

Pulp #33 Focus

The **Rottneros** customer newsletter

Still neighings in Swedish forests



The right pulp in the right way



**Famous Swedes:
From riches to rags**



Dear Reader,

Many of us have recently returned from beautiful Vancouver where we were treated to uncommonly nice and sunny weather. The abundance of sunshine and warm weather made for a great opportunity to meet with customers and colleagues and listen to reports on how much the paper industry is changing based on technology.

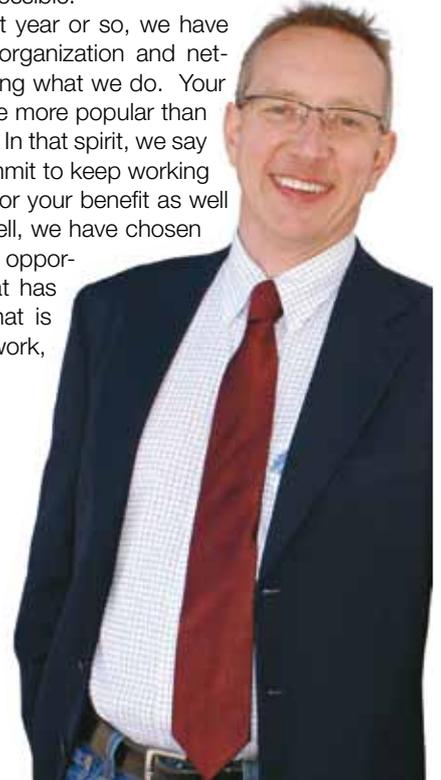
We all know the demand and production of newsprint is down and promises to decline further, yet we also see that Warren Buffett is investing in, yes you guessed it, newspapers. Clearly he must believe there is a future for some newspapers. However, it is difficult not to be impressed, as we shuttle about with our electronic pads, with the speed with which information travels today. We are also made aware of the risks associated with this information age and the increased chances for the information we receive to be incorrect. The point is there are plenty of reasons to be pessimistic or optimistic. Which do you prefer?

In this regard we have had more news floating around about Rottneros lately that we are accustomed to, due largely to the takeover attempt or bid by Arctic Paper. I was amazed at the misinformation that was being circulated concerning this bid and relationship as well the plans being circulated by those with self interest in spreading propaganda. Let us now share some facts. The bid process has ended and Arctic Paper owns 54 per cent of the Rottneros AB outstanding stock. We have over 9,000 other shareholders that did not want to give up their partial ownership in Rottneros. We have some new board members but operations are running almost as usual and we have plenty of pulp to sell. Our capacity and quality are up and we have a partner offering synergies.

It is nice to be popular in that we had a company with people very knowledgeable of Rottneros and the pulp and paper business want to be our partners. It is nice to have over 9,000 people vote with their wallets to indicate they too want to be with us. Most of all it is rewarding to be popular with our customers. We work hard not only to provide some of the best pulps in the world with exceptional service but also to add value where possible.

As you know, over the past year or so, we have made changes in our sales organization and network, with the idea of improving what we do. Your responses indicate that we are more popular than ever with you, our customers. In that spirit, we say thank you very much and commit to keep working hard to improve what we do for your benefit as well as ours. In case you cannot tell, we have chosen to be optimistic, focus on our opportunities, and to continue what has always worked for us and that is honesty, quality and hard work, with a pinch of fun mixed in!

Magnus Persson
Sales Manager



Change of Rottneros Group CEO

Carl-Johan Jonsson has been appointed as the new CEO of Rottneros AB with effect 1 July 2013.

He succeeds Ole Terland who has been the CEO of Rottneros since 2008. Carl-Johan Jonsson, aged 47, most recently held a corresponding position with Mondi Dynäs AB, which manufactures kraft paper.

Ole Terland is leaving his position essentially as a result of Arctic Paper S.A. becoming the new main owner of Rottneros during the spring of 2013. The greater part of the board was also replaced in conjunction with the AGM in March. ■

Rottneros' interim report Q1 2013

Income after net financial items amounted to SEK -4 million for the first quarter of 2013 compared with SEK 0 million for the fourth quarter of 2012 and SEK -4 million for the first quarter of 2012.

The USD price for chemical pulp is rising and price increases to USD 860 per tonne have been announced. In spite of this, the average price in Swedish kronor for the first quarter of 2013 was in line with the fourth quarter of 2012 due to the weak dollar rate.

Cash flow from operating activities amounted to SEK 21 (-32) million for

the first quarter of 2013. This positive cash flow is largely explained by a reduction in working capital.

In his statement accompanying the report, Rottneros' President and CEO Ole Terland commented, among other things, that:

“We anticipate that the Swedish currency will continue to be strong, so now everyone needs to adjust to a low-inflation economy and continued endeavours to cut costs. Pulp prices are rising and demand is stable and no net capacity will be added to our markets in the near future.” ■

The right stuff

TEXT & PHOTO: L-O Mattsson

When the Baltic Sea freezes over while a customer eagerly awaits their delivery, it is Annica Öhman who is charged with finding a way to get the Vallvik pulp to the recipient. Normally, however, her job is less dramatic yet equally important; making sure the right pulp quality is produced at the right time.

Annica Öhman is something of the nerve centre at Vallvik Mill. She has three main tasks: classifying the pulp after receiving the results from the lab's analysis; making sure the pulp is transported in the right way, both in the short and the long term; and producing forecasts of what pulp to produce at what point in time to make sure there is always enough of the right quality to deliver.

New taxation

At present, optimising transport is the most challenging part of Annica's job:

"There is a new tax on sea freight around the corner," Annica says. "This could mean increased costs and we must find ways to counter this as far as possible. It is not just a question of switching from boat to rail or road, how often we ship by sea is another parameter.

"Optimising transport is of course going on all the time, but it has become more in focus and crucial because of this new taxation.

"The part that I enjoy the most is making the forecasts. This involves many customer contacts and it feels good to contribute to structure and organisation."

Forecasts are essential for the mill's production efficiency and for being able to supply the right pulp quality to the right customer at the right point in time. These are made both on a yearly basis and for shorter periods, typically three months.

Good forecasts benefit customers

"I can use historical figures as part of the input data but I basically depend on the information I can get from our customers," explains Annica. "Luckily, most customers are aware that good forecasts benefit both themselves and us, so there are usually no problems in obtaining the figures. Of course, it may not always be so easy for our customers to foresee the volumes either. They are dependant on their own customers, just like we are."

At least to an outsider, the work with transport sounds the most complicated. With six consignment warehouses, customers in most parts of the world, a

variety of modes of transport, and everything done as efficiently as possible – how is all this put together?

"With good forecasts, it is not so difficult," Annica answers. "Thanks to our forecasts, there is usually time to get quotations and plan everything thoroughly for our regular flows. We have a number of shipping companies we work with, which we know can supply us with reliable transport.

"It is harder with spot orders or when a customer orders additional pulp on short

notice. But this is almost always handled by supplying from our stock at Vallvik or, for real emergencies or very small orders, from one of our consignment stocks. And if the weather at sea is bad, we can turn to trucks or rail.

Delivery precision

"The only time we may run into real difficulties is if a storm on the Atlantic converges with a customer in the US needing an urgent delivery of something that we do not have in stock over there. Luckily, that is a very rare occasion.

"Mistakes can be made as always where people are involved, but generally speaking I believe that our customers are satisfied with our delivery precision. But of course, we are not satisfied before 100 per cent of the deliveries are in place on exactly the right time." ■



▲ Annica Öhman makes forecasts of customer demands, making sure the right pulp is produced at the right time – and shipped in the right way.

Partners in the forest

TEXT: L-O Mattsson PHOTO: Jocke Lagercrantz



The horse was for hundreds of years man's best working companion in Swedish forests. A few enthusiasts still prefer the horse above machines, also in the area where Vallvik get its wood. Meet one of them, Lars Danhard at the farm Selims in Hälsingland.

Vallvik procures almost all its raw material from close by, in the region of Sweden where the mill is situated. This is an area with many private forest owners, who each may have their individual philosophy about how to manage their forests. This leads to diversity in how the forests look, something that is appreciated both by tourists and by the wildlife that can usually find a habitat to their liking.

The link between the forest owners and Vallvik is Mellanskog, the forest owner's association with some 32,000 members in Mid-Sweden. Vallvik buys a large proportion of its wood from Mellanskog who in turn has bought it from its members.

Nordsvensk breed

One Mellanskog forest owner is Lars Danhard. He manages his own, some 100 hectares of forest, but the main livelihood is the farm's beef cattle. His and his wife Diana Sandell's big passion, however, is horses. More specifically, horses of the Nordsvensk ('North Swedish') breed, one of the two domestic breeds from Sweden.

Lars is renowned in horse circles as an expert on working with horses in the forest. No wonder, since he began when only 16 years old:

"I learned from my father how to work with horses and in 1976 I decided to start myself," Lars tells us when we sit down in the garden of the farm. "I was tired of school and I could borrow the horses from my father, so it was not such a hard decision.

"I worked several years for Mellanskog, and then for a sawmill and various private forest owners. Nowadays, however, I use the horse mainly in my own forest."

It was in the 50s that forest machines started to outlive the horse, and by mid-70s almost all were all but gone from the



▲ Diana Sandell with the farm's newest member, the foal Selims Bozita.

forests. Still, a small number survived. Could it be, that there are situations where the horse can compete with modern skidders and forwarders?

"If you just count cost per cubic meter, a machine will always be cheaper," says Lars. "However, if you take quality aspects into the calculation, the picture changes considerably. First of all, a horse with a sledge or forest trailer leaves virtually no roads or tracks. The pressure on the ground is very low, which reduces the damages on, for instance, sensitive spruce roots.

Fine-tuned felling

"A one-horse carriage needs much less width than a forwarder. This means that more trees can be left. This is particularly valuable when you do the first thinning in a forest. You can fine-tune the felling in a way that leaves more of the most suitable trees.

"Less damage and higher quality will lead to a higher value in the future. So

in the long run, using horses could be profitable even if you pay more initially.

"Then there are also some more uncommon incidents where the horse is useful. For instance, skidding timber where the terrain is too steep for other options or transporting timber over ice that is too thin for heavy machines. And actually, the difference in cost gets smaller if there is a long extraction distance. A horse moves rather quickly and the cost for moving a forwarder and other forest machinery is high.

"Of course, I'm not saying that the horse should be used everywhere and everytime. The forests must be managed in an efficient way for both our sakes as well as the industry and the country as a whole. But I do believe that it could be used more than today."

Modern equipment

So, why isn't it? Lars believes that the main reason is the lack of knowledge. Equipment such as horse-drawn skidders, sledges and trailers are also found in modern varieties. Handling them is another matter, not to mention how to handle the horse.

"I remember how many mistakes I made myself once upon a time," says Lars. "Once, I managed to land flat on my back under the horse with a large timber load at my feet. Had the horse moved, I could either have been trampled under her hoofs or been crushed under the timber. But she was a very experienced mare and just stood there, looking down on me with more pity than surprise..."

Lars is kind enough to harness the young stallion Graal to give us a demonstration of how the work in the forest



▲ ÖSA – Östbergs Fabriks AB – in Alfta is legendary as one of the pioneering manufacturers of forest machines. But the company had a long history before that, which this piece of ÖSA equipment still in use by Lars Danhard shows.

is done. The times when Lars made mistakes is apparently long gone, the pair find their way between stems and rocks in an almost snake-like way.

“It is a question of knowing the techniques of for example loading that enables you to do it without exhausting yourself, knowing how to handle the horse, and not least the horse’s own knowledge of forest work,” says Lars.

“You can’t just take any horse and set off into the woods. A horse requires weeks of training before it can be used in the forest. And after that considerably longer time before the horse is fully experienced. But once that is done, you have a competent partner for life.”

Pulls three times its weight

Lars tells us that a horse normally pulls three times its own weight. A fit Nord-svensk horse weighs 700–800 kg, which translated to forestry terminology, means that it pulls some 3 kbm of wood. That is for flatland, and the volume may shrink to half up a hill, for instance. A natural question may be what the horse itself thinks of the work?

“Horses don’t express their feelings very obviously, so you don’t see the enthusiasm that, for instance, sleigh dogs show. But I think that horses like the work when it is done in the way it should



▲ The mare Gorline wanders freely on the Selim farm, which gives her an opportunity to share a snack with her Hereford friends.

be. I have never seen a horse hesitate when it is time to harness up.”

Currently, eight horses live with Lars and Diana at the farm. The horses are mainly occupied with things like taking tourists on guided tours in carriages – the couple run “Hästturer in Hälsingland”. A carriage can also be rented for, for instance, weddings.

Future?

“Sometimes, I use a horse for ploughing or harvesting as well,” says Lars. “That is just for fun, to get away from the tractor for a while.”

A final question as we watch Lars rub down Graal after the return to the stable. Is there a future for the horse in the forest?

Smaller forest owners

“We are few, but I think there is still two or three forest horses in this area,” Lars answers.

“Personally, I think that there will always be horses in the forest even if in a small scale. Especially smaller forest owners seems to value their forest high and appreciates the work done by horse. So yes, I do believe there is a future.” ■

New agent in the UK

International Forest Products (UK) is Rottneros’ new agent in the UK. Jonathan Heywood gives this presentation:

It’s a great pleasure and privilege to be given an opportunity to feature in Rottneros’ corporate periodical “Pulp Focus” this month!

I would describe International Forest Products (UK) as a rather diversified pulp and paper trading company, a UK subsidiary of International Forest Products Corporation and ultimately to the Kraft Group.

In UK we have diversified our product bases considerably over the last 15 years. Now let me be clear, we didn’t diversify our product base to be clever: The truth is that we did it to survive!

Formerly a containerboard sales company primarily, today IFP(UK) is active in the following sectors: Lumber, Pulp, Containerboard, Cartonboard, Publication Papers, Recyclate and Bio Energy.

Rather than weakening our effort and competence in pulp sales or any other sector I believe diversification has made us stronger.

We see more and more opportunities arising from the “cross pollination” of our business activities and I think we get more time with our customers because, dare I say this, we have more interesting market insights because of knowledge gained through diversification! It has been one of the “fruits

of diversity” that we may learn, for example, about a specialist pulp opportunity from a cartonboard or recyclate encounter out in the market place.

Pulp Sales

We have accumulated experience over many years of selling a range of pulps including those from Alabama River Group, St Anne Pulp, Sappi Fine Paper North America and Canadian Pacific Forest Products. We are delighted to be able to add the Rottneros portfolio to this collection and in particular we appreciate the “Specialist” and “Bespoking” ability and profile of the mill’s products.

Having sold pulp previously into non-paper related end uses, IFP enjoys the specialist approach required in this roleand the technical market aspects, which often are completely different from conventional paper making.

We employ 14 people in our UK office based in Newbury, Berkshire.

We know we can “service” the market on an immediate and “around the clock” basis without need for delay.

Due to the diversification of our businesses, IFP(UK) has good supply chain knowledge and experience.

This is because all our products including inventoried products like containerboard and newsprint are transitioning through the UK’s ports and warehouses.



Jonathan Heywood

IFP(UK) is accredited by FSC and PEFC with Chain of Custody for sales of FSC/PEFC Certified Wood.

Also, due to our interesting role in the bio energy sector, IFP is conversant with complex environmental legislation

that affects UK industrial businesses. IFP has a good grasp of the Renewable Energy Obligation (RO), Carbon Emission Reduction (CER, EU ETS) and is in contact with the Environment Agency (EA) and the Office for Gas and Electricity Markets (OFGEM).

Invest in resources

Perhaps most important of all, we are prepared to invest in resource. We have a team of people carefully selected for their dynamism, competence and integrity.

This is most important as we represent the brand of the Kraft Family and wish to make them proud of their UK entity.

Happily I believe we are known for the quality of our people in the UK and this, more than anything else, will be crucial in putting us in a good position to grow in the future. ■

Jonathan Heywood

Dealing with uncertainty

TEXT: L-O Mattsson PHOTO: PwC

According to a recent survey, uncertain or volatile economic growth is what worries CEOs in the forest, paper and packaging industry the most. A number of other current threats probably contribute to many sleepless nights. But there is also some new thinking underway.

PwC, one of the world's largest professional services firms, has interviewed 38 CEOs in the forest, paper & packaging sector from 15 countries about how they are going to tackle the challenges in the coming years. The study is part of PwC's 16th Annual Global CEO Survey, which makes comparisons with other industries possible.

The survey has found three areas that worry CEOs in the forest, paper & packaging (FPP) sector the most. These are 'economic uncertainty', 'overregulation', and 'energy and raw material costs'. Of these, economic uncertainty stands out – 87% of sector CEOs say that uncertain or volatile economic growth could threaten their prospects. However, the big difference compared to other CEOs concerns energy and raw material costs. Seventy six per cent of FPP sector CEOs are very concerned about this, while the average figure for all CEOs is only 52%. Cost and scarcity of supply seem to be mounting problems.

Increasing difficulty in sourcing

"This has of course to do with the increasing uses to which fibres can be put," says Ian Murdoch, European Forest, Paper & Packaging Leader within PwC. "In Europe in particular, both paper producers and pulp mills are experiencing increasing difficulty in sourcing. Much of this is due to the amount of wood that is going into pellets (supported, among other things, by the EU 20/20/20 Target). A country such as Austria is now having to import a significant amount of its wood requirements.

"Pulp price charged to, for example, paper manufacturers tends not to be that volatile. This has to do with the fact that it has, practically, to move within two confines; the lowest price will be the marginal cost of pulp production, and the highest will be the paper price."

So, what are the CEOs planning to do about the threats? One finding of the survey is that half of the FPP industry's CEOs say that they will increase their investments in securing natural re-

sources over the next three years. This is more than double the overall average.

"This could mean acquire forest, but this would of course mean reversing the trend of the last few years," says Ian Murdoch. "Other possibilities include an increasing use of long-term supply contracts with forest owners and forest management companies, so as to tie up a secure source of supply."

Strategic alliances

Another measure mentioned is to find deals that strengthen the company. Half of the sector's CEOs stated that they have entered into a new strategic alliance or joint venture in the past 12 months. Furthermore, this activity will continue or even accelerate this year according to the survey.

Also, R&D and innovation are perceived as means to counter the current challenges.

"R&D is fundamental to the industry," says Ian Murdoch. "All the CEOs we talk to emphasise the need for innovation. Innovation means different things to different people, but a fundamental element for the paper industry is the need to find new applications to counteract the decline in traditional newsprint and printing & writing paper markets. It is true that packaging and tissue are markets with better prospects right now, but not everyone can move into those markets without saturating them."

Cost-cutting continues to be a focus point in the sector. As much as 92% of



▲ (Source: 16th Annual Global CEO Survey – Key findings in the forest, paper & packaging industry, PwC.)

The main worries of CEOs in the forest, paper and packaging industry.



▲ "R&D is fundamental to the industry," says Ian Murdoch, European Forest, Paper & Packaging Leader, PwC.

forest, paper & packaging CEOs say they cut costs last year; that's more than any other sector. And 89% say they will implement a cost-reduction initiative in the coming 12 months. This is again more than any other sector and far more than the overall average of 70%.

Not surprisingly, this will affect headcount in some companies. Interestingly enough, there are just about as many sector companies that say they will increase headcount as say that they will reduce.

Another finding in the survey is that the FPP CEOs are listening to a wide range of stakeholders. That customers influence a company's strategy goes without saying, but 89% of the CEOs said that also employees, the government and industry peers influence their business strategies, and 95% stated the same for supply chain partners. Further down the list are providers of capital, local communities and the media.

Focus on supply-chain partners

Those FPP CEOs who report that various stakeholders are influential are generally working to strengthen their engagement with these groups too. For instance, 86% indicated that they will be strengthening their engagement programme when it comes to supply-chain partners.

One way to build trust among some stakeholders is to reduce the company's environmental footprint. Seventy one per cent of forest, paper & packaging CEOs report plans for doing just that.

In conclusion, outlooks may be a bit subdued, but the forest, paper & packaging CEOs seem confident that they have the instruments to address the sector's challenges. ■



TEXT: L-O Mattsson

Gustaf de Laval:

From riches to rags

One of the great Swedish inventors was Gustaf de Laval. He was a man of great vision, high pace, and many ideas. His talents did not, however, include financial skills. Consequently, he died in poverty.

This year, it is 100 years since one of Sweden's most famous and productive inventors died. Gustaf de Laval was the man behind, among other things, the steam turbine and the centrifugal milk separator. In total, he owned close to a hundred patents and founded dozens of companies. Yet, when he died, his assets amounted to the equivalent of USD 150 while his debts were close to USD 800 000.

Sound education

Gustaf de Laval was born 1845 in Orsa in central Sweden. His father was an officer and land surveyor. The family was not poor as such but had limited resources. Despite this, Gustaf was sent off to receive a sound education at Uppsala University and at what was to become KTH Royal Institute of Technology.

In 1876, he was employed at the steel industry Klosters AB (still existing today, divided between Outokumpu Stainless and Erasteel Kloster). Here, he produced his first patents, for instance how to process iron with a lower carbon content to make it malleable. But his most famous inventions from this period are the steam turbine, the centrifugal milk separator and the Laval nozzle. The latter is a way to extract kinetic energy from gas streams and its principle is still used in for instance rocket engines.

Wrong partners

Soon, Gustaf de Laval moved to Stockholm to exploit his inventions and work with new projects. Here, his

troubles began. It was not all his own fault, a contributory factor was his tendency to attract the wrong partners. An example is his cooperation with the financier Ernest Thiel, which has been called "the most unfortunate partnership in Swedish industrial history". Thiel was a man hunting for quick and big profits, and de Laval had a never-ending flow of spectacular ideas and projects. The combination was disastrous.

Alfa Laval AB

For a while, however, things developed reasonably well. AB Separator was founded. It grew to be one of Sweden's biggest export companies. This is the company that changed its name to Alfa Laval AB in 1963. Another of his companies was de Laval's Ångturbin (steam turbine). de Laval was, together with the English engineer Charles Algernon Parsons, the first to construct steam turbines. Especially interesting was when de Laval invented a new type of turbine, for the production of electricity. This was the first one where a steam speed above the speed of sound was achieved.

In 1897, however, de Laval's shortcomings as a businessman caught up with him. His basic problem was his inability to focus. During his active years he worked with some 200 different projects. These spanned from dairy technology and metallurgy to hovercrafts, aeroplanes and the extraction of gold from seawater. In addition, de Laval had a generous nature

and spent a lot of money on building experimental workshops, his so-called 'incubators'. It was not a question of spending money on himself – his somewhat lavish taste in clothing put aside; he had a moderate life style.

Shattered finances

All this put together led to the bailiff knocking on de Laval's door. The family lost their home and large parts of their furniture and other possessions. From then on, de Laval's finances were permanently shattered. But at least he kept his optimism and always believed that new successes were just around the corner.

In February 1913, de Laval died. His legacy, however, lives on. AB Separator is today Alfa Laval and De Laval. Another of the companies he founded is today part of Volvo PV. He was also an inspiration and support for others, not least Gustaf Dahlén whose inventions live on in the company AGA. And why not give Gustaf de Laval a thought the next time you drink a glass of milk... ■

 **Rottneros**
Pulp is our passion

Cover:

Lars Danhard and the stallion Graal at work.

Photo: Jocke Lagercrantz

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