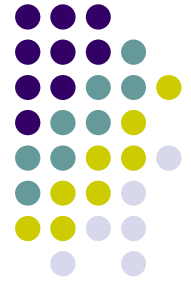




# RISK MANAGEMENT AND PERFORMANCE OF SLOVENE PAPER INDUSTRY

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# Topics:



1. Performance of Slovene paper and paper converting industry in 2011 (Annual Report)
2. Expectations, 2012 Estimation and 2013 Challenges
3. Risks and types of risks
4. Risk management in paper industry

# 1. Performance of Slovene paper and paper converting industry in 2011



- Decrease in total production of paper, fibres and paper products by 4%
- Growth in industry revenues by 6.3%
- Increase in value added per employee by 5.8%
- Reduction in the number of workforce (4.8%)
- Increase in the scope of investments by 16.6%
- Industry's performance again negative (loss of € 2.7 million)

# 1. Performance of Slovene paper and paper converting industry in 2011



- Raw material prices still very high, peak achieved in August 2011, drop in the second half of the year
- Excise duties on purchased electric power still burdening energy costs
- High gas prices compared to competitors
- Paper prices on average higher than last year.

# PRODUCTION

## comparison in tons



<b>NACE</b>	<b>Category</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012oc.</b>	<b>2012oc./ 2011 (%)</b>
17.110	Fibre total	214.298	185.630	183.679	191.938	202.514	212.941	227.385	6,8
17.120	Paper	393.127	418.916	406.213	397.425	396.838	394.835	369.103	- 6,5
	Board	217.873	220.800	207.828	218.934	232.473	206.182	222.658	8,0
	Cardboard	14.623	14.300	13.178	5.070	5.600	5.670	5.250	- 7,4
	Sanitary paper	68.762	66.530	66.080	66.366	66.183	65.835	69.691	5,9
	<b>TOTAL</b>	<b>694.385</b>	<b>720.546</b>	<b>693.299</b>	<b>687.795</b>	<b>701.094</b>	<b>672.522</b>	<b>666.702</b>	- 0,9
17.210	Corrugated board	82.114	82.300	79.762	59.640	69.508	63.298	58.000	- 8,4
	Packaging	76.914	75.245	75.169	72.107	78.662	75.405	75.143	- 0,3
	Paper sacks and bags	3.887	4.336	4.277	4.077	7.340	7.125	7.000	- 1,8
	<b>TOTAL</b>	<b>162.915</b>	<b>161.881</b>	<b>159.208</b>	<b>131.783</b>	<b>155.510</b>	<b>150.543</b>	<b>140.143</b>	- 6,9
17.290	Other board and cardboard products	11.280	4.625	7.134	6.154	7.106	6.695	6.300	- 5,9
	Self-adhesive materials	2.700	6.000	6.470	6.170	2.483	2.478	2.350	- 5,2
	<b>TOTAL</b>	<b>13.980</b>	<b>10.625</b>	<b>13.604</b>	<b>12.324</b>	<b>9.589</b>	<b>9.173</b>	<b>8.650</b>	- 5,7
17.230	Envelopes, other products	5.800	5.700	8.191	8.541	5.619	5.200	4.800	- 7,7
17.220	Household and sanitary paper products	78.265	66.260	65.878	63.436	64.379	62.738	63.584	1,3
	<b>PRODUCTION TOTAL</b>	<b>1.169.643</b>	<b>1.157.142</b>	<b>1.123.859</b>	<b>903.879</b>	<b>936.191</b>	<b>900.176</b>	<b>883.879</b>	- 1,8

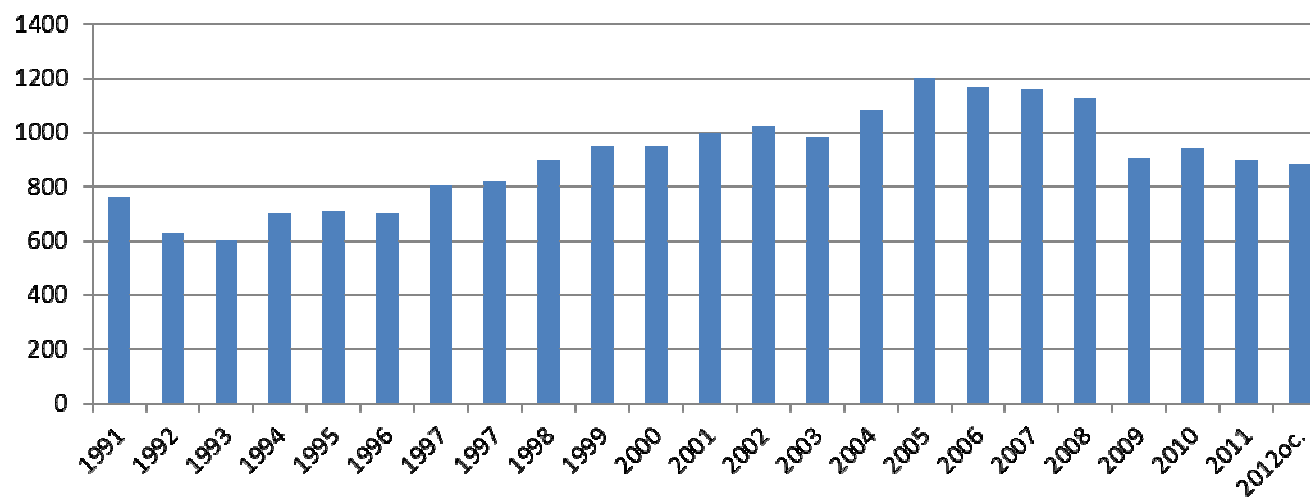
- Total production in 2011 was 3.8% higher than a year before (CEPI members -1.7%). Lower volume of production resulted from lower production in the Radeče Paper Mill, production standstill in the Količevo Paper Mill due to investment activities, and slightly weaker demand in general.
- According to a survey done by the Paper and Paper Converting Industry Association (ZPPPI) the negative trend in production has continued this year; in addition to the production standstill in Radeče, with almost all paper and paper converting products lower volumes of production are announced, except in production of board and sanitary and household paper products.

# PRODUCTION

Branch C 17 since 1991 in 1000 tons



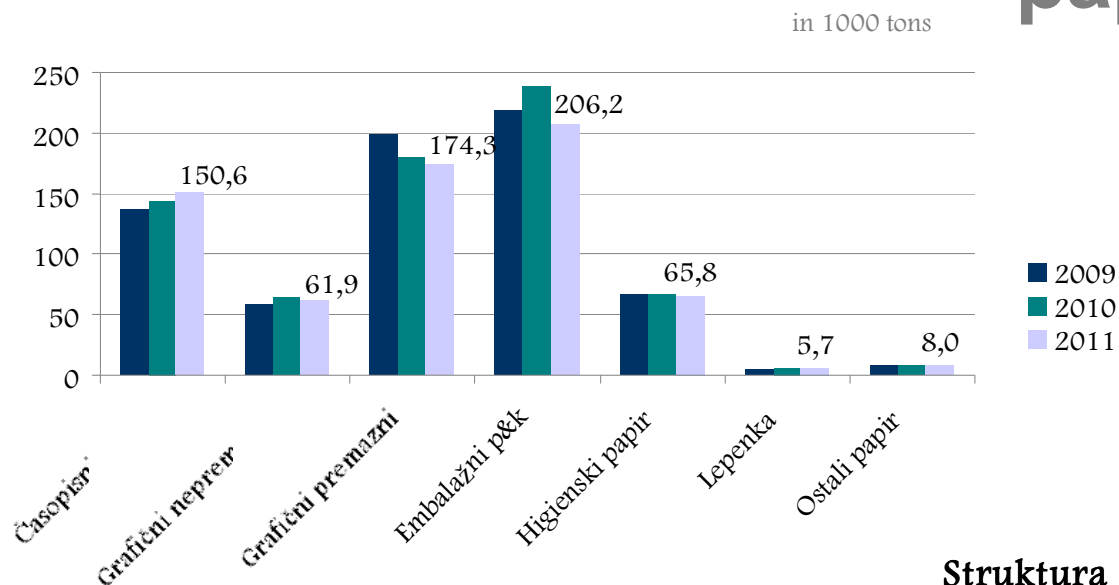
## Production



Total production in 2011 reached the levels from 1998.

# PRODUCTION PATTERN

## paper & board

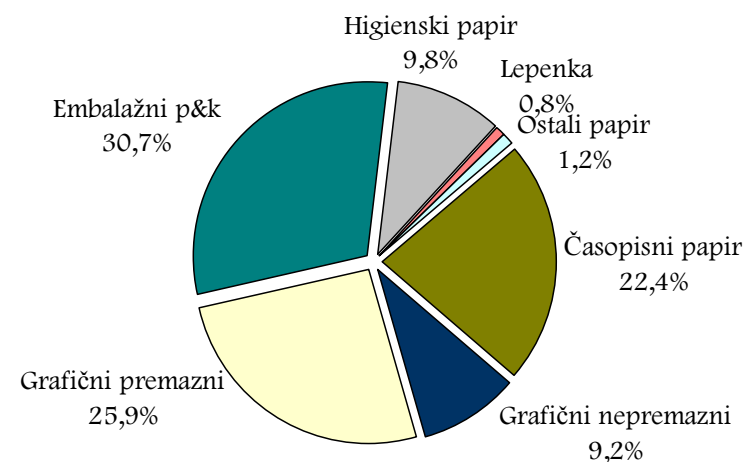


Continuation of the downward trend in the production of coated graphic papers (~2.9%)

### Struktura proizvedenega papirja v Sloveniji v 2011

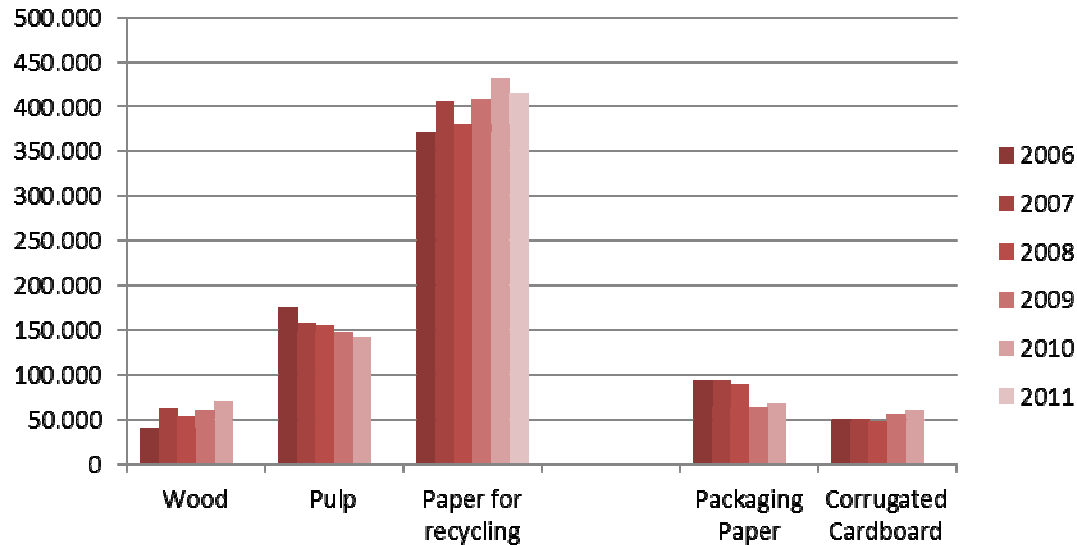
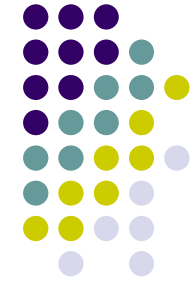
### Comparison of production pattern in Slovenia and CEPI

	% of change 2011/2010	
	SLO	CEPI
Graphic papers	-0,1	-2,5
Packaging papers and boards	-13,4	-1,7
Sanitary and household papers	-0,6	2,7
Other papers	-0,1	-0,3
Total	-4,6	-1,7

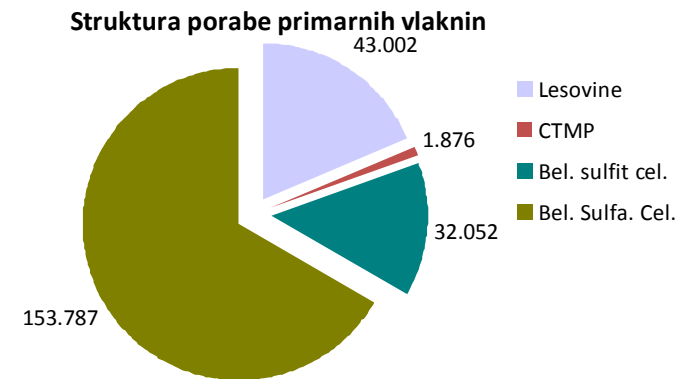


# RAW MATERIAL CONSUMPTION

(in tons)



- Consumption of virgin fibres is being decreased on account of higher consumption of recovered paper and groundwood.
- The share of virgin fibres amounted to about 37.9% of total fibres





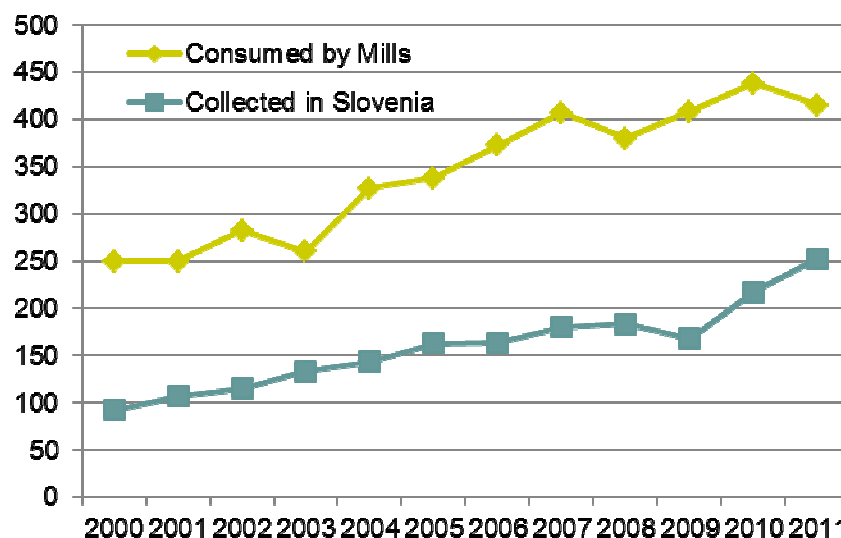
# RECOVERED PAPER – PAPER FOR RECYCLING



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Used by paper mills	250	250	282	260	327	338	372	407	380	408	438	415
- imported by p. mills	171	163	196	173	239	238	270	301	247	271	302	288
- RCP collected in Slov.	79	87	86	87	88	100	102	106	133	137	136	127
Collected in Slovenia	92	107	115	133	143	162	163	180	183	168	217	252,7
Imported to Slovenia	184	172	201	180	246	248	294	322	313	312	349	307
Exported from Slovenia	26	29	34	53	61	72	85	95	115	72	128	121,7

*The share of RCP collected in Slovenia compared to total consumption of RCP in paper mills amounts to 60.9% (49.5% in 2010).*

Volume of paper collected per capita is 120.3Kg



Recycling rate:  
(Consumpt. of RCP - import  
+export/paper consumpt. in SLO)

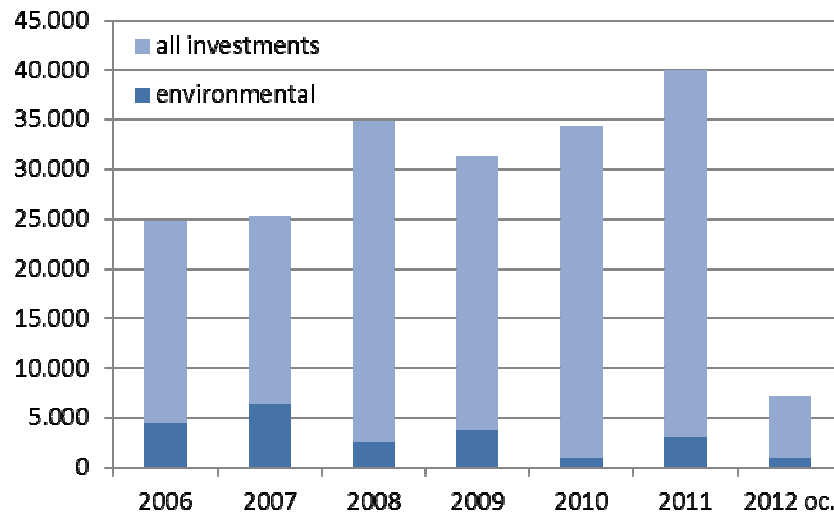
**62.4%**

Average EU: 70.4%

Source: SURS, ZPPPI, CEPI. Volumes of paper consumption and paper collected in Slovenia have been derived by calculation.

# INVESTMENTS

in 000 €



Source: ZPPPI Survey

The largest investment in 2011, in the branch as well in Slovenia, was the reconstruction of BM 3 in Količevo Karton.

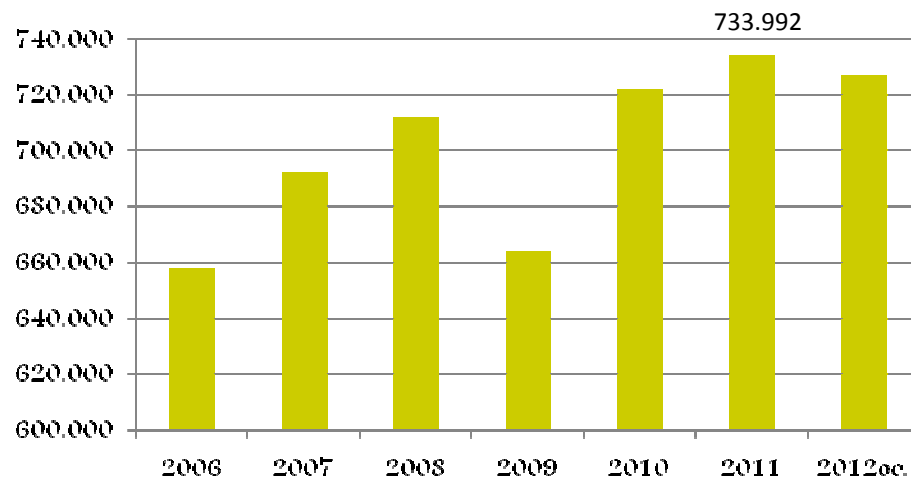


# REVENUES IN PROFIT/LOSS IN THE BRANCH

in 000 €

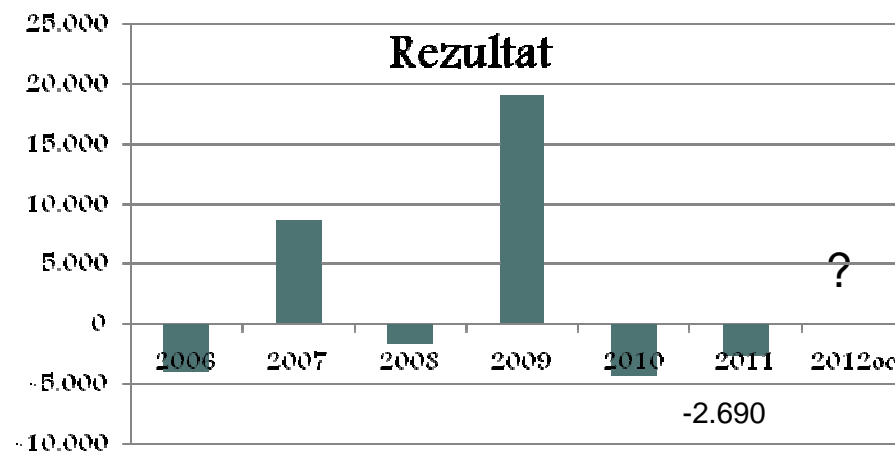


### Prihodki



High production costs and general unsupportive economic environment, which is even increasing, are the main reasons for poor performance.

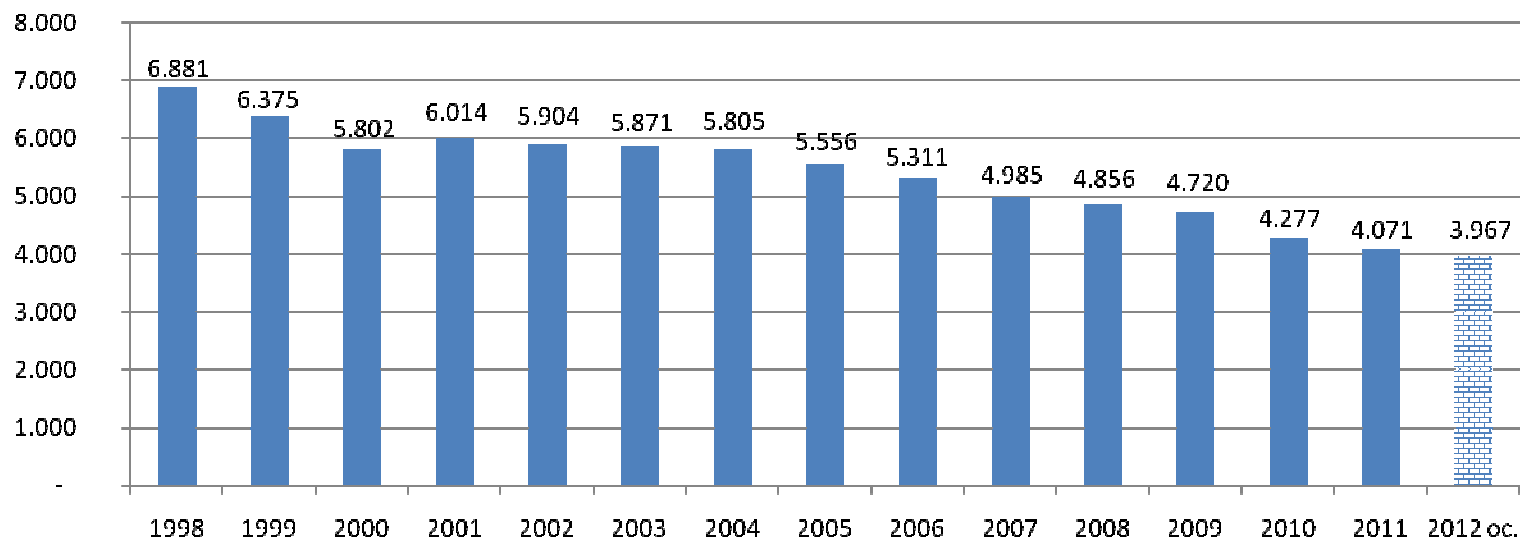
### Rezultat



# EMPLOYEES

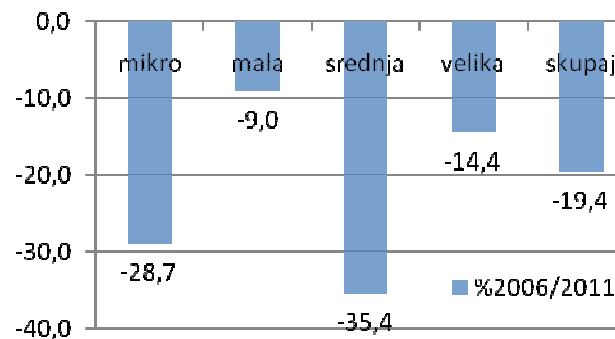


## Število zaposlenih



The number of employees in the C17 branch decreased in 2011 by 4.8%; 2% of that fell to paper mills (CEPI average: ~ 1.6%). Over a recent period the number of employees has decrease mostly in medium-sized and micro companies.

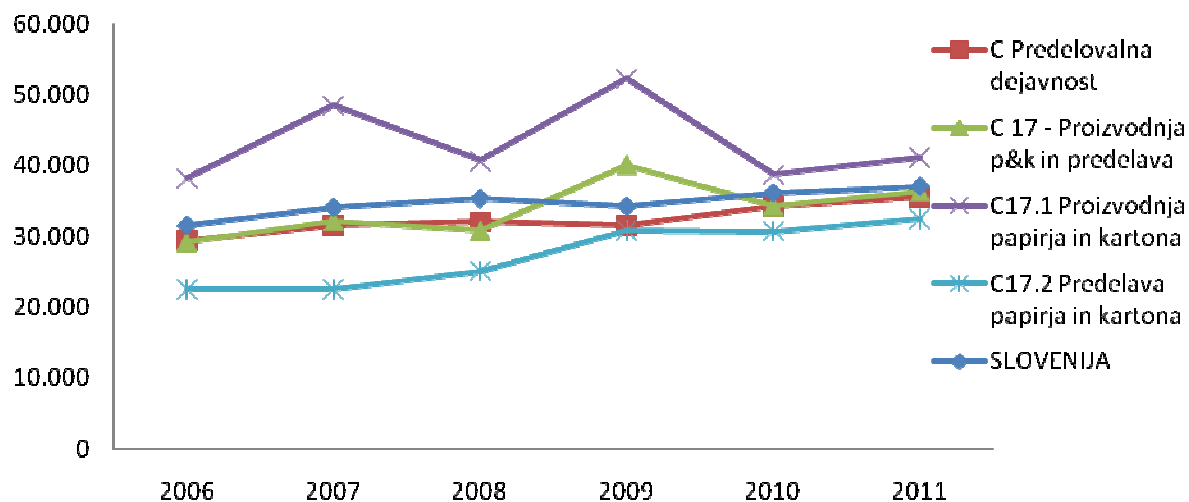
## Change in employment rate (2006~2011) in %



# VALUE ADDED PER EMPLOYEE



v €	2006	2007	2008	2009	2010	2011	Indeks 11/10
SLOVENIA	31.464	33.987	35.279	34.168	36.044	36.966	102,6
C Converting industry	29.303	31.530	32.003	31.523	34.205	35.567	104,0
C 17 - Production/converting of paper & board	29.110	32.051	30.737	40.028	34.246	36.228	105,8
C17.1 Production of paper & board	38.158	48.461	40.610	52.257	38.665	41.071	106,2
C17.2 Converting of paper & board	22.528	22.528	25.141	30.890	30.773	32.500	105,6



Value added in the branch increased in 2011 (+5.8%) compared to the previous year; in paper production (subsection C17.1) by 6.2%, and in paper converting by 5.6%.

Unlike value added indicator, **value added per employee** is a relative number and therefore slightly more comparable among rival companies. Growth in value added per employee can also be used as a measure for growth in labour productivity.



## 2. 2012 Estimation

### GENERAL

- Further decrease in economic growth in Slovenia (-1.7%)
- Minimum growth in the EU region (+0.3%)
- Oil price rise in the first half of the year, higher transport costs
- Credit crunch and stricter conditions for acquiring funds
- Downturn in insurance limits



## 2. 2012 Estimation

### GENERAL

- Fall in credit ratings; increasing political and commercial risks for the Republic of Slovenia
- Higher nominal interest rates (increased margins)
- Decreased solvency and poor payment discipline, increased number of compulsory compositions and bankruptcies
- Economic and political environment and atmosphere have an adverse effect on companies' operations



## 2. 2012 Estimation

### PAPER INDUSTRY

- Drop in paper demand
- Lower paper production in Europe (-2.9%) Graphic papers (-6%), packaging papers (-1.8%); increase only in household and sanitary papers (+1.3%)
- Lower total production in Slovenia, as well; as to production pattern, increase in newsprint (+4%), coated boards (+1%) and sanitary papers (+3.6%); other graphic papers on the downturn (-19.4%)
- Decrease in number of employees (by about 3%)  
(data for 8 months in 2012)





## 2. 2012 Estimation

### PAPER INDUSTRY

- Energy prices relatively high; excise duties on electric power still very high; other raw material prices lower than last year.
- Despite decline, paper industry in Slovenia and Europe still in a better position than other energy intensive industries.
- Due to its export orientation the Slovene paper industry is in a better position than other industries, but still, its foreseen results are below expectations.
- Pulp and Paper Institute Ljubljana received funds from the European Social Fund and Slovene Ministry of Education, Science, Culture and Sport to enhance R&D departments in packaging and board mills in the period 2012-2014 Benefits from cooperation between economy and the scientific-research sphere.

## 2. Challenges for Slovene paper and paper converting industry in 2013



- Reduction of the **costs of natural gas supplies** by implementing a new national legislation arranging the natural gas market, and by changing long-term contracts pogodba.
- **Reduction in excise duties** on energy products, particularly electric power, to the minimum level required in the EU
- **Environmental levies** – no new ones and no increases
- **Integration** into new governmental projects, acts (e.g. industrial policy)
- The project “**Competence centre for paper industry personnel training**” would strengthen the connection between companies and people employed in the industry panogi

## 2. Challenges for Slovene paper and paper converting industry in 2013



- **Preservation of scope of production** and production capacities
- **Higher investments** and higher profitability of products
- **Increased competitiveness of the industry** and elimination of administrative barriers
- **Combining procurement channels** and penetrating new markets, and integration with related industries
- **Increase in added value** per employee
- Importance and **reputation of paper industry** vs. other industries in Slovenia
- Optimism for 2013 among Slovene paper makers

# 3. Risks and types of risks



## Risk definition:

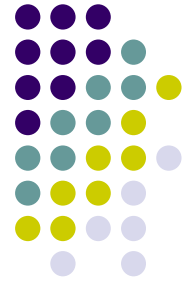
Unpredictable economic and general environment requires systematic and deliberate management of risks that the company is faced with during its business operations.

**Risk is defined as an uncertainty about the future business events that may reduce either the probability of attaining business goals set or the level of attaining the business goals, thus having a negative impact on the success of operation.**



# 3. Risks and types of risks

## Risk management process

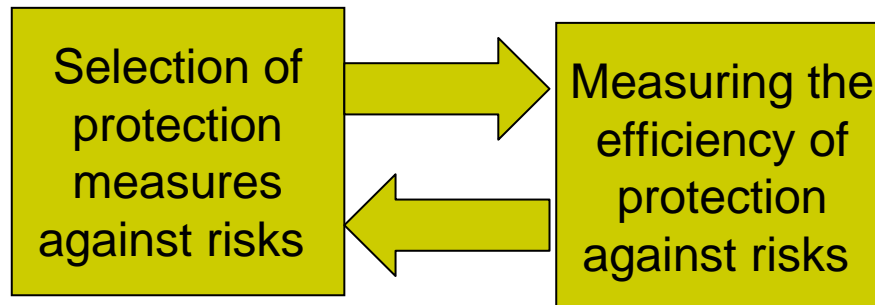
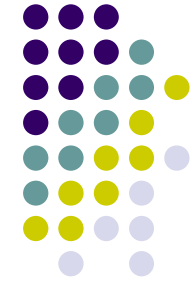


By active risk management we follow the objective of a **timely recognition of and response to potential threats** by preparing adequate measures for protection against identified risks or to lower the exposure to risks.



# 3. Risks and types of risks

## Risk management process



# 3. Risks and types of risks

## Risk management policy



Within the risk management policy the company defines **the maximum level of exposure to risks**, which it is willing to accept, and **the background for the measures** for protection against risks.

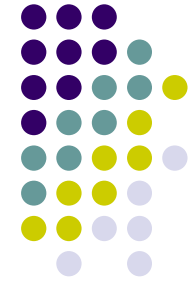
Background for the risk management policy is:

- Strategic and business goals
- Goals set by important stakeholders (owners, employees, customers)



# 3. Risks and types of risks

## Risk management policy



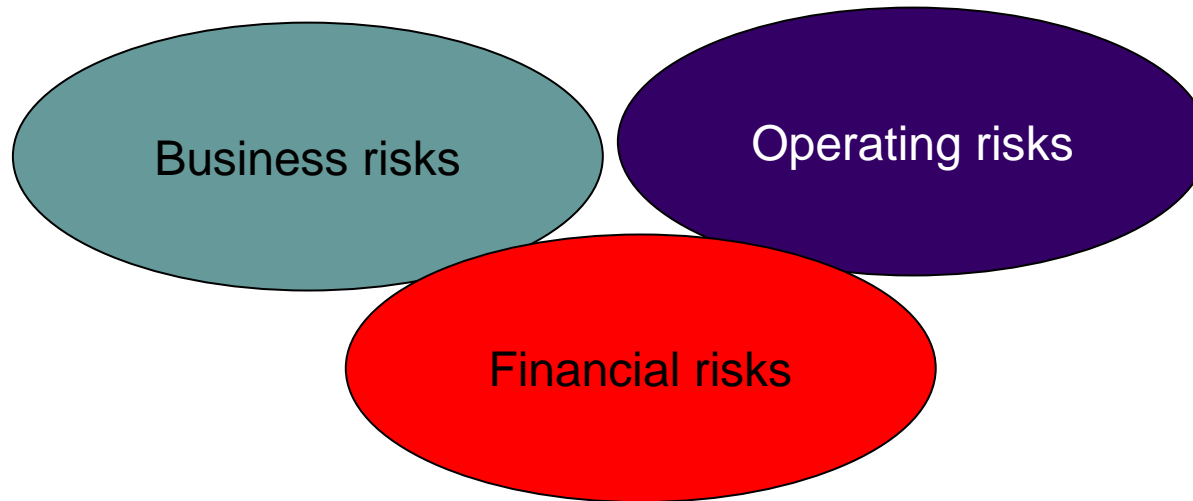
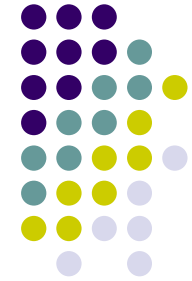
- System and method of measuring the efficiency of attaining the goals set
- Main strengths, weaknesses, opportunities and threats
- Internal and external environment factors, influencing business operations





# 3. Risks and types of risks

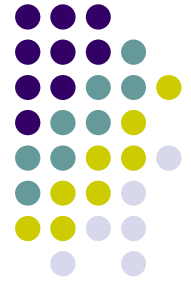
## Types of risks



OPERATIONAL  
RISKS

STRATEGIC  
RISKS

# 3. Risks and types of risks



## Types of risks

**BUSINESS RISKS** relate to the ability to generate operating revenues, manage business processes and preserve the value of assets.

Risks in:

- Marketing, procurement (sales, purchase risks)
- Production process control
- Personnel risks
- Investment risks



# 3. Risks and types of risks



## Types of risks

- **Sales risks** – relate to competitiveness in the sales of products or services. They include risks of adequate marketing strategy (price and functional competitiveness of products), growing negotiation power of large customers, risks of losing a deal or payment, lower sales due to negative economic growth.
- **Purchase risks** include risks relating to selection of suppliers, eventual new suppliers, fear for lower level of quality or late deliveries, unpredictable raw material price trends (pulp, recovered paper).
- **Investment risks** relate to the attainment of planned economics of investments, successful activation of products and introduction of new technologies. They depend on the availability of financial sources.



# 3. Risks and types of risks



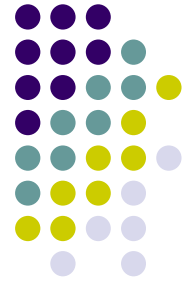
## Types of risks

- **Production process control** – these risks relate to elimination of unexpected faults in production, shortfalls in production, production process planning and adjusting with other sectors.
- **Personnel risks** include risks involved in adjusting business process with personnel policy, education and employment policy, and adjusting company's long-term business strategy with personnel strategy. It means securing an adequate personnel structure and educational level in the company on a longer term basis.



# 3. Risks and types of risks

## Types of risks



**FINANCIAL RISKS** relate to the ability to generate financial revenues, manage financial expenditures, preserve the value of assets and manage financial liabilities; they include risks concerning non-recovery of business receivables (credit risks), risks concerning the change of factors on financial markets (interest rate, foreign-exchange, inflation and other risks) and solvency risks.



# 3. Risks and types of risks



## Types of risks

### FINANCIAL RISKS

The most important financial risks are:

- **Credit risks** – increased risk of delayed payment, partial payment or even non-payment of receivables due from business partners. Risks increase due to numerous bankruptcies and compulsory compositions.
- **Foreign-exchange risks** – loss of economic benefit due to change in exchange rate – USD rate rising – purchase on USD markets is getting more expensive, negotiating position is getting worse.
- **Interest rate risks** – increase in reference interest rate and banking margins results in more expensive borrowings.
- **Solvency risks** – estimation of a risk that at a certain moment the company could lack liquidity to settle its current liabilities.



# 3. Risks and types of risks

## Types of risks



**OPERATING RISKS** relate to the ability of a company to secure stable organisation in the long-term by taking into account external and internal factors influencing the business process.

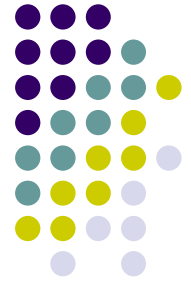
The most important operating risks are:

- **External or political risks** (credit ratings of a country or a company)
- Risks concerning development (appropriateness of company's long-term development strategy securing competitiveness and further existence of the company)
- **Risks concerning environmental protection** (environmental legislation and permits)



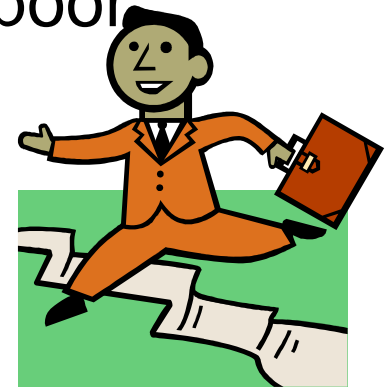
# 3. Risks and types of risks

## Types of risks



As to the **time aspect of effects:**

- **OPERATIONAL RISKS** are risks with one-off or **short-term consequences** for the company (complaints, thefts, change in interest rates, etc.)
- **STRATEGIC RISKS** are risks with **long-term consequences** for the company (poor price or quality competitiveness, investment with poor return, inadequate information system)





# 4. Risk Management in Slovene Paper Industry



According to the survey done by the Paper and Paper Converting Industry Association companies use various risk reduction methods

- New markets, new customers, improved and new products
- Monitoring of market and other conditions
- Monitoring of partners' credit ratings
- Credit insurance with insurance companies and insurance instruments.



# 4. Risk Management in Slovene Paper Industry



- Futures/forwards (goods, currencies)
- Advance-payment sales
- Risk-spreading by making short- and long-term contracts
- Loans rescheduling
- Fixed interest rates
- SWOT analysis of future development alternatives



# 4. Risk Management in Slovene Paper Industry



## CONCLUSIONS:

It is important for a company to define key risks influencing its profit, product profitability, cash flow, etc. Priorities are set by the company itself.

By active approach in risk management, i.e. by taking measures for protection against risks, one can:

- **eliminate or reduce** the exposure to risks to a target level, in such a way that
- **costs of the measure** do not exceed the economic benefit of the elimination or reduction of the exposure to risks.



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Thank you for your attention

