



UniCredit

Markets & Investment Banking

FINANCING OF PULP & PAPER INVESTMENTS IN THE CRISIS

RISI SEMINAR - Wednesday 28th October

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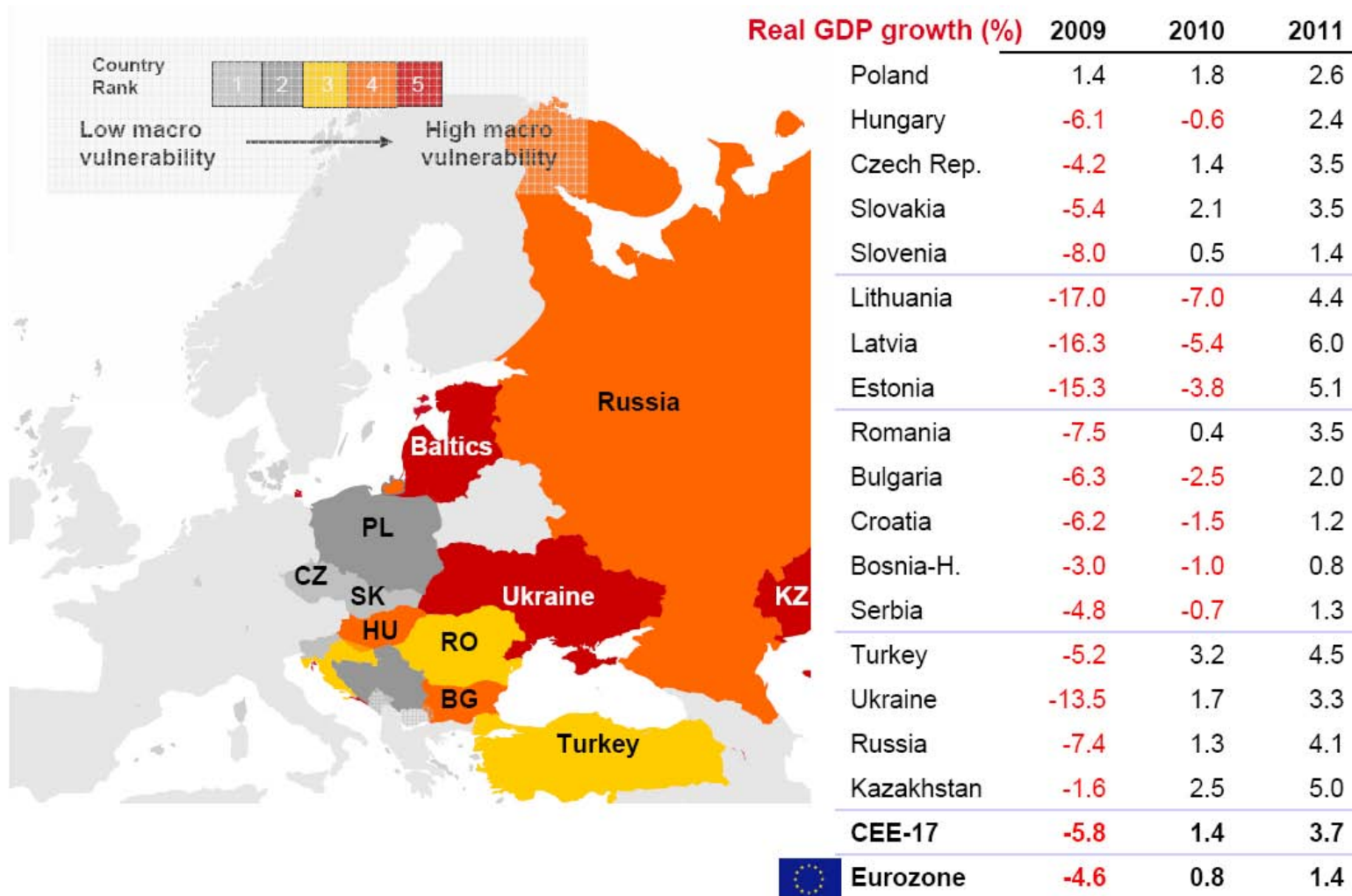
Munich, 28 October 2009

AGENDA

1. CEE ECONOMIC STATUS AND PERSPECTIVES
 2. RECESSION AND THE PULP AND PAPER INDUSTRY
 3. FINANCIAL CRISIS – FINANCING CAPACITY OF BANKS
 4. FINANCIAL RESTRUCTURING
 5. NEW INVESTMENTS & ACQUISITIONS – IS THERE APPETITE?
 6. FINANCING OPTIONS AVAILABLE
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1. CEE economic status and perspectives

Signs of recovery – Growth potential very different

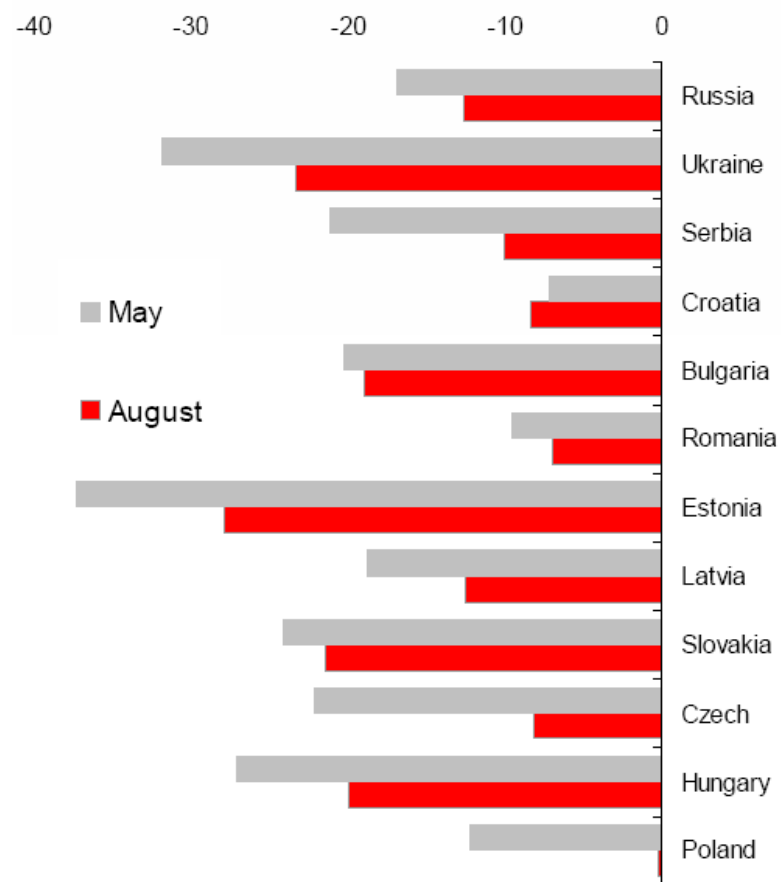


Source: UniCredit Group CEE Strategic Analysis, UniCredit Research

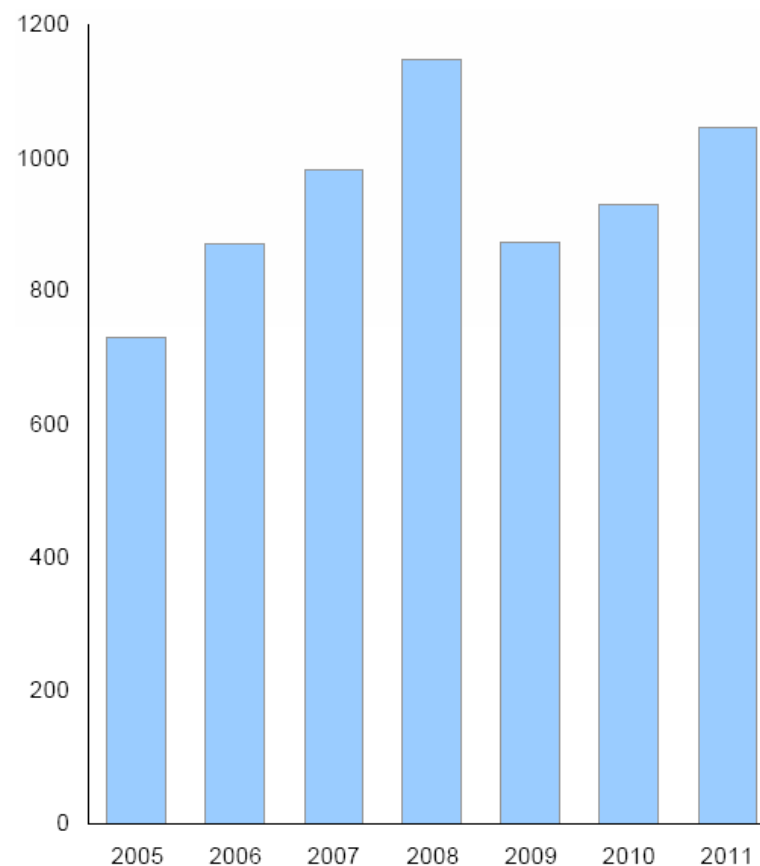
1. CEE economic status and perspectives

Recovery driven by production, trade and inventory cycle

Industrial production
(% yoy growth)



Export – CEE17
(EUR bn)

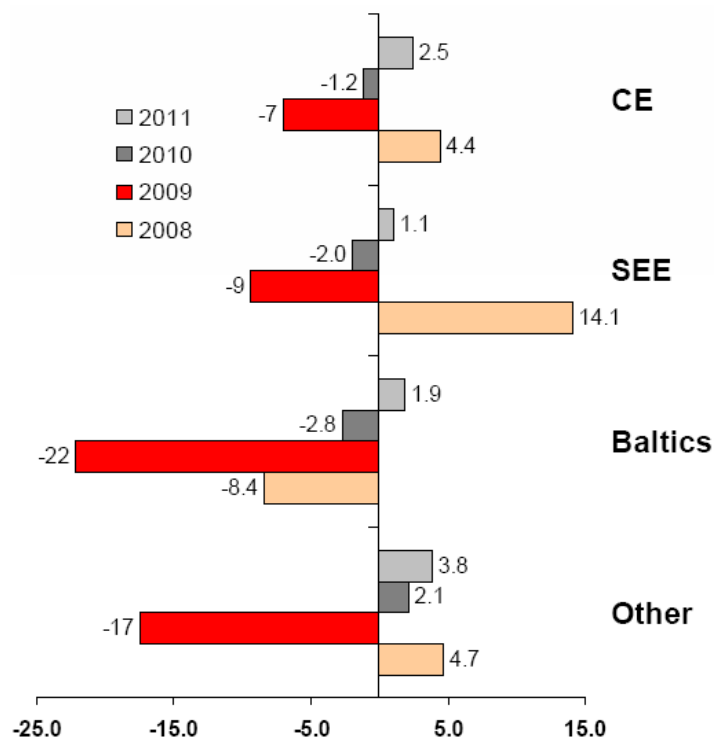


Source: Bloomberg, UniCredit Group CEE Strategic Analysis, UniCredit Research

1. CEE economic status and perspectives

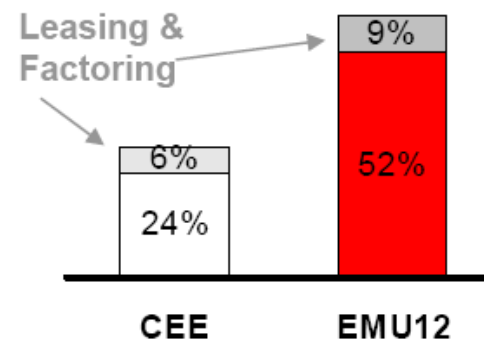
Investments will remain subdued

Investments growth
(real % growth)



- Infrastructural projects and EU funds among the drivers of the recovery – stronger role of the state and international institutions and weaker private sector
- CEE, however, will remain the “**manufacturing arm**” of Old Europe, and further off-shoring of Western manufacturing activity towards the East is visible
- Lending towards SME and corporation is resuming earlier than retail lending

Corporate loans % GDP
(2008)



Source: UniCredit Group CEE Strategic Analysis, UniCredit Research

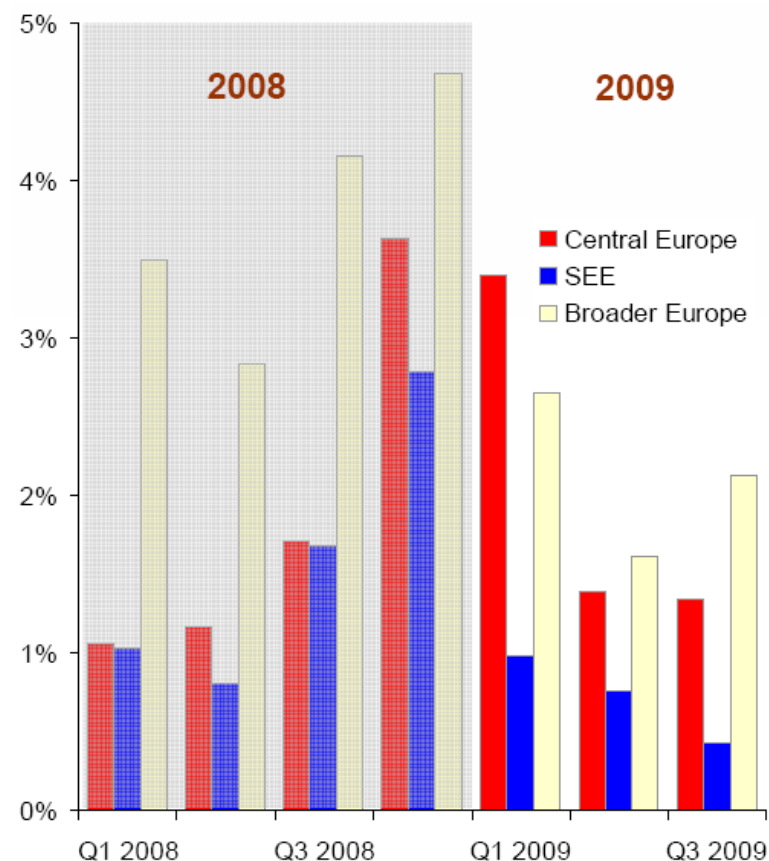
1. CEE economic status and perspectives

Currency weaker than one year ago, lower volatility expected

Fx rates eop

	Oct, 2nd	2009	2010	2011
Poland	4.23	4.0	3.9	4.0
Hungary	268	280	265	265
Czech R.	25.4	26.0	26.0	25.0
Romania	4.27	4.3	4.2	4.0
Croatia	7.26	7.5	7.5	7.4
Serbia	93	95	100	100
Turkey	2.18	2.4	2.3	2.1
Ukraine	12.4	11.9	11.0	9.5
Russia	44.0	47.9	46.9	44.8
vs. USD				
Ukraine	8.49	8.1	7.4	6.9
Russia	30.15	33	32	32
Kazakhstan	150.95	150	150	150

Currency volatility in 2008 and 2009 (standard deviations, weighted for GDP in EUR)



1. CEE economic status and perspectives

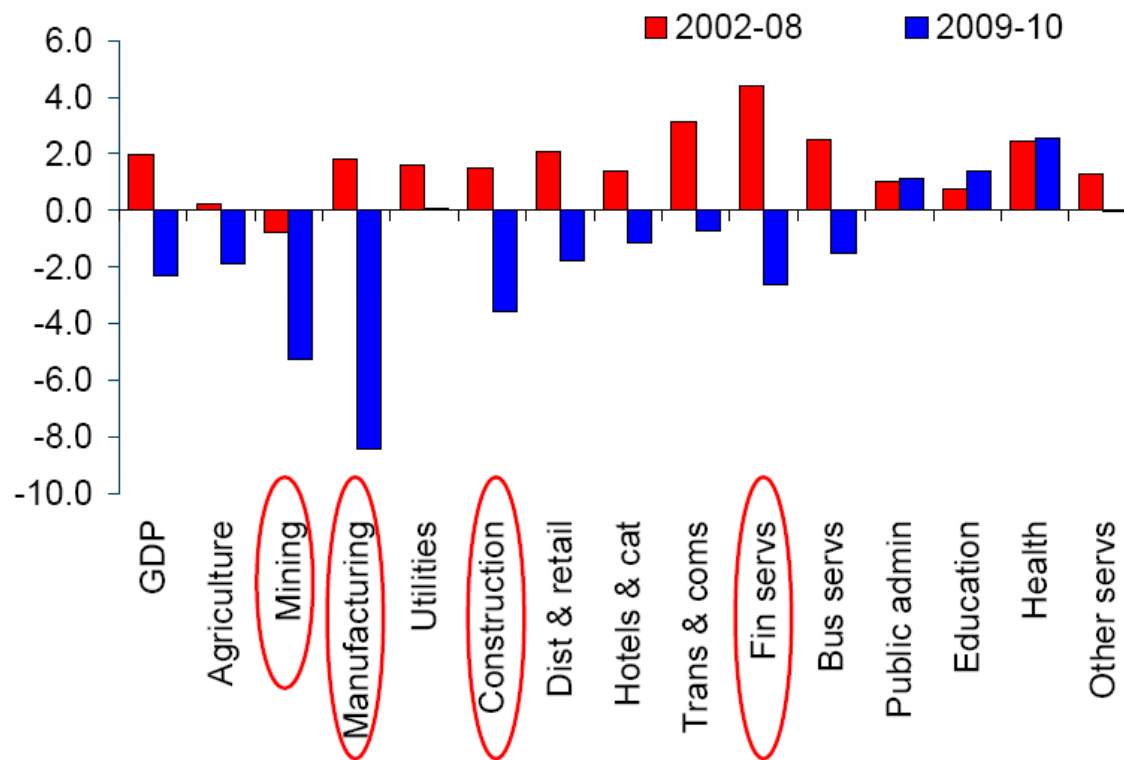
Post crisis world – Just a bad season or a climate change?

CEE 17 € bn	The past avg 2006-'08	The present 2009	The future avg 2010-'11
Trade flows, € bn	1,939	1,622	1,842
FDI, € bn	108	59	79
Corporate loans, € bn	579	644	759
Corporate deposits, € bn	333	349	404
L/D ratio (corporate, %)	174%	185%	188%
External Funding, € bn (total banking sector)	363	367	386
Impaired loans, € bn (stock total banking sector)	62	147	194

1. CEE economic status and perspectives

Manufacturing under pressure

European GDP and Value added growth
(% Annual average growth)



Source: Oxford Economics, National Statistics Agencies

1. CEE economic status and perspectives

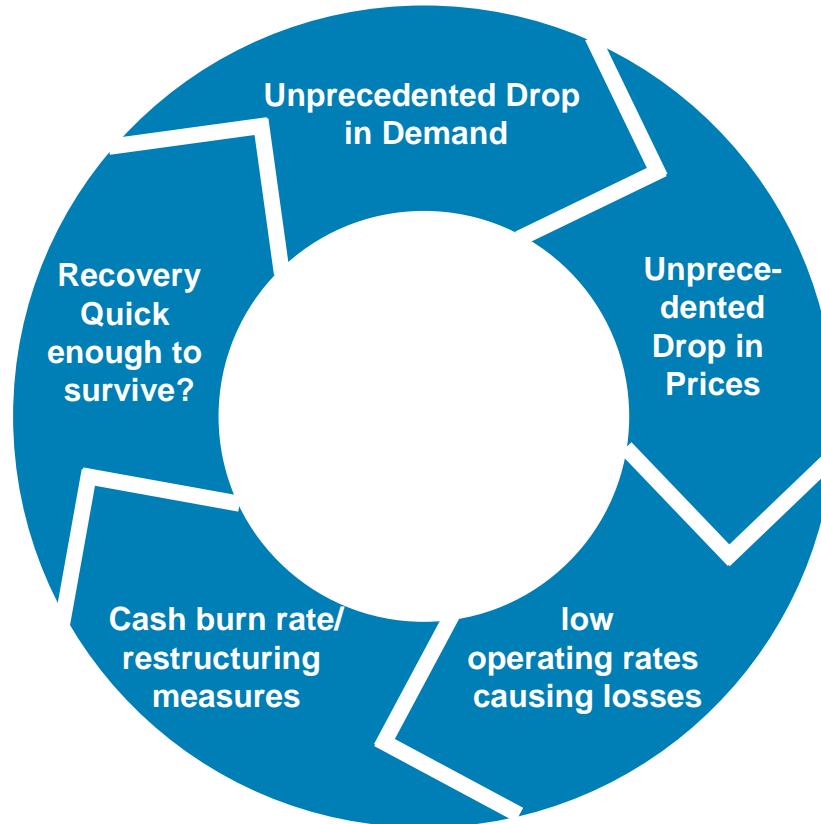
Industrial sector in CEE not worse than in Europe

Industrial Production – Total Industry (excl. Constr.) (yoy % change, June 09)

		Old EU		Central Europe			South Eastern Europe		
		EU15	DE	PL	CZ	HU	RO	BG	HR
Manufacturing		-17.2	-19.9	-4.0	-16.6	-19.2	-7.1	-21.5	-12.25
Consumption Goods	Food	1.0	3.5	2.0	6.0	2.1	6.3	-7.5	-11.8
	Textiles	-21.9	-21.0	-9.4	-11.2	-14.4	-37.6	-37.5	27.9
	Wearing apparel	-8.5	-12.4	-16.8	-20.6	-26.2	-26.3	-25.6	-31.2
	Leather	-16.3	-2.0	-12.2	-17.0	-28.1	-24.8	-27.7	-31.5
	Wood	-16.5	-11.8	-0.8	-11.6	-2.0	17.6	-40.1	-2.6
	Paper	-12.0	-8.1	2.4	-17.3	-8.4	2.3	-42.2	11.3
	Printing	-9.0	-7.9	9.8	-12.1	-9.7	10.5	48.5	-6.0
	Furniture	-9.2	-22.7	66.3	4.7	-54.4	-20.6	-42.9	-29.8
Intermediate Goods	Chemicals	-12.6	-14.8	-2.4	-15.5	-24.9	-25.2	-43.1	-29.2
	Pharma	3.2	-7.5	4.7	-7.4	-1.0	-28.1	-36.1	-59.2
	Rubber and plastic	-17.0	-12.9	-8.0	-13.5	-22.1	-8.0	-14.7	2.0
	Other non-metallic mineral pr.	-19.2	-15.0	-7.2	-21.4	-24.5	-32.7	-38.8	-15.1
	Basic metals	-33.5	-34.4	-34.1	-34.6	-58.9	-47.1	-24.5	-30.1
Investment Goods	Metals	-25.2	-26.0	-6.9	-28.5	-25.1	-12.9	-36.8	-30.9
	Computer, electronics	-17.9	-22.6	32.2	-16.7	-15.3	-19.7	-10.0	13.6
	Electrical equipment	-26.6	-28.6	7.1	-22.0	-5.4	10.2	-28.1	-12.5
	Machinery and equipment	-30.2	-29.9	-19.6	-18.8	-27.9	-19.0	-22.8	-40.7
	Motor vehicles	-27.3	-20.2	-11.4	-11.2	-33.7	9.6	-19.7	24.5
	Other transport eq.	-9.2	-22.7	66.3	4.7	-54.4	-20.6	-42.9	-29.8

■ 10% less than average

2. Recession and the pulp and paper industry



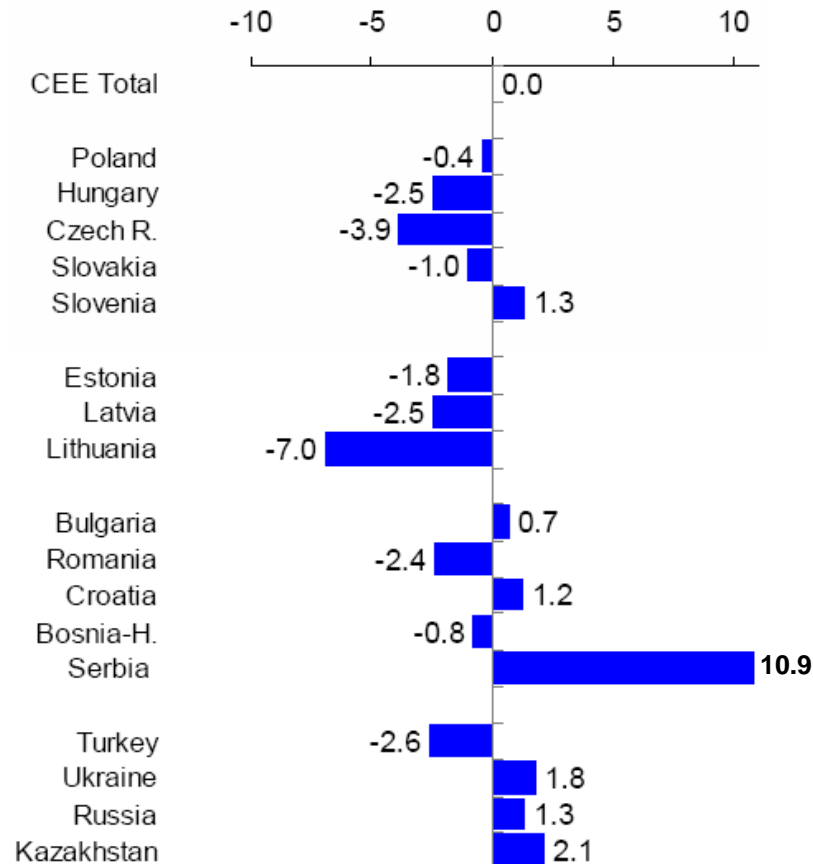
- n Market shake out – when does it stop?
 - à Drop out of marginal producers
 - à Restructurings of potential survivors
 - à Acquisition opportunities
 - à V or W?
 - à New investments?

2. Recession and the pulp and paper industry

- n Market shake out wipes out high cost producers
- n Length of recession and cash burn rate determine who leaves the market
- n Banks and investors aim to select likely survivors and winners
- n Only few industry segments are forecast to grow – cut-throat competition
- n Survivors and winners can still attract funds from banks and investors
- n Investors and banks expect compelling story including:
 - à Niche player with specialty products
 - à Very competitive cost structure
 - à Modern equipment
 - à Benefit from strategic outlook and industry changes/transitions
 - à Strong shareholder support

3. Financial crisis – Financing capacity of banks

Corporate Loans in 2009
(July 09 vs Dec 08 % change FX adj)



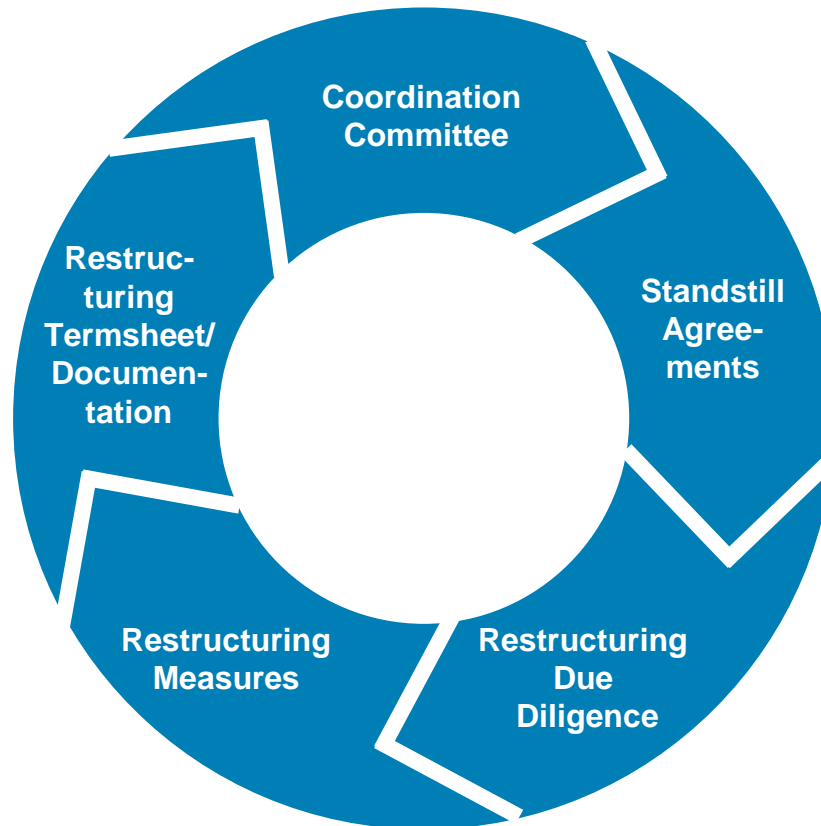
- n Liquidity Trap? Credit Crunch? Huge Losses, Bankruptcy of banks
- n Recapitalisation of banks at the expense of the taxpayer
- n Fear of further losses – depending on development over the upcoming 6–18 months. Impaired loans to peak in 2010, but cost of risk already converging
- n Disappearance of some of the major bank players
- n Banks focus on core clients and core markets – some of which determined by politicians
- n Immediate impact on financing inter alia: less lending available; shorter maturities; banks require more equity/shareholder support; higher pricing to make up for higher cost and due to scarce lending capacity

4. Financial restructuring Pre-Conditions

- n Financial status: audited financials, budget, financial plan with different scenarios:
 - n Update/create a reliable liquidity plan
 - n Involve third party advisors (auditors/restructuring opinion/technical & market advisors/mandated by the company or by the lenders?)
 - n Create transparency/support from key stakeholders, e.g. lenders/owners
 - n Establish a coordinated process (coordinating committee, standstill, legal advisor crucial, etc.) and establish a common time schedule (Refer to INSOL Principles)
 - n Availability/security of funds are more important than cost of funds

 - n What is key for a business restructuring? Just waiting and financing the funding gap is not sufficient
 - n Cost cutting
 - n Stop or limit investments
 - n Working capital and liquidity management
 - n Consider selling business activities/concentration on core businesses
-

4. Financial restructuring – Critical implementation steps



- n Structure of financing: Consistent Financing versus Patchwork Approach
- n Conflicting Position/Interest between lenders:
- n Override Agreements/New Money Agreements/ Additional Securities/Intercreditor Agreements/ Debt for Equity Swap
- n Review availability of state aid/governmental support
 - à Funding and risk sharing provided by state banks; i.e. in Germany KfW, LfA in Bavaria
 - à Short-time working benefit and other subsidies

5. New investments & acquisitions – Is there appetite?

- n New Investment and Acquisitions: Is it now the right time?
 - à Recession over or is there a risk of “double dip” recession (V or W)?
 - à Recession hangover: A good time for investing/expanding?
 - à Despite the recession, a few segments are expected to grow - e.g. demand for tissue

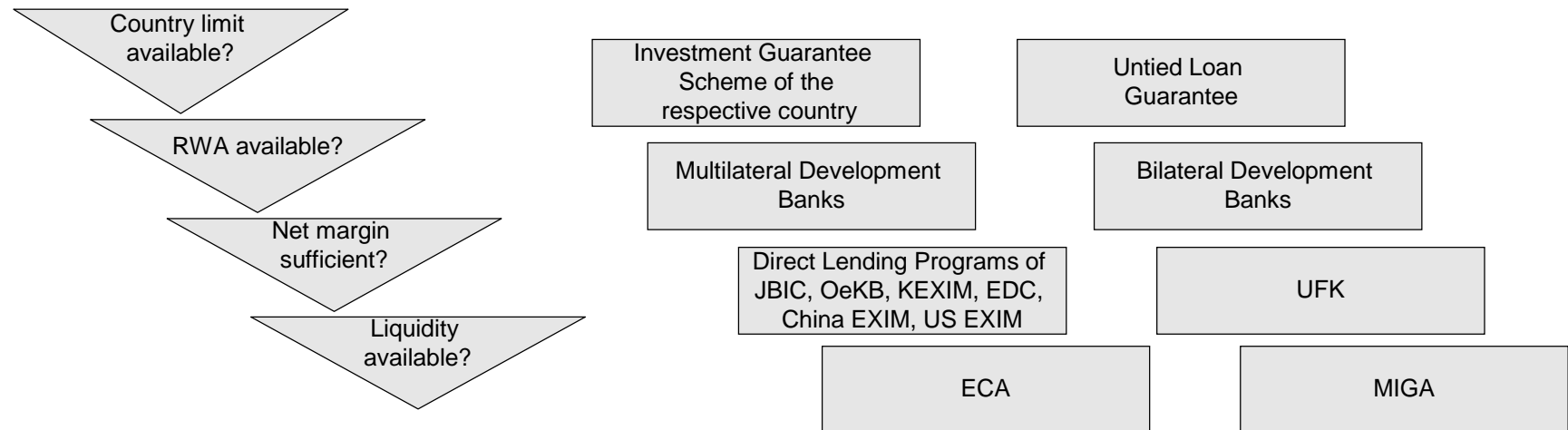
 - n How to convince investors and lenders
 - à Strong support from shareholders with deep pockets and experience
 - à Growing industry segment or very good cost position
 - à Investment demonstrates compelling industrial logic
 - à Sound and robust financing structure
 - à Company must maintain strong relationship to a number of banks

 - n Financing structure
 - à No covenant-lite; lower leverages; higher pricing
 - à No underwriting (currently); book-building process and club deals à more coordination work
 - à Funding large investments/acquisitions an issue: state development banks such as KfW
 - à Greenfield Projects: Export credit agencies and other forms of state support
-

6. Financing options available



1. Consider ECA Financing and investment promotion schemes
2. Review availability of state aid/governmental support
3. Consider windows of opportunities in the equity and debt capital markets
4. Consider Supranational and Private PRI coverage



Your contacts

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