

Market Update

April 2017

Overview

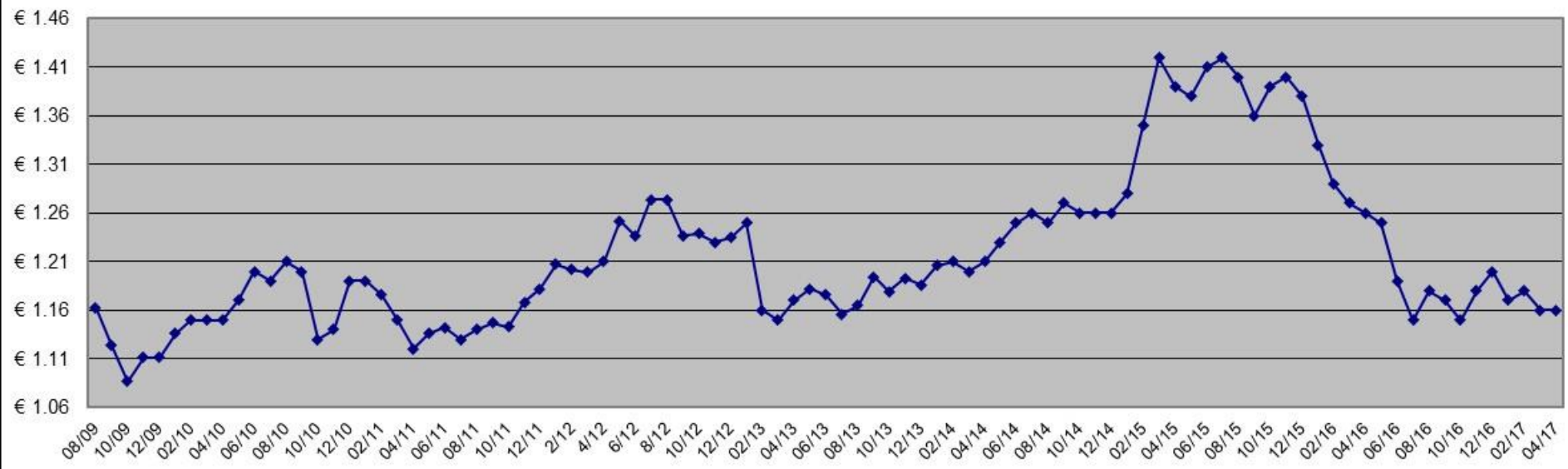
- Background to inflationary pressure in Europe
- Rising costs in the UK
- The containerboard market
- The UK box market
- Summary

Background to inflationary pressure in Europe

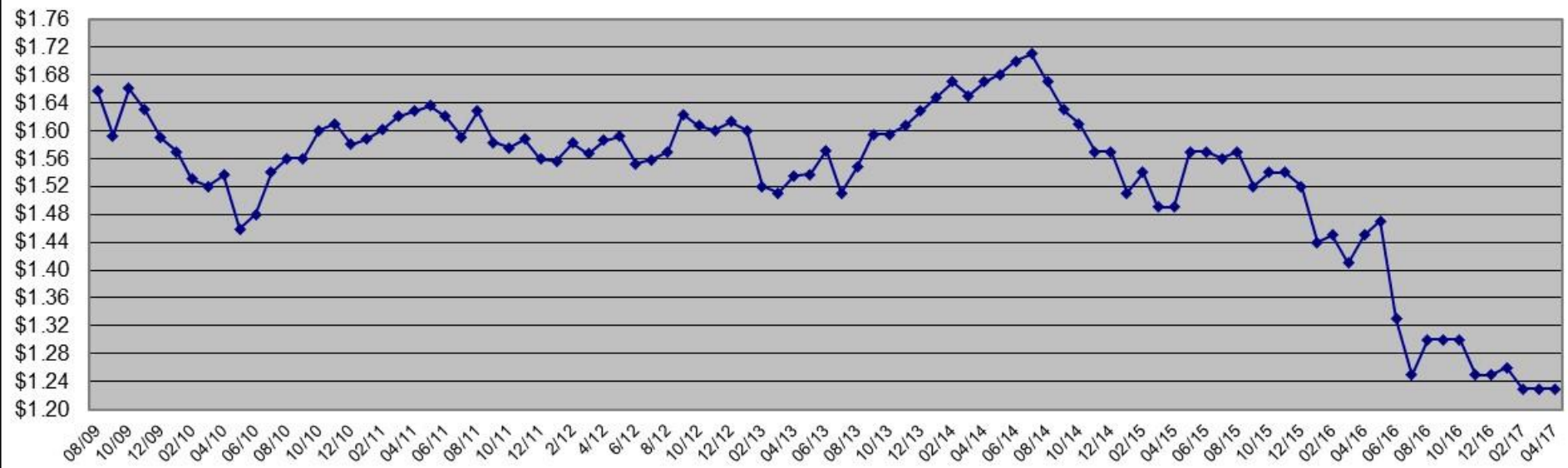
- Strong containerboard demand in Europe
- Rising OCC (Old Corrugated Containers) costs thanks to strong demand in Europe and from China
- Some paper makers are reported to be running at a loss – they need price rises to become sustainable again
- European paper mills scheduling downtime for maintenance
- A strong element of exporting tonnage at higher prices is keeping supply of recycled containerboard tight (European stocks are down 12% year-on-year to 560,000 tonnes)
- Closure of significant Chinese containerboard capacity for environmental reasons – leading them to import from Europe
- A major issue at a UK Kraft liner mill means it has lost 250,000 tonnes of output. As a result the Americans are not exporting to Europe, which has caused a shortfall over here

Brexit prompted a 20% fall in value of sterling

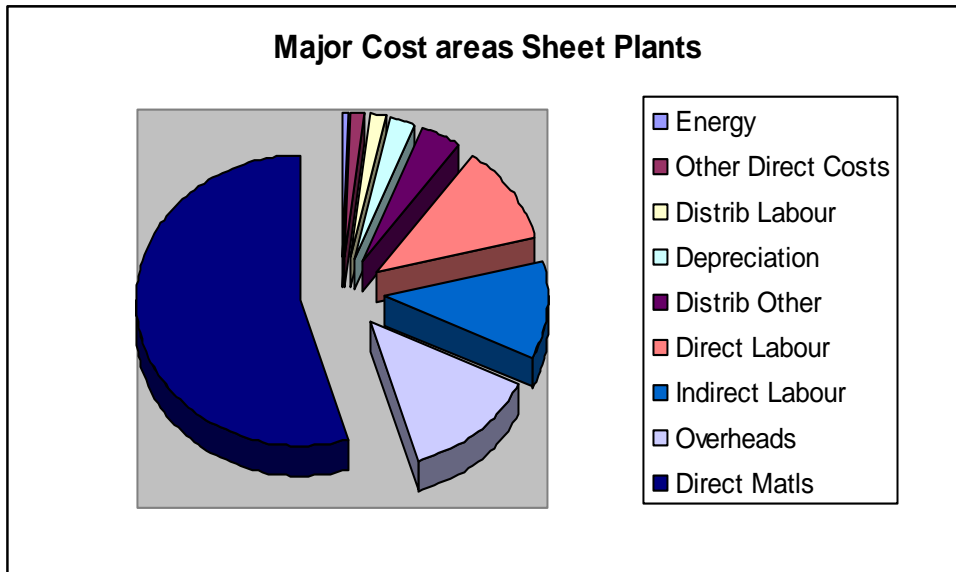
Monthly Prices - Euro:Pound



Monthly Prices - Dollar:Pound



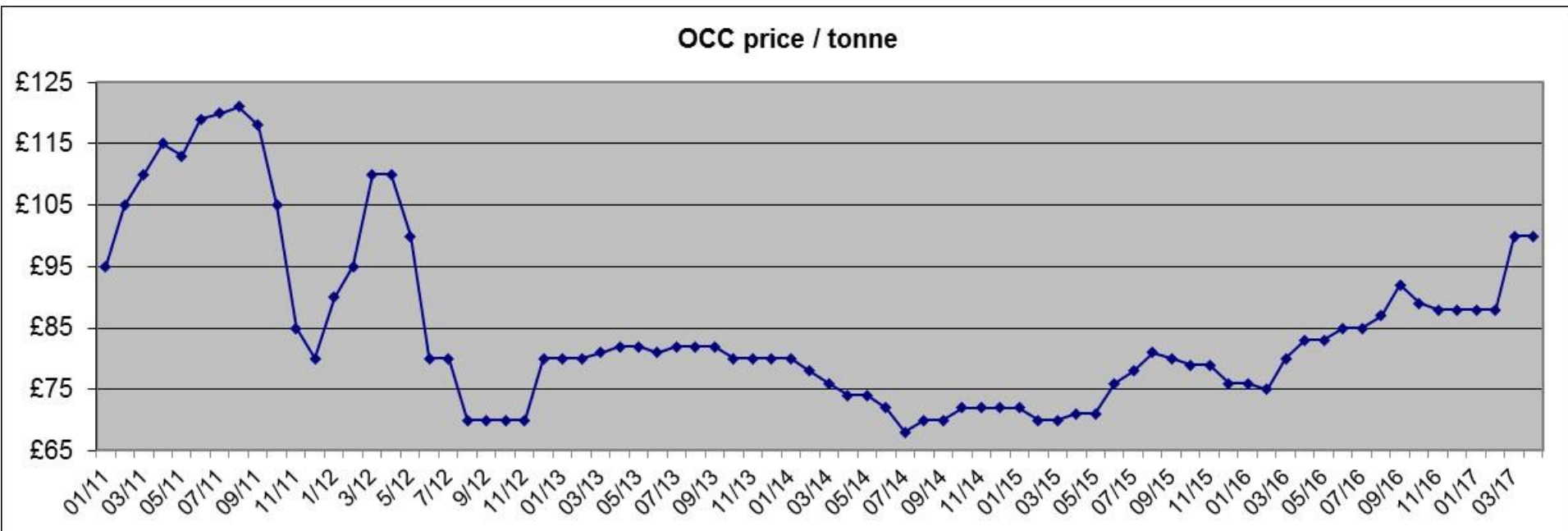
Typical Major Cost Areas (Sheet Plant)



Cost levels

	%
Energy	0.6
Other Direct Costs	1.4
Distrib Labour	1.6
Depreciation	2.6
Distrib Other	3.9
Direct Labour	10.9
Indirect Labour	11.0
Overheads	13.2
Direct Mats	54.8
Total Costs	100.0

OCC prices are rising

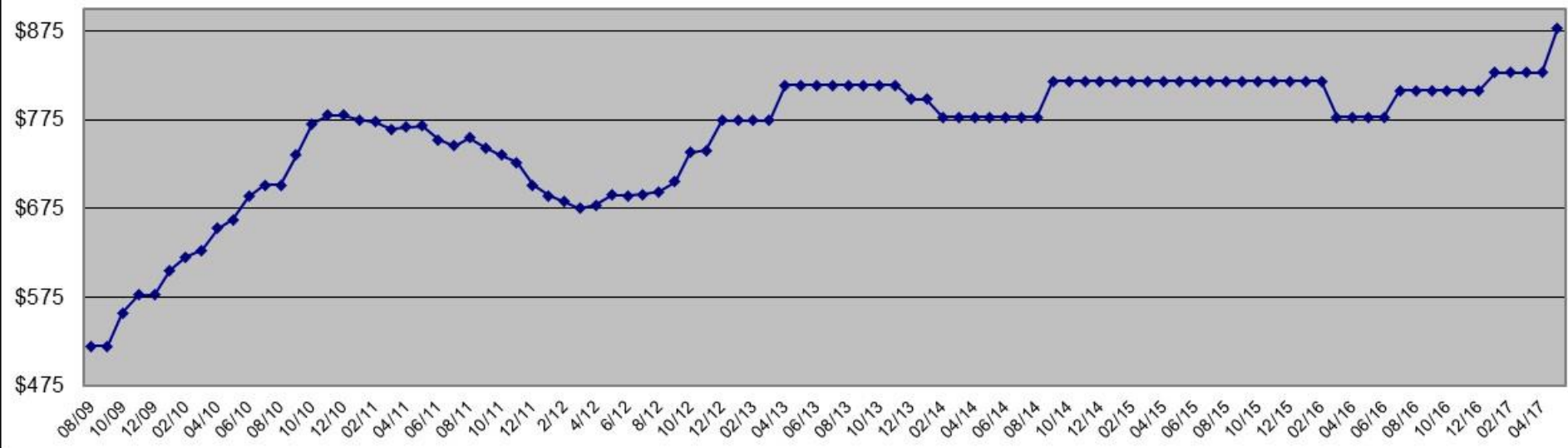


The containerboard market

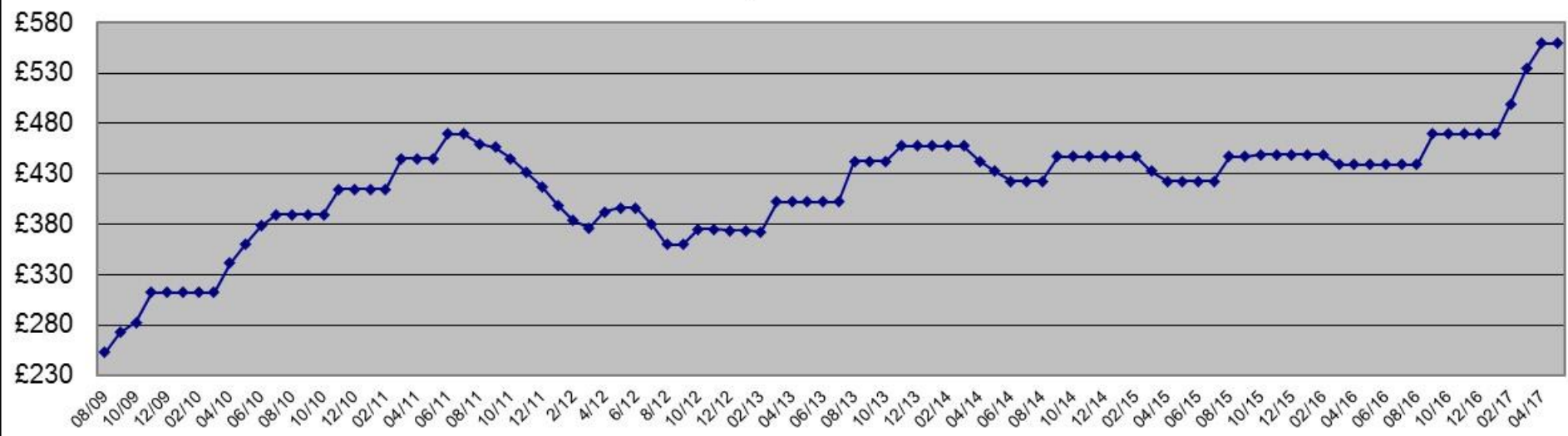
- Kraft liner prices are increasing
- Testliner prices are increasing

Containerboard Prices

Monthly Prices - Kraft

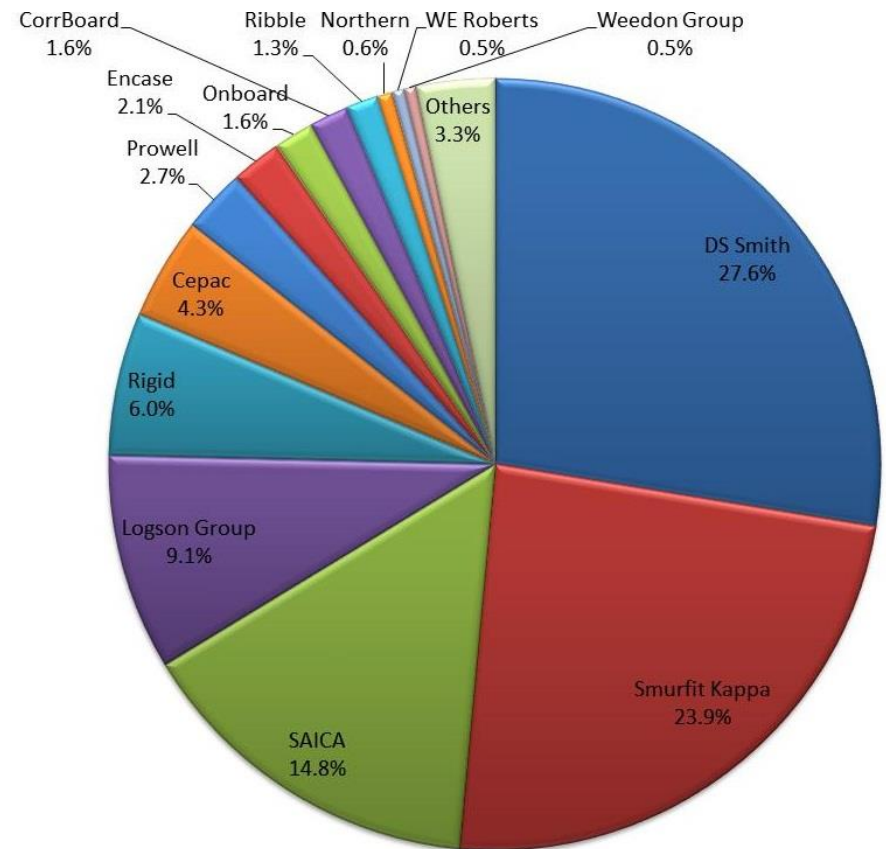


Monthly Prices - Test 3



UK Box Market

- Consolidation will continue
- A number of sheet plants are looking to sell
- Large groups are looking to buy
- It's important to be supplied by a stable company who has security of supply during this difficult time of containerboard scarcity



Summary

- There is not quite enough containerboard to go around
- Hence paper and board prices are rising significantly and we need to pay these to secure supply
- Labour costs (the second highest cost for box plants) will continue to rise
- We need to pass on these cost pressures to remain viable