

Curriculum Vitae

John Williams



BORN : 25th April 1954

EDUCATION : King's College, London University
English and US Literature

PROFESSIONAL BACKGROUND :

1976 – 1981: Mars Group - National Account Controller

1981 – 1986: Alberto Culver UK - General Manager Professional Division

1986 – 1988: Highfield Associates - Divisional Director

1988 – 1992: Sweetheart International - European Managing Director

1992 – 1995: Huhtamaki -CEO Polarcup

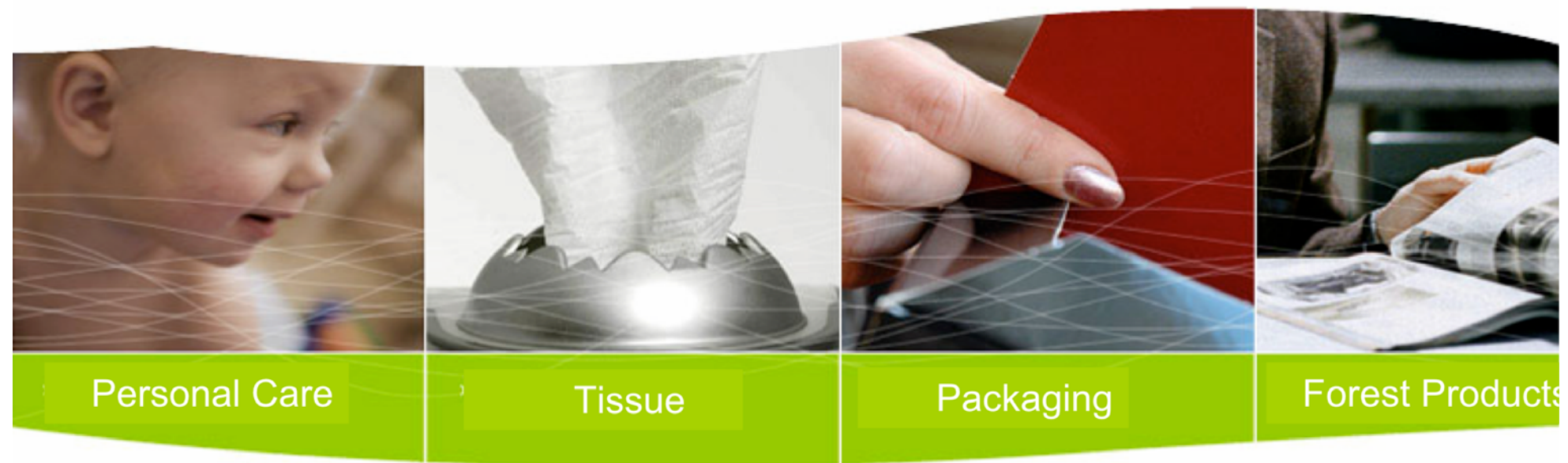
1996 – 2000: Rexam - Sector Director, Speciality Food Packaging

2000 – 2005: SCA Packaging - Regional Managing Director UK & Ireland

2005 – present: SCA Packaging Europe - President

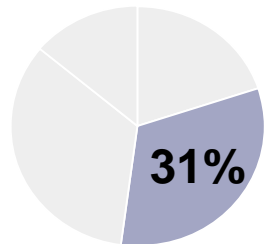
SCA Group

Total sales Euro 11 billion



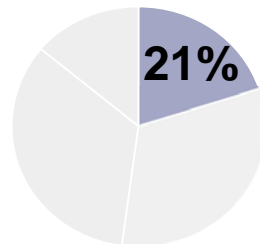
Personal Care

- Baby diapers
- Feminine care
- Incontinence care



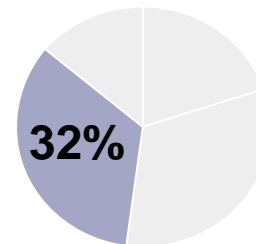
Tissue

- Toilet paper, kitchen rolls, facial tissue and napkins
- Hygiene concepts



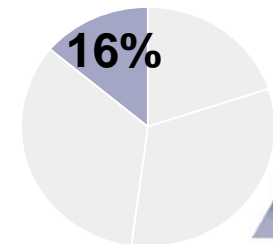
Packaging

- Transport and consumer packaging
- Containerboard



Forest Products

- Publication paper
- Solid-wood products
- Pulp and timber



Agenda

- 1 The challenges facing the packaging industry
- 2 The industry's response
- 3 SWOT

When the going gets tough...

- **Demand slowdown**
 - ◆ Modest economic growth
 - ◆ Manufacturing relocation to Eastern Europe/Asia
- **Price pressure** from retailers on FMCG suppliers, pushed back on to packaging suppliers
 - ◆ FMCG companies responding by consolidating their sectors and putting pressure on suppliers
- **Industry overcapacity**
 - ◆ Structural overcapacity pushing down prices and profitability
- **Raw material and energy costs surge**

Demand slowdown in Western Europe

-Average 1% growth last 5 years

■ Overall demand

- ◆ 2006 marked change in momentum but average market growth last five years below +1%
- ◆ Economic output and industrial production set to slow down in Western Europe in 2007, growth around +2%
- ◆ Private consumption to fall from already low levels <2%

■ Material substitution?

- ◆ Not a clear and present threat for corrugated. Corrugated faces some displacement from returnable plastic crates in certain segments but will replace carton board in others

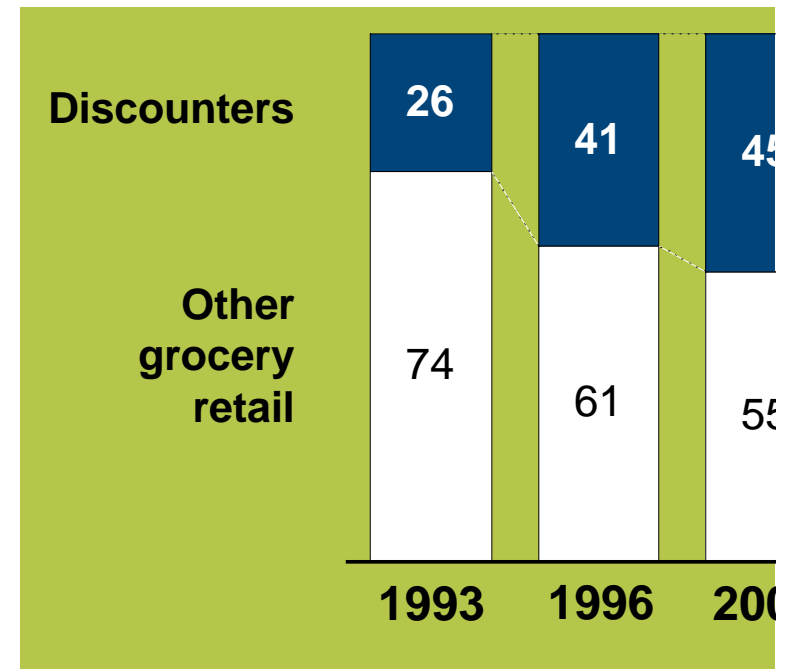
■ Migrating industries?

- ◆ The actual size of outsourcing is a matter of academic debate
- ◆ Certain industries will/have moved eastwards
- ◆ Bright side: Central/Eastern Europe growing at ~7% year, China ~10% year

Price pressure from retail on FMCG suppliers...

- **Consolidation and polarisation of retail landscape**
- **Aggressive growth from discounters**
 - ◆ Continuous competition for market share
 - ◆ Growth in *discount retail* channel and growing *private label* penetration are driving down average consumer prices
- **Price deflation**
- **Increased bargain power relative to manufactures, and increasing pressure**

German grocery retail, % of market

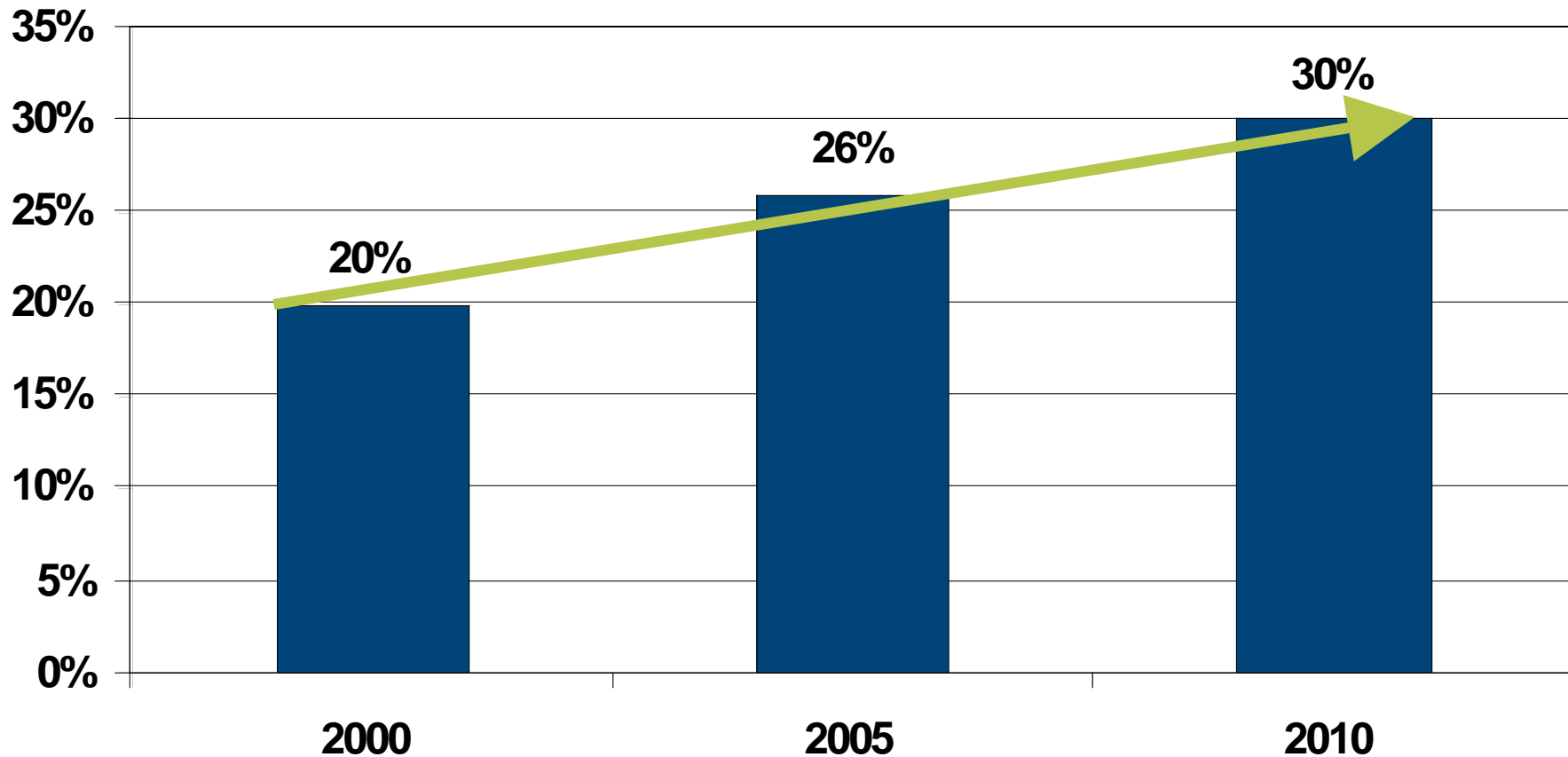


...pushed back on to Packaging suppliers

- **FMCG companies squeeze packaging suppliers to maintain profitability**
- **Effects on packaging sourcing**
 - ◆ Redesign and fragmentation of packaging needs
 - ◆ Sophisticated purchasing strategies
 - ◆ Increased tendering to packaging suppliers for commodities
 - ◆ Benefiting from competitive / fragmented supply base for packaging
- **Retailers driving higher added value packaging, but FMCG companies unwilling to absorb the costs**

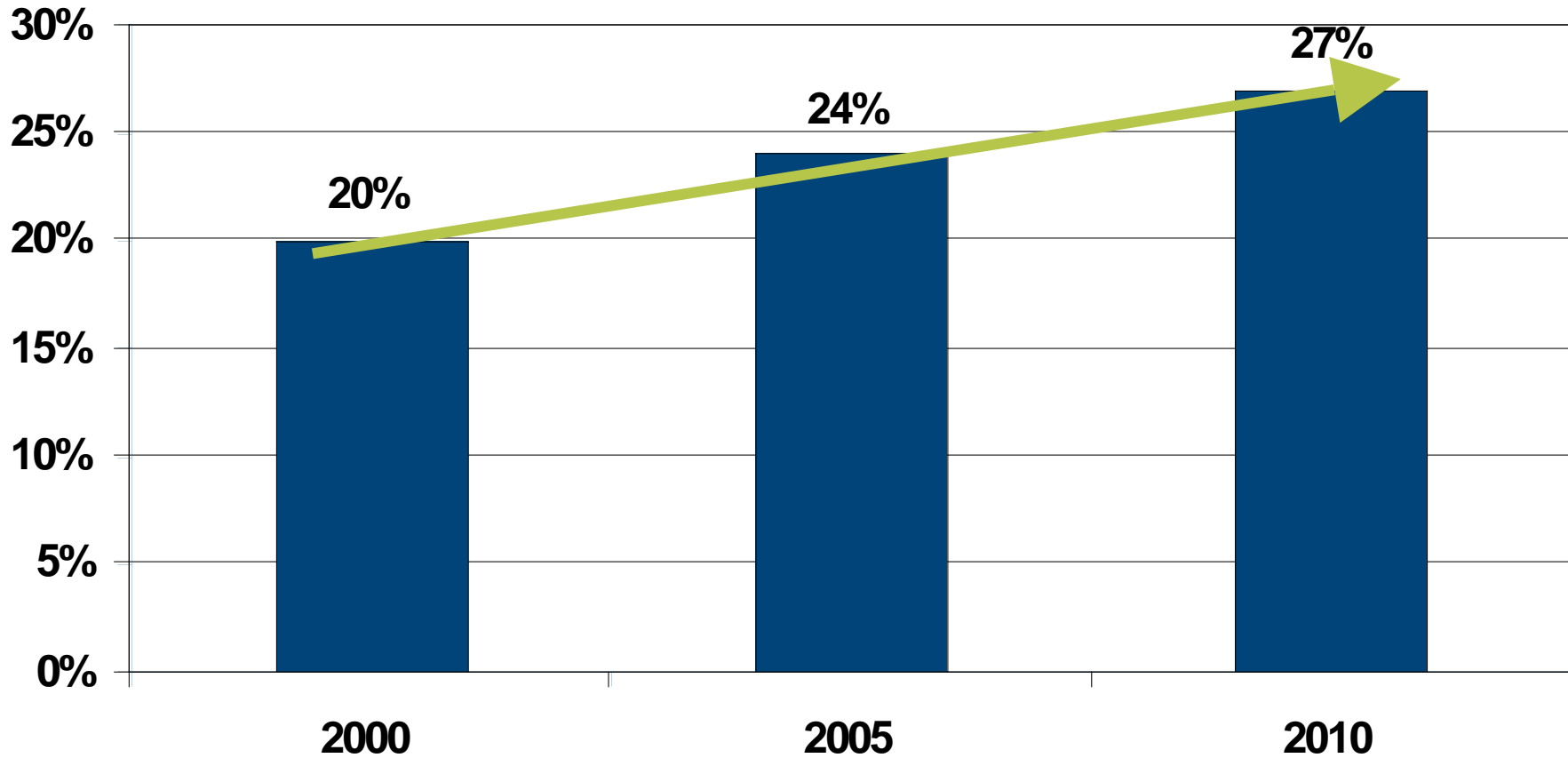
70 % of corrugated used in retail supply chain

Private label growing across Europe



% share of Western European retail sales

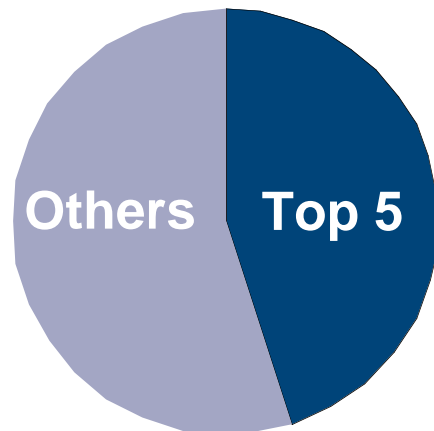
Private label in North America



% share retail sales

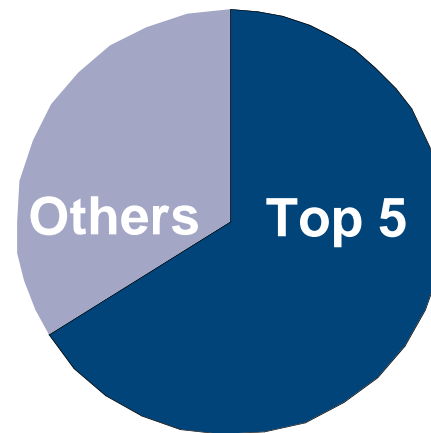
Industry overcapacity

- Despite some consolidation (Smurfit Kappa) and closures, the European containerboard market remains fragmented with a large number of private companies
- EU subsidies co-funded new containerboard mills in 2004-2005 and are still available



Western Europe

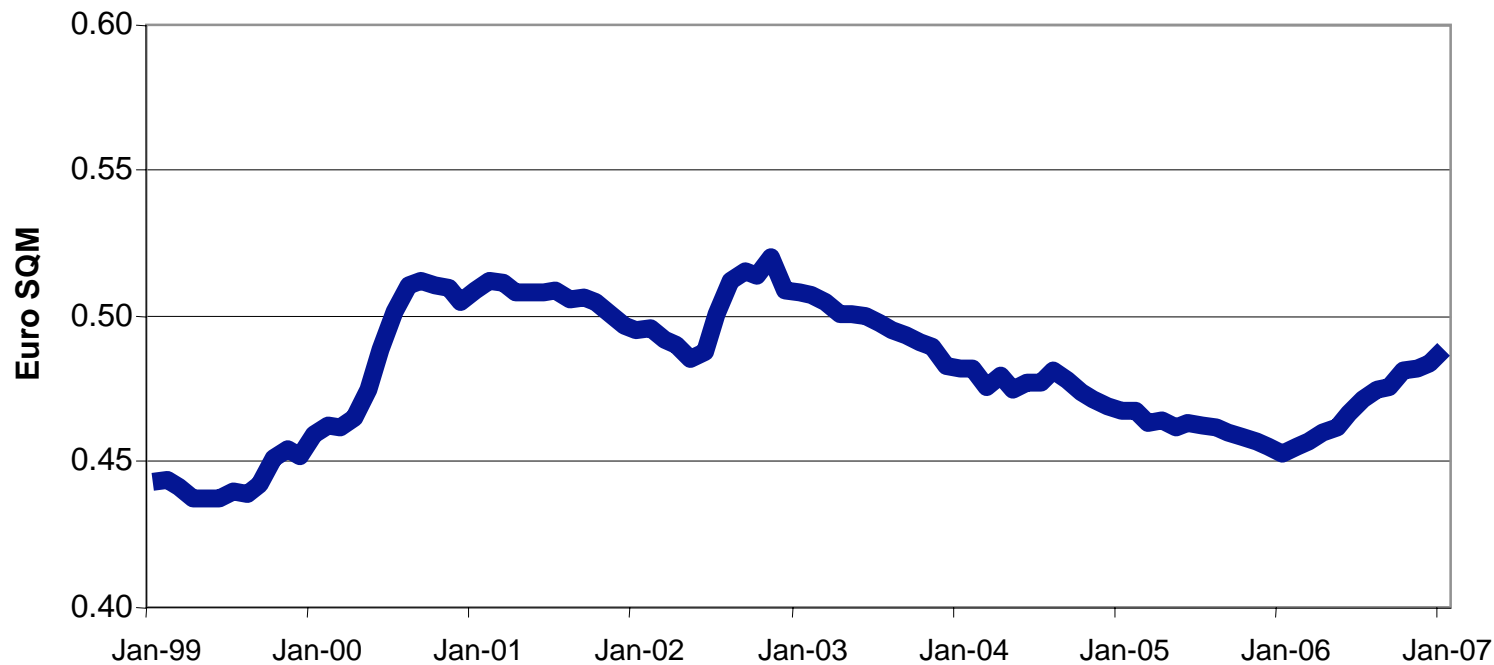
Market share
containerboard
producers



North America

The result on average market corrugated prices

- Rebound since Q1 2006 due to higher paper prices
- Still, average market corrugated prices below levels of 2001



Increasing raw material costs

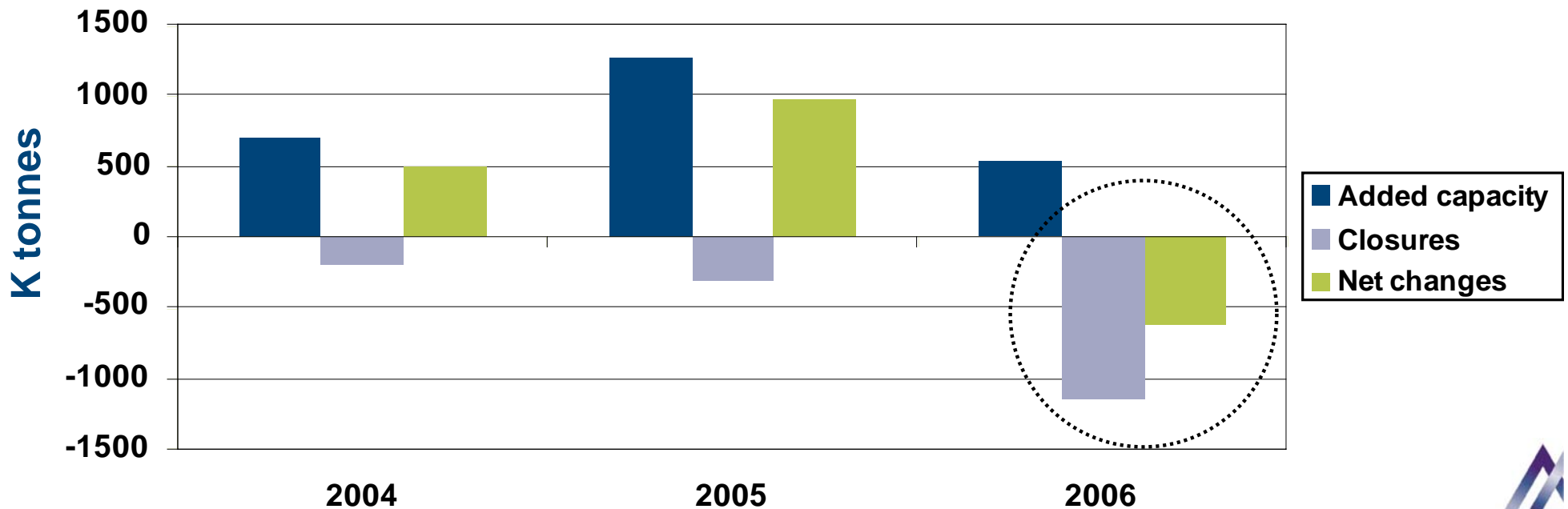
- 30% of the production cost of containerboard is **energy**
- Energy prices for containerboard producers have increased +70% since 2004
- **OCC** (recovered paper) is together with energy the main cost component in containerboard manufacturing
- China is adding 10 m tonnes of containerboard in 2007-2008 (half of total Western European capacity)
- Chinese imports of recovered paper have increased +900% since 1990
- Consequence: OCC prices are spiralling upwards, +30% since year end 2006
- Future impact of bio fuel demand?

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...the tough gets going

- Numerous **mills** have been **closed** down
- SCA and Smurfit Kappa have showed market leadership by taking out converting capacity across Europe
- More likely to come



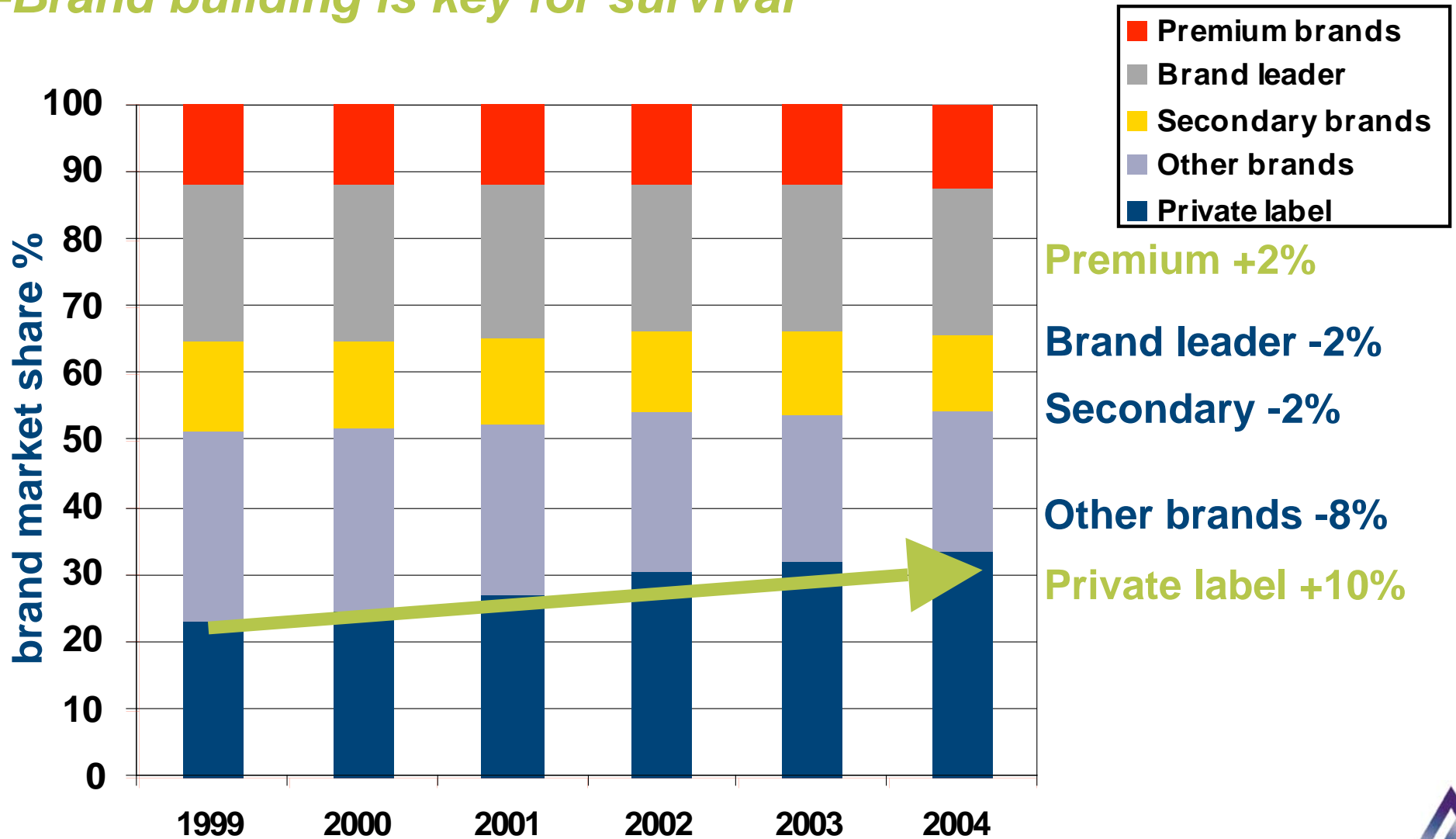
Redefining the product and market

- **Broadening** and **deepening** the **product** offering to escape the “commodity trap”
- **Innovate** to offer increasing value for the customer
- Not only thinking “outside the box” but also **redefining** what it is

It is not a commodity, it is an interface between the end-consumer and the product – enormous potential for design and on-shelf attractiveness driving sales growth for brand owners

Only premium brands defend their position

-Brand building is key for survival



Basis: Average market share by value in 150 categories of fast-moving consumer goods (FMCG) in Germany
Source: GfK, Lebensmittel Zeitung

Pricing and investing

- **Strong price focus**
 - ◆ **Recuperate cost increases**
 - ◆ **Charge for the value added**
- **Investing** where the growth is (Eastern Europe, China, India)
- Further industry **consolidation**?

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The Corrugated Packaging Industry

Strengths

- Versatile product, stable/growing end-demand
- Stable cash flow generator
- Improved market balance for containerboard in Europe
- Ability to differentiate
- Forming strong and lasting partnerships with strategic customers

- Enormous market opportunity by broadening offering
- Rapid growth in Eastern Europe and BRIC countries
- Differentiation through value-added services and designed based offering
- Potential to leverage pockets of high performance and profitable business models/concepts

Opportunities

SCA Packaging Vancouver May 2007

Weaknesses

- Over-capacity
- Strong suppliers and customers, squeezing margins
- Complex and sub-optimal asset structure
- Skills and competence weak in certain area
- Failure to leverage adjacent revenue stream
- Volume thinking remains in mindset

- Inability to make step-change (too long reaction time)
- More capacity in 2009
- Increasing power of retailers and brand own vs. packaging suppliers
- Raw material supply (demand/cost)
- Energy cost
- The impact of the environmental debate – OCC could potentially be used as bio fuel

Threats

SCA PACKAGING



Thank you

