

**No light at the end of the tunnel?
Two Pessimists for each Optimist in industry study. However, companies are prepared.
CEPI’s 2050 Roadmap mostly unknown.**

Survey results from economic outlook survey and CEPI 2050 Roadmap survey

StepChange Consulting conducted a survey among industry stakeholders and the participants of the 14th Annual RISI European Pulp and Paper Conference in March 2012 in Amsterdam. Results were compared to last year’s survey to analyze changes.

The outcome of the survey provides an indication about the perception of current economic and market development in the industry and which measures are being taken to address the issues.

In November 2011, CEPI introduced its Roadmap 2050. Therefore, a section about the CEPI 2050 Roadmap was added to the survey.

The headlines of the economic outlook survey results are:

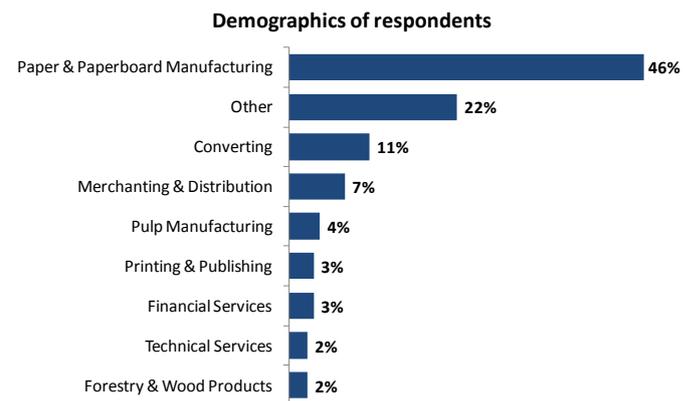
- Almost two thirds of respondents indicate that the industry is currently in a recession or will be within the next 12 months
- Likewise, respondents believe that the economy is on a downward trend or in a trough. However, one third of respondents believe that the economy is on an upward trend.
- Two thirds of respondents indicate that they are prepared for dealing with a recession while one third have already implemented a plan
- Slightly less than half of the respondents indicate that customer demand, selling price and availability of financing are down
- Respondents see high raw material and transportation costs, increasing late payments and feel the pressure of increasing customer service requirements. However more respondents see declining costs than in 2011.
- Measures to address developments are focused externally and internally. Areas of focus are pricing & margin management, cost reduction, product development and innovation as well as cash flow & working capital improvement.
- Compared to 2011 focus seems to be on measurable efforts to improve bottom or top line
- Talent management, sustainability focus and marketing are the areas that have dropped considerably in importance compared to 2011
- The importance of restructuring & consolidation has quadrupled and focus on supply chain development has doubled since 2011

- Only a small percentage of respondents indicate that workforce reduction is in focus. However twice as many as in 2011

2050 Roadmap survey results:

- More than half of the participants have not heard about the CEPI 2050 Roadmap yet and only a very small number of respondents are fully aware of the targets and implications of the Roadmap
- Of respondents who have heard about the CEPI 2050 Roadmap, one third indicates that it is a topic in their organization
- Areas considered to achieve Roadmap targets are the reduction of energy usage together with the usage of renewable energy sources
- 52% believe that the Roadmap targets are achievable and 45% of respondents believe that the Roadmap offers a competitive advantage for Europe
- More than 80% of respondents believe that the Roadmap is necessary to sustainably reduce emissions, requires significant investments and that governmental support is necessary to accomplish the goals
- While one fourth of respondents share the opinion that the roadmap 2050 will lead to a job loss in Europe the majority is neutral

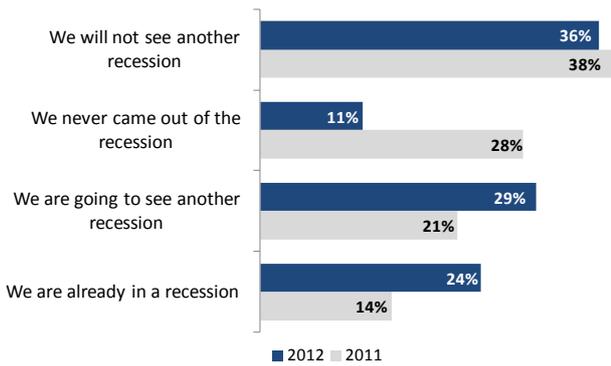
Respondent demographics represent a wide spectrum of the industry including forestry & wood products, pulp manufacturing, paper & paperboard manufacturing, converting, merchants & distributors, financial services and management consulting.



Almost half (46%) of respondents work in paper & paperboard manufacturing. Within this group, two thirds work for packaging/board producers and about one fourth for graphic paper producers.

More than one third of respondents in the “Other” category are suppliers to the pulp and paper industry, e.g. chemical suppliers or Fast Moving Consumer Goods (15%).

Question 1: Where do you see the economy heading in the next twelve months?

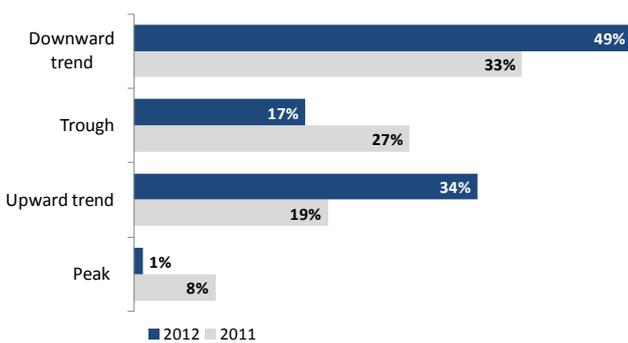


Nearly two thirds (64%) of respondents see a recession already in progress or believe one will occur within the next twelve months. 11% of respondents are of the opinion that the economy never recovered from the last recession. Almost one fourth (24%) of respondents believe that we are already in a recession and 29% of respondents believe that we are going to see another recession. Similar to 2011 a remarkable percentage of more than 1/3 of respondents (36% vs. 38% in 2011) stated that we will not see another recession.

47% of the respondents who do not expect another recession work for paper manufacturers.

Taking a closer look at only the paper manufacturing, opinions on the economic trend differ significantly. 36% believe that we will not see another recession, 37% indicate that we will see another recession, 7% believe that we never came out of the recession, and 20% stated that we are already in a recession. Overall this peer group is more positive than the rest of the respondents.

Question 2: In your opinion, currently where is your area of the industry in the economic cycle?

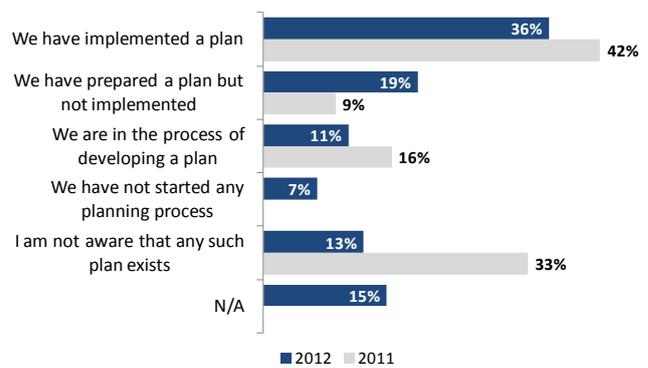


Two thirds of respondents believe their sector is in a trough or downward trend. One third (35%) of respondents have a positive outlook and believe their segment of the industry is operating at a peak or in an upward trend. Compared to last year, respondents are a lot more polar about where we are in the economic cycle. On the one side respondents who believe the economy is on a downward trend increased from one third to almost half of the respondents and hardly anyone answered that the economy peaks. On the other side more than one third of respondents stated that the economy is on an upward trend in 2012 compared to only one fifth of respondents who thought so in 2011.

This year especially two sectors, converters and merchants & distributors, see their sector in a downward trend or a trough. 75% of converters and 100% of merchants & distributors share this opinion.

Slightly more than half of the respondents who see an upward trend are paper & paperboard manufacturers, again mainly in the packaging sector. However, also some graphic paper producers, FMCG end users and converters see an upward trend.

Question 3: Is your company planning for a recession?



Results for both years clearly demonstrate that more than half of the companies are concerned about a recession and have implemented or developed plans to address a recession.

Of the two thirds who have planned for a recession, a fairly large amount of this year's respondents (36%) answer that their companies have already implemented a plan, 19% have prepared a plan but not implemented, and 11% are in the process of developing a plan. Only 13% of respondents are not aware that any such plan exists and another 15% did not have an opinion to this question. There seems to be no major change compared to 2011. In both years, two thirds of respondents stated to be occupied with the preparation for a recession and implementing plans.

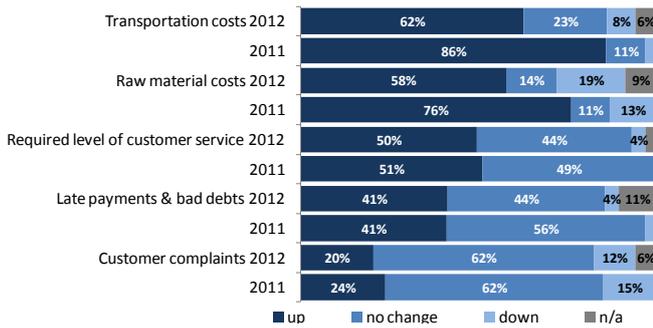
Taking a closer look at the participants who answered that they are not aware of any plan, more than half of the respondents are from the packaging sector. This is in line with the previous question where most of the respondents from this sector had a positive outlook.

Merchants & distributors who have a very negative outlook and indicate that they are operating in a difficult economic environment are most prepared (91%). From this peer group, 56% have either implemented a plan for a recession or have at least already prepared a plan 33%, only 11% have not started any planning process yet.

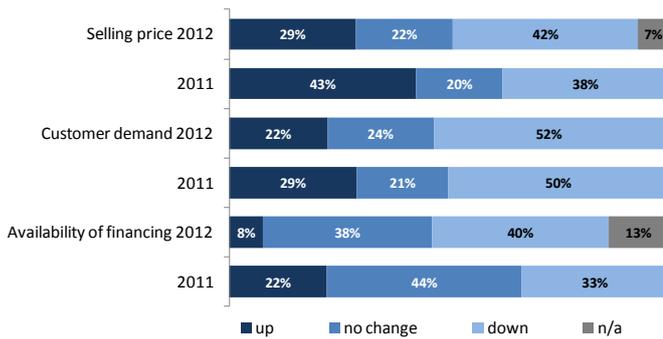
Converters have a slightly different view. Only 46% seem to be prepared. 27% have already implemented a plan for a recession and 19% have prepared a plan.

From the respondents in question 2 who see the economy on a downward trend (49%), 26% answered that their company has not started any planning process yet, or they are not aware that any plans exist. 31% have prepared a plan, or are in the process of preparing a plan. The remaining 43% have already implemented a plan.

Question 4: What trends are you seeing in the market relative to last calendar year (Cost drivers)?



Question 4: What trends are you seeing in the market relative to last calendar year (Growth and Profit enablers)?



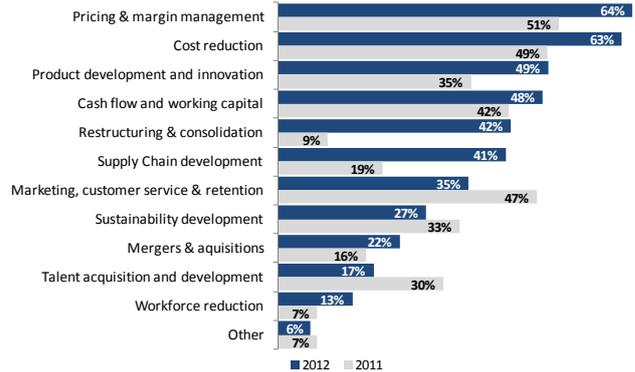
Most respondents say costs have increased. 62% of respondents say that transportation costs went up and 58% answer that raw material costs went up as well. However, compared to 2011, both numbers decreased by 24 and 18%, respectively - indicating a turning point.

Half (similar to 2011) of the respondents say customer service requirements have increased while demand has decreased. Additionally, one fifth (20%) of the responses indicate that customer complaints have increased as well (down 4% from 2011). In all cost categories an increasing number of participants are signaling decreasing costs. In 2011 almost no one provided this indication. Regarding selling price, respondents are polarized. 29% of respondents indicate that the selling price is up compared to 42% who answer that it went down. Excluding n/a answers there are significantly more respondents signaling decreasing sales prices. In more detail, 50% of respondents who see selling prices going up are from the paper manufacturing sector, but again mainly from the packaging sector.

Similar to 2011 the majority of respondents indicate that demand is down (52% in 2012 vs. 50% in 2011). However, only 22% of participants indicate that demand is actually up (compared to 29% in 2012).

Similar to 2011 late payments, bad debt and availability of financing continue to be an issue for 41% and 40% of respondents, respectively. For 2012, the perception about the availability of financing decreased compared to 2011.

Question 5: What are your company's current priorities?



Companies indicate to be taking both internal and external measures in managing profitability. With increasing cost pressures, nearly two thirds of the respondents identified pricing and margin management (64%) and cost reduction (63%) as top priorities for their company along with liquidity management and restructuring. In 2011, respondents indicated similar top priorities only with much lesser numbers. Even with cost and economic pressures, almost half (49%) of respondents see investment in product development and innovation as an enabling priority in difficult times, compared to only one third in 2011. One third of respondents who believe that product development is the right step also see an upward trend in the economic cycle (question 2). In difficult economic times, restructuring & consolidation often becomes a priority which is indicated by 42% of survey respondents. This is a major increase compared to 2011 (only 9%). In order to address increasing customer service requirements and decreasing customer demand, marketing, customer service & retention remains an important priority for 35% of respondents. However, in 2011, marketing was third on the priority list and now has dropped to seventh. Supply chain development has climbed up the priority list and increased significantly in 2012 to 42%, compared to only 19% in 2011. Within the current economy, Merger & Acquisition activities are on the priority list for only 22% of respondents –up from 16% in 2011. Only 17% of respondents seem to continue to focus on talent acquisition and development. In 2011 this was a priority for 30% of respondents. Unfortunately the current economic environment seems to have a reverse impact on this strategy. Workforce reduction is not seen as a priority, even though the number almost doubled from 7% in 2011 to 13% in 2012.

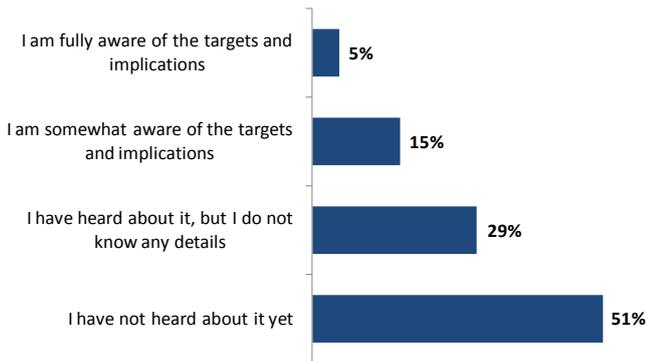
Industry sectors have different priorities; however, all sectors share the view that pricing & margin management is a top priority. Paper & paperboard manufacturers indicate to have two top priorities. 71% of those respondents stated cost reduction and pricing & margin management as priorities. Converters are focused on pricing & margin management (91%), cost reduction (73%), and cash flow and working capital management (55%). After pricing & margin management (89%), cash flow and working capital management

(78%) and restructuring and consolidation (67%) are top priorities for merchants & distributors.

Survey results CEPI 2050 Roadmap: How sensitized is the industry to the 80% reduction of CO₂ by 2050?

At the European Paper Week in Brussels in November 2011, CEPI (Confederation of European Paper Industries) introduced its 2050 Roadmap with the goal of an 80% reduction of CO₂ emissions by 2050.

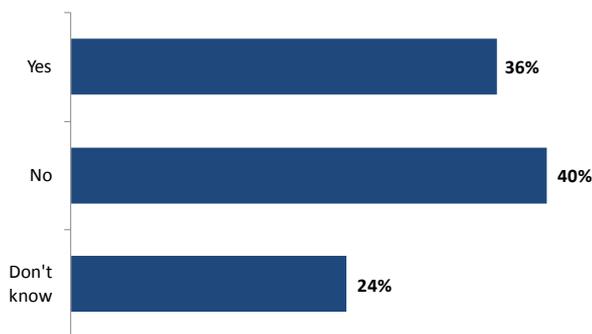
Question 6: Are you aware of the CEPI 2050 Roadmap?



Almost half of the respondents of this survey (49%) indicate that they have heard about the Roadmap. However, only a minor percentage (5%) of respondents are fully aware of the targets and implications. More than one half of the respondents (51%) have not heard about it yet.

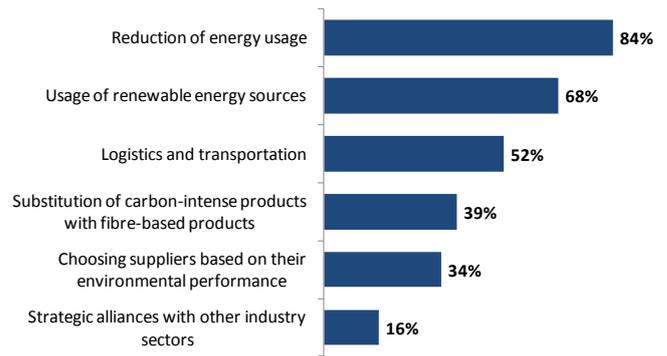
Questions 7 - 9 show details from the viewpoint of the respondents who indicated to be somewhat familiar with the 2050 roadmap (the 49% who did not mark "I have not heard about it").

Question 7: Is the CEPI 2050 Roadmap a topic in your organization?



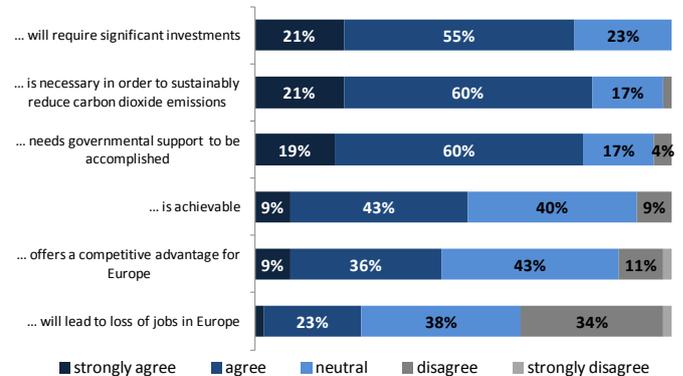
Even though the Roadmap is a fairly new topic for the entire paper industry, 36% of respondents (of the 49% from the previous question) answered that it is already a topic in their organization. 63% of respondents either don't know whether it is a topic (24%) or indicate that the Roadmap is not a topic for their companies (40%).

Question 8: What are the key focus areas to achieve the 2050 Roadmap target of an 80% reduction of emissions



For respondents, focus areas for emission reductions are within the areas of energy usage and transportation. The paper industry is an energy-intensive industry. Reduction of energy usage and usage of renewable energy sources are seen as the two priority areas to achieve the Roadmap targets. 84% and 68% of respondents, respectively, see these areas as top priorities, followed by logistics and transportation (52%). Over one third (39%) of respondents indicates that the substitution of carbon-intense products with fibre-based products is an important step towards the reduction of emissions. Choosing suppliers based on their environmental performance is considered an option for a little over one third of respondents (34%). Strategic alliances with other industry sectors is only considered to be relevant by 16% of respondents.

Question 9: How do you evaluate the following statements: "The CEPI 2050 roadmap with the goal of achieving 80% less emissions by 2050..."



The Roadmap seems to be an important topic for the majority of respondents. 81% of respondents either agree (60%) or even strongly agree (21%) that the roadmap is necessary in order to sustainably reduce carbon dioxide emissions. More than one half of the respondents (52%) indicate that the goal stated in the roadmap is achievable and only 9% disagree. 76% of respondents strongly agree (21%) or agree (55%) that significant investments are required to reach the 80% emission reduction goal by 2050. An even higher number (79%) stated that governmental support is needed to achieve the desired results. About one fourth (25%) of respondents shared the opinion that the Roadmap will lead to the loss of jobs in Europe. However, 36% of respondents either disagree (34%) or strongly disagree (2%) with this statement. In the end, almost half of the respondents (45%)

believe that the Roadmap will offer a competitive advantage for Europe and only a small number (13%) disagrees with this statement.

Taking a closer look at the respondents who indicate that the Roadmap will lead to the loss of jobs in Europe (25%), 58% still believe that the roadmap offers a competitive advantage for Europe.

Summary

In summary, respondents see a recession already in progress or on the horizon within the next year. Most companies have either already implemented a plan or are developing plans.

The overall economy and pressures in the areas of increasing costs, increasing customer service requirements, decreasing demand and working capital management are driving current priorities.

Pricing and margin management is currently the top priority for all sectors, followed by cost reduction, product development and innovation, and cash flow & working capital improvement. Supply Chain Development and restructuring have become important priorities compared to 2011.

Renewed focus on product development, innovation, sustainability and talent development are enabling priorities for some companies although talent management has unfortunately lost the importance it had in the prior year along with sustainability. Mergers and acquisitions as a priority was mentioned twice as often as in 2011 but still by few respondents.

The conclusion of the 2050 Roadmap survey is that most industry participants do not know about it. Communication is necessary to raise the awareness and get the industry to start working on the details of achieving the targets. Of those familiar with the topic the Roadmap is for the most part perceived as an opportunity.

About StepChange Consulting

StepChange is an industry focused and independent management consulting company with a proven track record in supporting clients to achieve sustainable value. StepChange provides support to top tier organizations in the industry from strategy development to implementation of operational improvements. With an international team of industry experts StepChange can hit the ground running. StepChange provides innovative and yet pragmatic solutions, placing an emphasis on delivering measurable business results.

For further inquiries and comments regarding this Point of View please contact us at leapfrog@stepchange.com