

BOTNIA IN URUGUAY
A VIEW ON RISK MANAGEMENT

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pulps
for
and fiction
action



BOTNIA

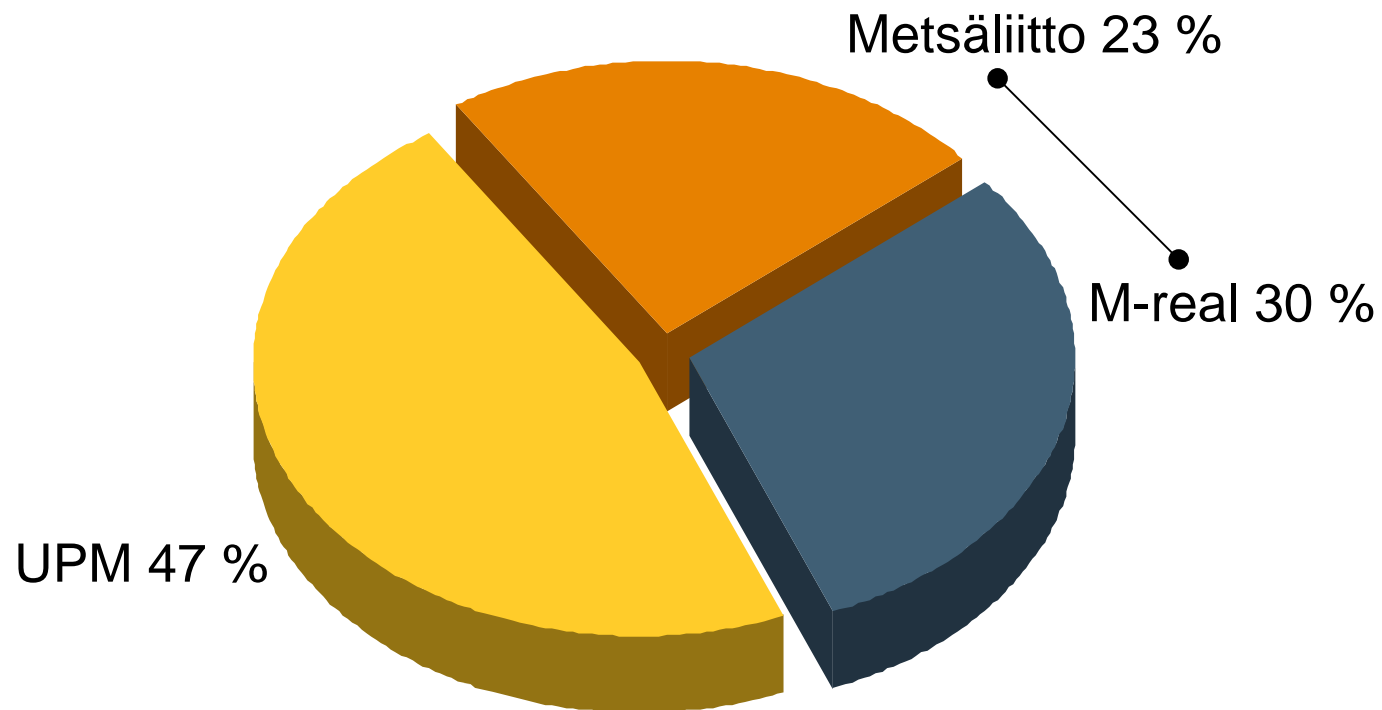
Botnia

- Five pulp mills in Finland
- Uruguay BSKP mill starts in 2007
- Sawmill in Russia
- Turnover 1300 million euros (2006)
- Personnel approx. 1900
- Capacity 2,7 million tonnes (2006)
- Wood consumption 13 million m³/a
- 70% softwood, 30% hardwood pulp



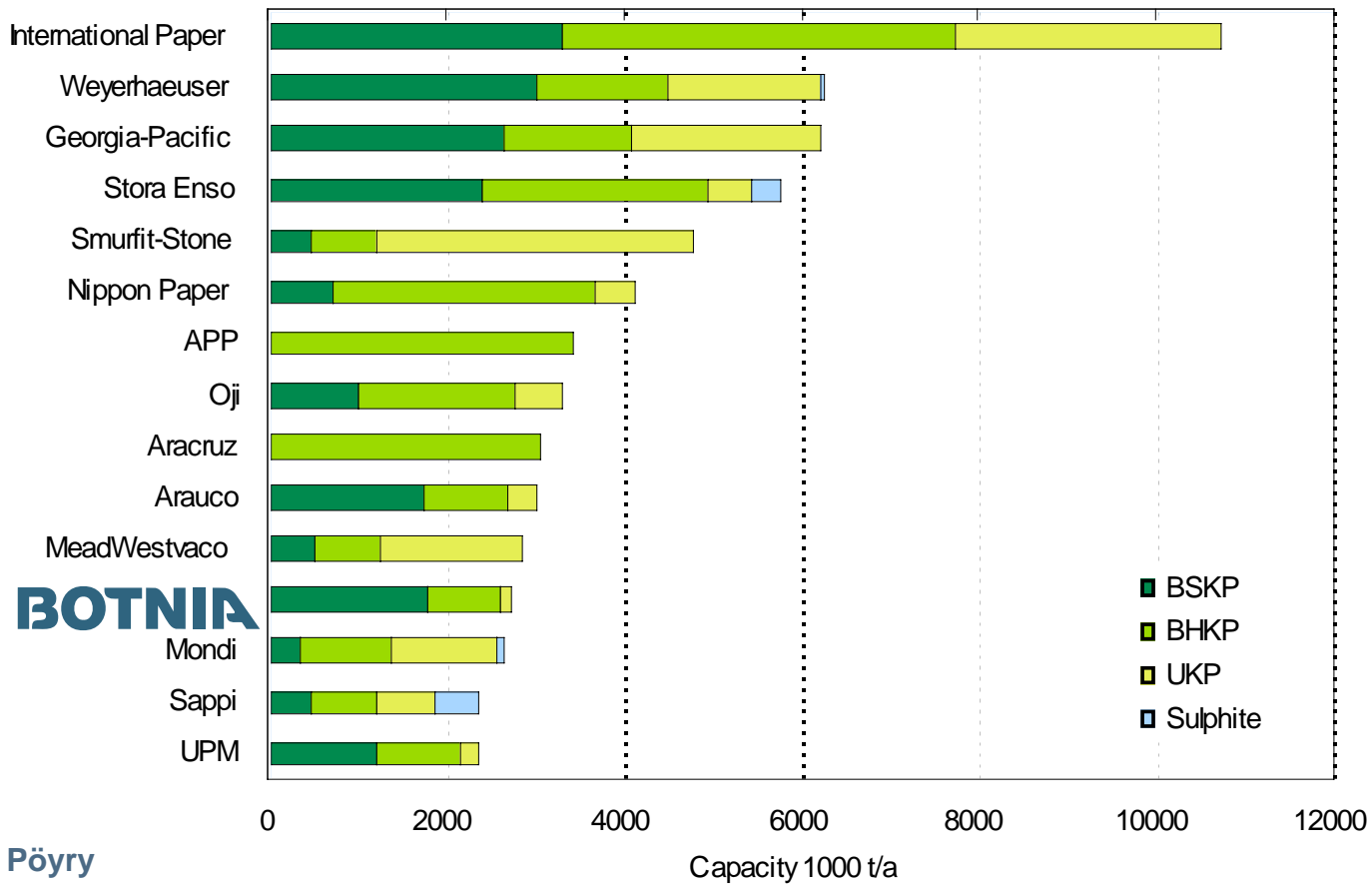
Joutseno 630 000 tonnes personnel 180	Kaskinen 450 000 tonnes personnel 270	Kemi 540 000 tonnes personnel 231	Rauma 580 000 tonnes personnel 161	Äänekoski 500 000 tonnes personnel 217	Svir Timber 200 000 m ³ personnel 130
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Ownership Structure



LEADING CHEMICAL PULP PRODUCERS IN THE WORLD

2006/IV Q (incl. fluff, excl. dissolving pulp)



Source: Jaakko Pöyry

Why Uruguay?

- **Political, economic and legal conditions**
 - Land ownership clear; legislation well-developed
 - Politically stable country
 - Government favourably disposed towards investments
 - Forestry sector supported by government
 - Good basic social security
- **Professionals and qualified labour force**
 - Good standard of basic education; high standard of university education



- Population: 3.4 million
- Capital: Montevideo (1.4 million)
- Area: 176,220 km²

Why Uruguay?

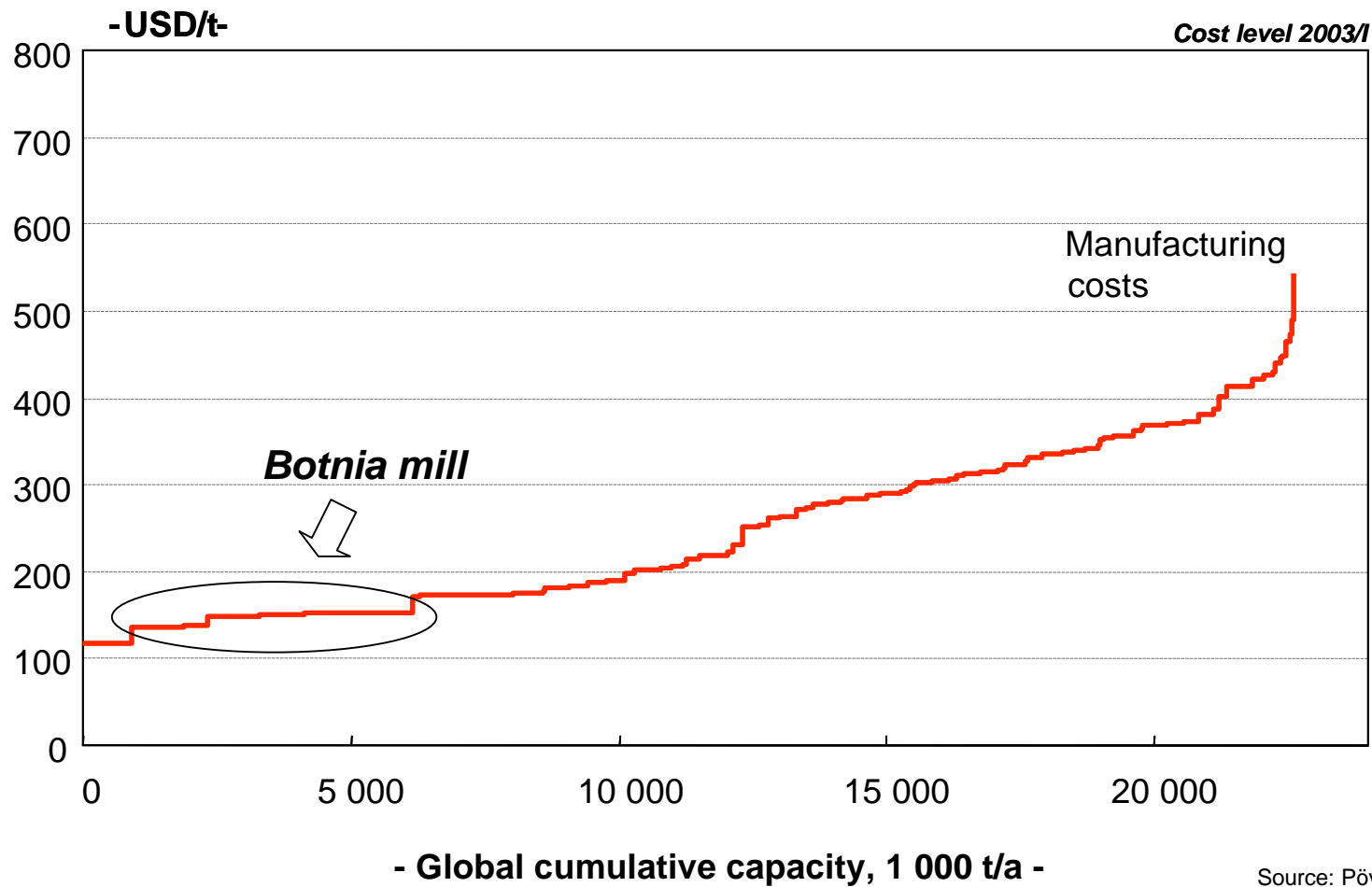
- **Availability of good quality raw material**
 - Botnia's subsidiary FOSA is one of Uruguay's biggest forest owners and a pioneer in eucalyptus cultivation and seedling production
 - Forest plantations have been established in Uruguay since the 1980s with state support; former grassland areas put to productive use based on sustainable tree plantations
 - Ideal growing conditions for eucalyptus due to warm climate with no distinct dry or rainy seasons (rapid growth 30 m³/ha/year)



The Investment

- USD 1,15 billion investment in greenfield eucalyptus pulp mill (BEKP) in Fray Bentos, Uruguay. Start-up in Q3 / 2007
- Annual capacity 1 million tonnes eucalyptus pulp
- The biggest industrial investment in the history of Uruguay representing 1,6 per cent increase to GDP and 8,000 new jobs
- Finland's biggest private-sector industrial greenfield investment abroad
- Objective in securing adequate supplies of first-class short fibre raw material for UPM and M-real
- Production is sold mainly to the owners' paper mills in Europe and China for fine paper production

Global manufacturing costs of bleached hardwood kraft pulp producers: 90 % of competitors have higher costs



Raw Material Supply

- 70% of the wood raw material will come from the plantations of Botnia's subsidiary Compania Forestal Oriental (FOSA)
- All Fosa's plantations are FSC-certified (Forest Stewardship Council)
- Remaining 30% will be procured through long-term contracts with private forest owners, funds, foundations and cooperatives

Uruguay / Key Locations

Plantations



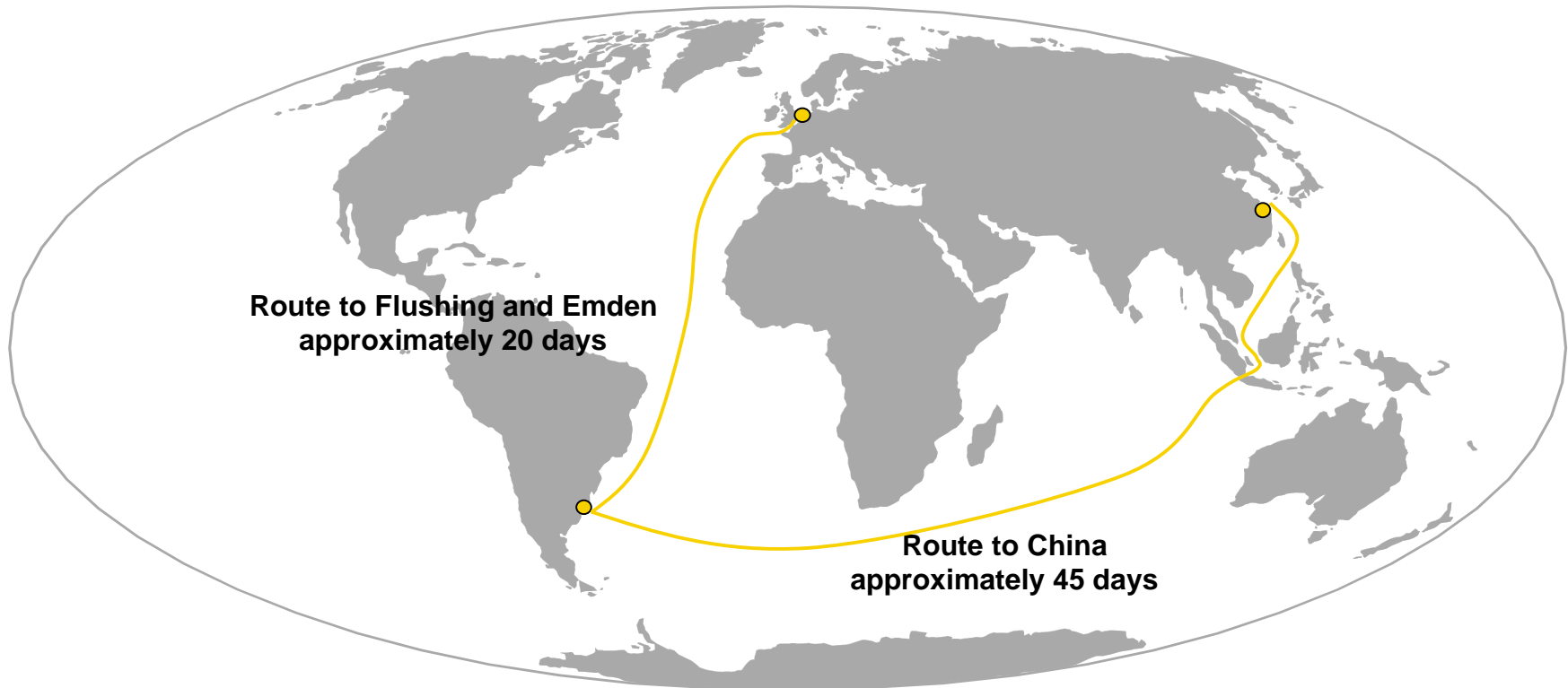
Botnia mill



Deep-water harbour



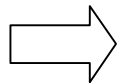
Sea routes Nueva Palmira – Changshu & Europe



Risk Management Issues

Starting point:

- A greenfield investment representing 2/3 of Botnia's then existing balance sheet.
- No country-specific market / commercial risk because 100 % export to Europe and China. Hence traditional non-recourse project finance not meaningful.
- In terms of cost of capital only, full sponsor funding would have been clearly the most effective solution. The downside would have been full exposure to political risk.



Question of optimising between the extremes

Risk Management Issues

Questions:

- What *is* actually relevant political risk?
 - Expropriation
 - War and Civil Disturbance
 - Breach of Contract
 - Transfer Risk
- Causality scenarios → Uruguay *per se* a stable environment
- What does it cost us to get protection against it and with whom?
- What is the owners' risk absorption willingness?

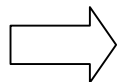
Risk Management Issues

- Uruguay political risk estimation was twofold:
 - Internal risk rather low due to stable social and political circumstances
 - At the same time economically and politically high exposure to neighbouring countries. “Bank run” in mid-2002 coincided with Argentina’s credit default.
- Alas, no crystal ball available. Only historical information to be combined with theoretical causative guesswork.
- Identifying the risk sharing partners was relatively easy due to strong investment story → World Bank, NIB, Finnvera and a club of commercial banks.

Risk Management Issues

Solution: hybrid financing structure

- Combination of multilateral financial institutions and commercial banks
- Financiers to bear *relevant* political risks and Sponsor to bear full commercial risk and non-relevant political risks
- Additional *de facto* pre-emptive protection from WB involvement
- Sponsor equity exposure covered by political risk insurance (MIGA). Residual sponsor political risk very low



Tailor-made balanced risk – cost structure

Some Challenges

- Hybrid financing specifics burdensome to negotiate – especially the “grey areas” of causality
- Unexpected political turbulence still continuing around the investment
- Existence of World Bank’s strict socio-economic and environmental investment standards were also used as a leverage against the investment → several independent studies commissioned by WB took considerable time to finalize
- Start of finance-related negotiations in 2004, first disbursements only in 2007

Some Lessons Learnt

- Many of today's financial institutions are rather vulnerable to environment-related polemics – irrespective of the underlying factual basis
- Strong long-term relationship with the commercial financiers a necessity
- Strong host government support has been of essence.
- Facts do not speak for themselves - but misinformation spreads fast and resulting fears are difficult to relieve
- Probably one of the most scrutinized industrial investment projects ever seen → multiple proof of economical, social and environmental sustainability of the investment





BOTNIA

THANK YOU!

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