

reprinted from issue 2: 2010

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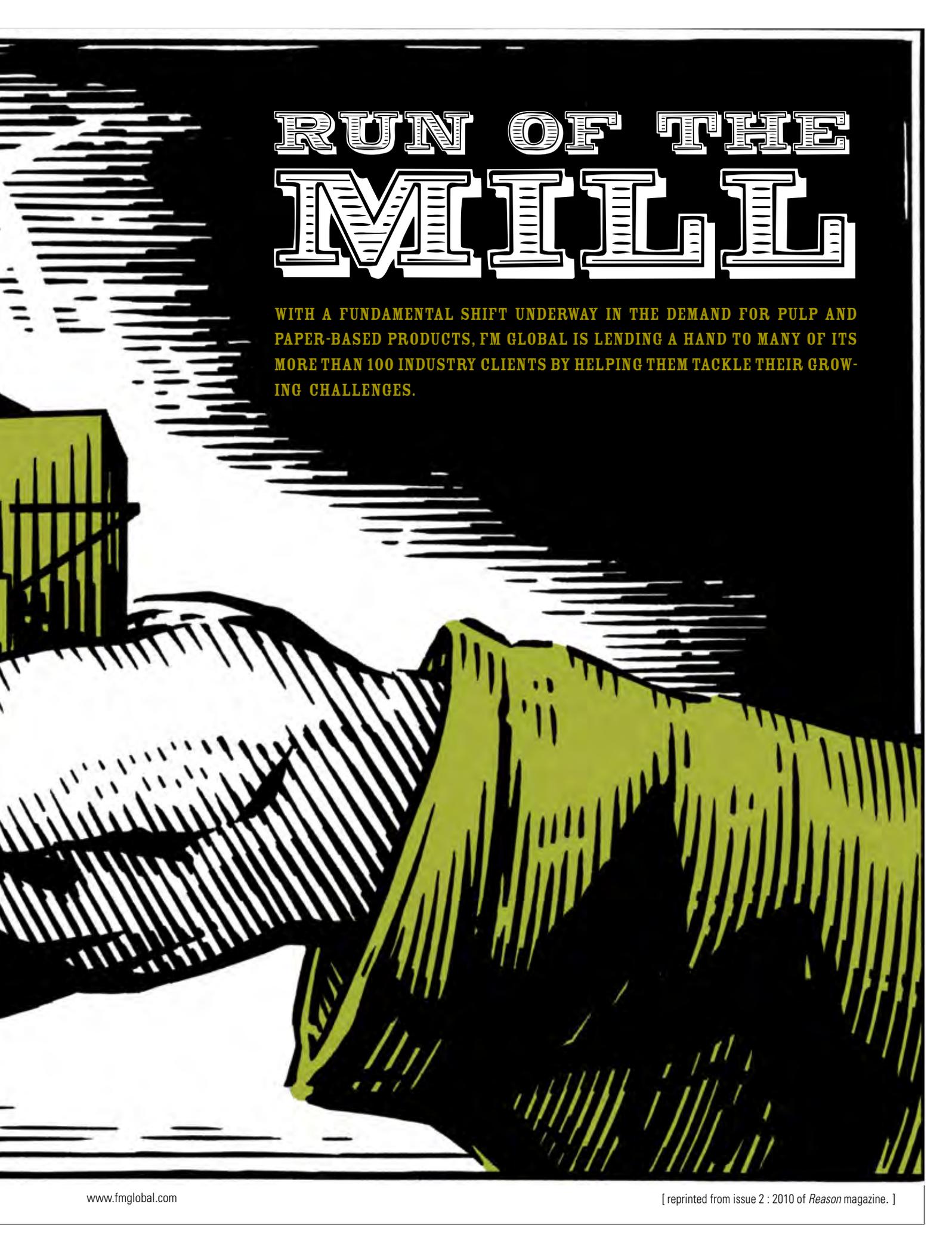
REASON

property risk and insurance solutions for a complex world

RUN OF THE MILL







RUN OF THE MILL

WITH A FUNDAMENTAL SHIFT UNDERWAY IN THE DEMAND FOR PULP AND PAPER-BASED PRODUCTS, FM GLOBAL IS LENDING A HAND TO MANY OF ITS MORE THAN 100 INDUSTRY CLIENTS BY HELPING THEM TACKLE THEIR GROWING CHALLENGES.



standing 12 stories high and with a price tag of more than US\$100 million, the black liquor recovery boiler is one of the most critical process systems in most wood pulp and paper mills. Black liquor is the slurry of lignin and chemicals leftover when wood chips are dissolved in a digester during the kraft pulping process.

Black liquor is a potent bio fuel that can be burned in recovery boilers to generate superheated steam for use in the mill and to turn steam turbines to generate electricity. In some cases, the recovery boiler can generate a surplus of power, which can be sold to local utilities.

While the modern black liquor recovery boiler (BLRB) is a relatively safe and environmentally secure system, the same could not be said for early systems. Invented in the 1930s, early recovery boilers were difficult to maintain and often unsafe. By the 1960s, it was not unusual to have six or seven recovery boilers explode each year; causing months of downtime and millions in losses. The majority of these explosions could be attributed to leaks that allowed water to enter the 1,700° F (927° C) smelt bed, resulting in a violent steam water explosion.

FM Global joined an early effort to improve this situation. In 1961, the Black Liquor Recovery Boiler Advisory Committee (BLRBAC) was formed by representatives of boiler manufacturers, pulp and paper producers, and insurance compa-

nies. BLRBAC's stated mission was to work to promote the safety of recovery boilers through the exchange of technical knowledge, experience and the review of incidents.

BLRBAC's success is best reflected in the reduction in recovery boiler explosions. Recovery boiler explosions are now a rare event, with the five-year rolling average at 0.2 per year. FM Global's founding efforts and leadership role in BLRBAC is just one example of the firm's commitment to the forest products industry.

DISAPPOINTING NEWS IN TODAY'S PAPER

While the success of BLRBAC initiatives and other industry efforts have helped pulp and paper producers better manage critical equipment and processes, the forest products industry continues to face a host of threats, including:

Prolonged economic downturn. The forest products industry, including lumber, paper, pulp and paper converters (e.g., cardboard box makers), has been especially hard hit by the deepest recession in modern history.

Fundamental shifts in market demands. Newsprint is a prime example. The rise of the Internet as a news portal and the withdrawal of advertisers have severely and permanently led to newspapers and magazines closing at an unprecedented rate. The demand for newsprint in North America has plunged nearly 48 percent over the last 10 years.

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CLIENT ACCOUNT 1

PAYBACK

AHLSTROM WITNESSES DRAMATIC RISK IMPROVEMENT REWARDED IN MANY WAYS

Headquartered in Helsinki, Finland, Ahlstrom Corporation is a global leader in the development, manufacture and marketing of high-performance nonwovens and specialty papers. The firm's products are used in a variety of applications, including filters, wipes, flooring, labels and tapes.

Ahlstrom operates under two primary business segments: Fiber Composites and Specialty Papers. The firm's 5,800 employees serve customers via sales offices and production sites in 26 countries. Ahlstrom is among the top three companies on the market in most of its product lines, making the company an important partner for its customers.

Many of Ahlstrom's products use wood pulp and other natural fibers as raw material. Given this, the firm seemed to be a good fit for FM Global's forest products operations group when Ahlstrom approached FM Global in 2001. However, the firm's loss history and lack of risk management discipline was at that time a cause for concern.

"When my position of corporate asset manager was created in 2001, it was really the first time we had someone devoted to risk management," explains Francis Judong, currently plant manager of Ahlstrom's La Gère plant. "In going out to the insurance market at that time, we found that most insurers were scared by our loss history and risk profile. However, when we met with FM Global representatives, they gave us the chance to explain that we now had a risk management function and a new commitment to risk improvement."

The two firms held in-depth discussions and reached an agreement in 2002 for locations in the United States and in 2003 for all other global locations. The issuance of a group master policy was contingent on Ahlstrom's commitment to raise the level of highly protected risk (HPR) properties from 26 percent in 2002 to 70 percent HPR (of insured value) by the end of 2006.

With the help of forest products operations, and the commitment of top Ahlstrom executives and plant managers, the firm reached its HPR objective as promised and on schedule. "We invested a total of six million Euros between 2001 and 2006, primarily to install sprinklers and other protection systems as well," explains Judong. "Just as importantly, we made major strides in human factors such

as promoting a safe working environment, non-smoking policies, emergency response teams, subcontractor controls, hot work permits, increased inspections and improved housekeeping."

Was the investment in achieving HPR status worth the cost and effort? "Absolutely," Judong emphasizes. "In the past, we simply paid for insurance coverage and received very little extra value. With FM Global, we have a true partner that is fair but firm. The multi-year process of improving our risk profile has helped unify our company behind a common goal. We have significantly improved our claims history, that is for certain, and I would say the measures and systems we have put in place protected us from risks of disaster at multiple locations."

"FM GLOBAL GAVE US THE CHANCE TO EXPLAIN THAT WE NOW HAD A RISK MANAGEMENT FUNCTION AND A NEW COMMITMENT TO RISK IMPROVEMENT."



CLIENT ACCOUNT 2

PARTNER UP

KRUGER, THE MONTREAL-BASED FIRM, FINDS A FAITHFUL ALLY

Founded in 1904, Kruger Inc. is a major producer of publication papers, tissue, lumber, corrugated cartons from recycled fibers, green and renewable energy, and wines and spirits. For the past several years, the Montreal-based firm has felt the pain of market contraction, falling prices and unfavorable currency values.

While Kruger has been forced to close several mills and shut down selected production machinery at many others, the private firm's diverse product line-up is helping to soften the impact. For instance, in October 2008, the Kruger Energy business unit commissioned its first major wind farm, the 101 MW 44-turbine Kruger Energy Chatham Wind Project. A second phase of the project will be built this year, adding an additional 44 turbines in support of Ontario's efforts to develop renewable energy sources.

An FM Global insured since 1971, Kruger values the broad range of knowledge and experience that FM Global engineers and account managers can bring to bear on the firm's far-ranging business interests. "Of course, we love that FM Global has a dedicated forest products operation and such deep knowledge of our industry," explains Lloyd Johns, Kruger's director of taxation and insurance. "We also benefit because FM Global's diverse organization also has experts and data that can help us no matter what business we care to enter. From papermaking to energy production, all of our interests involve large, sophisticated equipment. We need a company like FM Global to help us reduce our risk and maintain continuous operations."

Risk reduction becomes even more critical in difficult

economic times, notes Johns, a 27-year Kruger veteran. "Today, if we suffer the loss of a major machine or even an entire plant, there's a very good chance that piece of equipment or facility may never go back into production," he explains. "At the same time, it becomes very challenging to get the capital you need for some risk improvement projects. As such, with FM Global's support we have placed even greater emphasis on our human element programs. Human element improvement is a very cost-effective approach that

not only reduces the risk of property loss and interruption, but also enhances worker safety as well."

Johns also appreciates the effort FM Global takes to help prioritize risk improvement recom-

mendations. "Particularly in tough times like these, we need recommendations that have been prioritized to support our goals as well as those of FM Global," he observes. "We both benefit when we cooperate and share information freely. The tools that FM Global can provide to help us support proposed improvement are fantastic. If a mill manager, for instance, is skeptical of a recommendation, our FM Global engineer can show them data from years of experience and research to back it up."

In 2009, the penstock powering a legacy hydroelectric generator ruptured into the basement of one of Kruger's tissue plants. Critical electrical distribution equipment and other gear were ruined causing significant downtime. "This wasn't equipment we could simply buy off-the-shelf," Johns notes. "It took us a little longer than expected to fully recover. With another insurer, we would have had to deal with outside adjusters and haggle with them at every stage."

"WITH FM GLOBAL, THEY WANT TO MAKE YOU WHOLE AGAIN AS QUICKLY AS POSSIBLE. THEIR CLAIMS ADJUSTMENT IS FAST, FAIR AND VERY PROFESSIONAL. THAT'S ANOTHER REASON WE HAVE STAYED WITH THEM FOR SO LONG."

KRAFT RECOVERY BOILER EXPLOSIONS NORTH AMERICA PULP AND PAPER INDUSTRY

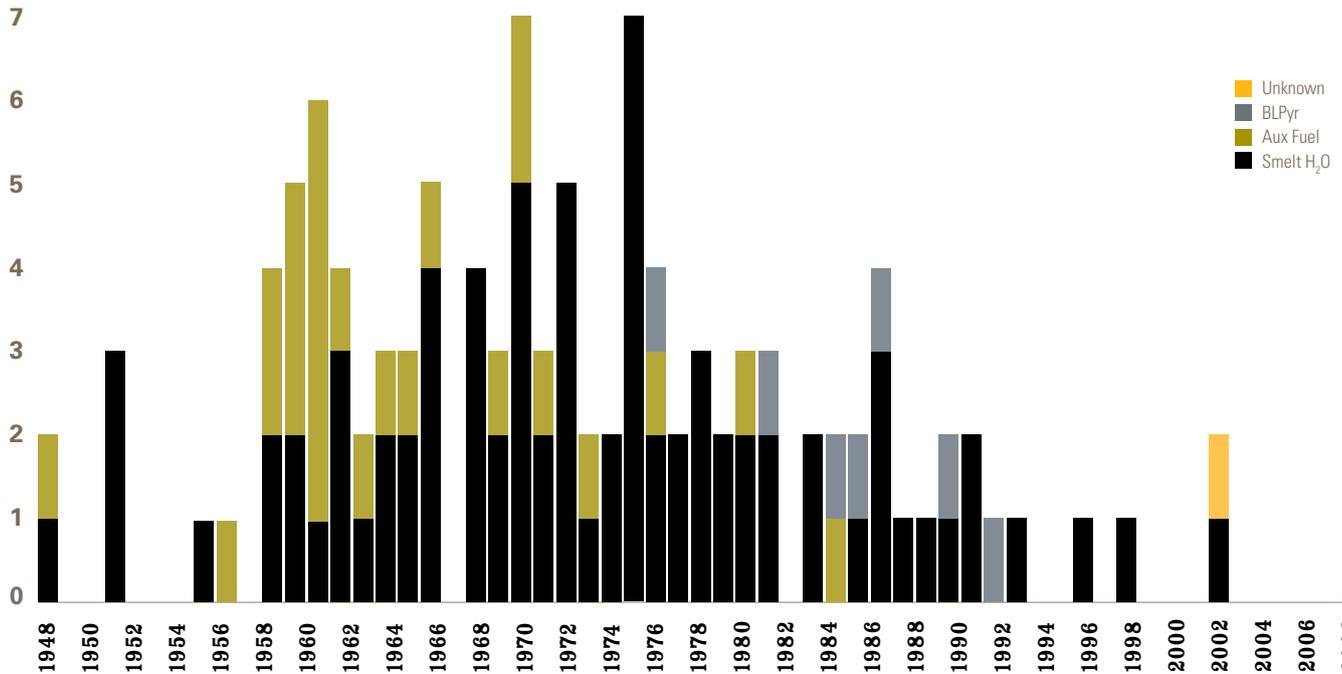


Figure 1 The rise in use of black liquor recovery boilers, a critical part of the kraft pulp-making process, resulted in numerous explosions until insurers, paper companies, boiler manufacturers and others joined forces to make improvements in the construction, use and maintenance of these complicated systems. (Chart courtesy of Black Liquor Recovery Boiler Advisory Committee)

Over-capacity. In the 1990s and 2000s, the rise of lower cost pulp and paper producers in South America, Southeast Asia and China depressed demand in North America and Europe. While capacity has been cut in North America at a rate of slightly more than 1 percent per year over the past decade, over-capacity still remains.

High energy prices. While it's estimated that the pulp and paper industry produces up to two-thirds of its own power, the industry remains a major energy consumer. In 2006, the paper industry is estimated to have consumed 11 percent of the total power used by U.S. manufacturers. Consequently, the rise in oil prices of recent years has significantly affected this industry.

Housing and construction slump. This has been a disaster for lumber producers, and a

side effect has been a drop in availability and an increased price for wood chips used by the pulp and paper industry.

Plant closings and layoffs. In 2007, 17 U.S. pulp and paper mills closed permanently. In 2008, 18 mills closed. Even more were expected to close in 2009.

Tighter credit. The near collapse of the United States banking system and its impact on global markets led banks and other lenders to place tighter controls on lending, making it difficult for forest products firms to borrow for capital improvements.

End of Alternative Fuel Mixture Tax Credit. This U.S. tax credit, intended to stimulate the development and use of alternative fuels in cars and trucks, resulted in billions of dollars in tax credits going to pulp and paper mills in 2009. This controversial

tax credit expired at the end of 2009.

The Conference Board of Canada has reported that the country's paper products industry lost \$1.2 billion in 2009—the worst on record—on the heels of losses in the preceding six years as well. In Canada, FM Global maintains forest products operations offices in Montreal, Toronto and Vancouver.

“Many solid wood producers are in survival mode,” says David Thompson, manager, Toronto operations. “The slumping U.S. housing market has hit them hard. In pulp and paper, the newsprint producers are hurting the most. Many of our clients are concerned with preserving cash and maintaining equipment so that they are ready when the economy improves.”

According to Benoit Charbonneau, vice president, Montreal operations, “Our

in-depth knowledge of the forest products industry enables us to recommend measures that not only maintain or improve risk performance, but are also cost-effective. We help clients prioritize their risk improvement investments to maximize their impact by focusing our efforts on locations that are strategically viable. For instance, if a mill or plant is scheduled for closure, you probably don't want to make a major investment there. Increased emphasis on human element programs is an excellent way to avoid losses with minimal cost."

A FUNNY THING HAPPENED... AT THE FORUM

In 1999, FM Global took a significant new step to help its forest products clients. The company held its first Forest Products Risk Management Forum. This first meeting helped set precedent for how FM Global would approach the forest products industry as a partner.

In fact, this first forest products forum led directly to the formation of a dedicated forest products operation within FM Global. "Our forest products clients who attended that first forum told us in a unanimous voice that they wanted a dedicated operations center within FM Global," recalls Kevin Bradshaw, FM Global manager of the forest products operations group based in Dallas, Texas, USA. "It made perfect sense. The forest products occupancy, then and now, is one of the largest for the company, responsible for approximately 9 percent of total FM Global premium."

FM Global's dedicated forest products operations was launched in 1999 shortly after that first forum and today includes specialized engineering support, account managers, underwriting and claims-handling services, all dedicated to assisting forest products clients.

IT'S NICE TO SHARE

The FM Global Forest Products Risk Management Forum is now an annual event, held

in Scottsdale for North and South American clients and in Europe for global clients from Europe and Asia. According to Terry Bugg, a forest products senior account manager and organizer of the 2009 North America forum, "There's no doubt that the last two years, in particular, have been very difficult for our clients. We have to be sensitive to the challenges they face and try to be creative in finding cost-effective solutions that enable them to continue to make risk improvements." This was the core theme for the 2009 Risk Management Forum.

In Europe, FM Global forums are organized by the forest products branch office in Stockholm, Sweden. Stockholm Branch Manager Dave Johnson notes that every forum also features the presentation of one or more major losses that have struck FM Global clients during the past year or two. "That part of the forum is very informative. Everybody gets a lot out of it."

Johnson observes that European forest products clients have been extremely receptive to the FM Global engineering-based approach. "They are used to traditional, actuarial based insurers. Our clients recognize that it's an advantage to deal with a global leader. They are surprised that we almost never talk about premium or renewals. We want to talk about risk improvement and what they are planning to do to lower their risk...and ours."

OUT ON A LIMB

Focused, industry-specific services are exactly why clients appreciate FM Global's high-challenge industry groups, such as forest products, chemicals, power generation and semiconductors. With more than 100 forest products clients, FM Global estimates that it has more than a 70-percent share of the North America market and a growing share globally.

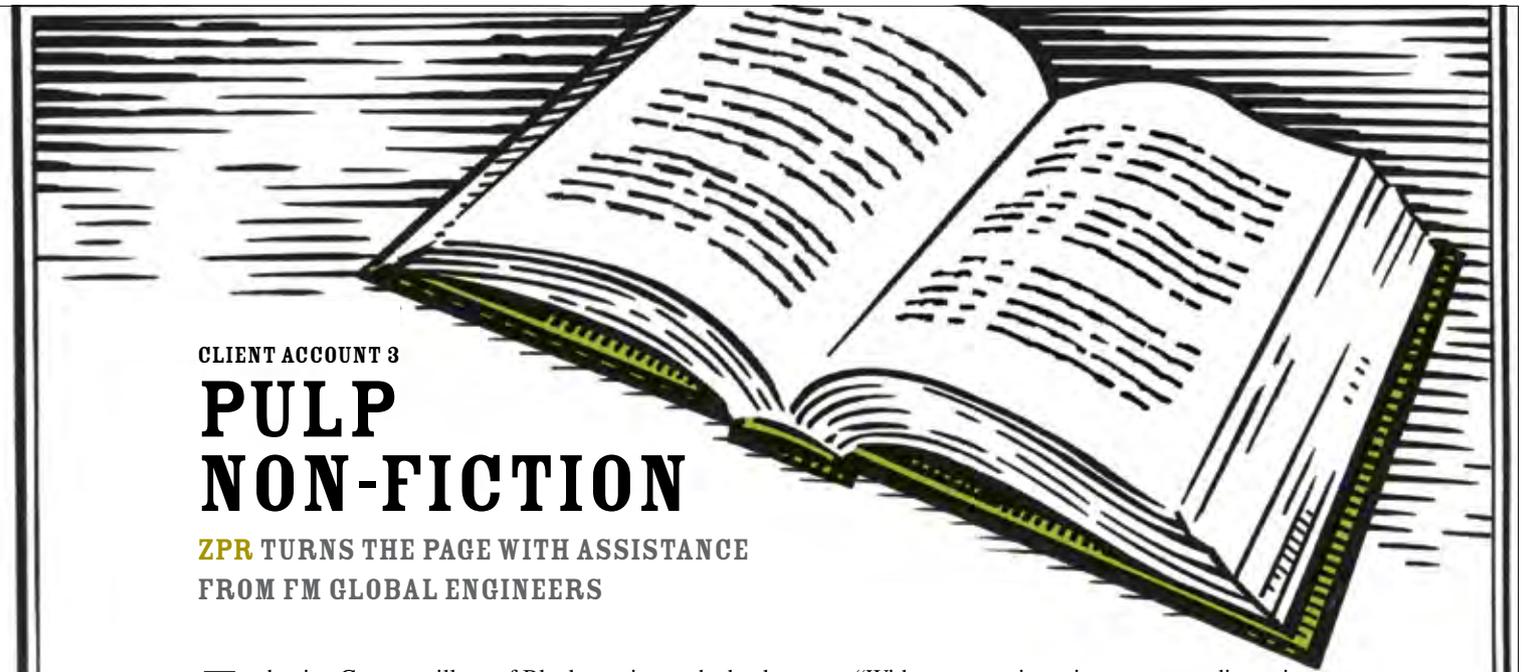
FM Global Client Service Manager Paul Pendolino notes that the forest products operation lives and dies with its clients. "We can't be successful unless they are,"

he explains. "We've all heard stories about companies going through tough times and they are abandoned by their carriers. We would never do that. If you look at every period when major disasters took place, be it September 11, hurricanes, floods—what have you—we have never bailed out of the market. We learn and improve and help our customers do the same."

One area where FM Global is helping clients improve operations and save money at the same time is in the maintenance of critical production equipment. In the forest products industry, an increasing number of clients are requesting FM Global's assistance in implementing condition-based maintenance programs for systems such as recovery boilers, steam turbines and paper machines.

According to Jimmy Onstead, chief engineering technical specialist for the forest products group, FM Global has a mutual interest in preventing unnecessary downtime. "Like most companies, we tend to be prescriptive with our recommended maintenance," Onstead says. "For some equipment we will consider a different approach. Our forest products clients are hurting financially and we try to be as flexible as possible in finding ways to help them. Conditioned-based maintenance can extend run times, but requires a commitment from the client and an investment in increased analysis and trending."

As the forest products industry continues to adjust to the new global economic reality, FM Global's forest products operations will support its clients around the world. "We continue to acquire new clients in South America and throughout the world," notes Bradshaw. "Our market share in Europe is about 20 percent and growing. We work very closely with our clients. We have a real stake in their success or failure and our clients value the knowledge and services we provide." [R]



CLIENT ACCOUNT 3

PULP NON-FICTION

ZPR TURNS THE PAGE WITH ASSISTANCE
FROM FM GLOBAL ENGINEERS

In the tiny German village of Blankenstein, on the bank of the Saale River, stands one of the world's most modern and productive pulp mills: Zellstoff-und Papierfabrik Rosenthal GmbH (ZPR). The Rosenthal kraft ("strong" in German) pulp mill and its sister mill, Stendal, are the only two wood pulp mills in Germany. Both mills are subsidiaries of Mercer International, headquartered in Vancouver, Canada, which also owns the Celgar pulp mill in British Columbia.

Mercer acquired the Rosenthal mill in 1994 and invested nearly US\$400 million in 1999 to convert the mill from the less efficient sulfite pulping process to the more environmentally friendly sulfate or kraft pulping. The kraft pulping process enables the conversion of wood into wood pulp consisting of almost pure cellulose fibers. The process also produces energy through the use of a recovery boiler that burns a byproduct of the pulping process known as black liquor.

Together, the three Mercer pulp mills can produce nearly 1.5 million air-dried metric tons (ADMT) of northern bleached softwood kraft (NBSK), the paper industry's benchmark grade of pulp. Baled NBSK market pulp from Mercer's three pulp mills is sold to customers throughout Europe, Asia and North America. Surplus power generated by ZPR's recovery boiler and steam turbine is fed into the utility grid resulting in additional income.

In early 2004, ZPR's insurance coverage was up for renewal and Mercer was on the verge of completing its new Stendal pulp mill, located about 300 kilometers north of the Rosenthal mill. "We needed to restructure our business interruption and property coverage," recalls ZPR Managing Director Leonhard Nossol. "FM Global was expanding geographically at the time and we decided to investigate them.

"With our previous insurers our discussions were almost solely about premiums and renewals. When we meet with our FM Global account representatives, we almost never talk of these things. We discuss recovery boilers, sprinklers, cooling towers, tubes and pipes. They speak the language of our technicians and they look at everything. The reality is, you feel as though you are actually being taken seriously. They see the potential risks and tell you what you can do to prevent them."

One of the first issues that ZPR and FM Global's forest products operations group tackled in 2004 was the status

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of the plant's recovery boiler and associated steam-powered turbine generator. The 57 MW capacity turbine was first installed when the plant was reconstructed in 1999 and was due for a major

overhaul every five years. "Thanks to our excellent track record overall and with the help of our FM Global engineers, we were allowed to delay the overhaul of our turbine from year to year based on an enhanced monitoring program," Nossol explains. "Thanks to their guidance and our diligent maintenance, we have been able to extend the runtime. We plan to do the first overhaul this year, which means we will have saved an entire overhaul cycle. In other words, this program has saved us approximately six million Euros."

Nossol points out that the Mercer coverage is three separate policies, not a group policy. "I have dotted line responsibility as a group controller in Europe and I recommended our other mills get a quote from FM Global's forest products group. We were already nearly loss free in the past, so we felt that the FM Global model was a very good match for us. We have adopted and adapted to the FM Global philosophy almost completely."



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