

EL PAÍS

GOVERNMENT SURPRISED BY BOTNIA

Change in Ownership. UPM takes 91% of the stock. The Government was unaware of the negotiations.

After negotiations which were kept in strict secret, which not even the Government was aware of, a change in ownership was announced yesterday in Botnia Uruguay.

The Finnish firm UPM Kymmene (the second paper mill in size in Europe) acquired 91% of the capital stock of the Botnia cellulose mill in Fray Bentos and of Forestal Oriental.

The Government will now review the transaction to see whether the company is still entitled to the benefits granted to it.

Round about 8.30 a.m. the Uruguayan Government heard for the first time that the company had changed hands. At that time Botnia's manager in Uruguay, Ronald Beare, called the Industry Ministry, Daniel Martínez, to inform him about the sale and to brief him on UPM. Later on UPM Finnish representatives (who travelled to Uruguay to make the announcement) and Beare met with President Tabaré Vázquez to inform him about the transaction.

The announcement that the multinational firm UPM bought Botnia's assets in Uruguay was received with no concern in Fray Bentos. In turn, the Gualeguaychú Assembly is speculating about the change in ownership and getting ready for a new protest for next Sunday to condemn the "sulphur smelling" smoke issued by Botnia last Saturday, which the company said was due to weather conditions.

Photo: The Administration will assess the effectiveness of the transaction.

THE NEWS IS IRRELEVANT IN THE LAWSUIT AT THE HAGUE

In almost two month's time –next September 14- Argentina and Uruguay will go back to their filings at the International Court at The Hague; the change in Botnia's ownership, however, will have no bearing on the resolution of the binational conflict, as reported to El País by Héctor Gross Espiell, who leads the team of Uruguay's attorneys together with jurist Alberto Pérez Pérez. "The counterparts at The Hague are the Argentine Government, on one side, and the Uruguayan Government on the other side. Botnia is not in the least involved," Gross said.

Change in Ownership Is Irrelevant at The Hague

➤ 14 September: Parties Will Start Filing Pleas

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“The counterparts at The Hague are the Argentine Government, on one side, and the Uruguayan Government on the other side. Botnia is not in the least involved,” Gross told El País. “This has nothing to do with these proceedings,” he added.

The issues under discussion concern Uruguay's alleged violation of the Uruguay River Treaty and pertinent environmental issues.

The hearings will begin on September 14. One week will be devoted to the filings by Argentina at the Court sitting at the Dutch city. Uruguay filings will take place during the second week and the Court will use two days during the third week to hear the final arguments by the parties.

Gross believes that we will learn the Court's decision by March or April, 2010.

Further, besides Gross and Pérez Pérez, other attorneys also hired by Uruguay to defend its case are Paul Raisler, Luigi Condorelli and Alan Boyle. Experts from the Uruguayan Environment Bureau, headed by the agency's Director, Alicia Torres, and Uruguay's ambassador at the US, Carlos Gianelli, will also be present.

Before the hearing, the group will discuss the strategy to be deployed. Any environmental studies confirming that the cellulose mill is not contaminating, as well as several statements in that line by Argentine officials, will all be submitted. The Governor of Entre Ríos, Sergio Urribarri, the Argentine ambassador in Uruguay, Hernán Patiño Meyer, and Minister Aníbal Fernández, have publicly admitted on different occasions that there is no evidence of contamination.

Gross believes that these elements will be taken into consideration by the International Court at The Hague and said Uruguay shall file any and all documents, statements and data subsequent to the beginning of the controversy.

No Concern at Fray Bentos about Botnia's Sale

Picket. Arroyo Verde is getting ready for another protest on Sunday.

FRAY BENTOS – DANIEL ROJAS

The announcement that the multinational firm UPM bought Botnia's assets in Uruguay was received with no surprise and triggered no concern in Fray Bentos. In turn, the Gualeguaychú Assembly is speculating about the change in ownership and getting ready for a new protest.

Yesterday Río Negro residents appeared to be eager to learn the details of the transaction and whether it might possibly entail changes in the future.

Doubts gradually turned into certainty as people got to learn the details of the conference given by the top UPM officials in Montevideo and the first statements made by Major Omar Lafluf who met with the principal Botnia executives, Tapio Korpeinen, Jaco Sarantola, Juan Otegui and Ronald Beare.

“Botnia's manager, Ronald Beare, called me and briefed me over the phone. I then met with them at the Columbia Hotel”, Lafluf said. “At the meeting I was officialy told that all Botnia assets in Uruguay were being transferred to UPM”, he added.

Lafluf was informed at the meeting that 72% of UPM is devoted to paper production, 15% to cellulose and energy and the remaining 12% to other wood byproducts.

“I made the Department available to them and listed existing advantages and expressed that I was very much interested in having them explore the possibility of developing alternative energy”, the head of the municipality added. “I was informed that they are studying the development of biofuel from wood. I also asked whether a paper mill was feasible but they replied that they needed to become consolidated first and also pointed out that paper mills are built wherever markets exist for them”.

Lafluf: “Truly boosting. The purchaser is a much bigger company and is also engaged in other business lines.”

Lafluf also pointed out that investors were very pleased “with Botnia's yield and the quality of Uruguayan cellulose.”

The major of Río Negro considered that this operation “is not in the least harmful” for Río Negro. “On the contrary, it is truly boosting because the purchaser is a much bigger company which is also engaged in other business lines,” he said.

Pickers. In the meantime, in Arroyo Verde, the Gualeguaychú environmental assembly is organizing another protest for next Sunday to condemn the “sulphur smelling” smoke issued by Botnia last Saturday which the company said was steam from water due to weather conditions. Last night Assembly members were rounding up the organization of their protest which, in principle, they intend to carry out on the binational bridge starting at 2 pm, after having an asado together to celebrate “Friend's Day”

A statement will be read out and, an hour later, the open assembly will begin at Km 28, road 136. This was decided given the restrictions imposed to stop influenza A from propagating in Argentina.

As regards the Botnia-UPM negotiation, Assembly member María Elena Marchioli speculated that Botnia “surely has financial issues because nobody would sell a company when it is doing as well as they say it is”.

As regards Botnia’s simbolical withdrawal, the activist hoped that “perhaps this is the beginning of the end. Maybe the company is not producing and earnings are not what they had forecasted at the beginning. That may have made them seek financial assistance”.

And added: “Anyways, the purchasers are always Finnish”.

Activist José Pouler said that he read this as “a change of ownership, of people, to avoid wearing themselves out.”

In his opinion, they will try to “clean up Botnia’s image”.

“Make the Most of the Second Player of the World, Now With Us”

UPM bought Botnia’s assets in Uruguay to guarantee cellulose supply at its plants, in particular at the plant it owns in China. Uruguay “must make the most of the second player worldwide where cellulose and paper are concerned” Jorge Balseiro Savio told El País.

Balseiro is the head of the Instituto de Ciencia e Investigación (ICI). He is an astronomist and a meteorologist and teaches several disciplines, having specialized on forestry industry information. Daily, the ICI discloses the principal information of this sector which is published in the region.

“What do you think about the UPM transaction?”

“Very simple. This is about a change of stockholders due to an investment reorganization. UPM retains all of Uruguay (mill and plantations) and hands over its shares in Finland to M-Real and Metsaliito.

“Why now?”

“Because this is a key moment. They guarantee themselves the supply of cellulose to manufacture paper in China and of wood for the rest of their plants worldwide.

Up to now UPM owned 47% of the Uruguay operation. After this negotiation they will have doubled their supply of the world’s best cellulose.

It is good business if you take into consideration that the market value of cellulose was originally US\$ 300 per ton and today it is being sold at US\$ 627. Last week there was a US\$ 10 increase and it is still going up.”

“What does this deal mean for Uruguay?”

“Uruguay must be clever and make the most of second strongest player worldwide in this line of business which is now with us. Botnia is just cellulose. UPM is cellulose and paper.

We should think and look forward.

Three Questions to Andrés Barterreche, MGAP Undersecretary

The official said he does not think that the transaction will alter any market rules. He learnt of the announcement when El País got through to him over the phone.

“I heard of this through you people”

1. How did you take the news about the changes Botnia announced in the company’s share ownership?

I’m learning about them now through you. Up to now (yesterday afternoon) nobody got in touch with the Ministry of Livestock, Agriculture and Fishery to report on this transaction. All the same it seems to be a transaction between private parties which will not alter all that much any operations in Uruguay.

2. Could there be some sort of Government obstacle preventing the announced transaction from coming through?

Not where Botnia’s industrial aspects are concerned. If, however, Forestal Oriental is part of the transaction, we’d have to look into it because up to now this company has been operating under a system of exceptions provided for in the Corporations Law and this change might infringe such regulation.

3. Are you worried that this transaction might alter in any way the company’s operations in Uruguay?

I don’t expect major alterations. However, one of the things I am sorry about is that the company in Uruguay will be losing Metsaliitto, because the latter is cooperative-based, it is formed by small producers and is more in line with the forestry model fostered by the Ministry.

Botnia Changes Ownership; the Government will Analyze the Effectiveness of the Transaction

Announcement. The Government was not informed about the transaction until yesterday morning.

L.BALDOMIR / L. BUTTENBENDER

Photo: Yesterday UPM's President, Tapio Korpeinen, announced the transaction first in Montevideo and then in Fray Bentos.

The Finnish firm UPM-Kymmene, the second paper mill in size in Europe, acquired 91% of the capital stock of the Botnia cellulose mill in Fray Bentos and of Forestal Oriental. The Government will be looking into the transaction to see whether the company is still entitled to the benefits granted to it.

Until yesterday morning the news had been disclosed only to a handful who had to sign confidentiality agreements.

At 8.30 a.m. the Uruguayan Government began to hear that the company whose establishment had been seen as a national cause had changed hands. At that time in the morning Botnia's manager in Uruguay, Ronald Beare, called the Industry Ministry, Daniel Martínez, to inform him about the sale and to brief him on UPM. Later on UPM Finnish representatives (who travelled to Uruguay to make the announcement) and Beare met with President Tabaré Vázquez to inform him about the transaction, according to several government sources.

At 11.30 a.m. Beare, UPM's President of the Energy and Pulp Business Group, Tapio Korpeinen, and UPM's Senior Vice President for Forestry and Wood, Jaakko Sarantola, made the formal announcement to the people: UPM will acquire 91% of the Botnia cellulose plant at Fray Bentos (the remaining 9% belongs to the Otegui Group) and approximately 200,000 hectares of land owned by Forestal Oriental in Paysandú and Río Negro (up to now the company owned 12.4% of such land), as a result of the international restructuring.

They also reported that the approximately 550 employees working in the Uruguay operations (200 at the plant and round about 350 in the forestry operation) will be transferred as "current staff" under the framework of the transaction, according to a statement issued by Botnia.

The transaction (in connection with which a letter of intent was signed yesterday) depends on a due diligence and the approval of the Boards as well as of the regulatory authorities, and is expected to materialize during the last quarter this year.

To date, Foresta Oriental was owned by Metsa-Botnia (82.1%), UPM (12.4%) and Metsaliitto (5.5%). Further, 9% of the Botnia plant at Fray Bentos was owned by the Otegui Group and the rest of it was owned by the Finnish firms. After the transaction UPM will own 100% of Forestal Oriental's capital stock and 91% of the plant in Fray Bentos.

The Livestock, Agriculture and Fishery Undersecretary, Andrés Berterreche, told El País that the transaction would be analyzed given that Forestal Oriental operated under a system of “exceptions provided for in the Corporations Law and the change might infringe such regulation.” (See separate article).

When Sergio Milnitsky, the President of the Anti-Trust Commission, was asked about this he told El País that “at first sight notice needs not be served on us... This is a change in ownership; we will anyways look into it.”

The Economy and Finance Undersecretary, Andrés Masoller, told Carve “this is a transaction between private parties. The investment is 100% operative and causes no concern whatsoever.”

The Housing, Cadastre and Environment Minister, Carlos Colacce, told El País: “Change in ownership in a private concern may take place at any time. Environmental controls will always be in place, regardless of who the owner is.”

TRANSACTION. Hands changed in Uruguay under the framework of a major transaction which entailed restructuring Botnia’s share ownership (the Finnish Head Office) in order to achieve sound financial standing, as was the case when Ence’s assets in Uruguay were partially sold to Stora Enso and Arauco.

Up to now 47% of the Botnia stock was owned by UPM, 30% was owned by M-Real and 23% by Metsaliitto. Now UPM will only keep 17% and the rest will belong to Metsaliitto and M-Real. UPM will retain 1.2% of the Botnia Pohjolan Voima Oy energy company. With this structure Botnia will focus its strategy on its operations in Finland and Russia, while UPM will focus its business plans in Uruguay.

The President of UPM’s Energy and Pulp Business Group, Tapio Korpeinen, said the transaction is in line with the company’s strategy to increase cost-effective cellulose production and the use of emission-free energy. Today UPM uses cellulose coming from Fray Bentos mainly at its paper mills in China and Central Europe.

In a statement released yesterday, UPM’s President and CEO, Jussi Pesonen, pointed out that the transaction “opens new opportunities for the development of future operations in Uruguay”. All the same, Korpeinen pointed out that building a paper mill in Uruguay is not in their plans for the time being. “It is too soon”, he said.

Pesonen highlighted that “Botnia’s new ownership structure will allow to increase UPM’s cellulose pulp production capacity by 50%, to 3.18 million tons.”

On the other side the reasons for this sale are different.

The Legal Affairs Director General of the Metsaliitto Group, Esa Kaikkonen, told El País in Finland that “the need of eucalyptus pulp decreased once we got rid of the graphic papers division at the end of last year.”

Kaikkonen ruled out any connection between the sale and the international crisis and the losses the group has had due to the drop in international demand; he stressed this was a “strategic decision”.

The firm has, however, been divesting assets to leverage its economy.

Same thing in the case of M-Real. To begin with, Mikko Helander, the company's president, gave out a statement saying that the sale will allow to "clearly cut down on our net debt."

Stock: 91% of the capital stock is retained by UPM and the remaining 9% by the Otegui Group

A MILLIONAIRE TRANSACTION

In net terms, UPM will disburse US\$ 127 million (90 million euro) as part of the deal.

The transaction will be funded with loans which have been already borrowed, Sari Hoerkkoe, a UPM spokesperson, announced, according to Bloomberg. The company's net debt will thus go up to close to US\$ 557.2 million (400 million euro). According to the firm, the transaction is expected to have a positive impact on the 2010 results.

Once the data was disclosed, Stock Exchanges reacted and the price of both UPM's and M-Real's stock at the Helsinki Exchange closed on the rise. UPM's shares went up 0.48 euro (8.08%) to 6.42 euro, the highest price since May. The price of the shares dropped 31% this year; the company is valued at US\$ 4,56 billion.

On the other hand, the net effect on Metsaliitto's cash flow after the restructuring will be a negative US\$ 139.3 million (100 million euro), i.e. an increase of their net debt of approximately 150 million euro, as reported by the group. In turn, as a result of the agreement, M-Real will receive round about US\$ 417.9 million (300 million euro). This piece of news boosted the price of its shares when the market learnt that the company's indebtedness would decrease.

WHO BOUGHT

UPM Assets after the transaction

Forestral Oriental plantations were also acquired.

CELLULOSE PULP PRODUCTION CAPACITY

Fray Bentos (Uruguay)	<i>illegible</i> (thousand tons)
<i>illegible</i> (Finland)	540
<i>illegible</i> (Finland)	800
<i>illegible</i> (Finland)	740
Own total capacity	3,180
17% of Botnia's capacity	400
Total	3,580

> UPM has approximately 24,000 employees and owns production mills in 14 countries. The three cellulose mills it has are in Finland. The first quarter of this year UPM-Kymmene reported a US\$ 124 million loss due to the scarce demand for its products. After announcing such an outcome, the CEO, Jussi Pesonen, said the company would be focussing on cutting down on costs and expenses, he also said that earnings were their number one priority for the next quarters. In the first quarter, the greatest loss was in the cellulose pulp business, where operative losses amounted to 87.8 million euro. UPM trades in the Helsinki Stock Exchange.

Cellulose: Market Moving Up

- Round about a month ago the price starting rising

The Sociedad de Productores Forestales spokesman, Edgardo Cardozo, said that round about a month ago there were signs of a slow recovery in the cellulose international market.

In this respect, he said that some information coming from this region reported mean prices in the US\$ 350 – US\$370 range per ton, and barely a US\$ 2 weekly growth.

In Uruguay wood harvest has been at a standstill since the beginning of the year, though this is not the case of the plantations which are still being established, though at a much slower pace.

Most of the local activity, actually, is to supply the Botnia mill since there is no demand from abroad.

Chip and roll exports to Europe are almost inexistent, which shows that the demand in that market is at a standstill.

Without claiming that this is the only explanation, Cardozo considered that the slight signs of recovery are due to the fact that the industries, which had stopped their production and were carrying out scarce transactions with the stock they had, have now discovered that they are running out of their stocks and are forced to resume work and cannot let their stocks drop below critical levels.

Botnia's last market report said that the cellulose pulp demand is still weak due to the low production at paper mills on account of the crisis.

"Producer inventories are high up, despite several plants having been shutdown and the drop in the old capacity", the report mentions. Besides, there is also a word of warning about the price of pulp which kept going down at least during the first quarter this year. Indeed, by March, eucalliptus cellulose pulp sold at US\$ 490 per ton.

For the second quarter, according to Botnia's report, the expectations are disheartening given that "we believe that the price of pulp will slow down or stop moving at all, but producer inventories are still very high".