

UPM, a Finnish firm that produces high quality paper, will control Botnia's plant that is already supplying its manufacturing plants in China

The cellulose plant located in Fray Bentos produces cellulose apt for manufacturing high quality paper. But two of Botnia's stockholders have dropped this product from their list of priorities. As a consequence of this, the paper manufacturing company UPM Kymmene Corporation – Botnia's third partner – will take charge of the cellulose plant that was the motive for a conflict between Uruguay and Argentina that is still awaiting a verdict at the International Court of Justice of The Hague.

UPM and Botnia signed yesterday Wednesday 15<sup>th</sup> a non binding letter of intent with the purpose of arriving at, during the last quarter of the year, an agreement by which the distribution of Botnia's common stock will vary and Fray Bentos' plant will have a new owner.

Until now the common stock composition of Oy Melsa Botnia Ab (Botnia) is split between UPM (47%), M-real (30%) and Metsallitto (23%). The three companies have separate activities in the paper industry and share the property of Botnia. If the companies arrive at an agreement, the future distribution will determine that UPM will have 17% of Botnia's shares, M-real 30% and Metsallitto 53%. UPM will control operations of the Fray Bentos plant and will own a percentage of the shares of Forestal Oriental. "We are buying the part that Metsallitto has in Uruguay and exchanging it for another part we have in Finland", asserted Tapio Korpeinen, president of the Pulp and Energy Business Unit of UPM, yesterday Wednesday.

When the transaction is completed, according to a press release divulged yesterday by UPM, "the activities of Oy Melsa Botnia Ab will circumscribe to its current operations in Finland", and the company will become a subsidiary of Metsallitto.

The 17% of the shares that UPM will maintain in Botnia represent "the approximate percentage of cellulose that UPM utilises of the production of the Finnish plants". Nevertheless, "Botnia will continue acting as a sales channel for UPM's cellulose market".

**Fray Bentos.** In the midst of controversies between the governments of Uruguay and Argentina about the alleged contamination that the plant would generate, Botnia's cellulose plant in Fray Bentos started operations in November 2007 after an investment of US\$ 1,200 million. It has an annual installed capacity of cellulose production of 1.1 million tons and uses 3.5 million cubic metres of eucalyptus wood. UPM uses up until now the cellulose coming from Uruguay for its paper manufacturing plants in China and Central Europe.

Botnia's general manager, Ronald Bezre, assured that "the development plans" of the company "are still intact".

"The stockholders that initiated the project in Uruguay are the same and the activity of the company in Uruguay will not change; this is solely a cession of the property of the stockholders with respect to the operation in Uruguay. This is nothing else than a possible cession of shares between the owners", he explained.

UPM is composed of three business groups: Energy and Cellulose, Paper and Transformed Materials. It has around 24,000 employees, according to information provided by the company. It has production plants in 14 countries amongst which are the United States, China and several European nations. In 2006 its sales were of 9,500 million Euros and its stock quotes in the Helsinki Stock Exchange.

In Finland UPM has three cellulose plants, with a production capacity of 2.1 million tons of pulp per year. With the addition of the Fray Bentos plant, the annual production capacity of UPM will increase to 3.2 million tons. "(Botnia) is a world class company very well managed, so we will complete the processes and later focus the business according with the future plans", pointed out Korpeinen.

**Disinvestment.** M-real is a subsidiary of the Metsallitto Group. In September 2008 M-real sold its Graphic Paper Business Unit to a South African company, as part of the disinvestment process in high quality papers, something that a semester later brought consequences to the Fray Bentos plant.

In a communiqué released yesterday Wednesday by Botnia, the president and general director of the Metsallitto Group, Karl Jordan, explained in a declaration the "structural transformation" of his company and the impact this has on the Uruguayan plant.

"We will focus even more clearly on selected essential functions and will reinforce our operations in them. The Fray Bentos pulp mill produces eucalyptus pulp used as raw material on high quality papers. The disinvestment in the business of graphic papers completed towards the end of last year, significantly reduced our dependence of this raw material", asserted the executive.

The paper industry has also suffered the impact of the world economic crisis. On 30<sup>th</sup> June the executives of the European companies of pulp and paper delivered to the European commissioner for the Industry and the Enterprise a "Manifesto for competitiveness and employment" for the European Union to take measures that guarantee the feasibility of the sector, according to information from Europa Press.