 2006	$ 7.2	$16.2	$ 5.3	$ 1.1	$29.8
Amounts acquired in the acquisition of Fox River	2.6	–	0.3	–	2.9
Foreign currency translation	0.2	1.7	1.3	0.1	3.3
Balance at December 31, 2007	10.0	17.9	6.9	1.2	36.0
Less: Accumulated amortization					
Balance at December 31, 2006	$ –	$ (0.2)	$(0.1)	$ –	$ (0.3)
Amortization	–	(1.2)	(0.6)	(0.1)	(1.9)
Foreign currency translation	–	(0.1)	–	(0.1)	(0.2)
Balance at December 31, 2007	–	(1.5)	(0.7)	(0.2)	(2.4)
Intangible assets – net at December 31, 2007	**$10.0**	**$16.4**	**$ 6.2**	**$ 1.0**	**$33.6**
Weighted average Amortization Period (Years)	Not amortized	15	10	10	10

The intangible assets acquired in the Fox River acquisition are reported within the Fine Paper segment. See Note 15, "Business Segment and Geographic Information." Of the $2.9 million of acquired intangible assets identified in the purchase price allocation, $0.3 million was assigned to registered trade names and trademarks with definite lives and is being amortized over a weighted average useful life of 7.5 years. The remaining balance of intangible assets acquired of $2.6 million was assigned to registered trade names and trademarks with indefinite lives. Aggregate amortization expense of acquired intangible assets for the years ended December 31, 2007 and 2006 was $1.9 million and $0.3 million, respectively. Estimated annual amortization expense for each of the next five years is $2.0 million.

Discontinued Operations

TRANSFER OF THE TERRACE BAY MILL

The Company suspended manufacturing operations at Terrace Bay in February 2006 due to a lack of wood fiber for its operations as the result of a strike initiated in January 2006 by workers employed by the woodlands operations that supplied wood fiber to the mill. Most of the hourly and salaried workers employed at the mill were laid off during the two weeks following the suspension of manufacturing activities.

In August 2006, Neenah Canada transferred Terrace Bay to Buchanan. Buchanan assumed responsibility for substantially all liabilities related to the future operation of Terrace Bay in exchange for a payment of $18.6 million. At closing, Neenah Canada retained certain working capital amounts, primarily trade accounts receivable, finished goods inventory and trade accounts payable. In addition, Neenah Canada retained pension and long-term disability obligations for current and former mill employees and post-employment medical and life insurance obligations for current retirees.

In conjunction with the transfer of Terrace Bay to Buchanan and as a closing condition of the agreement, Neenah Canada initiated plans to curtail and settle its Ontario, Canada defined benefit pension plan ("the Ontario Plan"). In August 2006, Neenah Canada made a payment to the pension trust of approximately $10.8 million for the purchase of annuity contracts to settle its pension liability for current retirees. As a result, Neenah Canada recognized a pension curtailment and settlement loss of approximately $26.4 million in the year ended December 31, 2006.

In July 2007, the Financial Services Commission of Ontario approved the Company's request to settle its pension obligations for active employees and terminate the Ontario Plan. In December 2007, the Ontario Plan was terminated and all outstanding pension obligations for active employees were settled through the purchase of annuity contracts or lump-sum payments pursuant to participant elections. Neenah Canada recognized a non-cash pre-tax settlement loss of $38.7 million upon termination of the Ontario Plan. No additional funding was required to settle the Ontario Plan.

The results of operations and loss on disposal of the Terrace Bay mill are reflected as discontinued operations in the consolidated statements of operations for each period presented. The following table presents the results of discontinued operations:

	Year Ended December 31,		
	2007	2006	2005
Net sales, net of intersegment sales	**$ –**	$ 46.0	$198.7
Discontinued Operations:			
Loss from operations[(a)(b)]	**$(44.9)**	$(46.8)	$ (84.2)
Loss on disposal	**–**	(6.5)	–
Loss before income taxes	**(44.9)**	(53.3)	(84.2)
Benefit for income taxes	**17.2**	20.4	32.2
Loss from discontinued operations, net of taxes	**$(27.7)**	$(32.9)	$ (52.0)

(a) For the year ended December 31, 2007, the loss from operations includes a non-cash pre-tax loss of $38.7 million related to the settlement of the Ontario Plan.
(b) For the year ended December 31, 2006, the loss from operations includes a loss of $26.4 million related to the curtailment and partial settlement of pension benefits for current retirees in the Ontario Plan.

In conjunction with the transfer of Terrace Bay, the Company entered into a pulp manufacturing agreement (the "Pulp Manufacturing Agreement") with Terrace Bay Pulp Inc. ("TBPI"). Pursuant to the Pulp Manufacturing Agreement, the Company has agreed to sell pulp manufactured by TBPI at Terrace Bay to satisfy the Company's supply obligations under an amended and restated pulp supply agreement with Kimberly-Clark (as amended and restated, the "Pulp Supply Agreement"). The price paid by the Company to TBPI under the Pulp Manufacturing Agreement will equal the price paid by Kimberly-Clark to the Company pursuant to the Pulp Supply Agreement. TBPI has agreed to perform substantially

all of the Company's obligations under the Pulp Supply Agreement and, together with three of its affiliated companies, to indemnify and hold the Company harmless for any claims arising from Terrace Bay's failure to so perform. The Pulp Manufacturing Agreement will terminate on December 31, 2010 or sooner by mutual agreement by the parties or upon the occurrence of certain events (as defined in the Pulp Manufacturing Agreement). In June 2007, the Company notified Kimberly-Clark of its intention to terminate its obligation to supply pulp from Terrace Bay under the Pulp Supply Agreement effective June 2008. As a result, the Pulp Manufacturing Agreement will terminate contemporaneously with the Terrace Bay portion of the Pulp Supply Agreement in June 2008.

RESTRUCTURING ACTIVITIES AT TERRACE BAY:

The Company closed the No. 1 Mill at Terrace Bay (the "No. 1 Mill") in May 2005. In conjunction with the closure, Neenah Canada paid approximately $4.9 million in termination benefits to 147 employees.

During the first quarter of 2005, Neenah Canada recorded a pre-tax, non-cash asset impairment loss of approximately $0.8 million related to the remaining value of the long-lived assets of the No. 1 Mill. In addition, for the year ended December 31, 2005, Neenah Canada recorded $0.4 million of incremental training costs for employees in new positions as a result of the closure. Such training costs were expensed as incurred. For the year ended December 31, 2005, costs associated with the closure, including expenses related to employee training, have been recorded on the consolidated statement of operations in Discontinued operations.

ASSET IMPAIRMENT LOSS:

In December 2005, the Company performed an asset impairment test on Terrace Bay under the guidance of SFAS 144. Terrace Bay had incurred operating losses in recent years and Neenah Canada anticipated that the facility would continue to incur operating losses in the future. The principal causes of these projected losses were:

- continued high operating costs at this facility;
- substantially higher discounts, under the pulp supply agreement, for pulp sold to Kimberly-Clark than those at which pulp was transferred to Kimberly-Clark prior to the Spin-Off;
- anticipated lower market prices for pulp in the foreseeable future as a result of an expected downturn in the pulp cycle; and
- continued strength of the Canadian dollar relative to the U.S. dollar.

An extended period of operating losses is an indicator of impairment under SFAS 144. The results of the impairment test indicated that the carrying amount of the Terrace Bay facility would not be recoverable from estimated future undiscounted cash flows. The Company's estimate of the fair value of the Terrace Bay facility was based on probability-weighted pre-tax cash flows from operating the facility, discounted at a risk-free interest rate. The significant assumptions the Company used to determine the estimate of fair value included its long-term projections of the market price of pulp, the projected cost structure of the facility and the long-term relationship of the Canadian dollar and the U.S. dollar. The estimated fair value of the Terrace Bay facility also reflected assumed improvements to the facility's cost structure resulting from the Company's plans for future capital projects and a plan for a cogeneration arrangement that would lower the cost of electricity.

The estimated fair value for Terrace Bay indicated that its long-lived assets were fully impaired. As a result, in December 2005, Neenah Canada recorded a pre-tax, non-cash impairment loss of approximately $53.7 million to reduce the carrying amount of the facility's tangible long-lived assets to zero. A deferred tax benefit of approximately $20.6 million was recorded as a result of the impairment losses, resulting in a net after-tax charge of approximately $33.1 million. For the year ended December 31, 2005, the asset impairment loss has been recorded on the consolidated statement of operations in Discontinued operations.

OTHER ACTIVITIES

In February 2008, the Company committed to a plan to sell the Pictou mill and its remaining woodland assets in Nova Scotia (the "Pictou Mill"). Management believes it is probable that a sale of the Pictou Mill will be completed within 12 months. In the Company's future financial statements, the results of operations for the Pictou Mill will be reported as discontinued operations and as assets held for sale until such time as a sale is consummated or the Company determines that a sale is no longer probable. In addition, the consolidated statements of operations for all comparative prior year periods will be restated to present the results of the Pictou Mill as discontinued operations.

As of December 31, 2007, while efforts to market the Pictou Mill had begun, the Company did not believe it was probable that a sale of the Pictou Mill would be completed within 12 months. In accordance with SFAS 144, as of December 31, 2007, the Company did not meet the criteria for reporting the operations of the Pictou Mill as discontinued operations, and therefore the results of the Pictou Mill have been included in continuing operations and its assets have been reported as assets to be held and used.

Sale of Woodlands

In June 2006, Neenah Canada sold approximately 500,000 acres of woodlands in Nova Scotia to Atlantic Star Forestry LTD and Nova Star Forestry LTD (collectively, the "Purchaser") for $139.1 million (proceeds net of transaction costs were $134.8 million). Neenah Canada received the total proceeds from the sale in cash at closing. Neenah Canada also entered into a fiber supply agreement (the "FSA") with the Purchaser to secure a source of fiber for the Company's Pictou pulp mill. Following the sale, Neenah Canada has approximately 500,000 acres of owned and 200,000 acres of licensed or managed woodlands in Nova Scotia.

Pursuant to the terms of the FSA, the Purchaser is required to make available to Neenah Canada sufficient woodlands acreage to yield 200,000 metric tons of softwood timber annually. Neenah Canada is required to bear all costs associated with harvesting the timber. Timber purchases under the FSA are at market-based prices subject to semi-annual adjustment. The FSA expires on December 31, 2010 and Neenah Canada has the option to unilaterally extend the contract for an additional five years. The FSA can be extended for a subsequent five years upon the mutual agreement of Neenah Canada and the Purchaser.

The sale qualified for gain recognition under the "full accrual method" described in Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate* ("SFAS 66"). Neenah Canada's commitment to accept acreage offered by the Purchaser to satisfy the timber requirements for the first 18 months of the FSA represents a "constructive obligation." As a result, for the year ended December 31, 2006, Neenah Canada recognized a net pre-tax gain on the sale of approximately $122.6 million and deferred approximately $9.1 million, which represents Neenah Canada's estimated maximum exposure to loss of profit due to the constructive obligation under the FSA. For the years ended December 31, 2007 and 2006, Neenah Canada recognized approximately $6.2 and $2.9 million, respectively, of such deferred gain. As of December 31, 2007, the deferral of the gain related to the constructive obligation was fully amortized.

Income Taxes

On January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48") which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. There was no material effect on the financial statements and no cumulative effect on retained earnings from the Company's adoption of FIN 48. However, certain amounts have been reclassified in the consolidated balance sheet to comply with the requirements of FIN 48. As of January 1, 2007, the total amount of unrecognized tax benefits was $6.5 million and as a result of the adoption of FIN 48, the Company recognized a $1.0 million increase in its liability for unrecognized tax benefits.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits as of January 1, 2007 and December 31, 2007:

Balance at January 1, 2007	$ 6.5
Decrease in the liabilty for tax positions prior to 2007	(5.5)
Balance at December 31, 2007	**$ 1.0**

If recognized, approximately $0.6 million of the unrecognized income tax benefits at December 31, 2007 would favorably affect the Company's effective tax rate in future periods. The Company does not anticipate that the expiration of the statute of limitations or the settlement of audits in the next 12 months will result in liabilities for uncertain income tax positions that are materially different than the amounts accrued as of December 31, 2007.

The Company is liable for taxes due for tax returns filed by Neenah Germany for periods prior to the acquisition (see Note 4, "Acquisitions"). Pursuant to the terms of the purchase agreement, FiberMark has agreed to indemnify the Company for the Euro value of such taxes and a portion of the purchase price has been reserved in an escrow account to fund the indemnification. At January 1, 2007, the Company believed it was probable that Neenah Germany was liable for additional taxes and recognized a $5.5 million liability for this uncertain income tax position.

As of December 31, 2007, the German tax authorities had completed their examination and determined that Neenah Germany was liable for such additional taxes. The amount of such additional taxes was approximately equal to the liability for uncertain tax benefits recognized by the Company. As of December 31, 2007, the liability for such additional taxes does not represent an uncertain tax position and has been recorded as current income taxes payable. The escrow amount is sufficient to fund the payment of such taxes.

Tax years 2004 through 2007 are subject to examination by federal and state tax authorities in the United States, federal and provincial tax authorities in Canada and federal and municipal tax authorities in Germany. Currently, the 2005 and 2006 tax years are being audited by German tax authorities.

The Company recognizes accrued interest and penalties related to uncertain income tax positions in the Provision for income taxes on the consolidated statements of operations. As of December 31, 2007, the Company had approximately $20 thousand accrued for interest related to uncertain income tax positions.

Income tax expense represented 9.3 percent, 37.2 percent and 36.6 percent of income from continuing operations before income taxes for the years ended December 31, 2007, 2006 and 2005, respectively. The following table presents the principal reasons for the difference between the effective tax rate and the U.S. federal statutory income tax rate:

	Year Ended December 31,		
	2007	2006	2005
U.S. federal statutory income tax rate	**35.0%**	35.0%	35.0%
U.S. state income taxes, net of federal income tax effect	**1.6%**	3.1%	2.3%
Enacted German tax law changes	**(21.0)%**	–	–
Foreign tax rate differences	**(7.2)%**	(0.5)%	–
Other differences – net	**0.9%**	(0.4)%	(0.7)%
Effective income tax rate	**9.3%**	37.2%	36.6%

The Company's effective tax rate can be affected by many factors, including but not limited to, changes in the mix of earnings in taxing jurisdictions with differing statutory rates, changes in corporate structure as a result of business acquisitions and dispositions, changes in the valuation of deferred tax assets and liabilities, the results of audit examinations of previously filed tax returns and changes in tax laws. During the year ended December 31, 2007, German tax laws were amended to reduce statutory income tax rates effective as of January 1, 2008. Application of the new rates to the Company's existing deferred tax assets and liabilities reduced the Company's net deferred tax liabilities at December 31, 2007. The reduction in the Company's net deferred tax liabilities due to the benefit of the enacted tax rate change resulted in an income tax benefit of $8.8 million and was treated as a discrete item for the year ended December 31, 2007 in accordance with Statement of Financial Accounting Standards No. 109, *"Accounting for Income Taxes"* and had no further impact on the Company's effective tax rate in 2007.

The following table presents the U.S. and foreign components of income from continuing operations before income taxes and the provision for income taxes:

	Year Ended December 31,		
	2007	2006	2005
Income from continuing operations before income taxes:			
U.S.	**$ 19.9**	$150.0	$35.2
Foreign	**21.9**	1.9	–
Total	**$ 41.8**	$151.9	$35.2
Provision for income taxes:			
Current:			
Federal	**$ 7.7**	$ 20.0	$11.1
State	**0.8**	2.8	1.0
Foreign	**6.1**	0.4	–
Total current tax provision	**14.6**	23.2	12.1
Deferred:			
Federal	**(1.0)**	29.5	0.6
State	**0.4**	4.3	0.2
Foreign	**(10.1)**	(0.5)	–
Total deferred tax provision	**(10.7)**	33.3	0.8
Total provision for income taxes	**$ 3.9**	$ 56.5	$12.9

The Company has elected to treat its Canadian operations as a branch for U.S. income tax purposes. Therefore, the amount of income (loss) before income taxes from Canadian operations are included in the Company's consolidated U.S. income tax returns and such amounts are subject to U.S. income taxes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The components of deferred tax assets and liabilities are as follows:

	December 31,	
	2007	2006
Net current deferred income tax assets		
Accrued liabilities	**$ 6.0**	$ (1.5)
Employee benefits	**0.4**	3.0
Other	**(4.5)**	–
Net current deferred income tax assets	**1.9**	1.5
Net noncurrent deferred income tax assets		
Employee benefits	**34.8**	30.1
Canadian timberlands	**26.5**	32.1
Intangibles	**20.2**	20.2
Net operating losses	**5.4**	0.9
Other long-term obligations	**1.6**	–
Accumulated depreciation	**(43.6)**	(53.0)
Other	**10.5**	2.4
Net noncurrent deferred income tax assets	**55.4**	32.7
Total deferred income tax assets	**$ 57.3**	$ 34.2
Net noncurrent deferred income tax liability		
Accumulated depreciation	**$ 22.0**	$ 29.9
Intangibles	**7.4**	11.2
Employee benefits	**(1.8)**	(4.2)
Other	**2.8**	(1.1)
Net noncurrent deferred income tax liabilities	**$ 30.4**	$ 35.8

In the disclosure of the components of net noncurrent deferred income tax assets as of December 31, 2006, the Company inappropriately classified approximately $20.2 million in noncurrent deferred tax assets related to intangible assets associated with employee benefits. The Company has corrected the 2006 disclosure to separately present the noncurrent deferred tax assets related to such intangible assets. There was no impact on the Company's 2006 financial statements as a result of this change.

No valuation allowance has been provided on deferred income tax assets. In determining the need for valuation allowances, the Company considers many factors, including specific taxing jurisdictions, sources of taxable income, income tax strategies and forecasted earnings for the entities in each jurisdiction. A valuation allowance would be recognized if, based on the weight of available evidence, the Company concludes that it is more likely than not that some portion or all of the deferred income tax asset will not be realized. As of December 31, 2007, the Company had $13.5 million of U.S. and $8.7 million of Canadian net operating losses, substantially all of which may be carried forward to 2025 to offset future taxable income. The Company has recorded a deferred tax liability to offset the deferred tax asset related to the Canadian net operating losses due to the U.S. Dual Consolidated Loss Recapture rules and provisions under SFAS 109. The Company has no foreign tax credits.

No provision for U.S. income taxes has been made for $27.9 million of undistributed earnings of certain of the Company's foreign subsidiaries which have been indefinitely reinvested. The Company is unable to estimate the amount of U.S. income taxes that would be payable if such undistributed foreign earnings were repatriated.

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Debt

Long-term debt consisted of the following:

	December 31,	
	2007	2006
Senior Notes (7.375% fixed rate) due 2014	**$225.0**	$225.0
Revolving bank credit facility (variable rates), due 2010	**66.2**	57.3
Term Loan (variable rates), due in 13 equal quarterly installments beginning November 2007	**23.1**	–
Third-party financing (7.375% fixed rate) due in quarterly installments through December 2007	**–**	1.3
Neenah Germany project financing (3.8% fixed rate) due in 16 equal semi-annual installments beginning June 2009	**14.6**	–
Neenah Germany revolving line of credit (variable rates)	**3.2**	–
Total Debt	**332.1**	283.6
Less: Debt payable within one year	**10.9**	1.3
Long-term debt	**$321.2**	$282.3

SENIOR UNSECURED NOTES

On November 30, 2004, the Company completed an underwritten offering of ten-year senior unsecured notes (the "Senior Notes") at an aggregate face amount of $225 million. Interest payments on the Senior Notes commenced on May 15, 2005 and are payable May 15 and November 15 of each year. The Senior Notes are fully and unconditionally guaranteed by substantially all of the Company's subsidiaries, with the exception of Neenah Germany. In August 2005, the Company exchanged the unregistered Senior Notes for registered notes with similar terms.

SECURED REVOLVING CREDIT FACILITY

On November 30, 2004, the Company entered into a Credit Agreement by and among the Company, certain of its subsidiaries, the lenders listed in the Credit Agreement and JP Morgan Chase Bank, N.A. as agent for the lenders (the "Initial Credit Agreement"). Under the Initial Credit Agreement, the Company had a secured revolving credit facility (the "Revolver") that provided for borrowings of up to $150 million. The Initial Credit Agreement is secured by substantially all of the Company's assets, including the capital stock of its subsidiaries and is guaranteed by Neenah Canada, a wholly-owned subsidiary. The Initial Credit Agreement originally terminated on November 30, 2008.

In March 2007, the Company entered into the Fourth Amendment (the "Fourth Amendment") to the Initial Credit Agreement. Except as generally described herein, the Fourth Amendment retained the terms of the amended Initial Credit Agreement. The Fourth Amendment, among other things, (i) increased the Company's secured revolving line of credit from $165 million to $180 million and (ii) made other definitional, administrative and covenant modifications to the amended Initial Credit Agreement. Despite the increase in the total commitment to $180 million, the Company's ability to borrow under the Revolver is currently limited to the lowest of (a) $180 million, (b) the Company's borrowing base (as determined in accordance with the Credit Agreement), and (c) the applicable cap on the amount of "credit facilities" under the indenture.

The closing of the Fourth Amendment occurred simultaneously with the Company's consummation of its acquisition of Fox River. In March 2007, the Company borrowed $54 million in principal under the Credit Agreement as part of the financing for the acquisition of Fox River. The entities acquired by the Company pursuant to the Fox River acquisition are guarantors with respect to such secured revolving line of credit. Such entities are also subsidiary guarantors with respect to the Senior Notes; however, the property, plant and equipment acquired in the acquisition of Fox River does not secure the Company's obligations under the Credit Agreement.

In October 2007, the Company entered into the Fifth Amendment (the "Fifth Amendment") to the Initial Credit Agreement. Except as generally described herein, the Fifth Amendment retained the terms of the amended Initial Credit Agreement. The Fifth Amendment increased the Company's secured revolving line of credit from $180 million to $210 million. Despite the increase in the total commitment to $210 million, the Company's ability to borrow under the Revolver is limited to the lowest of (a) $210 million, (b) the Company's borrowing base (as determined in accordance with the Credit Agreement), and (c) the applicable cap on the amount of "credit facilities" under the indenture for the Senior Notes.

As of December 31, 2007, the amended Initial Credit Agreement (the "Amended Credit Agreement") provides for a secured revolving credit facility (the "Revolver") to provide for borrowings of up to $210 million. The Company's ability to borrow under the Revolver is limited to the lowest of (a) $210 million, (b) the Company's borrowing base (as determined in accordance with the Amended Credit Agreement), and (c) the applicable cap on the amount of "credit facilities" under the indenture for the Senior Notes. The Amended Credit Agreement will terminate on November 30, 2010.

The interest rate applicable to borrowings under the Revolver will be either (1) the Prime Rate (as defined in the Amended Credit Agreement) plus a percentage ranging from 0 percent to 0.75 percent or (2) LIBOR plus a percentage ranging from 1.25 percent to 2.25 percent. Interest is computed based on actual days elapsed in a 360-day year, payable monthly in arrears for base rate loans, or for LIBOR loans, payable monthly in arrears and at the end of the applicable interest period. The commitment is subject to an annual facility fee of 0.25 percent on the average daily unused amount of the commitment.

In the Amended Credit Agreement, the lenders consented to the Company's purchase of Neenah Germany. Neenah Germany is not a borrower or guarantor with respect to the Revolver. However, the Company pledged 65 percent of its equity interest in Neenah Germany as security for the obligations of the Company and its subsidiaries under the Initial Credit Agreement.

In March 2007, the Company borrowed $54 million in principal under the Amended Credit Agreement as part of the financing for the acquisition of Fox River. The entities acquired by the Company pursuant to the Fox River acquisition are guarantors with respect to the Amended Credit Agreement. Such entities are also subsidiary guarantors with respect to the Senior Notes; however, the property, plant and equipment acquired in the acquisition of Fox River does not secure the Company's obligations under the Amended Credit Agreement.

The weighted-average interest rate on outstanding borrowings as of December 31, 2007 and 2006 was 6.4 percent per annum and 7.3 percent per annum, respectively. Amounts outstanding under the Revolver may be repaid, in whole or in part, at any time without premium or penalty except for specified make-whole payments on LIBOR-based loans. All principal amounts outstanding under the Revolver are due and payable on the date of termination of the Revolver. Borrowing availability under the Revolver is reduced by outstanding letters of credit and reserves for certain other items as defined in the Amended Credit Agreement. Availability under the Amended Credit Agreement will fluctuate over time depending on the value of the Company's inventory, receivables and various capital assets. As of December 31, 2007, the Company had approximately $1.6 million of letters of credit outstanding and $114.9 million of borrowing availability under the Revolver. Interest on amounts borrowed under the Revolver is paid monthly.

The Amended Credit Agreement contains events of default customary for financings of this type, including failure to pay principal or interest, materially false representations or warranties, failure to observe covenants and other terms of the Revolver, cross-defaults to other indebtedness, bankruptcy, insolvency, various ERISA violations, the incurrence of material judgments and changes in control.

The Amended Credit Agreement contains, among other provisions, covenants with which the Company must comply during the term of the agreements. Such covenants restrict the Company's ability to, among other things, incur certain additional debt, make specified restricted payments and capital expenditures, authorize or issue capital stock, enter into transactions with affiliates, consolidate or merge with or acquire another business, sell certain of its assets or liquidate, dissolve or wind-up. In addition, the terms of the Credit Agreement require the Company to achieve and maintain certain specified financial ratios. At December 31, 2007, the Company was in compliance with all covenants.

The Company's ability to pay cash dividends on its common stock is limited under the terms of both the Amended Credit Agreement and the Senior Notes. At December 31, 2007, under the most restrictive terms of these agreements, the Company's ability to pay cash dividends on its common stock is limited to a total of $10 million in a 12-month period.

TERM LOAN

In March 2007, the Company entered into an agreement by and among the Company, certain of its subsidiaries and JP Morgan Chase Bank, N.A. (the "Term Loan Agreement") to borrow up to $25 million (the "Term Loan"). As of December 31, 2007, the weighted-average interest rate on outstanding Term Loan borrowings was 6.7 percent per annum. Term Loan borrowings were used to repay outstanding Revolver borrowings. The Term Loan is secured by substantially all of the property, plant and equipment acquired by the Company in the acquisition of Fox River and is fully and unconditionally guaranteed by substantially all of the Company's other subsidiaries, except Neenah Germany. Amounts outstanding under the Term Loan may be repaid, in whole or in part, at any time without premium or penalty except that LIBOR Borrowings (as defined below) may not be partially repaid such that less than $3.0 million of LIBOR Borrowings are outstanding. The Term Loan Agreement terminates in November 2010.

At the Company's option, Term Loan borrowings may be designated as either Alternate Base Rate Borrowings (as defined in the Term Loan Agreement) or London Interbank Offered Rate Borrowings ("LIBOR Borrowings"). The interest rate on Alternate Base Rate Borrowings is the greater of (i) the Prime Rate (as defined in the Term Loan Agreement) or (ii) the Federal Funds Effective Rate (as defined in the Term Loan Agreement) plus a percentage ranging from 0 percent to 0.75 percent. The interest rate on LIBOR Borrowings is LIBOR plus a percentage ranging from 1.50 percent to 2.25 percent. Interest is computed based on actual days elapsed in a 360-day year, payable monthly in arrears for Alternate Base Rate Borrowings, or for LIBOR Borrowings, payable monthly in arrears and at the end of the applicable interest period.

OTHER NOTES

In December 2006, Neenah Germany entered into an agreement with HypoVereinsbank and IKB Deutsche Industriebank AG (the "Lenders") to provide project financing for the

construction of a saturator. The Lenders agreed to provide 10 million Euros of construction financing which is secured by the saturator. The loan matures in December 2016 and principal is repaid in equal semi-annual installments beginning in June 2009. Principal outstanding under the agreement may be repaid at any time without penalty. The interest rate on amounts outstanding is 3.8 percent based on actual days elapsed in a 360-day year and is payable semi-annually. As of December 31, 2007, €10.0 million ($14.6 million) was outstanding under this agreement.

Neenah Germany has an unsecured revolving line of credit (the "Line of Credit") with HypoVereinsbank that provides for borrowings of up to 15 million Euros for general corporate purposes. As of December 31, 2007, the weighted-average interest rate on outstanding Line of Credit borrowings was 6.5 percent per annum. No Line of Credit borrowings were outstanding as of December 31, 2006. In November 2007, Neenah Germany extended the termination date for the Line of Credit to November 30, 2008. Neenah Germany has the ability to borrow in either Euros or U.S. dollars. Interest is computed on U.S. dollars loans at the rate of 8.5 percent per annum and on Euro loans at EURIBOR plus a margin of 1.5 percent. Interest is payable quarterly and principal may be repaid at any time without penalty. As of December 31, 2007, $3.2 million was outstanding under the Line of Credit.

During the first quarter of 2005, the Company obtained third-party financing to fund its purchase of enterprise resource planning (ERP) software. At inception, the present value of the financing agreement was $3.6 million (discounted at 7.375 percent) payable in quarterly installments through December 2007. As of December 31, 2007, no third-party financing was outstanding. In the first quarter of 2005, the Company issued a short-term note for $2.3 million to finance current year insurance premiums. The note was repaid in monthly installments through October 2005 including interest at the rate of 3.9 percent per annum.

PRINCIPAL PAYMENTS

The following table presents the Company's required debt payments:

	2008	2009	2010	2011	2012	There-after	Total
Debt payments	$10.9	$9.5	$75.7	$1.8	$1.8	$232.4	$332.1

Post-Employment and Other Benefits

In conjunction with the Spin-Off, the Company agreed to provide active employees of the Pulp and Paper Business and former employees of the Canadian pulp operations with employee benefits that were substantially similar to those provided by Kimberly-Clark and to credit such employees for service earned with Kimberly-Clark. In general, employee obligations related to former employees of the U.S. paper operations were retained by Kimberly-Clark.

ADOPTION OF SFAS 158

At December 31, 2006, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* which requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The Company's adoption of SFAS 158 reduced stockholders' equity at December 31, 2006 by $55.4 million.

PENSION PLANS

Substantially all active employees of the Company's U.S. paper operations and its Canadian pulp operations participate in defined benefit pension plans and defined contribution retirement plans. Neenah Germany has defined benefit plans designed to provide a monthly pension upon retirement for all its hourly employees in Germany.

In December 2004, pension assets related to active employees of the U.S. paper operations for which the Company assumed responsibility were transferred from a Kimberly-Clark pension trust to a new trust for a pension plan established by the Company. In the fourth quarter of 2005, the transfer of assets by Kimberly-Clark to the new pension trust for obligations assumed by the Company in the Spin-Off was finalized and resulted in a credit of $0.7 million to Additional paid-in capital.

In May 2005, the Company closed the No. 1 Mill at Terrace Bay. See Note 5, "Discontinued Operations." In conjunction with the closure, the Company recognized a pre-tax charge of approximately $1.6 million related to a partial settlement of certain pension obligations.

In conjunction with the transfer of Terrace Bay to Buchanan, Neenah Canada initiated plans to curtail and settle the Ontario Plan. In August 2006, Neenah Canada made a payment to the pension trust of approximately $10.8 million for the purchase of annuity contracts to settle its pension liability for current retirees. As a result, Neenah Canada recognized a pension curtailment and settlement loss of approximately $26.4 million in the year ended December 31, 2006.

In July 2007, the Financial Services Commission of Ontario approved the Company's request to settle its pension obligations for active employees and terminate the Ontario Plan. In December 2007, the Ontario Plan was terminated and all outstanding pension obligations for active employees were settled through the purchase of annuity contracts or lump-sum payments pursuant to participant elections. For the year ended December 31, 2007, Neenah Canada recognized a non-cash pre-tax settlement loss of $38.7 million upon termination of the Ontario Plan. No additional funding was required to settle the Ontario Plan.

In November 2007, the Company amended the Fox River defined benefit pension plan to freeze the vested pension benefit for salaried employees born after December 31, 1957. The effected employees were transferred to the Company's defined contribution retirement plan. The pension benefit for salaried employees of Fox River born on or before December 31, 1957 was unaffected. For the year ended December 31, 2007, the Company recognized a reduction in pension expense of approximately $1.2 million related to the amendment.

The Company's funding policy for its qualified defined benefit plans for its U.S. paper operations and its Canadian pulp operations is to contribute assets to fully fund the accumulated benefit obligation. Subject to regulatory and tax deductibility limits, any funding shortfall is to be eliminated over a reasonable number of years. Nonqualified plans providing pension benefits in excess of limitations imposed by taxing authorities are not funded. There is no legal or governmental obligation to fund Neenah Germany's benefit plans and as such the Neenah Germany defined benefit plans are currently unfunded.

The Company uses the fair value of pension plan assets to determine pension expense, rather than averaging gains and losses over a period of years. Investment gains or losses represent the difference between the expected return calculated using the fair value of the assets and the actual return based on the fair value of assets. The Company's pension obligations are measured annually as of December 31. As of December 31, 2007, the Company's pension plans had cumulative unrecognized investment losses and other actuarial losses of approximately $55.8 million in accumulated other comprehensive income.

OTHER POST-EMPLOYMENT BENEFIT PLANS

The Company maintains health care and life insurance benefit plans for active employees of the Company and former employees of the Canadian pulp operations. The plans are generally noncontributory for employees who were eligible to retire on or before December 31, 1992 and contributory for most employees who retire on or after January 1, 1993. The Company does not provide a subsidized benefit to most employees hired after 2003.

The Company's obligations for post-employment benefits other than pensions are measured annually as of December 31. At December 31, 2007, the assumed inflationary pre-65 and post-65 health care cost trend rates used to determine year-end obligations and costs for the year ended December 31, 2008 was 8.6 percent, decreasing to 7.7 percent in 2009, and then gradually decreasing to an ultimate rate of 4.9 percent in 2014. The assumed inflationary pre-65 and post-65 health care cost trend rate used to determine obligations at December 31, 2006 and cost for the year ended December 31, 2007 was 8.9 percent, decreasing to 8.1 percent in 2008, and then gradually decreasing to an ultimate rate of 4.9 percent in 2013.

The following table reconciles the benefit obligations, plan assets, funded status and net liability information of the Company's pension and other benefit plans.

	Pension Benefits		Post-Employment Benefits Other than Pensions	
	Year Ended December 31,			
	2007	2006	**2007**	2006
Change in Benefit Obligation:				
Benefit obligation at beginning of year	**$ 419.7**	$449.9	**$ 40.0**	$ 76.1
Service cost	**9.2**	8.1	**2.4**	2.2
Interest cost	**28.1**	22.3	**2.5**	3.5
Currency	**44.2**	2.5	**2.9**	1.2
Actuarial loss (gain)	**(33.6)**	(3.0)	**0.6**	(2.7)
Benefit payments from plans	**(162.0)**	(92.4)	**(4.1)**	(2.3)
Business combinations	**102.0**	34.8	**5.9**	2.6
Participant contributions	**0.9**	0.8	**–**	–
Special termination benefits	**0.1**	–	**–**	–
Plan amendments	**–**	(4.7)	**–**	(14.1)
(Gain) loss on plan curtailment	**(1.2)**	6.1	**–**	(26.5)
Gain on plan settlement	**–**	(4.7)	**5.0**	–
Benefit obligation at end of year	**$ 407.4**	$419.7	**$ 55.2**	$ 40.0
Change in Plan Assets:				
Fair value of plan assets at beginning of year	**$ 350.9**	$375.1	**$ –**	$ –
Actual gain on plan assets	**20.1**	42.3	**–**	–
Employer contributions	**10.1**	24.2	**4.1**	2.3
Currency	**38.0**	0.9	**–**	–
Benefit payments	**(20.6)**	(92.4)	**(4.1)**	(2.3)
Settlement payments	**(141.4)**	–	**–**	–
Business combinations	**90.5**	–	**–**	–
Participant contributions	**0.9**	0.8	**–**	–
Other	**(4.9)**	–	**–**	–
Fair value of plan assets at end of year	**$ 343.6**	$350.9	**$ –**	$ –
Reconciliation of Funded Status				
Fair value of plan assets	**$ 343.6**	$350.9	**$ –**	$ –
Projected benefit obligation	**407.4**	419.7	**55.2**	40.0
Net liability recognized in statement of financial position	**$ (63.8)**	$ (68.8)	**$(55.2)**	$(40.0)
Amounts recognized in statement of financial position consist of:				
Current assets	**$ 2.9**	$ 6.3	**$ –**	$ –
Current liabilities	**(2.5)**	(2.5)	**(9.5)**	(3.4)
Noncurrent liabilities	**(64.2)**	(72.6)	**(45.7)**	(36.6)
Net amount recognized	**$ (63.8)**	$ (68.8)	**$(55.2)**	$(40.0)

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Benefits		Post-Employment Benefits Other than Pensions	
	December 31,			
	2007	2006	**2007**	2006
Accumulated actuarial loss	**$45.4**	$ 97.3	**$12.6**	$14.3
Prior service cost (credit)	**10.5**	10.6	**(2.2)**	(7.5)
Transition asset	**(0.1)**	(0.3)	**–**	–
Total recognized in accumulated other comprehensive income	**$55.8**	$107.6	**$10.4**	$ 6.8

Summary disaggregated information about the pension plans follows:

	December 31,					
	Assets Exceed ABO		ABO Exceed Assets		Total	
	2007	2006	**2007**	2006	**2007**	2006
Projected benefit obligation	**$234.5**	$207.3	**$172.9**	$212.4	**$407.4**	$419.7
Accumulated benefit obligation	**205.0**	189.2	**163.3**	193.1	**368.3**	382.3
Fair value of plan assets	**225.6**	204.2	**118.0**	146.7	**343.6**	350.9

COMPONENTS OF NET PERIODIC BENEFIT COST

	Pension Benefits			Post-Employment Benefits Other than Pensions		
	Year Ended December 31					
	2007	2006	2005	**2007**	2006	2005
Service cost	**$ 9.2**	$ 8.1	$ 10.7	**$ 2.4**	$ 2.2	$1.5
Interest cost	**28.1**	22.3	21.9	**2.5**	3.5	3.1
Expected return on plan assets[(a)]	**(32.0)**	(30.3)	(27.7)	**–**	–	–
Recognized net actuarial loss	**(0.2)**	7.7	7.1	**–**	2.3	0.7
Amortization of unrecognized transition asset	**1.8**	(0.3)	(0.2)	**(6.7)**	–	–
Amortization of prior service cost	**5.0**	1.6	1.4	**3.8**	(1.3)	0.1
Cost of contractual termination benefits	**0.1**	–	–	**–**	–	–
Amount of curtailment (gain) loss recognized	**(1.2)**	1.6	–	**–**	(19.9)	–
Amount of settlement loss recognized	**38.7**	24.8	–	**5.0**	–	–
Net periodic benefit cost (credit)	**49.5**	35.5	13.2	**7.0**	(13.2)	5.4
Less: Cost/(credit) related to discontinued operations[(b)(c)]	**41.9**	26.1	7.1	**–**	(18.2)	2.5
Net periodic benefit cost related to continuing operations	**$ 7.6**	$ 9.4	$ 6.1	**$ 7.0**	$ 5.0	$2.9

(a) The expected return on plan assets is determined by multiplying the fair value of plan assets at the prior year-end (adjusted for estimated current year cash benefit payments and contributions) by the expected long-term rate of return.

(b) In conjunction with the transfer of the Terrace Bay mill to Buchanan and as a closing condition of the agreement, the Company initiated plans to curtail and settle its Ontario, Canada defined benefit pension plan. The pension (credit) cost related to the operations of the Terrace Bay mill has been classified as Loss from discontinued operations on the consolidated statements of operations. Pension expense for the years ended December 31, 2007 and 2006 includes settlement/curtailment losses related to the Ontario Plan of $38.7 million and $26.4 million, respectively.

(c) Pursuant to the terms of the transfer agreement, Buchanan assumed responsibility for post-employment medical and life insurance benefits for active employees at the Terrace Bay mill.

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

	Pension Benefits		Post-Employment Benefits Other than Pensions	
	Year Ended December 31,			
	2007	2006	**2007**	2006
Net periodic benefit expense (income)	**$ 49.5**	$35.5	**$ 7.0**	$(13.2)
Accumulated actuarial gain	**(51.9)**	–	**(1.7)**	–
Prior service cost (credit)	**(0.1)**	–	**5.3**	–
Transition asset	**0.2**	–	**–**	–
Minimum pension liability adjustment	**–**	(4.6)	**–**	–
Total recognized in other comprehensive income	**(51.8)**	(4.6)	**3.6**	–
Total recognized in net periodic benefit cost and other comprehensive income	**$ (2.3)**	$30.9	**$10.6**	$(13.2)

The estimated net loss, prior service cost and transition (asset) for the defined benefit pension plans expected to be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) over the next fiscal year are $2.6 million, $1.9 million and $(0.2) million, respectively. The estimated net loss and prior service (credit) for post-employment benefits other than pension expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $0.7 million and $(5.3) million, respectively.

ADDITIONAL INFORMATION

	Year Ended December 31, 2006
Decrease in pre-tax minimum liability included in other comprehensive income	$4.6

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AT DECEMBER 31

	Pension Benefits		Post-Employment Benefits Other than Pensions	
	Year Ended December 31,			
	2007	2006	**2007**	2006
Discount rate	**6.10%**	5.25%	**6.00%**	5.66%
Rate of compensation increase	**3.30%**	3.29%	**–**	–

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST FOR YEARS ENDED DECEMBER 31

	Pension Benefits			Post-Employment Benefits Other than Pensions		
	Year Ended December 31,					
	2007	2006	2005	**2007**	2006	2005
Discount rate	**5.25%**	5.20%	5.75%	**5.66%**	5.22%	5.75%
Expected long-term return on plan assets	**7.90%**	8.39%	8.41%	**–**	–	–
Rate of compensation increase	**3.29%**	3.24%	3.75%	**–**	–	–

EXPECTED LONG-TERM RATE OF RETURN AND INVESTMENT STRATEGIES

The expected long-term rate of return on pension fund assets held by the Company's pension trusts was determined based on several factors, including input from pension investment consultants and projected long-term returns of broad equity and bond indices. Also considered were the plans' historical 10-year and 15-year compounded annual returns. It is anticipated that on average the investment managers for each of the plans will generate annual long-term rates of return of 8.5 percent. The expected long-term rate of return on the assets in the plans was based on an asset allocation assumption of about 60 percent with equity managers, with expected long-term rates of return of approximately 10 percent, and 40 percent with fixed income managers, with an expected long-term rate of return of about 6 percent. The actual asset allocation is regularly reviewed and periodically rebalanced to the targeted allocation when considered appropriate.

PLAN ASSETS

Pension plan asset allocations are as follows:

	Percentage of Plan Assets at December 31,		
	2007	2006	2005
Asset Category			
Equity securities	**61%**	65%	68%
Debt securities	**35%**	31%	24%
Cash and money-market funds	**4%**	4%	8%
Total	**100%**	100%	100%

For the years ended December 31, 2007, 2006 and 2005, no plan assets were invested in the Company's securities.

CASH FLOWS

Based on December 31, 2007 exchange rates, the Company expects to contribute approximately $11.3 million to its pension trusts in 2008.

FUTURE BENEFIT PAYMENTS

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Plans	Post-Employment Benefits Other than Benefits
2008	$ 22.5	$ 4.5
2009	23.4	2.4
2010	25.0	2.6
2011	27.4	2.9
2012	29.4	3.2
Years 2013–2017	184.2	19.8

HEALTH CARE COST TRENDS

Assumed health care cost trend rates affect the amounts reported for post-employment health care benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components	$0.2	$(0.2)
Effect on post-retirement benefit obligation	1.9	(1.7)

DEFINED CONTRIBUTION RETIREMENT PLANS

The Company's contributions to its defined contribution retirement plans are primarily based on the age and compensation of covered employees. Contributions to these plans, all of which were charged to expense, were $1.2 million in 2007, $1.1 million in 2006 and $1.0 million in 2005. In addition, the Company maintains a supplemental retirement contribution plan (the "SRCP") which is a nonqualified, noncontributing defined contribution plan. The Company provides benefits under the SRCP to the extent necessary to fulfill the intent of its defined contribution retirement plans without regard to the limitations set by the Internal Revenue Code on qualified defined contribution plans. For the years ended December 31, 2007, the Company recognized expense related to the SRCP of $69 thousand. No expense related to the SRCP was recognized for the years ended December 31, 2006 and 2005.

INVESTMENT PLANS

The Company provides voluntary contribution investment plans to substantially all North American employees. Under the plans, the Company matches a portion of employee contributions. For the years ended December 31, 2007, 2006 and 2005, costs charged to expense for company matching contributions under these plans were $1.7 million, $1.3 million and $1.2 million, respectively.

Stock Compensation Plans

The Company established the 2004 Omnibus Stock and Incentive Plan (the "Omnibus Plan") in December 2004. The Company reserved 3,500,000 shares of $0.01 par value common stock ("Common Stock") for issuance under the Omnibus Plan. Pursuant to the terms of the Omnibus Plan, the compensation committee of the Company's Board of Directors may grant various types of equity-based compensation awards, including incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), restricted stock units with performance conditions ("Performance Shares") and performance units, in addition to certain cash-based awards. All grants under the Omnibus Plan will be made at fair market value and no grant may be repriced. In general, the options expire ten years from the date of grant and vest over a three-year service period. As of December 31, 2007, approximately 1,690,000 shares of Common Stock were reserved for future issuance under the Omnibus Plan.

On January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R") using the modified-prospective transition method. Stock-based compensation cost recognized under SFAS 123R for the years ended December 31, 2007 and 2006 consisted of (a) compensation cost for all unvested stock-based grants outstanding as of January 1, 2006, based on the grant date fair value estimated in accordance with the pro forma provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123") and (b) compensation cost for all stock-based awards granted subsequent to adoption based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The amount of stock-based compensation cost recognized is based on the fair value of grants that are ultimately expected to vest and is recognized pro rata over the requisite service period for the entire award. The adoption of SFAS 123R resulted in additional stock-based compensation expense of $4.2 million and income tax benefits of $1.6 million and reduced basic and diluted EPS by $0.17 for the year ended December 31, 2006.

SFAS 123R amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*, to require the reporting of excess tax benefits related to the exercise or vesting of stock-based awards as cash provided by financing activities rather than as a reduction in income taxes paid and reported as cash provided by operations. For

the years ended December 31, 2007 and 2006, the Company recognized approximately $0.5 million and $67 thousand, respectively, of excess tax benefits related to the exercise or vesting of stock-based awards. The Company did not recognize any excess tax benefits for the year ended December 31, 2005.

VALUATION AND EXPENSE INFORMATION UNDER SFAS 123R

The following table summarizes stock-based compensation costs and related income tax benefits. Substantially all stock-based compensation expense has been recorded in selling, general and administrative expenses.

	Year Ended December 31,		
	2007	2006	2005
Stock-based compensation expense	**$ 6.4**	$ 5.8	$ 0.8
Income tax benefit	**(2.5)**	(2.2)	(0.3)
Stock-based compensation, net of income tax benefit	**$ 3.9**	$ 3.6	$ 0.5

The following table summarizes total compensation costs related to the Company's equity awards and amounts recognized in the year ended December 31, 2007.

	Stock Options[(a)]	Restricted Stock
Unrecognized compensation cost – December 31, 2006	$3.3	$2.2
Add: Grant date fair value of current year grants	2.8	3.0
Less: Compensation expense recognized	4.2	2.2
Less: Grant date fair value of shares forfeited	–	0.1
Unrecognized compensation cost – December 31, 2007	$1.9	$2.9
Expected amortization period (in years)	1.9	1.8

(a) The grant date fair value of current year stock awards and compensation expense recognized each include $0.2 million related to a change in the Company's estimate for forfeitures and $0.2 million related to the modification of certain awards.

STOCK OPTIONS

For the year ended December 31, 2007, the Company awarded nonqualified stock options to purchase 182,785 shares of common stock at a weighted-average exercise price of $36.97 per share. The exercise price of the options was equal to the market price of the Company's common stock on the date of grant. The options expire in ten years and, in general, one-third vest on each of the first three anniversaries of the date of grant. The weighted-average grant date fair value for stock options granted during the years ended December 31, 2007 and 2006 was $14.00 per share and $11.44 per share, respectively, and was estimated using the Black-Scholes option valuation model with the following assumptions:

	Year Ended December 31,	
	2007	2006
Expected life in years	**5.9**	5.9
Interest rate	**4.7%**	4.8%
Volatility	**35.2%**	37.9%
Dividend yield	**1.1%**	1.4%

The expected term was estimated based upon historical data for Kimberly-Clark stock option awards and the expected volatility was estimated by reference to the historical stock price performance of a peer group of companies. The risk-free interest rate was based on the yield on U.S. Treasury bonds with a remaining term approximately equivalent to the expected term of the stock option award. Forfeitures were estimated at the date of grant.

The following table summarizes stock option activity under the Omnibus Plan for the year ended December 31, 2007:

	Number of Stock Options	Weighted-Average Exercise Price
Options outstanding – December 31, 2006	1,401,521	$31.66
Add: Options granted	182,785	$36.97
Less: Options exercised	123,849	$29.42
Less: Options forfeited/cancelled	2,575	$37.90
Options outstanding – December 31, 2007	**1,457,882**	**$32.51**

The status of outstanding and exercisable stock options as of December 31, 2007, summarized by exercise price follows:

	Options Vested or Expected to Vest				Options Exercisable		
Exercise Price	Number of Options	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value[(a)]	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value[(a)]
$24.01–$29.43	320,661	6.0	$26.68	$0.8	228,480	$25.97	$0.7
$30.15–$34.61	770,051	6.3	$32.67	–	719,204	$32.68	–
$35.92–$42.24	357,794	6.2	$37.35	–	185,810	$37.53	–
	1,448,506	6.2	$32.50	$0.8	1,133,494	$32.12	$0.7

(a) Represents the total pre-tax intrinsic value as of December 31, 2007 that option holders would have received had they exercised their options as of such date. The pre-tax intrinsic value is based on the closing market price for the Company's common stock of $29.15 on December 31, 2007. The aggregate pre-tax intrinsic value of stock options exercised for the years ended December 31, 2007 and 2006 was $1.5 million and $0.2 million, respectively. No stock options were exercised for the year ended December 31, 2005.

The following table summarizes the status of the Company's unvested stock options as of December 31, 2007 and activity for the year then ended:

	Number of Stock Options	Weighted-Average Grant Date Fair Value
Outstanding – December 31, 2006	379,396	$12.23
Add: Options granted	182,785	$14.00
Less: Options vested	326,850	$12.64
Less: Options forfeited/cancelled	2,575	$14.73
Outstanding – December 31, 2007	**232,756**	**$13.01**

As of December 31, 2007, certain participants met age and service requirements that allowed their options to qualify for accelerated vesting upon retirement. As of December 31, 2007, there were 91,632 stock options subject to accelerated vesting that such participants would have been eligible to exercise if they had retired as of such date. The aggregate grant date fair value of options subject to accelerated vesting was $1.2 million. For the year ended December 31, 2007, stock-based compensation expense for such options was $0.7 million. For the year ended December 31, 2007, the aggregate grant date fair value of options vested, including options subject to accelerated vesting, was $4.1 million. Stock options that reflect accelerated vesting for expense recognition become exercisable according to the contract terms of the stock option grant.

PERFORMANCE SHARES

For the year ended December 31, 2007, the Company made a target award of 53,300 Performance Shares (net of 2,700 Performance Shares forfeited due to termination of employment) to Long Term Incentive Plan ("LTIP") participants. The measurement period for the Performance Shares is January 1, 2007 through December 31, 2009. Common stock equal to between 30 percent and 224 percent of the performance share target will be awarded based on the Company's growth in earnings before interest, taxes, depreciation and amortization ("EBITDA") minus a capital charge and total return to shareholders relative to a peer group of companies and the Russell 2000® Value Small-Cap Index. The weighted-average grant date fair value was $47.15 per Performance Share (which represents the grant date market price of the Company's common stock of $36.51 per share multiplied by the probability weighted expected payout of approximately 1.29 shares of common stock for each Performance Share) and was estimated using a "Monte Carlo" simulation technique. Compensation cost is recognized pro rata over the vesting period.

RSUs

For the year ended December 31, 2007, the Company award certain LTIP participants and directors of the Company ("Directors") 9,473 RSUs and 2,760 RSUs, respectively. The weighted-average grant date fair value of such awards to employees and Directors were $30.80 per share and $41.51 per share, respectively. Awards to Directors vest one year from the date of grant. In general, awards to LTIP participants vest equally on the first three anniversaries of the award.

RESTRICTED STOCK

A number of employees of the Pulp and Paper Business were granted Kimberly-Clark restricted stock awards in previous years. These awards generally vested and became unrestricted shares in three to five years from the date of grant. At the time of the Spin-Off, the vesting schedule of restricted stock awards for employees of the Pulp and Paper Business were adjusted so that the awards vested on a prorated basis determined by the number of full years of employment with Kimberly-Clark during the restriction period. Unvested restricted shares of Kimberly-Clark common stock were forfeited.

On December 1, 2004, the Company awarded 25,360 replacement restricted shares to employees whose restricted shares of Kimberly-Clark common stock were forfeited. The number of restricted shares was calculated using a ratio conversion methodology approved under FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25* based on the fair market value of the Company's Common Stock on the date of grant. As of December 31, 2007, 14,292 of such restricted shares were outstanding.

The following table summarizes the activity of the Company's unvested stock-based awards (other than stock options) for the year ended December 31, 2007:

	Restricted Stock	Weighted-Average Grant Date Fair Value	Performance Shares/RSUs	Weighted-Average Grant Date Fair Value
Outstanding – December 31, 2006	19,190	$34.28	140,673	$29.76
Add: Shares granted[(a)]	–	–	65,533	$44.63
Less: Shares vested	4,898	$34.28	33,281	$30.51
Less: Shares expired or cancelled	–	–	2,760	$48.53
Outstanding – December 31, 2007[(b)]	**14,292**	**$34.28**	**170,165**	**$35.03**

(a) Includes the grant of 212 RSUs to Canadian employees and directors in lieu of cash dividends. Such dividends-in-kind vest concurrently with the underlying RSU.
(b) The aggregate pre-tax intrinsic value of restricted stock, RSUs and Performance Shares as of December 31, 2007 was $0.4 million, $3.5 million and $3.4 million, respectively. The aggregate pre-tax intrinsic value of Performance Shares was calculated on the shares that would be issued based on the Company's achievement of performance targets if the performance period ended at December 31, 2007.

The aggregate pre-tax intrinsic value of restricted stock and RSUs that vested for the years ended December 31, 2007, 2006 and 2005 was $1.3 million, $0.2 million and $0.2 million, respectively.

PRO FORMA INFORMATION UNDER SFAS 123 FOR PERIODS PRIOR TO JANUARY 1, 2006

Prior to January 1, 2006, the Company applied the intrinsic value method permitted by Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations to account for stock option grants as permitted by SFAS 123. No employee compensation expense related to stock options has been charged to earnings because the exercise prices of all stock options granted were equal to the market value of the Company or Kimberly-Clark's common stock on the date of grant. SFAS 123R requires the recognition of compensation costs for stock-based awards subject to accelerated vesting upon retirement over a service period ending no later than the earliest date the employee becomes eligible for retirement, generally age 55 with five years of vested service. Prior to the adoption of SFAS 123R, the Company recognized compensation cost over the explicit service period for restricted stock and RSU awards subject to accelerated vesting upon retirement. For such awards and other stock-based awards granted prior to, but unvested as of, January 1, 2006, compensation cost will be recognized pro rata over the explicit service period for the award and any remaining unamortized compensation cost will be recognized upon the employees' retirement.

The following table presents the effects on net income and earnings per share if the Company had adopted the fair value recognition provisions of SFAS 123 for options granted in the year ended December 31, 2005.

(In millions, except per share data)	
Reported net loss	$(29.7)
Add: Stock-based compensation expense, net of tax effects, included in net income as reported	0.5
Less: Pro forma compensation expense, net of tax	(2.5)
Pro forma net income	$(31.7)
Reported earnings per share:	
Basic	$(2.02)
Diluted	$(2.01)
Pro forma earnings per share:	
Basic	$(2.15)
Diluted	$(2.14)

The weighted-average grant date fair value for stock options granted during the years ended December 31, 2005 was estimated using the Black-Scholes option valuation model with the following assumptions:

Expected life in years	5.9
Interest rate	3.9%
Volatility	39.0%
Dividend yield	1.2%

The expected term was estimated based upon historical data for Kimberly-Clark stock option awards and expected volatility was estimated by reference to the historical stock price performance of a peer group of companies. The grant date fair market value of stock options awarded during the year ended December 31, 2005 was $12.46. Forfeitures were estimated at the date of grant.

Stockholders' Equity

COMMON STOCK

The Company has authorized 100 million shares of Common Stock. Holders of the Company's Common Stock are entitled to one vote per share.

For the years ended December 31, 2007, 2006 and 2005, the Company acquired 11,445 shares, 1,185 shares and 814 shares of Common Stock, respectively, at a cost of approximately $0.3 million, $41,000 and $25,000, respectively, primarily for shares surrendered by employees to pay taxes due on vested restricted stock awards. In addition, in connection with the acquisition of Fox River, the Company acquired 100 shares of Common Stock with a fair market value of approximately $4,000.

Each share of our Common Stock contains a preferred stock purchase right that is associated with the share. These preferred stock purchase rights are transferred only with shares of Common Stock. The preferred stock purchase rights become exercisable and separately certificated only upon a "Rights Distribution Date" as that term is defined in our stockholder rights agreement adopted by the Company at the time of the Spin-Off. In general, a Rights Distribution Date occurs ten business days following either of these events: (i) a person or group has acquired or obtained the right to acquire beneficial ownership of 15 percent or more of the outstanding shares of our Common Stock then outstanding or (ii) a tender offer or exchange offer is commenced that would result in a person or group acquiring 15 percent or more of the outstanding shares of our Common Stock then outstanding.

On March 12, 2008, the Company's shareholders approved a reverse/forward split of the issued and outstanding shares of Common Stock. The reverse/forward split will consist of a 1-for-50 reverse split of Common Stock followed immediately by a 50-for-1 forward split of Common Stock. Holdings of stockholders with fewer than 50 shares of Common Stock prior to the split would be converted into fractional shares. Such fractional shares would be purchased by the Company at a price equal to the average closing price per share of the Company's Common Stock on the New York Stock Exchange on the five days preceding the split. Stockholders holding 50 or more shares of common stock will continue to hold the same number of shares after the forward stock split, and will not receive any cash payment. The Company expects to fund up to $9 million to acquire a portion of these shares. The reverse/forward split is expected to result in a significant reduction in shareholder record keeping and mailing expenses and provide holders of fewer than 50 shares with a cost-effective way to efficiently dispose of their investment.

PREFERRED STOCK

The Company has authorized 20 million shares of $0.01 par value preferred stock. The preferred stock may be issued in one or more series and with such designations and preferences for each series as shall be stated in the resolutions providing for the designation and issue of each such series adopted by the Board of Directors of the Company. The board of directors is authorized by the Company's articles of incorporation to determine the voting, dividend, redemption and liquidation preferences pertaining to each such series. No shares of preferred stock have been issued by the Company.

Commitments

LEASES

The future minimum obligations under operating leases having a noncancelable term in excess of one year as of December 31, 2007, are as follows:

2008	$3.4
2009	3.3
2010	2.3
2011	1.9
2012	1.4
Thereafter	2.3
Future minimum lease obligations	$14.6

For the years ended December 31, 2007, 2006 and 2005, rental expense under operating leases was $3.0 million, $2.0 million and $1.3 million, respectively.

PURCHASE COMMITMENTS

The Company has entered into long-term contracts for the purchase of sawmill wood chips. The minimum purchase commitments extend beyond 2008. Commitments under these contracts are approximately $43.5 million in 2008, $40.5 million in 2009, $37.7 million in 2010, $34.8 million in 2011 and $21.4 million in 2012. Total commitments beyond 2012 are $184.1 million.

In conjunction with the sale of 500,000 acres of woodlands in Nova Scotia, the Company entered into a Fiber Supply Agreement (the "FSA") with the purchaser. See Note 6, "Sale of Woodlands." Pursuant to the terms of the FSA, the Company agreed to purchase 200,000 metric tons of softwood timber annually through December 31, 2010. Based on the contract price in effect at December 31, 2006, commitments under the FSA are approximately $6.7 million annually for 2008 through 2010. Timber purchases under the FSA are at market-based prices subject to semi-annual adjustment. The FSA expires on December 31, 2010 and can be extended for an additional five years at the Company's discretion. The FSA can be extended for a subsequent five years upon the mutual agreement of the Company and the Purchaser.

The Company has certain other minimum purchase commitments, none of which are individually material, that extend beyond 2008. Commitments under these contracts are approximately $0.7 million in 2008, $0.6 million in 2009, $0.6 million in 2010, $0.5 million in 2011and $0.3 million in 2012.

Although the Company is primarily liable for payments on the above-mentioned leases and purchase commitments, management believes exposure to losses, if any, under these arrangements is not material.

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Contingencies and Legal Matters

LITIGATION

In December 2006, certain retirees of Neenah Canada brought a proposed class action lawsuit (the "Retiree Class Action") against Neenah Canada, the Company and Kimberly-Clark Inc. alleging the wrongful reduction and/or elimination of certain retiree benefits following Neenah Canada's transfer of the Terrace Bay pulp and woodlands operations to Terrace Bay Pulp Inc. and Eagle Logging Inc. The plaintiffs alleged that the Company and Neenah Canada have breached a contract to provide benefits, breached their fiduciary duty to the plaintiffs and have made negligent misrepresentations regarding retiree benefits. The plaintiffs sought unspecified damages for the value of the loss of retiree medical and health benefits (and/or reinstatement of the reduced/eliminated benefits), plus punitive damages in the amount of $5.0 million Canadian dollars. In the fourth quarter of 2007, Neenah Canada and the plaintiffs reached an agreement to settle the Retiree Class Action. In return for a full and complete dismissal of all claims for retiree health and medical benefits against Neenah Canada and the Company, Neenah Canada agreed to pay the plaintiffs approximately $5.5 million Canadian dollars for settlement of the Retiree Class Action. Neenah Canada also agreed to continue certain retiree life insurance benefits at a reduced rate in the future. The settlement of the Retiree Class Action has been approved by all class members and the court, and the settlement amounts were paid to the putative class in February 2008, resulting in a full and complete dismissal of the Retiree Class Action. For the year ended December 31, 2007, Neenah Canada recorded a charge related to the litigation settlement of $5.2 million.

In February 2007, certain former employees of Neenah Canada who were previously employed in Neenah Canada's Longlac woodlands operations brought suit against the Company and Neenah Canada in the Ontario (Canada) Superior Court of Justice for damages. The plaintiffs claim to have suffered from an alleged wrongful termination of employment by Neenah Canada occurring on or about August 21, 2006. Eagle Logging Inc. (the purchaser of Neenah Canada's Longlac woodlands assets on August 29, 2006), Terrace Bay Pulp Inc. (the purchaser of Neenah Canada's Terrace Bay pulp mill), Buchanan Forest Products Ltd., Lucky Star Holdings Inc. (each affiliates of Eagle Logging Inc. and Terrace Bay Pulp Inc.), Kimberly-Clark Corporation and Kimberly-Clark Inc. have also been named in the lawsuit. The lawsuit seeks damages for severance and notice pay under Ontario law, as well as damages for wrongful termination, breach of contract, conspiracy and punitive damages, among other things. Eagle Logging Inc. and certain affiliated companies have agreed to indemnify and hold the Company and Neenah Canada harmless from claims and damages arising from the termination of woodlands employees prior to the acquisition of Neenah Canada's woodlands assets by Eagle Logging Inc. in 2006. The Company and Neenah Canada believe they have adequate defenses against such claims and will vigorously defend the litigation.

The Company is involved in certain other legal actions and claims arising in the ordinary course of business. While the outcome of these legal actions and claims cannot be predicted with certainty, it is the opinion of management that the outcome of any such claim which is pending or threatened, either individually or on a combined basis, will not have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

INDEMNIFICATIONS

For the years ended December 31, 2007 and 2006, the Company did not recognize revenue or cost in its consolidated statement of operations for the pulp manufactured by TBPI at the Terrace Bay mill for sale to Kimberly-Clark.

The Company receives payments from Kimberly-Clark for Kimberly-Clark's purchases of pulp from TBPI and immediately remits such payments to TBPI. In general, Kimberly-Clark pays for such pulp purchase in approximately 45 days from receipt of the product. Due to the lag in payments, at any given time, the Company has approximately equal accounts receivable from Kimberly-Clark and accounts payable to TBPI for such pulp shipments. As of December 31, 2007, the Company had a receivable from Kimberly-Clark for $17.7 million recorded in Accounts receivable, net, $1.7 million of cash received from Kimberly-Clark that had not been remitted to Buchanan recorded in Cash and cash equivalents and a $19.4 million payable to TBPI recorded in Accounts payable on the consolidated balance sheet.

Pursuant to the Distribution Agreement, the Pulp Supply Agreement, the Employee Matters Agreement and the Tax Sharing Agreement, the Company has agreed to indemnify Kimberly-Clark for certain liabilities or risks related to the Spin-Off. See Note 14, "Transactions with Kimberly-Clark." Many of the potential indemnification liabilities under these agreements are unknown, remote or highly contingent. Furthermore, even in the event that an indemnification claim is asserted, liability for indemnification is subject to determination under the terms of the applicable agreement. For these reasons, the Company is unable to estimate the maximum potential amount of the possible future liability under the indemnity provisions of these agreements. However, the Company accrues for any potentially indemnifiable liability or risk under these agreements for which it believes a future payment is probable and a range of loss can be reasonably estimated. As of December 31, 2007, management believes the Company's liability under such indemnification obligations was not material to the consolidated financial statements.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

Neenah is subject to federal, state, provincial and local laws, regulations and ordinances relating to various environmental, health and safety matters. The Company is in compliance with, or is taking actions designed to ensure compliance with, these laws, regulations and ordinances. However, the nature of the Company's business exposes it to the risk of claims with respect to environmental, health and safety matters, and there can be no assurance that material costs or liabilities will not be incurred in connection with such claims. Except for certain orders issued by environmental, health and safety regulatory agencies, with which management believes the Company is in compliance and which management believes are immaterial to the results of operations of the Company's business, Neenah is not currently named as a party in any judicial or administrative proceeding relating to environmental, health and safety matters.

While the Company has incurred in the past several years, and will continue to incur, capital and operating expenditures in order to comply with environmental, health and safety laws, regulations and ordinances, management believes that the Company's future cost of compliance with environmental, health and safety laws, regulations and ordinances, and its exposure to liability for environmental, health and safety claims will not have a material adverse effect on its financial condition, results of operations or liquidity. However, future events, such as changes in existing laws and regulations or contamination of sites owned, operated or used for waste disposal by the Company (including currently unknown contamination and contamination caused by prior owners and operators of such sites or other waste generators) may give rise to additional costs which could have a material adverse effect on the Company's financial condition, results of operations or liquidity.

The Company incurs capital expenditures necessary to meet legal requirements and otherwise relating to the protection of the environment at its facilities in the United States and internationally. For these purposes, the Company has planned capital expenditures for environmental projects during the period 2008 through 2010 of approximately $2 million to $3 million annually. Following the completion of engineering studies and negotiations with local authorities and other interested parties in Canada, the Company does not anticipate any material capital expenditures would be required at the Pictou mill in the foreseeable future related to the effluent treatment system, total sulfur emissions or other environmental matters until 2009 or later. The Company's anticipated capital expenditures for environmental projects are not expected to have a material adverse effect on our financial condition, results of operations or liquidity.

EMPLOYEES AND LABOR RELATIONS

Hourly employees at the Pictou pulp mill are represented by the Communications, Energy and Paperworkers Union of Canada. The collective bargaining agreement for the Pictou mill expires on May 31, 2009.

Hourly employees at the Neenah, Appleton, Whiting, Munising, and Urbana paper mills and the Appleton converting center are represented by the United Steelworkers Union (the "USW"). The collective bargaining agreement for the Appleton converting center expires in November 2008. The collective bargaining agreements for the Whiting, Urbana, Neenah, Munising, and Appleton paper mills expire on January 31, 2009, May 31, 2009, June 30, 2009, July 14, 2009 and May 31, 2010, respectively. Additionally, the Neenah, Whiting and Munising, paper mills have bargained jointly with the union on pension matters. In September 2007, the Company and the union entered into a new agreement governing pension matters that expires in 2019.

Hourly employees at the Ripon paper mill are represented by a local of the Association of Western Pulp and Paper Workers pursuant to a collective bargaining agreement that expires on April 30, 2010. As of December 31, 2007, all hourly employees at the Housatonic mill represented by locals of the USW had been terminated.

Approximately 50 percent of salaried employees and 80 percent of hourly employees of Neenah Germany are eligible to be represented by the Mining, Chemicals and Energy Trade Union, Industriegewerkschaft Bergbau, Chemie and Energie (the "IG BCE"). The collective bargaining agreement covering union employees of Neenah Germany is negotiated by the IG BCE and a national trade association representing all employers in the industry. Union membership is voluntary, and under German law does not need to be disclosed to the Company. As a result, the number of employees covered by the collective bargaining agreement that expires in September 2008 cannot be determined. Negotiations on a new contract have not begun.

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Transactions with Kimberly-Clark

During all years presented, the Company sold softwood and hardwood pulp to Kimberly-Clark. For the years ended December 31, 2007, 2006 and 2005, net sales revenue for the pulp sold to Kimberly-Clark were $115 million, $163 million and $135 million, respectively. In connection with the Spin-Off, the Company and Kimberly-Clark entered into the Pulp Supply Agreement as described below.

PULP SUPPLY AGREEMENT

Pursuant to the terms of the Pulp Supply Agreement, the Company agreed to supply from its Terrace Bay and Pictou pulp mills and Kimberly-Clark agreed to purchase annually specified tonnages of northern bleached softwood and hardwood kraft pulp, except to the extent excused by a Force Majeure Event. The northern bleached softwood kraft pulp commitment is 365,000 metric tons for 2007, 278,000 metric tons for 2008, and 165,000 metric tons for 2009. These tonnages have been and will be supplied to Kimberly-Clark by the Company's Pictou Pulp mill and, on a pass-through basis, by Terrace Bay which the Company sold to TBPI in August 2006. TBPI has agreed to perform substantially all of the Company's obligations under the Pulp Supply Agreement and, together with three of its affiliated companies, to indemnify and hold the Company harmless for any claims arising from Terrace Bay's failure to so perform. See Note 13, "Contingencies and Legal Matters." The Pictou mill's supply commitment to Kimberly-Clark for 2008 represents approximately 65 percent of its total production of northern bleached softwood kraft pulp in 2007.

In June 2007, the Company notified Kimberly-Clark of its intention to terminate its obligation to supply pulp from Terrace Bay under the Pulp Supply Agreement effective June 2008. Such notice will also result in cancellation of the pass-through sales agreement between the Company and TBPI with respect to Terrace Bay, but does not terminate the Company's supply arrangements with Kimberly-Clark for pulp manufactured at the Pictou Mill. See Note 5, "Discontinued Operations."

The Company's commitment to supply northern bleached hardwood kraft pulp from the Pictou Mill for 2007 was 20,000 metric tons and is 10,000 metric tons for 2008. The commitments for 2008 represent approximately 40 percent of the Pictou Mill's production of northern bleached hardwood kraft pulp in 2007. For the year ended December 31, 2007, the Company fulfilled its supply commitments pursuant to the Pulp Supply Agreement.

Under the Pulp Supply Agreement, the prices for northern bleached softwood kraft pulp and northern bleached hardwood kraft pulp are based on published industry index prices for the pulp (subject to minimum and maximum prices for northern bleached kraft softwood pulp shipped to North America prior to December 31, 2007), less agreed upon discounts. The commitments are structured as supply-or-pay and take-or-pay arrangements. Accordingly, if the Company does not supply the specified minimums, the Company must pay Kimberly-Clark for the shortfall based on the difference between the contract price and any higher price that Kimberly-Clark pays to purchase the pulp, plus 10 percent of that difference. If Kimberly-Clark does not purchase the specified minimums, Kimberly-Clark must pay for the shortfall based on the difference between the contract price and any lower price the Company obtains for the pulp, plus 10 percent of the difference. The Company will incur the cost of freight to delivery points specified in the agreement.

Either party can elect a two-year phase-down period for the agreement, to begin no earlier than January 1, 2009, under which the commitments for northern bleached softwood kraft pulp in the first and second years of the phase-down period would be 165,000 and 101,000 metric tons, respectively. Either the Company or Kimberly-Clark may terminate the pulp supply agreement for certain events specified in the agreement, including a material breach of the agreement by the other party that is not cured after 30 days' notice, insolvency or bankruptcy of the other party,

or a fundamental change in the nature of the business of the other party that may substantially affect its ability to sell or to purchase or utilize pulp under the agreement. In addition, Kimberly-Clark may terminate the agreement if the ownership or control of the Company or any of its pulp production facilities becomes vested in or is made subject to the control or direction of, any direct competitor of Kimberly-Clark or any governmental or regulatory authority or any other third party, who in Kimberly-Clark's reasonable judgment may not be able to reliably perform the Company's obligations under the agreement. Kimberly-Clark may also terminate the agreement upon one year's notice if, as a result of the Company's forestry activities, continued use of the Company's pulp by Kimberly-Clark does or, in Kimberly-Clark's reasonable judgment is likely to, result in a substantial loss of sales of Kimberly-Clark's products or to otherwise materially and adversely affect the reputation of Kimberly-Clark or its products. Kimberly-Clark may also terminate the agreement upon 180 days notice that the Company's failure to comply with United States customs requirements jeopardizes Kimberly-Clark customs certification.

The description above is a summary of the principal provisions of the Pulp Supply Agreement and is qualified in its entirety by the Amended and Restated Pulp Supply Agreement dated August 29, 2006.

OTHER AGREEMENTS WITH KIMBERLY-CLARK

The Company also entered into a (i) Distribution Agreement, (ii) Employee Matters Agreement, (iii) Corporate Services Agreement and (iv) Tax Sharing Agreement with Kimberly-Clark in connection with the Spin-Off. These agreements provided for, among other things, (i) the principal corporate transactions required to effect the separation of the Pulp and Paper Business from Kimberly-Clark, cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of the Pulp and Paper Business with the Company and financial responsibility for the obligations and liabilities of Kimberly-Clark's retained businesses with Kimberly-Clark, (ii) employee liability transfers to the Company and retention of certain employment liabilities by Kimberly-Clark, (iii) various transitional corporate support services and (iv) the Company's and Kimberly-Clark's respective rights, responsibilities and obligations after the Spin-Off with respect to taxes attributable to the Company's business, as well as any taxes incurred by Kimberly-Clark as a result of the failure of the Spin-Off to qualify for tax-free treatment under Section 355 of the Code.

The descriptions above are summaries of the principal provisions of the various agreements and are qualified in their entirety by the respective agreements.

Business Segment and Geographic Information

The Company reports its operations in three segments: Fine Paper, Technical Products and Pulp. The Fine Paper business is a leading producer of premium writing, text, cover and specialty papers. The Technical Products business is a leading producer of filtration media, durable, saturated and coated substrates for a variety of end uses; and nonwoven wall coverings. The Pulp business consists of a mill and related timberlands, which produces northern bleached softwood and hardwood kraft pulp. Each segment requires different technologies and marketing strategies. Disclosure of segment information is on the same basis that management uses internally for evaluating segment performance and allocating resources. Transactions between segments are executed at market prices and such transactions are eliminated in consolidation.

The costs of shared services, and other administrative functions managed on a common basis, are allocated to the segments based on usage, where possible, or other factors based on the nature of the activity. The accounting policies of the reportable operating segments are the same as those described in Note 2, "Summary of Significant Accounting Policies."

BUSINESS SEGMENTS

	Year Ended December 31,		
	2007	2006	2005
Net sales			
Fine Paper	**$366.5**	$223.9	$222.3
Technical Products	**400.8**	183.1	130.6
Pulp	**223.5**	189.3	183.8
Intersegment sales	**(0.3)**	(2.0)	(2.0)
Consolidated	**$990.5**	$594.3	$534.7

	Year Ended December 31,		
	2007	2006	2005
Operating income			
Fine Paper	**$ 46.6**	$ 56.2	$58.4
Technical Products	**24.7**	9.2	10.5
Pulp[(a)(b)]	**9.2**	115.8	(9.0)
Unallocated corporate costs	**(13.6)**	(12.8)	(6.5)
Consolidated	**$ 66.9**	$168.4	$53.4

(a) For the years ended December 31, 2007 and 2006, operating income for the pulp business includes amortization of the deferred gain on sale of woodlands of $6.2 million and $2.9 million, respectively.

(b) For the years ended December 31, 2006, operating income for the pulp business includes a $122.6 million gain on sale of woodlands.

	Year Ended December 31,		
	2007	2006	2005
Depreciation and amortization			
Fine Paper	**$11.3**	$9.5	$9.5
Technical Products	**17.2**	6.2	4.0
Pulp	**10.7**	10.0	13.5
Corporate	**6.1**	4.5	2.0
Total	**45.3**	30.2	29.0
Less: Discontinued operations	**–**	–	3.4
Total Continuing Operations	**$45.3**	$30.2	$25.6

	Year Ended December 31,		
	2007	2006	2005
Capital expenditures			
Fine Paper	**$ 9.5**	$ 4.8	$ 5.5
Technical Products	**39.5**	6.7	2.4
Pulp	**5.4**	6.7	9.8
Corporate	**3.9**	6.9	8.0
Total	**58.3**	25.1	25.7
Less: Discontinued operations	**–**	–	4.2
Total Continuing Operations	**$58.3**	$25.1	$21.5

	December 31,	
	2007	2006
Total Assets		
Fine Paper	**$209.8**	$111.0
Technical Products	**467.9**	394.1
Pulp	**223.0**	202.6
Unallocated corporate and intersegment items	**32.1**	37.0
Total	**$932.8**	$744.7

GEOGRAPHIC INFORMATION

	Year Ended December 31,		
	2007	2006	2005
Net sales			
United States	**$502.9**	$357.3	$352.9
Canada	**223.5**	189.3	183.8
Europe	**264.4**	49.7	–
Intergeographic items	**(0.3)**	(2.0)	(2.0)
Consolidated	**$990.5**	$594.3	$534.7

	December 31,	
	2007	2006
Total Assets		
United States	**$332.5**	$223.5
Canada	**201.6**	180.8
Europe	**398.7**	340.4
Total	**$932.8**	$744.7

Net sales are attributed to geographic areas based on the physical location of the entities. Segment identifiable assets are those that are directly used in the segments operations. Corporate assets are primarily cash, prepaid pension costs and deferred financing costs.

CONCENTRATIONS

For the years ended December 31, 2007, 2006 and 2005, the Company had pulp sales to Kimberly-Clark of $115 million, $163 million and $135 million, respectively. For the years ended December 31, 2007, 2006 and 2005, sales to the fine paper business's two largest customers (both of which are distributors) represented approximately 30 percent, 30 percent and 35 percent, respectively, of its total sales. For the periods presented, no other single customer accounted for more than 10 percent of the consolidated revenue of the Company. Except for wood chips used by the Pictou mill and certain specialty latex grades and specialty softwood pulp used by Technical Products, management is not aware of any significant concentration of business transacted with a particular supplier that could, if suddenly eliminated, have a material adverse affect on its operations. For the year ended December 31, 2007, two suppliers provided over 60 percent of the wood chips used by the Pictou mill. While management believes that alternative sources of critical supplies, such as wood chips, would be available, disruption of its primary sources could create a temporary, adverse effect on product shipments. An interruption in supply of a latex specialty grade or of specialty softwood pulp could disrupt and eventually cause a shutdown of production of certain technical products.

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Supplemental Data

SUPPLEMENTAL STATEMENT OF OPERATIONS DATA

	Year Ended December 31,		
	2007	2006	2005
Summary of Advertising and Research Expenses			
Advertising expense	**$10.3**	$6.3	$7.9
Research expense	**6.4**	3.5	2.2

	Year Ended December 31,		
	2007	2006	2005
Summary of Other (Income) Expense – net			
Foreign currency (gains) losses	**$ 2.3**	$ –	$(4.6)
Gains on derivative financial instruments	**(6.7)**	(7.6)	(2.0)
Cost of litigation settlement (Note 13)	**5.2**	–	–
Terrace Bay employee benefits	**(3.5)**	–	–
Other income – net	**(2.8)**	(0.2)	(0.2)
Total	**$(5.5)**	$(7.8)	$(6.8)

SUPPLEMENTAL BALANCE SHEET DATA

	December 31,	
	2007	2006
Summary of Accounts Receivable – net		
Accounts Receivable:		
From customers	**$135.1**	$105.2
Other	**12.4**	11.7
Less allowance for doubtful accounts and sales discounts	**(2.1)**	(4.4)
Total	**$145.4**	$112.5

	December 31,	
	2007	2006
Summary of Inventories		
Inventories by Major Class:		
Raw materials	**$ 26.2**	$24.2
Work in progress	**18.1**	11.1
Finished goods	**70.2**	44.5
Supplies and other	**5.7**	3.4
	120.2	83.2
Excess of FIFO over LIFO cost	**(9.6)**	(8.3)
Total	**$110.6**	$74.9

	December 31,	
	2007	2006
Summary of Prepaid and Other Current Assets		
Indemnification from FiberMark for German taxes	**$ 5.1**	$ 5.4
Receivable from FiberMark for German taxes	**4.6**	4.9
Spare parts	**10.0**	7.2
Prepaid pension costs (Note 9)	**–**	6.3
Prepaid and other current assets	**6.9**	4.1
Prepaid income taxes	**0.6**	3.3
Assets held for sale (Note 4)	**2.2**	–
Cash flow hedges (Note 3)	**0.5**	0.7
Total	**$29.9**	$31.9

	December 31,	
	2007	2006
Summary of Property, Plant and Equipment – net		
Land and land improvements	**$ 13.0**	$ 2.7
Buildings	**159.7**	124.9
Machinery and equipment	**714.6**	595.7
Roads	**16.8**	14.5
Timberlands	**9.8**	8.4
Construction in progress	**11.2**	21.9
	925.1	768.1
Less accumulated depreciation and depletion	**492.8**	412.5
Net Property, Plant and Equipment	**$432.3**	$355.6

Depreciation expense for the years ended December 31, 2007, 2006 and 2005 was $41.6 million, $28.0 million and $27.0 million, respectively. Interest expense capitalized as part of the costs of capital projects was $0.5 million, $0.3 million and $0.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

	December 31,	
	2007	2006
Summary of Accrued Expenses		
Accrued salaries and employee benefits	**$34.2**	$26.6
Accrued income taxes	**13.7**	10.2
Accrued interest	**2.1**	2.1
Accrued restructuring costs (Note 3)	**5.3**	–
Deferred revenue	**0.1**	5.8
Other	**16.7**	8.8
Total	**$72.1**	$53.5

	December 31,	
	2007	2006
Summary of Noncurrent Employee Benefits and Other Obligations		
Pension benefits	**$ 64.2**	$ 72.6
Post-employment benefits other than pensions	**45.7**	36.6
Other	**13.4**	3.0
Total	**$123.3**	$112.2

SUPPLEMENTAL CASH FLOW DATA

	Year Ended December 31,		
	2007	2006	2005
Net cash provided by (used in) changes in working capital, net of effects of acquisitions			
Accounts receivable	**$(14.3)**	$ 3.0	$ 13.3
Inventories	**(1.1)**	24.7	(7.6)
Prepaid and other current assets	**(3.3)**	(0.8)	(6.9)
Accounts payable	**2.8**	8.0	(10.1)
Accrued expenses	**7.2**	0.7	(0.2)
Foreign currency effects on working capital	**8.7**	4.2	1.4
Total	**$ –**	$39.8	$(10.1)

	Year Ended December 31,		
	2007	2006	2005
Cash paid during period for interest, net of interest expense capitalized	**$23.7**	$17.1	$15.8
Cash paid during period for income taxes, net of refunds	**6.2**	4.1	6.6
Non-cash transfers (to) from Kimberly-Clark (Note 9)	**–**	–	0.7
Non-cash investing activities:			
Liability for equipment acquired	**3.2**	(4.2)	(1.7)

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Condensed Consolidating Financial Information

Neenah Paper Company of Canada, Neenah Paper Michigan, Inc. and Neenah Paper Sales, Inc. (the "Guarantor Subsidiaries") guarantee the Company's Senior Notes. The Guarantor Subsidiaries are 100 percent owned by the Company and all guarantees are full and unconditional. At December 31, 2006, Neenah Paper Sales, Inc. was merged into Neenah Paper, Inc. (the parent company and issuer of the Senior Notes). The following condensed consolidating financial information is presented in lieu of consolidated financial statements for the Guarantor Subsidiaries as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Year Ended December 31, 2007				
	Neenah Paper, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Net sales	**$222.8**	**$503.7**	**$264.3**	**$(0.3)**	**$990.5**
Cost of products sold	**157.0**	**468.6**	**227.6**	**(0.3)**	**852.9**
Gross profit	**65.8**	**35.1**	**36.7**	**–**	**137.6**
Selling, general and administrative expenses	**42.0**	**25.0**	**15.4**	**–**	**82.4**
Gain on sale of woodlands	**–**	**(6.2)**	**–**	**–**	**(6.2)**
Other income – net	**(0.1)**	**(4.8)**	**(0.6)**	**–**	**(5.5)**
Operating income	**23.9**	**21.1**	**21.9**	**–**	**66.9**
Equity in earnings of subsidiaries	**(9.2)**	**–**	**–**	**9.2**	**–**
Interest expense – net	**22.6**	**2.5**	**–**	**–**	**25.1**
Income from continuing operations before income taxes	**10.5**	**18.6**	**21.9**	**(9.2)**	**41.8**
Provision for income taxes	**0.3**	**7.6**	**(4.0)**	**–**	**3.9**
Income from continuing operations	**10.2**	**11.0**	**25.9**	**(9.2)**	**37.9**
Loss from discontinued operations	**–**	**(27.7)**	**–**	**–**	**(27.7)**
Net income	**$ 10.2**	**$ (16.7)**	**$ 25.9**	**$(9.2)**	**$ 10.2**

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Year Ended December 31, 2006				
	Neenah Paper, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Net sales	$223.9	$322.7	$49.7	$ (2.0)	$ 594.3
Cost of products sold	146.0	313.0	45.3	(2.0)	502.3
Gross profit	77.9	9.7	4.4	–	92.0
Selling, general and administrative expenses	34.6	19.7	2.6	–	56.9
Gain on sale of woodlands	–	(125.5)	–	–	(125.5)
Other income – net	(0.1)	(7.6)	(0.1)	–	(7.8)
Operating income	43.4	123.1	1.9	–	168.4
Equity in earnings of subsidiaries	(44.6)	–	–	44.6	–
Interest expense – net	14.9	1.6	–	–	16.5
Income from continuing operations before income taxes	73.1	121.5	1.9	(44.6)	151.9
Provision for income taxes	10.6	46.0	(0.1)	–	56.5
Income from continuing operations	62.5	75.5	2.0	(44.6)	95.4
Loss from discontinued operations	–	(32.9)	–	–	(32.9)
Net income	$ 62.5	$ 42.6	$ 2.0	$(44.6)	$ 62.5

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Year Ended December 31, 2005			
	Neenah Paper, Inc	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
Net sales	$ 78.7	$584.0	$(128.0)	$534.7
Cost of products sold	69.3	497.4	(128.0)	438.7
Gross profit	9.4	86.6	–	96.0
Selling, general and administrative expenses	5.8	43.6	–	49.4
Other income – net	(0.2)	(6.6)	–	(6.8)
Operating income	3.8	49.6	–	53.4
Equity in earnings of subsidiaries	21.1	–	(21.1)	–
Interest expense – net	18.1	0.1	–	18.2
Income from continuing operations before income taxes	(35.4)	49.5	21.1	35.2
Provision for income taxes	(5.7)	18.6	–	12.9
Income from continuing operations	(29.7)	30.9	21.1	22.3
Loss from discontinued operations	–	(52.0)	–	(52.0)
Net loss	$(29.7)	$ (21.1)	$ 21.1	$ (29.7)

CONDENSED CONSOLIDATING BALANCE SHEET

	December 31, 2007				
	Neenah Paper, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
ASSETS					
Current assets					
Cash and cash equivalents	$ (0.9)	$ 2.8	$ 0.5	$ –	$ 2.4
Accounts receivable – net	31.8	71.0	42.6	–	145.4
Inventories	21.7	56.7	32.2	–	110.6
Deferred income taxes	0.5	1.3	0.1	–	1.9
Intercompany amounts receivable	44.6	16.9	–	(61.5)	–
Prepaid and other current assets	13.4	14.1	2.4	–	29.9
Total current assets	111.1	162.8	77.8	(61.5)	290.2
Property, plant and equipment at cost	253.8	472.1	199.2	–	925.1
Less accumulated depreciation	157.5	319.7	15.6	–	492.8
Property, plant and equipment – net	96.3	152.4	183.6	–	432.3
Investments in Subsidiaries	467.5	–	–	(467.5)	–
Deferred Income Taxes	(1.4)	56.8	–	–	55.4
Goodwill	–	–	106.6	–	106.6
Intangible Assets – net	–	2.8	30.8	–	33.6
Other Assets	8.5	4.7	1.5	–	14.7
TOTAL ASSETS	$682.0	$379.5	$400.3	$(529.0)	$932.8
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Debt payable within one year	$ 7.7	$ –	$ 3.2	$ –	$ 10.9
Accounts payable	15.0	46.0	25.9	–	86.9
Intercompany amounts payable	16.9	44.6	–	(61.5)	–
Accrued expenses	23.9	34.5	13.7	–	72.1
Total current liabilities	63.5	125.1	42.8	(61.5)	169.9
Long-term Debt	306.5	–	14.7	–	321.2
Deferred Income Taxes	–	–	30.4	–	30.4
Noncurrent Employee Benefits and Other Obligations	24.0	64.0	35.3	–	123.3
TOTAL LIABILITIES	394.0	189.1	123.2	(61.5)	644.8
STOCKHOLDERS' EQUITY	288.0	190.4	277.1	(467.5)	288.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$682.0	$379.5	$400.3	$(529.0)	$932.8

CONDENSED CONSOLIDATING BALANCE SHEET

	December 31, 2006				
	Neenah Paper, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
ASSETS					
Current assets					
Cash and cash equivalents	$ 0.1	$ 0.5	$ 1.0	$ –	$ 1.6
Accounts receivable – net	18.2	61.6	32.7	–	112.5
Inventories	17.0	30.2	27.7	–	74.9
Deferred income taxes	0.6	0.9	–	–	1.5
Intercompany amounts receivable	33.6	–	–	(33.6)	–
Prepaid and other current assets	7.3	12.2	12.4	–	31.9
Total current assets	76.8	105.4	73.8	(33.6)	222.4
Property, plant and equipment at cost	244.2	376.7	147.2	–	768.1
Less accumulated depreciation	145.0	264.9	2.6	–	412.5
Property, plant and equipment – net	99.2	111.8	144.6	–	355.6
Investments in Subsidiaries	341.8	–	–	(341.8)	–
Deferred Income Taxes	(3.7)	36.4	–	–	32.7
Goodwill	–	–	92.0	–	92.0
Intangible Assets – net	–	–	29.5	–	29.5
Other Assets	9.3	2.7	0.5	–	12.5
TOTAL ASSETS	$523.4	$256.3	$340.4	$(375.4)	$744.7
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Debt payable within one year	$ 1.3	$ –	$ –	$ –	$ 1.3
Accounts payable	13.7	37.3	23.7	–	74.7
Intercompany amounts payable	–	33.6	–	(33.6)	–
Accrued expenses	14.6	24.4	14.5	–	53.5
Total current liabilities	29.6	95.3	38.2	(33.6)	129.5
Long-term Debt	282.3	–	–	–	282.3
Deferred Income Taxes	–	–	35.8	–	35.8
Noncurrent Employee Benefits and Other Obligations	26.6	51.0	34.6	–	112.2
TOTAL LIABILITIES	338.5	146.3	108.6	(33.6)	559.8
STOCKHOLDERS' EQUITY	184.9	110.0	231.8	(341.8)	184.9
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$523.4	$256.3	$340.4	$(375.4)	$744.7

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	December 31, 2007				
	Neenah Paper, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
OPERATING ACTIVITIES					
Net income (loss)	$ 10.2	$(16.7)	$ 25.9	$(9.2)	$ 10.2
Adjustments to reconcile net income (loss) to net cash provided by operating activities					
Depreciation and amortization	15.1	16.2	14.0	–	45.3
Stock-based compensation	5.8	0.3	0.3	–	6.4
Deferred income tax provision	(3.9)	(12.8)	(10.1)	–	(26.8)
Gain on sale of woodlands	–	(6.2)	–	–	(6.2)
(Gain) loss on other asset dispositions	0.2	(1.0)	–	–	(0.8)
Net cash provided by (used in) changes in operating working capital, net of effects of acquisition	1.6	0.3	(1.9)	–	–
Excess tax benefit from stock-based compensation	(0.5)	–	–	–	(0.5)
Equity in earnings of subsidiaries	(9.2)	–	–	9.2	–
Pension and other post-employment benefits	2.9	(0.8)	2.0	–	4.1
Loss on curtailment and settlement of pension plan	–	38.7	–	–	38.7
Other	0.6	(0.1)	(1.4)	–	(0.9)
NET CASH PROVIDED BY OPERATING ACTIVITIES	22.8	17.9	28.8	–	69.5
INVESTING ACTIVITIES					
Capital expenditures	(12.9)	(10.0)	(35.4)	–	(58.3)
Acquisition of Fox River, net of cash acquired	(54.7)	–	–	–	(54.7)
Net proceeds from sale of woodlands	–	–	–	–	–
Acquisition of Neenah Germany, net of cash acquired	(1.5)	–	–	–	(1.5)
Other	0.1	0.5	0.5	–	1.1
NET CASH USED IN INVESTING ACTIVITIES	(69.0)	(9.5)	(34.9)	–	(113.4)
FINANCING ACTIVITIES					
Proceeds from issuance of long-term debt	64.7	–	13.4	–	78.1
Debt issuance costs	(1.1)	–	–	–	(1.1)
Repayments of long-term debt	(34.1)	–	–	–	(34.1)
Short-term borrowings	–	–	8.0	–	8.0
Repayments of short-term borrowings	–	–	(5.0)	–	(5.0)
Cash dividends paid	(6.0)	–	–	–	(6.0)
Proceeds from exercise of stock options	3.7	–	–	–	3.7
Excess tax benefit from stock-based compensation	0.5	–	–	–	0.5
Other	(0.3)	–	–	–	(0.3)
Intercompany transfers – net	17.8	(6.4)	(11.4)	–	–
NET CASH PROVIDED BY FINANCING ACTIVITIES	45.2	(6.4)	5.0	–	43.8
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	–	0.3	0.6	–	0.9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1.0)	2.3	(0.5)	–	0.8
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	0.1	0.5	1.0	–	1.6
CASH AND CASH EQUIVALENTS, END OF YEAR	$ (0.9)	$ 2.8	$ 0.5	$ –	$ 2.4

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	December 31, 2006				
	Neenah Paper, Inc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
OPERATING ACTIVITIES					
Net income	$ 62.5	$ 42.6	$ 2.0	$(44.6)	$ 62.5
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	14.0	13.3	2.9	–	30.2
Stock-based compensation	5.5	0.3	–	–	5.8
Loss on disposal of Terrace Bay	–	6.5	–	–	6.5
Loss on curtailment and partial settlement of pension plan	–	26.4	–	–	26.4
Deferred income tax provision	(6.9)	37.4	(0.5)	–	30.0
Gain on sale of woodlands	–	(125.5)	–	–	(125.5)
(Gain) loss on other asset dispositions	(0.1)	0.7	0.2	–	0.8
Net cash provided by (used in) changes in operating working capital, net of effects of acquisition	0.6	38.1	1.1	–	39.8
Equity in earnings of subsidiaries	(44.6)	–	–	44.6	–
Contribution to settle pension liabilities	–	(10.8)	–	–	(10.8)
Pension and other post-employment benefits	4.7	(4.2)	(0.2)	–	0.3
Other	(1.0)	0.7	0.1	–	(0.2)
NET CASH PROVIDED BY OPERATING ACTIVITIES	34.7	25.5	5.6	–	65.8
INVESTING ACTIVITIES					
Capital expenditures	(11.7)	(7.6)	(5.8)	–	(25.1)
Net proceeds from sale of woodlands	–	134.8	–	–	134.8
Payment for transfer of Terrace Bay	–	(18.6)	–	–	(18.6)
Acquisition of Neenah German, net of cash acquired	(218.6)	–	–	–	(218.6)
Other	0.4	(0.8)	0.2	–	(0.2)
NET CASH USED IN INVESTING ACTIVITIES	(229.9)	107.8	(5.6)	–	(127.7)
FINANCING ACTIVITIES					
Proceeds from issuance of long-term debt	84.3	–	–	–	84.3
Debt issuance costs	(0.7)	–	–	–	(0.7)
Repayments of long-term debt	(28.2)	–	–	–	(28.2)
Short-term borrowings	0.6	–	–	–	0.6
Repayments of short-term borrowings	(0.6)	–	–	–	(0.6)
Cash dividends paid	(5.9)	–	–	–	(5.9)
Proceeds from exercise of stock options	1.3	–	–	–	1.3
Intercompany transfers – net	132.5	(133.4)	0.9	–	–
NET CASH PROVIDED BY FINANCING ACTIVITIES	183.3	(133.4)	0.9	–	50.8
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	–	–	0.1	–	0.1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11.9)	(0.1)	1.0	–	(11.0)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12.0	0.6	–	–	12.6
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 0.1	$ 0.5	$ 1.0	$ –	$ 1.6

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Year Ended December 31, 2005			
	Neenah Paper, Inc	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Amounts
OPERATING ACTIVITIES				
Net loss	$(29.7)	$(21.1)	$ 21.1	$(29.7)
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation and amortization	12.5	16.5	–	29.0
Stock-based compensation	0.8	–	–	0.8
Asset impairment loss	–	54.5	–	54.5
Deferred income tax benefit	(2.5)	(17.6)	–	(20.1)
Loss on other asset dispositions	0.1	0.4	–	0.5
Net cash provided by (used in) changes in operating working capital	(36.7)	26.6	–	(10.1)
Equity in earnings of subsidiaries	21.1	–	(21.1)	–
Pension and other post-employment benefits	2.5	(5.2)	–	(2.7)
Other	0.2	0.4	–	0.6
NET CASH PROVIDED BY OPERATING ACTIVITIES	(31.7)	54.5	–	22.8
INVESTING ACTIVITIES				
Capital expenditures	(8.4)	(17.3)	–	(25.7)
Other	(0.3)	0.2	–	(0.1)
NET CASH USED IN INVESTING ACTIVITIES	(8.7)	(17.1)	–	(25.8)
FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt	3.4	–	–	3.4
Repayments of long-term debt	(1.1)	–	–	(1.1)
Short-term borrowings	2.5	–	–	2.5
Repayments of short-term borrowings	(2.5)	–	–	(2.5)
Cash dividends paid	(5.9)	–	–	(5.9)
Other	42.1	(42.1)	–	–
NET CASH PROVIDED BY FINANCING ACTIVITIES	38.5	(42.1)	–	(3.6)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	–	0.1	–	0.1
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1.9)	(4.6)	–	(6.5)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13.9	5.2	–	19.1
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12.0	$ 0.6	$ –	$ 12.6

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Unaudited Quarterly Data

	2007 Quarters				
	First[a]	Second	Third	Fourth	Year
Net Sales	**$224.7**	**$258.1**	**$251.9**	**$255.8**	**$990.5**
Gross Profit	**43.5**	**30.7**	**32.7**	**30.7**	**137.6**
Operating Income	**27.6**	**11.4**	**16.3**	**11.6**	**66.9**
Income From Continuing Operations	**15.2**	**3.3**	**16.5**	**2.9**	**37.9**
Earnings Per Common Share From Continuing Operations:					
Basic	**$ 1.03**	**$ 0.22**	**$ 1.10**	**$ 0.19**	**$ 2.55**
Diluted	**$ 1.01**	**$ 0.22**	**$ 1.08**	**$ 0.19**	**$ 2.50**

	2006 Quarters				
	First	Second[b]	Third	Fourth[c]	Year
Net Sales	$132.9	$142.8	$141.4	$177.2	$594.3
Gross Profit	23.5	26.1	20.0	22.4	92.0
Operating Income	10.0	138.9	10.5	9.0	168.4
Income From Continuing Operations	3.4	84.2	4.6	3.2	95.4
Earnings Per Common Share From Continuing Operations:					
Basic	$ 0.23	$ 5.71	$ 0.31	$ 0.22	$ 6.47
Diluted	$ 0.23	$ 5.68	$ 0.31	$ 0.21	$ 6.43

(a) Includes the results of Fox River beginning March 1, 2007.
(b) Operating income for the second quarter of 2006 includes $122.6 million for the gain on sale of woodlands.
(c) Includes the results of Neenah Germany beginning October 11, 2006.

shareholder information

CORPORATE HEADQUARTERS

Neenah Paper, Inc.
3460 Preston Ridge Road
Suite 600
Alpharetta, GA 30005
678.566.6500
www.neenah.com

ANNUAL MEETING OF SHAREHOLDERS

The 2008 annual meeting of the shareholders of Neenah Paper, Inc. will be held Tuesday, May 20, 2008, at 1:00 p.m., Eastern time at Neenah's headquarters in Alpharetta, Georgia.

REGISTRAR AND TRANSFER AGENT

BNY Mellon Shareowner Services
P.O. Box 358010
Pittsburgh, PA 15252
Contact Center:
Toll Free U.S. and Canada: 877.498.8847
International callers: 201.680.6578
www.melloninvestor.com/isd

FINANCIAL AND OTHER COMPANY INFORMATION

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 is available on our website at www.neenah.com. In addition, financial reports, recent filings with the Securities and Exchange Commission (SEC), news releases and other information are available on our website. For a printed copy of our Form 10-K, without charge, please contact:

Neenah Paper, Inc.
Attn: Stockholder Services
3460 Preston Ridge Road
Suite 600
Alpharetta, GA 30005
866.548.6569
or via e-mail to investors@neenahpaper.com

CERTIFICATIONS

Neenah has included as exhibits to its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed with the SEC, certifications of Neenah's Chief Executive Officer and Chief Financial Officer certifying the quality of our public disclosure. Further, Neenah's Chief Executive Officer has certified to the New York Stock Exchange (NYSE) that he is not aware of any violations by Neenah of the NYSE corporate governance listing standards.

STOCK EXCHANGE

Neenah Paper's common stock is traded on the New York Stock Exchange under the symbol NP.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

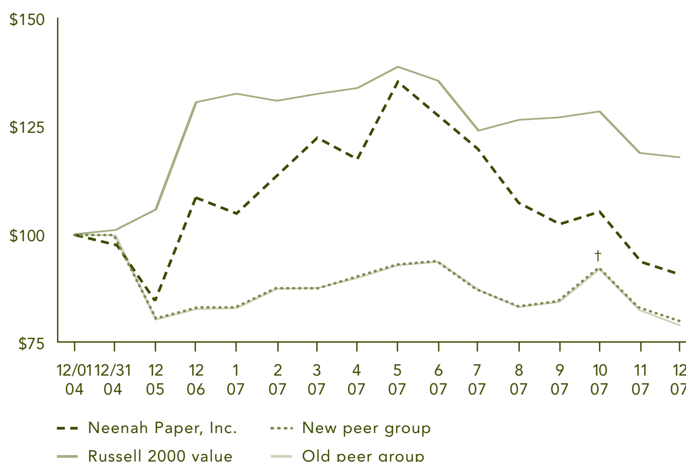
Deloitte & Touche LLP
191 Peachtree Street
Suite 1500
Atlanta, GA 30303

TRADING AND DIVIDEND INFORMATION

	Common Stock Market Price		Dividends Declared
	High	Low	
2007			
Fourth quarter	$36.39	$27.50	$0.10
Third quarter	$43,78	$32.10	$0.10
Second quarter	$45.55	$36.84	$0.10
First quarter	$40.56	$53.18	$0.10
2006			
Fourth quarter	$37.43	$33.19	$0.10
Third quarter	$34.73	$28.10	$0.10
Second quarter	$34.50	$28.50	$0.10
First quarter	$33.87	$26.32	$0.10

As of February 29, 2008, Neenah had approximately 10,900 holders of record of its common stock.

COMPARISON OF 37 MONTH CUMULATIVE TOTAL RETURN*



*$100 invested on 12/1/04 in stock or index-including reinvestment of dividends. Fiscal year ended December 31.

†Peer group changed to reflect Abitibi-Bowater merger.

TRADEMARKS

The brand names mentioned in this report – CAPITAL BOND, CLASSIC, CLASSIC COLUMNS, CLASSIC CREST, CLEARFOLD UV/ULTRA, EAMES, ENVIRONMENT, ESSE, FOX RIVER SELECT, JET-PRO SOFT STRETCH, NEENAH, NEUTECH, OXFORD, STARWHITE, SUNDANCE – are trademarks of Neenah Paper, Inc.

production notes

Covers:
ESSE® Paper
Pearlized Latte ⊛
105 lb. cover

Pages 1 – 16:
CLASSIC CREST® Paper
Avalanche White [FSC Pure]
100 lb. text

Pages 17 – 24:
OXFORD® Paper
Peace ⊛
80 lb. text

Pages 25 – 40:
STARWHITE® Paper
Flash Blue [FSC Pure]
80 lb. text

Pages 41–56:
ENVIRONMENT® Paper
Blue Moon ⊛
80 lb. text

Pages 57–72:
EAMES™ Paper Collection
Furniture Finish
Pacific Blue ⊛
80 lb. text

Pages 73 – 88:
CLASSIC® Linen Paper
Monterey Sand
80 lb. text

Pages 89 – 112:
CLASSIC CREST® Paper
Tarragon ⊛
80 lb. text

Design and production:
Addison
www.addison.com

Copywriting:
Robert Roth

Printing:
Sandy Alexander

Illustration, Pages 4 – 5:
Bernard Maisner

Photography,
Pages 5 – 6, 26 – 31:
Ioulex

Photography, Pages 10 – 11:
Kyoko Hamada

Photography, Pages 12– 13:
Burkhard Schittny

Photography, Pages 14 – 15:
Nadav Kander

Photography, Pages 16, 32:
Rick Burda

Photography, Page 25:
Clark Savage
(Executive Team);
Studio Burns
(Board of Directors)

3460 Preston Ridge Road
Suite 600
Alpharetta, GA 30005
678.566.6500

To minimize our environmental impact, the Neenah Paper Inc. 2007 Annual Report was printed using renewable energy on papers containing fibers from environmentally appropriate, socially beneficial and economically viable forest resources.