PF Olsen Payment Protection

PF Olsen Payment Protection is an enhanced service offering providing surety of payment for logs sold on your behalf by PF Olsen. It is backed by either:

1) A trade credit insurance policy managed by National Credit Insurance (Brokers) NZ Ltd and underwritten by Atradius NV (see FAQ for details). This policy will cover the majority of the log purchasers; or

2) Security cover arranged directly with a log purchaser. This applies to the infrequent instances where direct security is considered to be more effective than trade credit insurance. PF Olsen will arrange this cover on a case by case basis.

In both cases bad debts are covered to at least 95% of their value. The trade credit insurance carries a $5,000 excess per claim which may be shared if there are multiple claimants.

Whilst PF Olsen has rigorous processes to check the credit risk of log purchasers and monitor credit exposure, there is always risk of default that our clients face. Whilst defaults on payment for logs are relatively rare there have been some big ones in the last few years. Examples are Ahead Lumber, Bay Lumber, Clyde Lumber, Rennals, Southern Cross, Tachikawa, Thames Timber, and a handful of log exporters. When defaults occur they can be devastating for forest owners. Over the past few years the log market has become more volatile. This volatility is expected to continue and will put pressure on log purchasers' financial viability and increase default rates. Industry observers are predicting at the loss of 16 mills across NZ over the next six years.

With the trade credit insurance coverage we see potential to increase stumpage returns by having a wider range of log purchasers to whom we can supply, based on the Atradius' more robust and professional assessment of credit risk. Some of these purchasers will be located closer to client's forests and offer higher on-truck prices. Part of Atradius' due diligence often involves asking to see a log purchaser's financial accounts (on a confidential basis). This, along with Atraduis' financial skills and experience, provides more depth to risk assessment than is available to PF Olsen. In addition because of Atradius' wide spread of risk across multiple countries/economies/sectors, it has proven to be accommodating in providing cover for almost all log purchasers requested. For some purchasers this will allow greater ease of supply which we intend to translate into higher log prices to offset the premium costs for forest owners.

The cost for the first year of the coverage (2016) is 0.16% of log sales. This equates to $0.16 for every $100 of sales. This is a very competitive premium. As with other PF Olsen fees and operational costs, this cost will be deducted automatically from sales on a monthly basis, but will be itemised separately on your invoice.

The policy is an annual one, so to enable PF Olsen to continue to offer payment protection, we will work with National Credit Insurance (Brokers) NZ Ltd on an ongoing basis to ensure the fullest possible insurance (in terms of both limits of cover and number of purchasers covered) at the best premium. In the event of a claim, we will require you to co-operate with us as fully as possible, including (where relevant) taking all reasonable actions to minimise loss on our behalf.

PF Olsen Payment Protection: Frequently Asked Questions......

To help people understand PF Olsen Payment Protection, here are some frequently asked questions.

1	*What is PF Olsen Payment Protection?* PF Olsen Payment Protection is an enhanced service offering to provide security cover for logs sold from harvesting projects managed by PF Olsen.
2	*Why is the protection needed?* Whilst defaults on payment for logs are relatively rare, when they do occur they are often financially devastating for forest owners. Market volatility is increasing and this could lead to increased payment default. PF Olsen Payment Protection provides surety of payment for forest owners for the logs sold from their forests. Other benefits include: -improved risk assessment by experienced professionals with better access to log purchaser's company information[1] -potential to expand sales to log purchasers paying higher log prices to improve stumpage returns -removes need for costly instruments such as purchaser's bank bonds (which can reduce log price).
3	*What am I covered for and when will I be paid?* Bad debts are covered to 95% of their value. There is a $5,000 excess per claim[2]. Payment from the insurers is within 30 days for insolvency but claims for protracted default are delayed a minimum of 180 days (coverage includes associated legal costs if any). In cases where PF Olsen has established alternative security cover with log purchasers, PF Olsen will guarantee the same protection.
4	*What will it cost?* PF Olsen sought quotes from a number of insurers in New Zealand and used its scale of business to get a very competitive rate. The initial cost will be 0.16% of log sales[3]. This equates to 16 cents for every $100 of sales. This cost is paid by the forest owner along with the costs associated with the harvesting operation.
5	*Do I have to join?* Yes. The value of this programme can only be fully realised with 100% participation.
6	*How secure is the insurance?* The insurance is managed by National Credit Insurance (Brokers) NZ Ltd and backed by Atradius NV (formerly known as Gerling NCM). Atradius NV is the second largest trade credit insurance group in the world (31% global market share). It has more than 160 offices in 40 countries with access to credit information on 52 million businesses worldwide. Atradius NV is rated A3 by Moody's and A (Excellent) by AM Best. For more information please see their website at www.atradius.com
7	*Some other manager's guarantee payment. What's the difference with PF Olsen Payment Protection?* A big feature of this service is that payment default is backed by a financially strong and diversified financial institution with a favourable international credit rating. How many managers have the financial capacity to make good on a large default which could be across many different forest owners? Self-insured managers will also be <u>motivated to be more conservative to limit their risk</u> – the consequence can be sub-optimal stumpage returns for the forest owner.

[1] This is expected to avoid false-negatives whereby a purchaser who may pay a higher log price is not supplied because of an (incorrect) assumption he is not credit worthy.
[2] If there are multiple claimants in one claim the excess will be shared across them.
[3] This may change annually based on the terms of renewal with the insurer.