



Counterparty Credit Risk
B-2-B Manufacturing
Business

Presented by Johannes Boner
General Counsel
Sappi Fine Paper Europe
9 June 2009

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ACC Europe's 2009 Annual Conference, 7-9 June 2009 (Geneva)



4 Fine Paper Mills
7 Sales Offices

1 Sales Office

1 Sales Office

10 Fine Paper Mills
18 Sales Offices

1 Sales Office

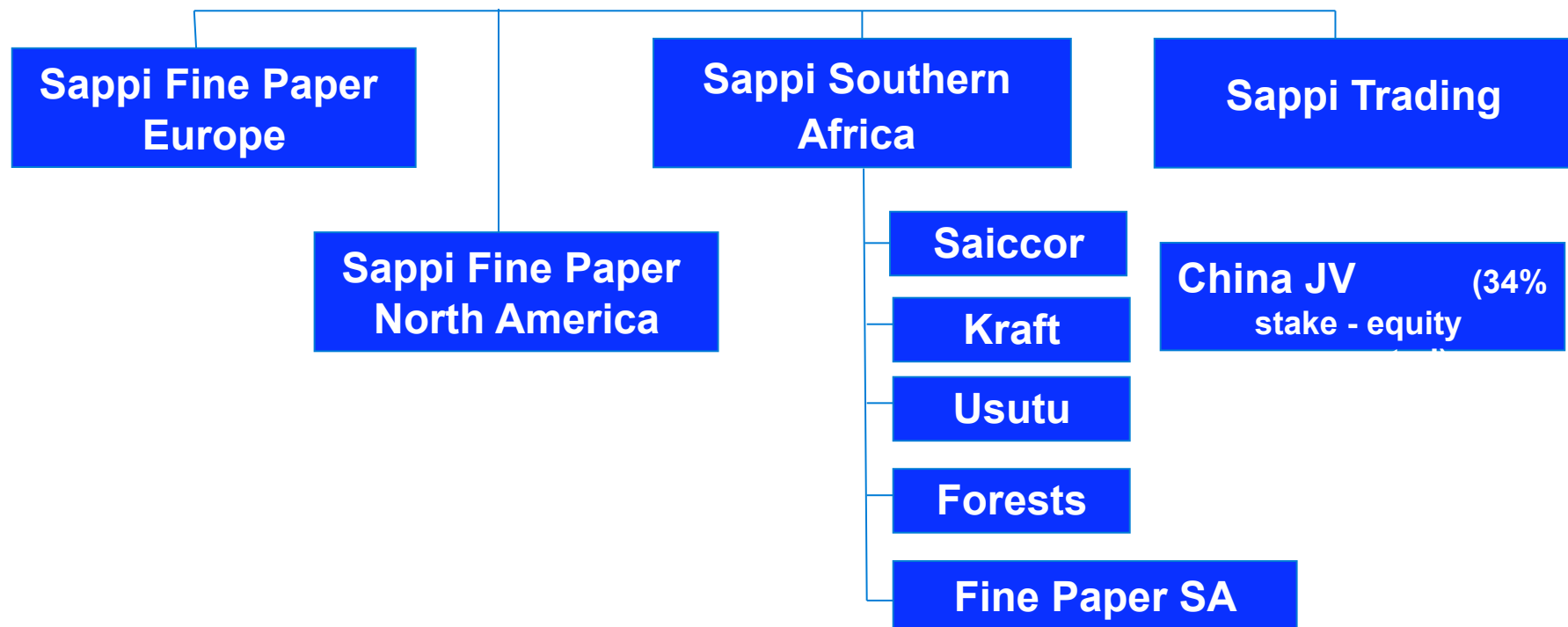
3 Fine Paper Mills
6 Forest Products Mills
10 Sales Offices

1 Fine Paper Mill JV
4 Sales Offices

1 Sales Office

Sappi Group Overview

Sappi Limited



Sappi Limited - Who Are We Today?

- We are the world's leading producer of high quality **coated fine paper** used in printing everything from art books to quality magazines to wine labels. (USA, Europe, South Africa, China JV)
- We also produce a range of business paper, coated and uncoated speciality paper and casting release paper. (USA, Europe, SA)
- We are the largest and lowest cost producer of the **chemical cellulose pulp** used to produce viscose fiber. (SA – 100% export)
- We manufacture on **four continents** and have 43 sales offices around the globe, supplying paper and pulp to customers in over 100 countries.
- We employ over 17,000 people and achieved an annual turnover of **US\$5.9 billion** (2008)
- We are listed on the stock exchanges of **Johannesburg, London and New York.**

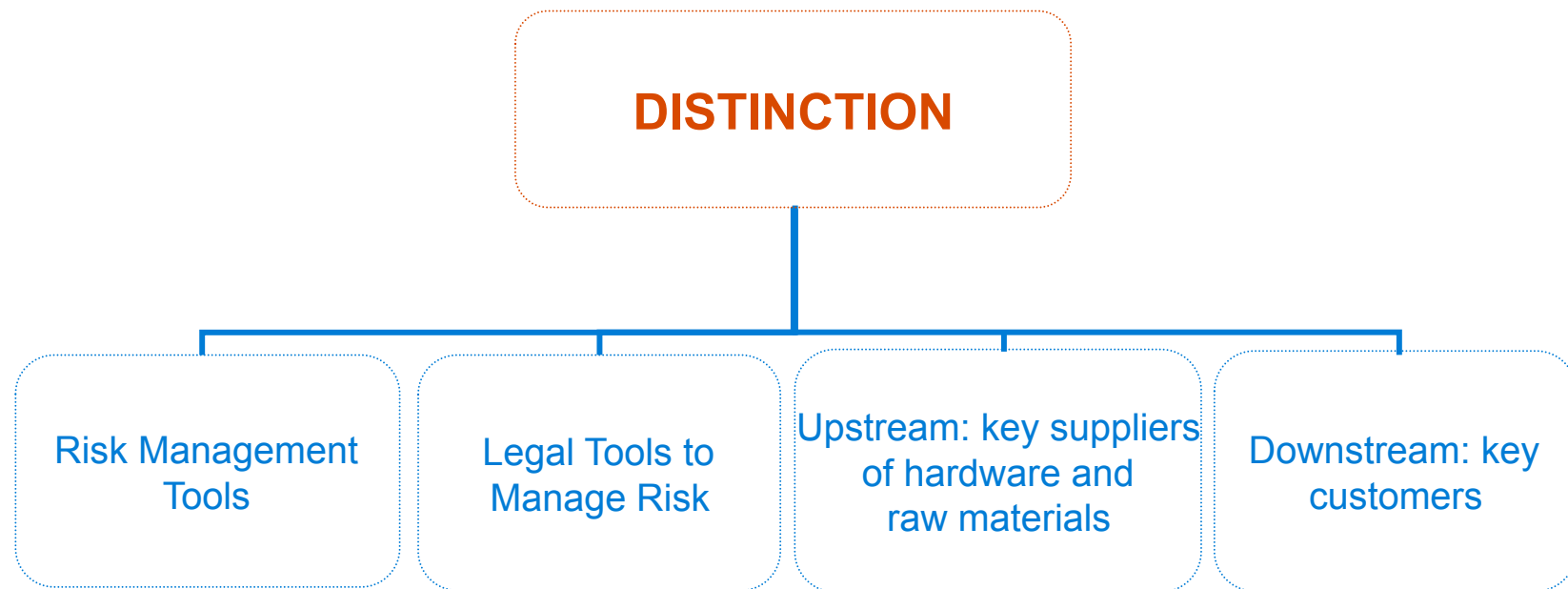
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Sappi Limited - cont'd

- We manufacture grades of paper designed to meet the challenges of all new copier and printing technologies, especially modern high-speed copiers, inkjets, laser printers and paper fax machines. We supply retail stationers and large consumer outlets as well as office equipment manufacturers and corporate business. (SA)
- In the agricultural sector, our kraft products are used to package and transport vegetables and fruit (particularly for export). In manufacturing, uses include the packaging and transport of cement. In retail, our products are used for sugar and carrier bags. Special characteristics developed for customers include products with built-in grease, water and vapour barriers. (SA)
- We are Africa's leading producer of fine paper, speciality paper, newsprint, packaging and other kraft papers.
- We have been recognised by the United Nations as South Africa's most global company

Counterparty Credit Risk B-2-B manufacturing business



Counterparty Credit Risk

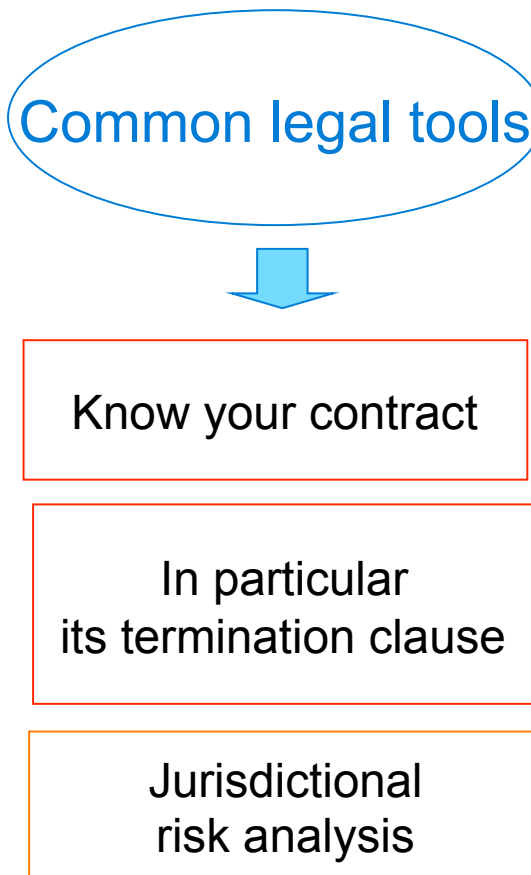
B-2-B manufacturing business

Risk Management Tools

- ⇒ Diversify supply and customer basis
- ⇒ Enquiries on creditworthiness of your business partner
- ⇒ Know the suppliers of your suppliers/ customers of your customers
- ⇒ Close co-operation between legal department, purchasing and sales/credit control

Counterparty Credit Risk

B-2-B manufacturing business



Counterparty Credit Risk

B-2-B manufacturing business

Upstream Legal Tools

Capex contracts

- Advanced payment guarantee/Anzahlungsgarantie/garantie d'acompte. ... or no pre-payment obligations!
- Liability escrow/Haftungsrücklass/retention de garantie
- Performance bond/Erfüllungsgarantie/garantie de bonne fin
- Right to assign performance of the contract to a third party

Raw material purchases

- Liability clause: securing raw material availability rather than shopping for financial compensation

Counterparty Credit Risk

B-2-B manufacturing business

Downstream legal tools

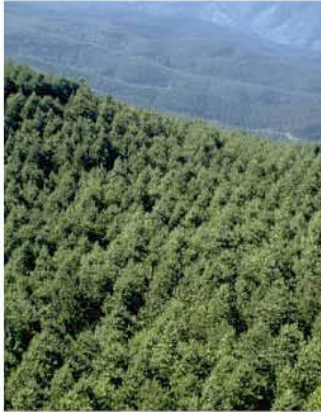
Sale of finished goods

- Abstract payment guarantees by parent company or bank
- ROT clauses
- Credit insurance
- Beware of preferential payments, claw back risk
- UK: winding-up petition as a tool for debt-recovery
- European payment order
- Factoring of customer credits
- Suspend deliveries to re-negotiate better/safe payment terms, e.g. pre-payment, L/C, CAD, bills of exchange etc.

Counterparty Credit Risk

B-2-B manufacturing business

Questions & Answers



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Counterparty Credit Risk

- Mike Nelson, Senior Managing Counsel
The Bank of New York Mellon
- Johannes Boner, General Counsel
Sappi Fine Paper Europe

Counterparty Credit Risk

- Credit risk is:
 - the risk of not being paid for goods or services
 - the risk of not being paid a debt

- party subjective (a matter of trust)
- partly objective (seen on a financial statement)

Counterparty Credit Risk

- Credit is good

“the flow of credit is the lifeblood of our economy. The ability to get a loan is how you finance the purchase of everything from a home to a car to a college education; how stores stock their shelves, farms buy equipment, and businesses make payroll” [President Obama, 25 FEB 09]

- Credit is evil

In simple terms, a crisis caused by banks being too nervous to lend money to us or each other. Where they will lend, they charge higher rates of interest to cover their risk. In the real world, that means more expensive mortgages, dearer credit cards, pain for pension savers and other investors as stock markets fluctuate wildly, and in the worst cases repossession and bankruptcy. [Times, 14 AUG 08]

Counterparty Credit Risk

- Basic techniques to reduce risk:
 1. does the legal system give you a lien or other creditor's rights?
 2. can you take security from your counterparty (mortgage, charge, assignment)?
 3. can you involve an independent party (letters of credit, guarantees, performance bonds, escrow arrangements)?