Forward-looking Slovene Paper Industry

Jožica Stegne
President of the Board
Paper and Paper Converting Industry Association at CCI

Business Environment

BROAD BUSINESS ENVIRONMENT

Output growth (%)	2008	2009	2010	2011	2012	2013	2014f	2015f
World	3.0	0.0	5.4	4.1	3.4	3.3	3.3 (3.6)	3.8 (3.9)
EU	0.4	-4.5	2.0	1.7	-0.4	0.1	1.4 (1.6)	1.8 (2.0)
US	-0.3	-2.8	2.5	1.6	2.3	2.2	2.2 (2.8)	3.1 (3.0)
Japan	-1.0	-5.5	4.7	-0.5	1.5	1.5	0.9 (1.4)	0.8 (1.0)
China	9.6	9.2	10.4	9.3	7.7	7.7	7.4 (7.5)	7.1 (7.3)
Russia	5.2	-7.8	4.5	4.3	3.4	1.3	0.2 (1.3)	0.5 (2.3)
Brazil	5.2	-0.3	7.5	2.7	1.0	2.5	0.3 (1.8)	1.4 (2.7)
India	3.9	8.5	10.3	6.6	4.7	5.0	5.6 (5.4)	6.4 (=)

f : forecasts (previous forecasts)

- Economic growth forecasts have been adjusted DOWNWARD, except in India
- EU: After stagnation in 2013, a slight growth in 2014 and 2015

Source: CEPI po IMF, October 2014, EU Com. & ECB May and September 2014

MEDNARODNO SREČANJE SLOVENSKEGA PAPIRNIŠTVA
INTERNATIONAL MEETING OF SLOVENE PAPER INDUSTRY
2 0 1 4
19-20 NOVEMBER
GRAND HOTEL TOPLICE
BLED, SLOVENIA

EU BUSINESS ENVIRONMENT

	GDP (% quarter on previous quarter)								Annual GDP (% year on previous year)					
	2014 Q1	2014 Q2	2014 Q3f	2014 Q4f	2015 Q1f	2015 Q2f	2015 Q3f	2015 Q4f	2010	2011	2012	2013	*2014f*	*2015f*
Germany	0.8	-0.2	*0.2*	*0.3*	*0.5*	*0.5*	*0.5*	*0.5*	4.0	3.3	0.7	0.5	*1.5*	*1.6*
Spain	0.4	0.6	*0.4*	*0.4*	*0.4*	*0.4*	*0.5*	*0.5*	-0.2	0.1	-1.6	-1.2	*1.2*	*1.7*
France	0.0	0.0	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	1.7	2.0	0.0	0.4	*0.5*	*1.0*
Italy	-0.1	-0.2	*0.0*	*0.1*	*0.2*	*0.3*	*0.3*	*0.3*	1.7	0.4	-2.4	-1.9	*-0.2*	*0.5*
Euro area	*0.2*	*0.0*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*2.0*	*1.6*	*-0.7*	*-0.4*	*0.8*	*1.3*
Poland	1.1	0.6	*0.8*	*0.8*	*0.8*	*0.8*	*0.8*	*0.8*	3.9	4.5	2.0	1.6	*3.2*	*3.4*
U.K.	0.8	0.8	*0.7*	*0.7*	*0.5*	*0.5*	*0.5*	*0.5*	1.7	1.1	0.3	1.7	*3.0*	*2.5*
EU28	*0.3*	*0.2*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*2.0*	*1.7*	*-0.4*	*0.1*	*1.4*	*1.8*

f: forecasts (Credit Agricole / IMF, Sept. 2014)

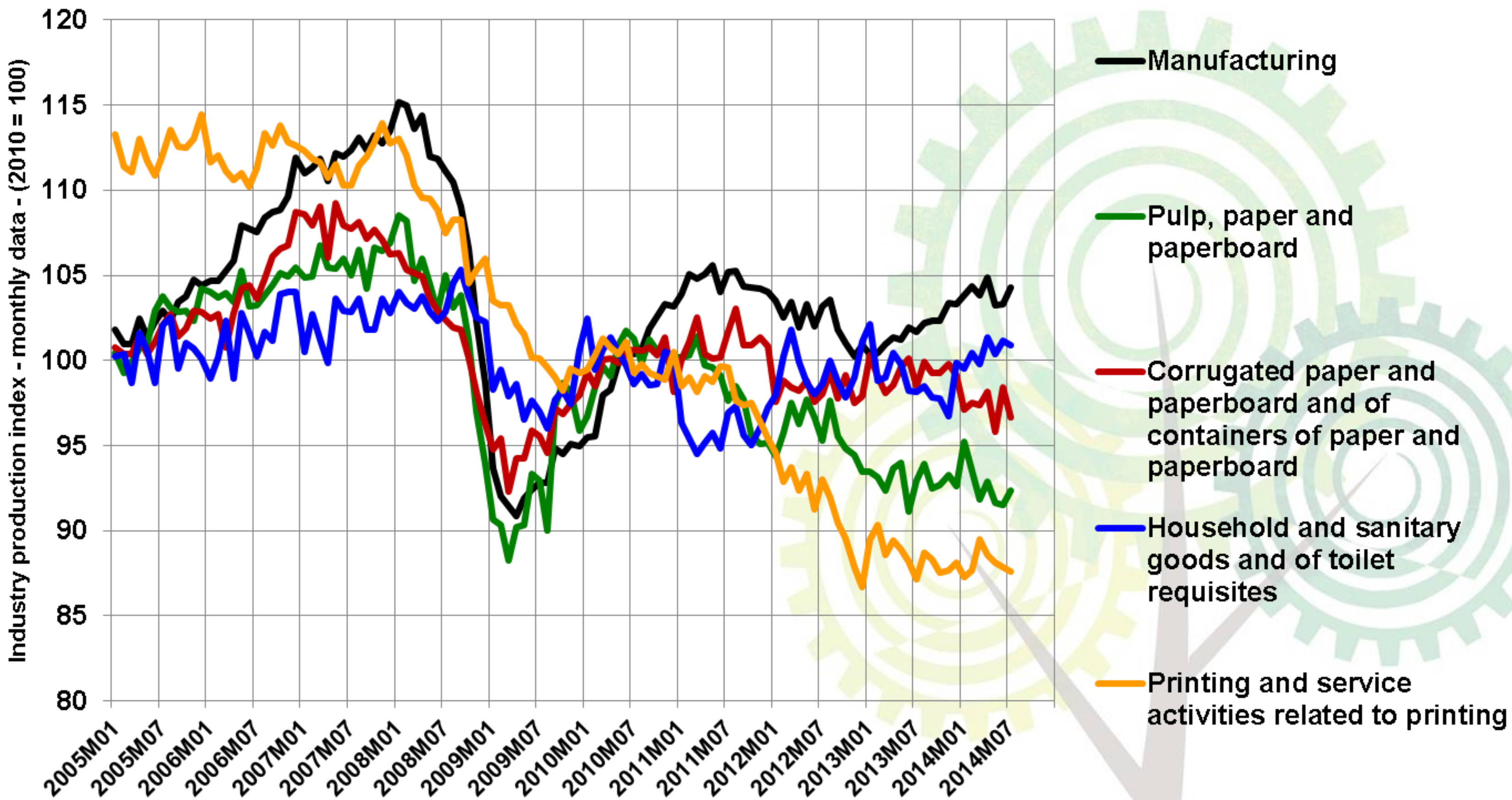
Percentage of the non-employed

In %	2010	2011	2012	2013	Jan-12	Jun-12	Jan-13	Jun-13	Jan-14	Jun-14	2014f	2015f
EU28	9.6	9.6	10.4	10.8	10.0	10.4	10.8	10.8	10.5	10.2	10.5	10.1

Source: CEPI , Eurostat (Sept. 2014), EU Commission, June 2014

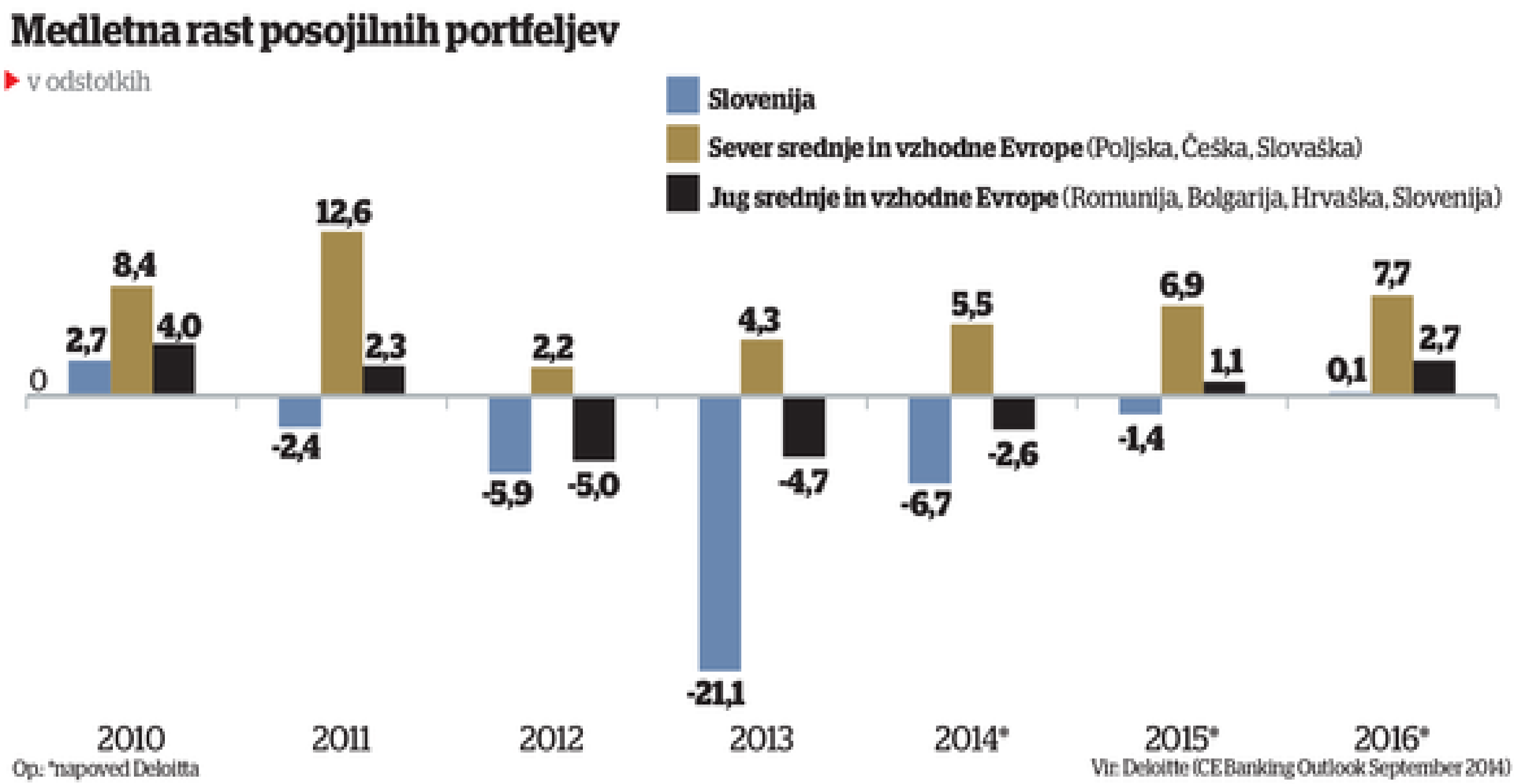
- Forecasts for the next year are not very encouraging for exporters

INDUSTRY PRODUCTION INDICES FOR PAPER AND RELATED INDUSTRIES



Source: Eurostat, September 2014

BANK LOAN PORTFOLIO



Source: Finance news 2014

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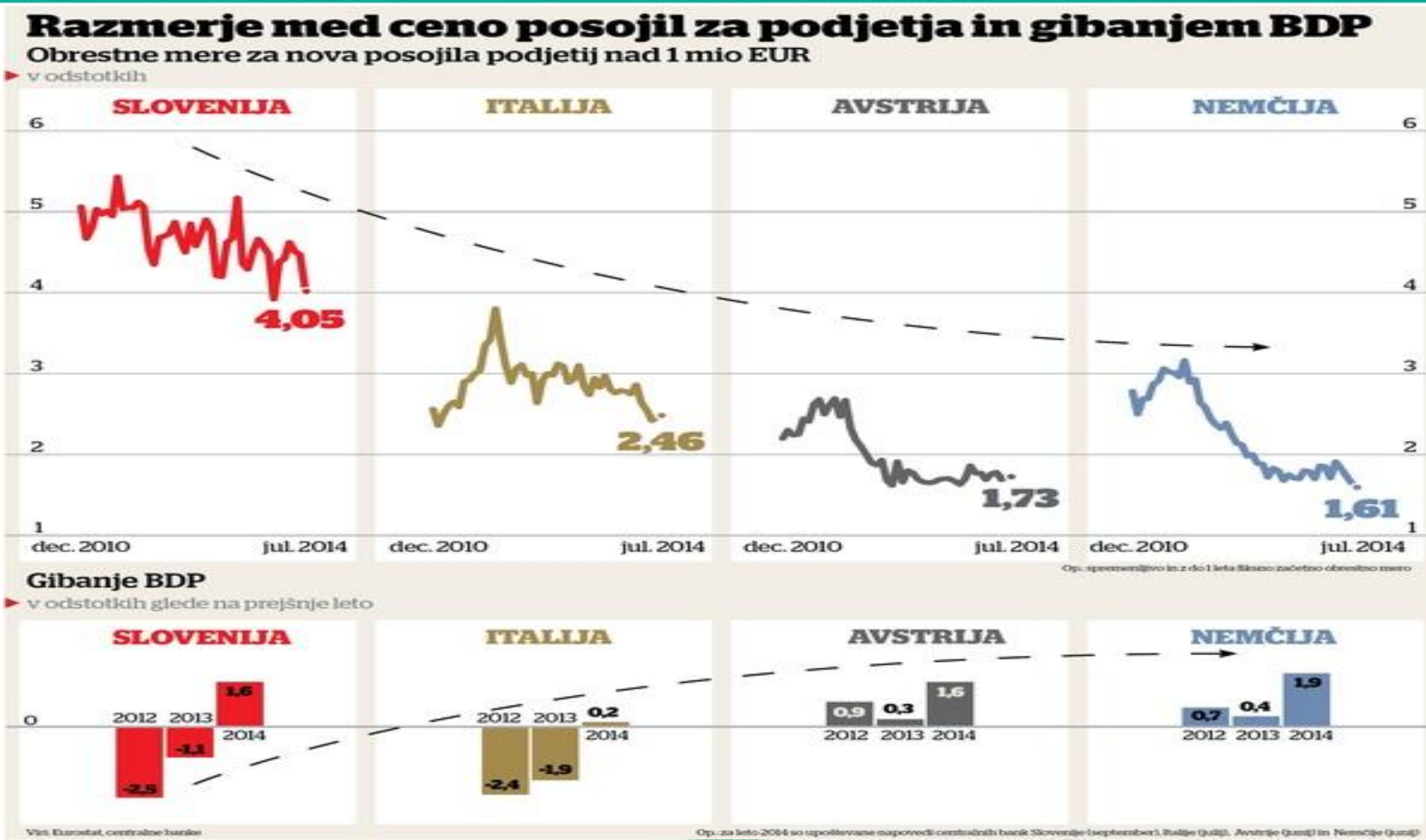
INTEREST RATES



Source: Finance news 2014

Results of the Paper and Paper Converting Industry 2013/2014

Mednarodno srečanje slovenskega papirništva
International Meeting of Slovene Paper Industry
2014
19-20 November
Grand Hotel Toplice
Bled, Slovenia

SLOVENE PAPER INDUSTRY

17% of all costs are energy costs (on average)

among 37 top SI exporters

6 SI paper mills

38,615 € value added / employee

706 m € revenues

110 companies

7 large
9 medium
11 small
83 micro

502m € exports

3,3 % of Slovene exports in €

(data refer to 2013)

Največji slovenski izvozniki leta 2013

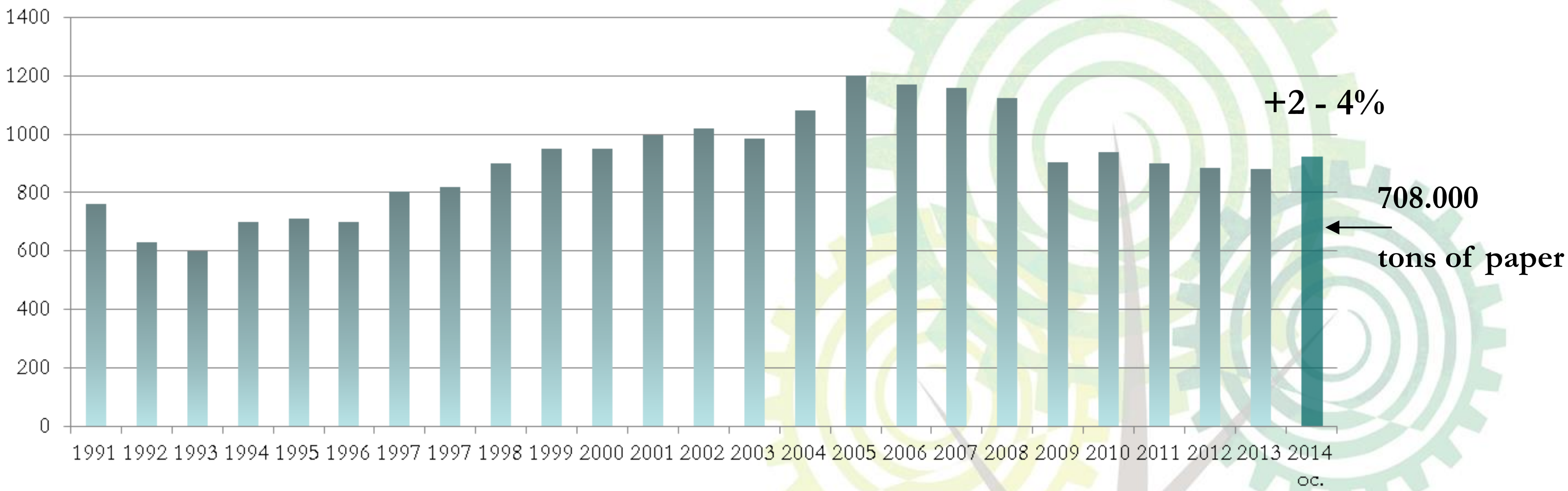
izvoz v tisoč evrih

	podjetje	sedež podjetja	delež izvoza v prodaji	izvoz v letu 2013				rast glede na 2012	načrt izvoza za leto 2014	
				skupaj	v EU (s Hrv.)	v nekdanjo Jug.	na tretje trge		skupaj	v države EU
1.	Skupina Krka	Novo mesto	93,0	1.114.231	593.616	49.326	471.289	6,0	1.160.391	614.047
2.	Skupina Gorenje	Velenje	85,9	1.065.120	647.189	125.326	292.605	0,1	1.104.428	658.468
3.	Revoz, d. d.	Novo mesto	98,4	643.746	643.646	0	100	−28,0	768.223	768.123
4.	Skupina Sij	Ljubljana	86,3	568.700	456.492	19.026	93.182	−9,1	624.417	501.200
5.	Skupina Impol	Slovenska Bistrica	94,0	431.000	315.000	3.000	312.000	1,0	411.000	300.030
6.	Cimos, d. d.	Koper	96,0	407.711	330.252	52.167	25.292	9,0	450.000	350.000
7.	Koncern Kolektor	Idrija	80,0	351.000	227.200	5.100	118.600	0	355.000	220.000
8.	BSH Hišni aparati, d. o. o.	Nazarje	90,0	309.590	288.292	11.750	9.548	8,6	309.590	288.292
9.	Skupina Hidria	Ljubljana	87,0	224.000	188.000	5.600	30.400	−6,0	233.000	195.000
10.	Skupina Talum	Kidričevo	78,0	215.877	186.147	9.672	20.058	3,0	224.045	192.679
11.	Hella Saturnus, d. o. o.	Ljubljana	97,0	207.700	184.900	np	20.900	−12,0	256.900	228.600
12.	Skupina Helios	Domžale	89,0	204.000	114.000	14.000	77.000	−4,0	216.000	123.000
13.	Adria Mobil, d. o. o.	Novo mesto	98,8	196.790	182.921	0	13.869	−7,1	210.211	197.419
14.	Letrika, d. d.	Šempeter pri Gorici	96.0	180.100	123.200	6.500	50.300	[illegible]	[illegible]	…900
15.	SŽ – Tovorni promet, d. o. o.	Ljubljana								np
16.	TAB, d. d.	Mežica								…673
17.	LTH Castings, d. o. o.	Škofja Lo…								…00
18.	Cinkarna Celje, d. d.	Celje								…500
19.	Unior, d. d.	Zreče								…595
20.	Količevo Karton, d. o. o.	Domžale								…00
21.	Droga Kolinska, d. d.	Ljubljana								…376
22.	Skupina Eti	Izlake								…00
23.	Papirnica Vevče, d. o. o.	Ljubljana								…00
24.	Iskraemeco, d. d.	Kranj								…68
25.	Vipap Videm Krško, d. d.	Krško								…34
26.	Knauf Insulation, d. o. o.	Škofja Lok…								np
27.	Štore Steel, d. o. o.	Štore								…96
28.	Domel, d. o. o.	Železniki								…00
29.	Paloma, d. d.	Sladki Vrh	82,9	69.700	60.300	7.400	2.000	−1,1	73.100	62.000
30.	Ydria Motors, d. o. o.	Cerknica	95,0	64.298	64.298	0	0	4,0	64.800	64.800
31.	Iskra Sistemi, d. d.	Ljubljana	62,1	60.438	40.723	2.949	16.766	−3,5	66.300	42.000
32.	GKN Driveline Slovenija, d. o. o.	Zreče	99,0	57.024	28.521	8.888	19.614	23,0	63.370	51.256
33.	Perutnina Ptuj, d. d.	Ptuj	40,0	55.152	32.207	16.006	6.939	1,0	57.724	34.730
34.	Iskra Mehanizmi, d. o. o.	Kropa	91,0	54.831	53.303	638	890	−9,0	58.173	56.694
35.	Silkem, d. o. o.	Kidričevo	93,5	52.602	43.193	216	9.192	1,6	51.715	42.000
36.	Filc, d. d.	Škofja Loka	94,0	51.143	40.605	772	9.765	9,0	59.176	45.994
37.	Goričane, tovarna papirja, d. d.	Medvode	86,2	50.279	31.317	754	18.208	−8,6	54.350	35.802
38.	Arcont, d. d.	Gornja Radgona	98,5	48.700	45.100	100	3.500	1,0	50.500	46.500
39.	Kovintrade, d. d.	Celje	33,0	47.600	32.200	5.900	9.600	−21,0	50.000	33.000
40.	Steklarna Hrastnik, d. o. o.	Hrastnik	96,0	46.152	40.775	731	4.646	−1,7	47.996	42.916
41.	TBP, d. d.	Lenart	95,0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Beside paper producers, the significant increase in exports was made by paper converters – the exports increased by € 30m or 18.7% last year. (export revenues amounted to € 146.5m)

Source: Delo news, March 201…

PRODUCTION (branch C17) in tons since 1991 in Slovenia



>> In 2013, the total production of the branch was slightly higher than the year before (+0.3%) and achieved the figures from 1998.

>> According to the survey done by the PPCIA the scope of total branch production will increase by 2-4% in 2014.

Source: SORS, PPCIA Survey

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PRODUCTION FORECAST for 2014 for Slovenia

CEPI data for Jan-Aug 2014/Jan-Aug 2013:

Paper and Board Production	Cumulative % Change Over Previous Year
Newsprint	-6.7
Uncoated Papers	-1.4
Uncoated Mechanical	-3.1
Uncoated Woodfree	-0.3
Coated Papers	-2.4
Coated Mechanical	-4.6
Coated woodfree	-0.3
Total Graphic	**-3.0**
Sanitary & Household	**-0.2**
Case Materials	1.7
Carton Board	1.1
Wrappings	3.9
Total Packaging	**1.7**
Other Papers	**4.2**
Total Paper & Board	**-0.1**

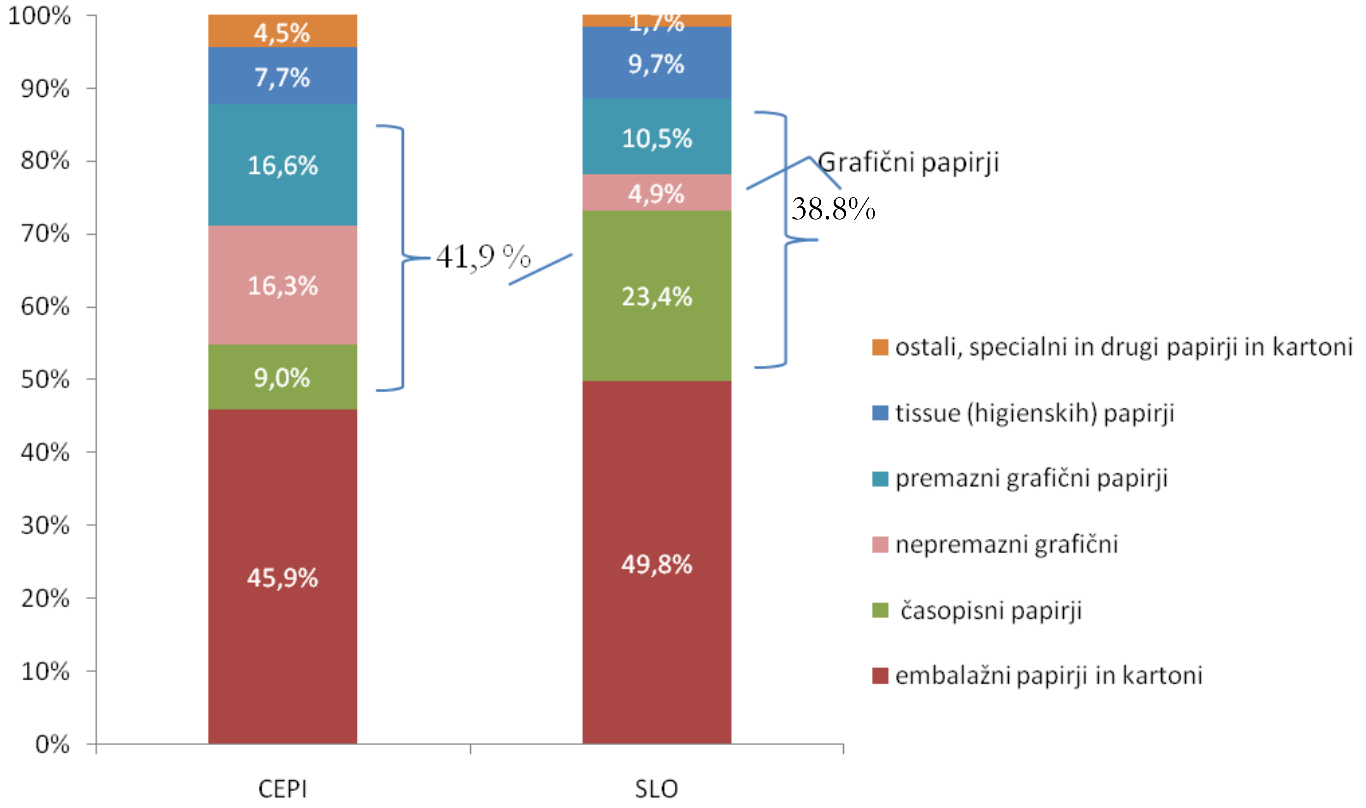
SLOVENIA (2014 est.):

>> Paper production: + 6.6%

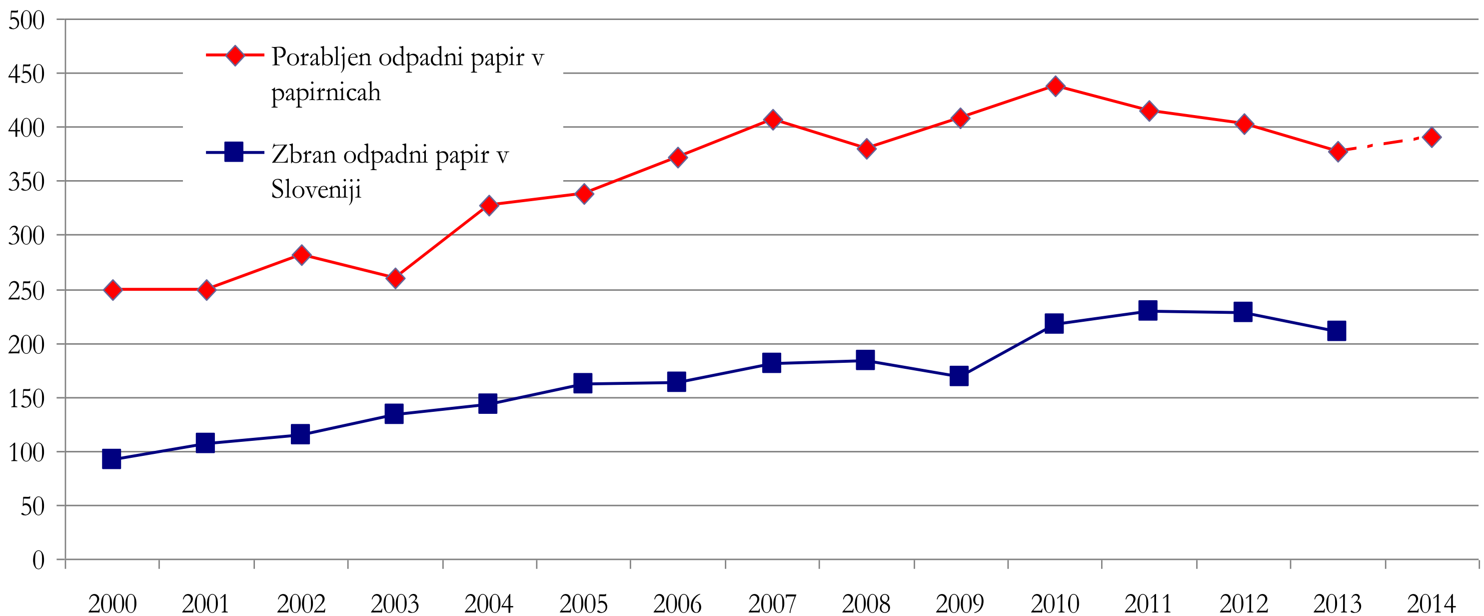
>> Packaging production: +3.7%

Source: PPCIA Survey 2014

STRUCTURE OF PAPER GRADES PRODUCED



PAPER for RECYCLING



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

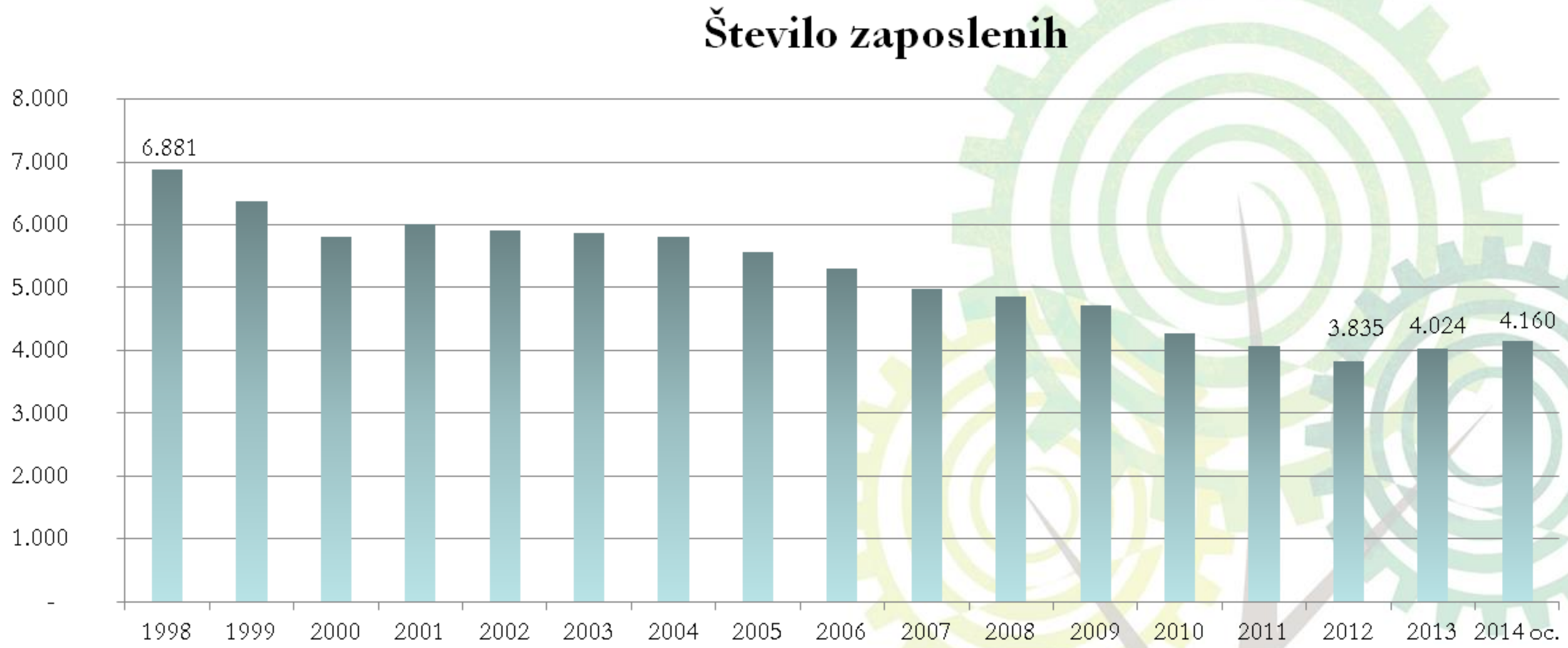
>>The share of RCP collected in Slovenia compared to total consumption of RCP in paper mills amounts to 51.9 % *(49.5% in 2010, 60.4% in 2011, 50.9% in 2012).*

>>In Slovenia, the volume of paper collected per capita is 116.5 kg

>>Recycling rate: 53.9% ; EU average 2013: 71.7%

(Consumpt. of RCP–import +export/paper consumpt. in SI)

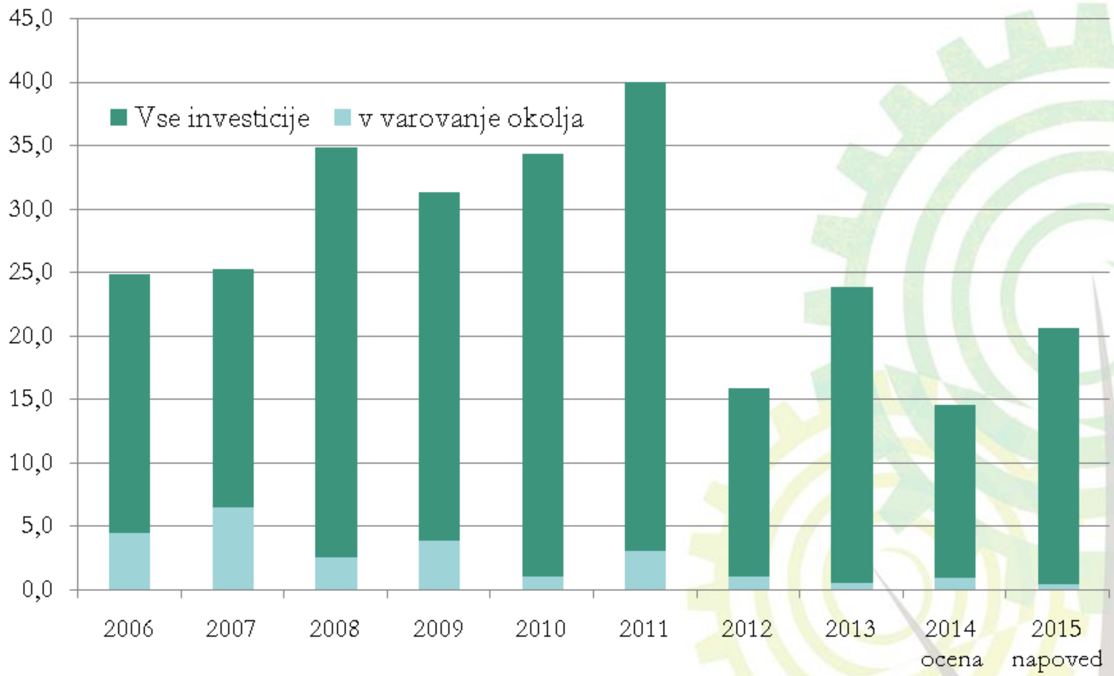
EMPLOYEES



In 2013, the number of employees in the C17 branch slightly increased, particularly in paper converting companies.
In 2014, further increase is anticipated in paper mills (mostly in Radeče papir Nova) as well as in paper converting companies.

INVESTMENTS

in € thousand



Source: PPCIA Survey

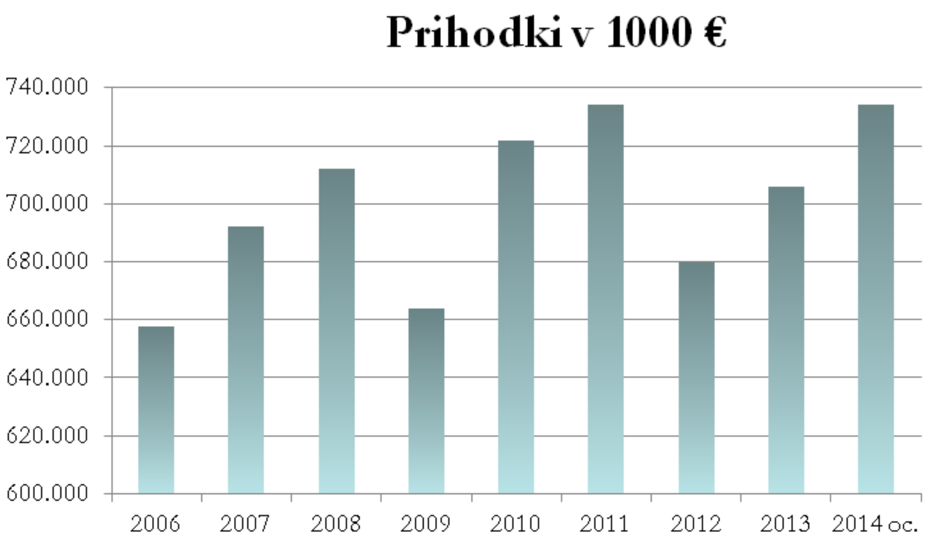
2013: a large investment in Vevče (a new coater);

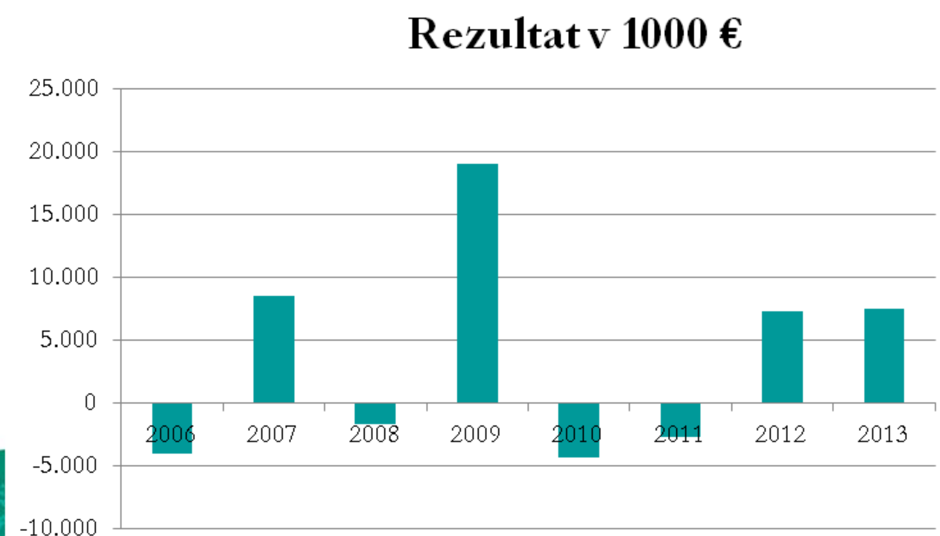
2014: investments for better energy efficiency, optimisation of production processes and new production equipment.

The scope of investments has been essentially influenced by the scarcity of financing sources!

REVENUES AND PROFIT/LOSS IN THE BRANCH

in € thousand





VALUE ADDED PER EMPLOYEE

v €	2008	2009	2010	2011	2012	2013
SLOVENIJA	35.279	34.168	36.044	36.966	38.006	38.093
C Predelovalna dejavnost	32.003	31.523	34.205	35.567	36.374	38.276
C 17 - Proizvodnja p&k in predelava	30.737	40.028	34.246	36.228	37.958	38.615
C17.1 Proizvodnja papirja in kartona	40.610	52.257	38.665	41.071	46.761	48.624
C17.2 Predelava papirja in kartona	25.141	30.890	30.773	32.500	32.177	32.780

Total value added in the branch in 2013: € 155.4m

Data from the survey on the 2014 operations show a growth of the average value added in the branch.

COOPERATION WITHIN THE BRANCH

Gospodarska zbornica Slovenije

Združenje papirne in papirno predelovalne industrije

and

INŠTITUT ZA CELULOZO IN PAPIR

COOPERATION WITHIN THE BRANCH

INŠTITUT ZA CELULOZO IN PAPIR

coordinator and developer of projects.

- **Competence Centre for Personnel Development**

  (training, fairs – INPAK)

KOCPI
Kompetenčni center za razvoj kadrov v papirni industriji

- **EcoPaperLoop** Pulp and Paper Institute, Ljubljana, cooperates in the preparation of proposals and recommendations to improve the paper collection and recycling policy, in order to ensure raw material of proper quality for industry. Under the project a uniform method was developed for the determination of paper product recyclability, which became a new service provided by the Institute.

COOPERATION WITHIN THE BRANCH

INŠTITUT ZA CELULOZO IN PAPIR

– **The KROP project** for the strengthening of R&D departments. A new research team was set for **packaging and graphics,** and research is focused on materials and technologies for active packaging. A special achievement involving cooperation with companies is the development of printed electronics.

COOPERATION WITHIN THE BRANCH

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Gospodarska zbornica Slovenije

Združenje papirne in papirno predelovalne industrije

Promoting paper (response to e-billing)

Companies Open Day – 27 November 2014

Project – smart specialisation strategy

Taxes and Duties on Energy Products, and other Surcharges

ACCELERATED GROWTH IN SURCHARGES IN THE PERIOD 2010-2014

- Excise duty on electricity - + 500%
- Contribution for renewable energy sources (RES)
  - Electricity +316% ≥ +150% (2013)
  - Fuels (solid, liquid, gas) – a new contribution (2014)

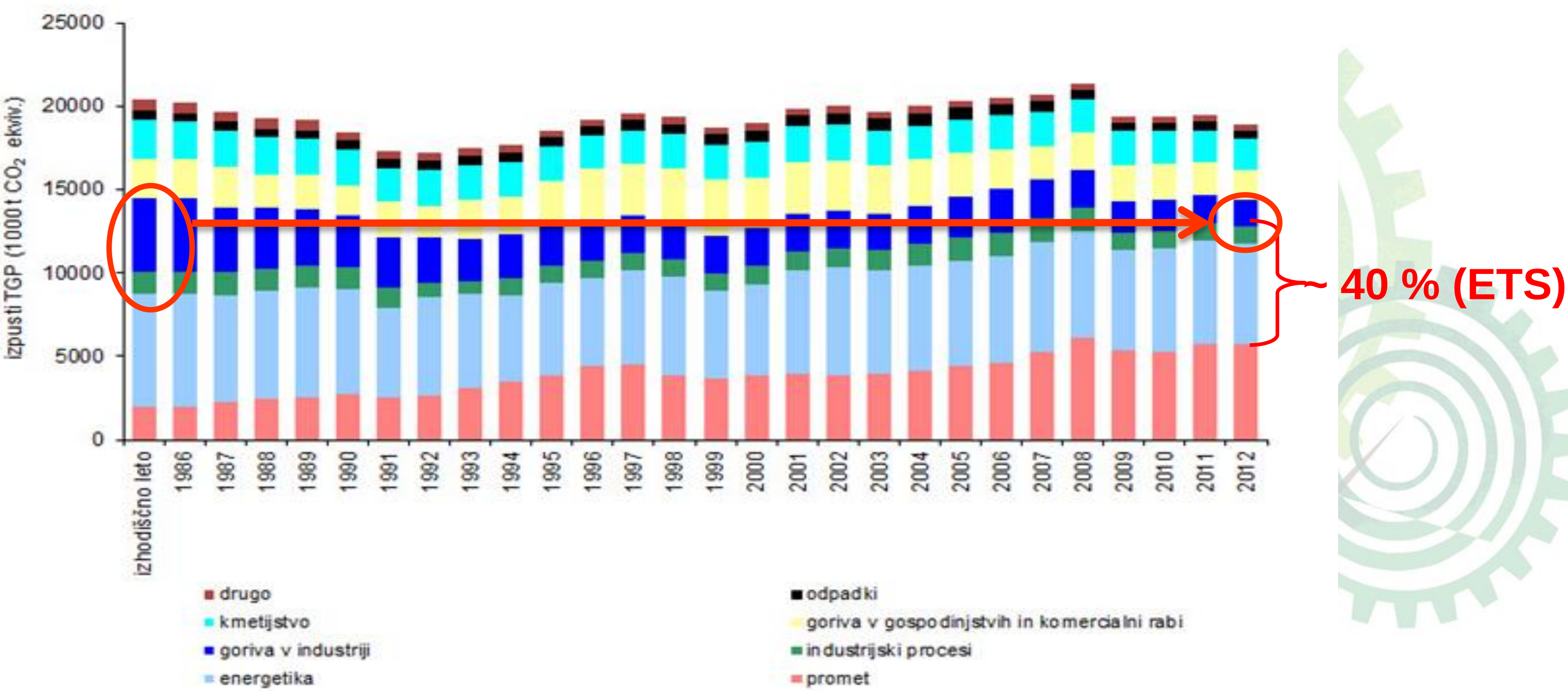
1 Jan 2015 – NEW SURCHARGES – CO2 TAX

- CO2 tax – € 4.4m surcharges per year for 6 paper mills

Demand: immediate notification of the state aid scheme and exemption from payment of CO2 tax for the ETS sector

ANNUAL GREENHOUSE GAS EMISSIONS IN SLOVENIA

Slika PS3-3: Letni izpusti toplogrednih plinov po sektorjih v Sloveniji v obdobju 1986-2012



Vir: Arhiv TGP, Agencija RS za okolje, april 2014.

- Road traffic emissions **increased** by 194%
- Emissions from industry and construction sector **decreased** from 22% to 9% in 2012

1 Jan 2015 – NEW SURCHARGES – EE
1 Jan 2015 – INCREASE OF RES CONTRIB.

- Increase of the contribution for efficient use of energy (EE) – + 80% for current payers and introduction of the contribution for the ETS sector – € 1.8m
- Increase of the RES contribution for gas by 100%

Demand: Immediate implementation of the guidelines regarding the state aid for EE and RES contributions

NEW RULES REGARDING GAS TRANSMISSION CAPACITY

New rules for the gas transmission capacity award procedure – restricting the existing free trade with gas transmission capacity

Demand: Free trade with gas transmission capacity should be restored

Conclusions

CONCLUSIONS

- Business environment in Slovenia remains extremely uncompetitive.
- The price of money is still twice as high as the average price in the EU
- The existing and new financial burdens on the paper and paper converting companies not only weaken their competitiveness and make new investments extremely difficult, but now they also jeopardise workplaces and the existence of the companies.

CONCLUSIONS

- About 700 workplaces or 30% of employees in paper industry are jeopardised
- We demand the anticipated new financial burdens (CO_2 tax, EE contribution) to be cancelled, and the existing ones (excise duty on electricity and RES contribution) to be decreased.
- Equal treatment of companies as regards financial burdens.

Thank you for your attention

Programme

9.00	Marko Jagodič, Samo Hribar Milič	OPENING AND WELCOME ADDRESSES
9.20	Jožica Stegne	SLOVENE PAPER INDUSTRY TODAY AND TOMORROW
9.45	Marco Mensink Metka Čavka	EIGHT BREAKTHROUGH TECHNOLOGIES FOR THE FUTURE OF PAPER INDUSTRY
10.45		PRESENTATION OF AWARDS FOR BEST GRADUATE AND POSTGRADUATE THESES IN PAPERMAKING
11.00		*Coffee break*
11.30	dr. Peter Novak	ENERGY TODAY AND TOMORROW – EXPECTED CHANGES FOR ENERGY INTENSIVE INDUSTRIES
12.15	Matic Ceglar	PAPER AS PACKAGING MATERIAL
12.45		ROUND TABLE DISCUSSION – TO THE FUTURE: BY REVOLUTION OR THROUGH EVOLUTION?
13.30		*Lunch*
15.00		DITP SYMPOSIUM