



# cm pc Pulp 20 news

August 2012



CMPC Foundation

## Impact on Education

Managing Director of Gusco Handel  
Interview with Hendrik Schürfeld

CMPC PULP  
Facts & Figures 1Q2012

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# welcome

Dear Friends,

The world is not out of the woods yet – we are all still feeling the aftershocks of the financial crisis that began in 2008 and as a result our industry has encountered strong headwinds. Many customers across the world are seeing a reduced demand for their products and have been facing hard times, but this has spurred them to work hard at cutting costs and increasing productivity, and we are confident that they will come out of this crisis stronger than before.

Rather than emphasize global themes, this month's newsletter focuses in on more local issues. We have news of our mills, technical details on the change in our testing methods and other interesting news.

We also have an article on Hendrik Schurfeld, who is in the process of taking over the responsibility for our sales in northern Europe from Walter Schloegl, who has become something of a legend in pulp sales for us. We welcome Hendrik and we are sure he will be as successful as Walter in the years to come.

Finally we have some information on Santiago, city that has undergone a remarkable transformation in recent years and to become a very attractive city for visitors. We hope to see you all here in Santiago in order to show you some Chilean hospitality and friendship.

Warm regards,

A handwritten signature in dark ink, appearing to read 'Guillermo Mullins', written over a horizontal line.

Guillermo Mullins  
Commercial Director of CMPC Pulp

# Sack Kraft produced by Laja Pulp Mill

*CMPC allocated USD 16.7 million for the incorporation of machinery and equipment for Sack Kraft paper production within the modernization of the Laja Pulp Mill.*



*CMPC Pulp began production  
of Sack Kraft paper in June,  
upon modifying machinery  
which up to then only  
manufactured Printing and  
Writing paper.*

With a production capacity of 40 tonnes per year, this new production line will enable the CMPC Group to duplicate its Sack Kraft production; paper originating from virgin Radiata Pine fibre which is used in the production of high resistance heavy duty bags, resulting in an excellent performance in the filling lines and end use of these products.

The Sack Kraft paper manufactured by Laja Pulp Mill will be destined mainly for supply of the on-growing Forsac demands. Forsac is a subsidiary of the CMPC Group Paper Product Division which has conversion facilities in Chile, Argentina, Peru and Mexico.

# “CMPC’s position has expanded dramatically”

Hendrik Schürfeld recently took over as managing director of the wood pulp division of Gusco Handel in replacement of Walter Schlögl, who was with the company for 30 years, same amount of years this company has represented CMPC in Europe.

“For GUSCO, as a family owned company, continuity has always been of great importance – quality wise and personnel wise, says Hendrik Schürfeld. Therefore it is common practice in our company that the key divisions - Walter Schlögl for pulp, Antti Liimainen for carton board and me originally for containerboard - have always been represented in the market by a managing director each.

*I have confidence in the Euro and the EU, says new managing director – wood pulp for Gusco Handel.*

## **How have you prepared the transition for the change of management?**

The transition period started three years ago when my colleague Antti and I were appointed managing directors next to Walter. During this transition period Antti and I have taken full responsibility for the administrative departments, taking over from Walter.

Since both Antti and I are in our early forties this actually has not only been a change of management but also a change of generations”.

By the end of 2011 we decided that I should follow Walter in sales and marketing for pulp and agreed on a transition period of about one year with the first six months of travelling together visiting CMPC’s customers in Europe. After each visit, on a step-by-step basis, the operative business as well as the corresponding customer has officially been handed over from Walter to me. In April I spent three weeks in Chile visiting CMPC’s pulp productions sites such as: Santa Fe, Pacifico, Laja as well as nurseries, the plywood mill, the saw mill and the port facilities. During my visit I enjoyed the excellent opportunity to meet most of the personnel responsible for the main CMPC facility. This also reflects the way we work and the way we think: Close relationships between the people involved.

## **Which are your management main objectives or goals?**

Specifically considering the upcoming new Guaiba line with some 1.3 million tons of Eucalyptus pulp starting up late 2014, we have started to enforce our sales team within this context. Success is achieved within our business by acting personalities and partners – the people who work for the suppliers, the customers and their own personnel. For me the challenge is, first of all, to manage the transition period. The main challenge however will be to support marketing and sales of the new pulp line Guaiba in close cooperation with CMPC.

## **EUROPE**

### **What is your opinion on the undergoing crisis in Europe?**

I reckon that maybe the “Eurozone” has grown too fast in the beginning, with a European financial institution that has had too little power. Also the rules for joining had not been strict enough or had not been applied strictly enough. This must be changed in the future. Additionally the influence of different cultures might not have been considered in depth. If we look into the recent history, in Germany two cultures with two political and economical systems had to be merged. Although huge progress has been made, it is not completed yet and the reuniting took place more than 20 years ago!

### **How can this affect the CMPC business in Europe?**

In short to midterm the Euro will probably be weaker than it used to be. This in turn will of course affect the business of the paper mills which purchase pulp on US-Dollar basis and hence pulp will become relatively more expensive. This might lead



to some substitution by European fibres offered in Euros. However, since we have carefully selected the customers for CMPC, taking also into account the structural change of the European paper industry, a significant number of customers are specialty paper producers and only a few selected are fine paper producers. The specialty paper producers have recipes and we assume that they will not be substituted as quickly as others.

#### How long do you expect this crisis to last?

To get the countries out of the crisis, a political course of strict savings has to be implemented (it is the correct way, however also taking into account a growth impulse) This will be tough and must be done accurately in order not to worsen the situation of some countries. Pumping new money into the system will not be the solution. Unfortunately I also do not have the "the solution" for Europe.

I have confidence in the Euro and the EU. We will most likely overcome this crisis - with Greece remaining within the monetary union or leaving - and in the long run also the cultural differences will be reduced.

#### PULP

##### Considering the high degree of competition, which are the critical factors for the success in this industry?

The critical factor for success of CMPC's pulp grades is to produce a homogeneous product to be supplied to a heterogeneous clientele of worldwide paper makers.

CMPC's opportunity to offer market pulp from two lines with a blend of Eucalyptus

Nitens and Globulus, prepares the company to respond with greater flexibility to the needs of customers in comparison to the competition. With the recent acquisition of Celulose Riograndense and the project for the second Guaíba line, CMPC will enlarge its product range and then will become even more competitive.

In addition, we are in the process of arranging quality agreements with specific customers which will assist in further tie up the prevailing close relationship with most of the buyers of CMPC pulp.

##### Considering these factors, which is CMPC's position?

In particular for Eucalyptus pulp, CMPC's position has expanded dramatically over the last years. With regard to sales of the German speaking markets about 90.000 tons in 2009, the sales volume climbed up to more than 160.000 tons in 2010. A year later more than 230.000 tons have been sold in our territory, and by June this year, we have sold abt. 135.000 tons in the first semester 2012. Following our budget plan, there are good reasons to expect our sales to break through approx. 260.000 tons by year's end, however, subject to a regular market development.

#### CHILE

##### After your recent visit to Chile, how do you see CMPC?

The first part of my trip to Chile I spent visiting the pulp plants whereas during the second part I stayed in Santiago visiting the divisions we are representing in the office. I was absolutely delighted by the warmth, the knowledge and professionalism of the people involved.

The technological equipment as well as the machinery have been state of the art and seemed well maintained. I had the impression that a great effort is put into effluent treatment and ecological sustainability. The high environmental standards have been impressive.

What absolutely affected me is the social commitment of CMPC. At all plants the neighbouring communities are involved and supported in a certain way.

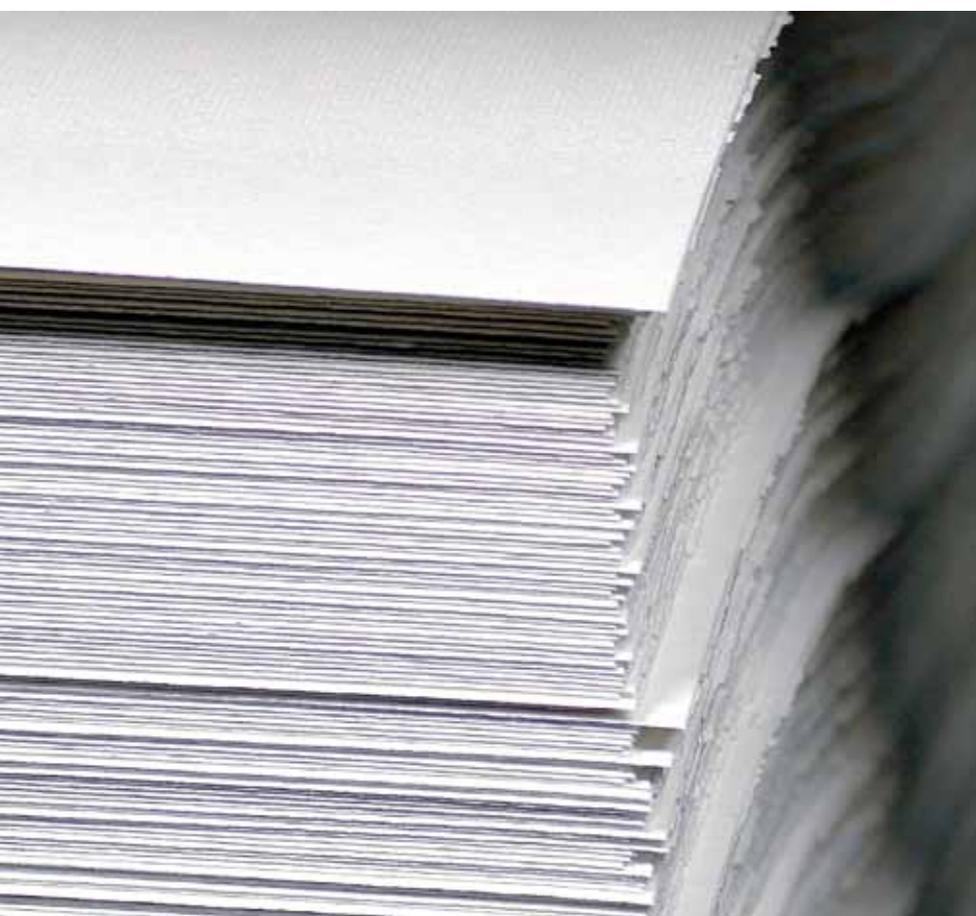
##### Which are your impressions on the country?

Actually for me it was the second time in Chile after my visit in 1995, when I spent about 3 months in Santiago. In these 17 years the country, and especially Santiago, has changed a lot. A brand new modern centre has developed with high-rise office buildings, new hotels, etc. You definitely get the impression of a fast growing country. I got the impression that, in contrast to some other South American countries, a solid middle class has started to emerge. From my point of view this is of great importance for long term economical growth and social peace.

Although during this visit I only had the chance to see a small section of Chile between Santiago and Concepcion I really enjoyed the beauty of the country and I am looking forward to coming back not only for business but also together with my wife for getting to know the other parts of Chile, which are so different regarding climate zones and landscape wise.

# Change of standard

*CMPC shifted to the ISO 5269/1 Norm in order to standardize the information it publishes in the Pulp Test Reports (PTR) for the pulps manufactured by its mills in both Chile and Brazil.*



For ease of comparison of quality of the products offered by its pulp mills in Chile versus those of Guaíba Pulp Mill in Brazil and those of the majority of the pulp market manufacturers worldwide, as from July 2012, CMPC will only be governed by ISO 5269/1 Standard “Pulp Preparation of Laboratory Sheets for Physical Testing – Part 1: Conventional Sheet – former method.

Owing to the fact that this international standard uses test sheets of a grammage of 60 g/m<sup>2</sup> versus the 75 g/m<sup>2</sup> of the standard norm used by the company up until then (ISO 5269/2), the typical figures recorded for the physical-mechanical properties of the products manufactured by CMPC’s three pulp mills in Chile used to be numerically different. This standard change does not reflect a variation in quality, just in numbers themselves.

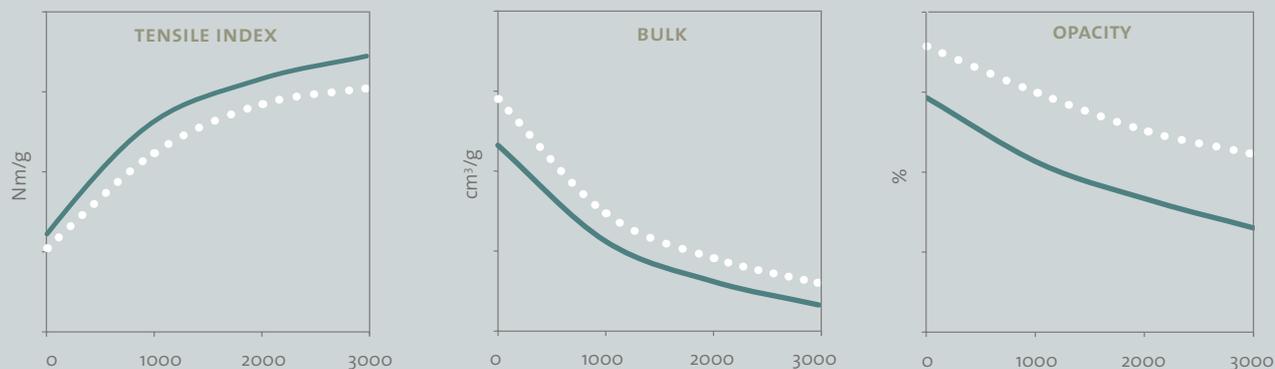
The major numerical variations are:

- Santa Fe BEKP: increased values for Tensile Index, Burst Index, Gurley Porosity and decrease in value for Tear Index, Bulk and Opacity
- Laja BSKP and Pacifico BSKP: increase values for Burst Index and decrease of Tensile and Tear Indexes, Apparent Bulk Density, Opacity and Porosity.

The use of less grammage sheets in accordance with the new standard does not reflect changes in the quality of the aforementioned, only changes in its numerical values



### HARDWOOD - Eucalyptus



### SOFTWOOD - Radiata Pine



# Impact desired

*CMPC Foundation, by means of a systematic support programme, is assisting circa 10.000 children from public schools to achieve higher levels of learning.*

Forty-eight public schools located in villages where CMPC is present are supported by the company through the foundation it created in the year 2000 in order to contribute to improve Education quality in Chile; one of the greatest challenges the country is confronting.

CMPC Foundation, focusing on initial levels of the learning process, offers assistance and delivers educational material to teachers at these schools, for teaching Language and Mathematics, two key subjects in order to generate greater development and employability opportunities. Furthermore, it also provides them with school management tools in order to build good educational practices. All the aforementioned in accordance with

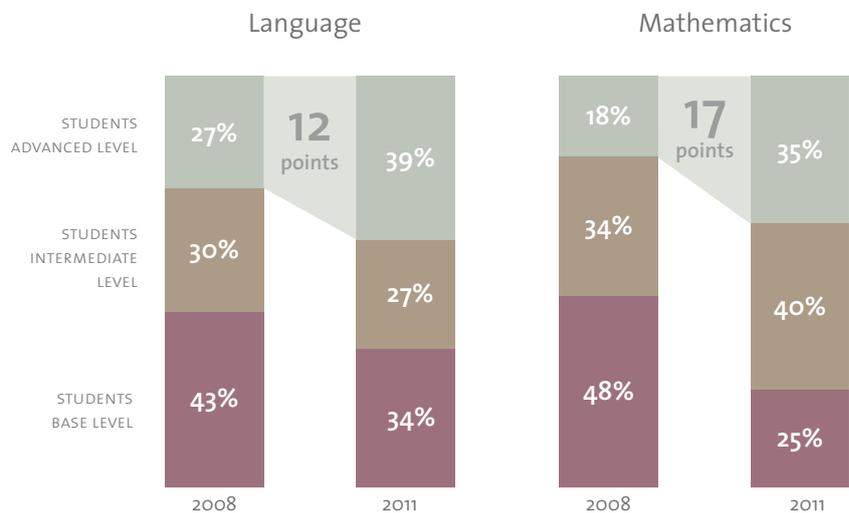
the State's policies and programmes, as it acts as part of a public-private allegiance.

Its support system, which nowadays comprises a team of 38 people dedicated full-time to this purpose, has accomplished successful results. According to the results of the tests which are applied on an annual basis to all the 4th grade Primary Education students of the country, those schools assisted by the Foundation have achieved an 89% of results higher than the national average in Language and 192% higher in Mathematics, for 2002 through 2011. If one is to compare these results with those obtained by schools of a similar socio-economic status I (low and medium-low), their results are higher by 48% and 171% accordingly.



## GREATER LEVEL OF ACHIEVEMENTS

Each time a greater proportion of children attending schools supported by CMPC Foundation achieve the learning levels expected for their age upon reaching 4th grade of Primary Education; as per figures given shown since the year 2008 of the national test rendered, which measures the quality of Education in the country. In the Language Test 2011, 39% of children attending these schools achieved the advanced level requirement, versus a former 27% achieved in the year 2008. In Mathematics, this group represents 35% of the students, which is 17 percentage points higher than that observed three years ago.



# CMPC PULP Facts & Figures @1Q2012

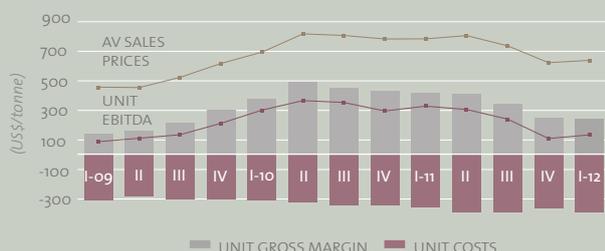
## Consolidated Operating Results (million US\$)

	Accumulated Results			4Q2011	1Q2012	Q/Q
	@1Q2011	@1Q2012	Y/Y			
SALES	482	382	-21%	356	382	7%
COST OF SALES	224	238	6%	214	238	12%
GROSS MARGIN	258	143	-44%	142	143	1%
ADMINISTRATIVE & SELLING EXPENSES	58	66	14%	82	66	-20%
<b>EBITDA</b>	<b>200</b>	<b>78</b>	<b>-61%</b>	<b>60</b>	<b>78</b>	<b>29%</b>
EBITDA/SALES	41%	20%		17%	20%	
SHAREHOLDERS EQUITY	1,870	1,658	-11%	1,672	1,658	-1%
TOTAL ASSETS	4,430	4,618	4%	4,496	4,618	3%
SALES (THOUSAND TONNES)	619	602	-3%	576	602	5%
AVERAGE SALES PRICE (US\$/TONNE)	779	634	-19%	618	634	3%
AVERAGE EXCHANGE RATE (\$/US\$)	482	489	-1%	512	489	5%
AVERAGE EXCHANGE RATE (R\$/US\$)	1.67	1.77	-6%	1.80	1.77	2%

CMPC Pulp EBITDA reached only US\$ 78 million during the first quarter 2012, a figure that is 61% lower than the same period last year. Sales fell 21% mainly due to lower prices (-19%). Costs were higher than last year due to both higher raw material and freight prices. Brazilian Real weakened 6% regarding the same period last year and Chilean peso exchange rate remained more or less the same.

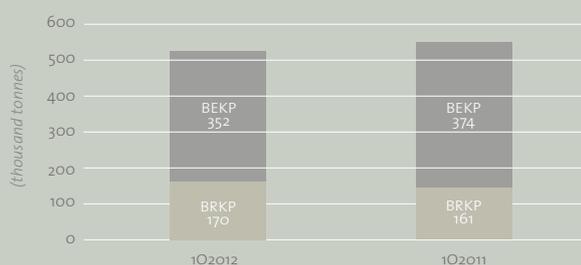
1Q2012 Results were nonetheless slightly better than the last quarter last year, in the context of an (ephemeral) market recovery, with better prices helping to finance higher costs. Both Chilean and Brazilian exchange rates strengthened regarding the 4d quarter last year.

### CMPC Pulp: Results by Quarter

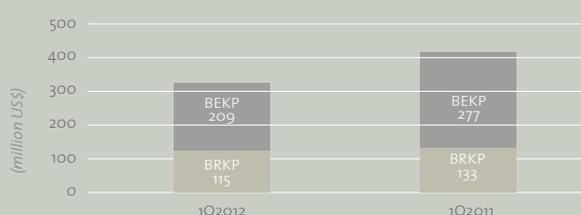


Our sales data during 1Q2012 fell slightly in tonnes (-2.4%) compared with the same period last year (BEKP -6% and BRKP +6%). Destination markets remained more or less the same than last year but average market prices fell 19% even for both fibres.

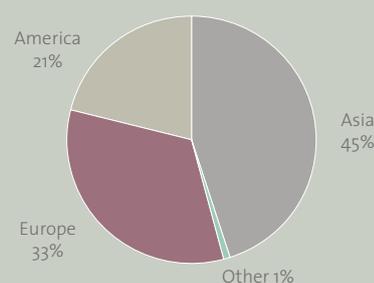
### CMPC Market Pulp Sales 1Q2012 - 1Q2011



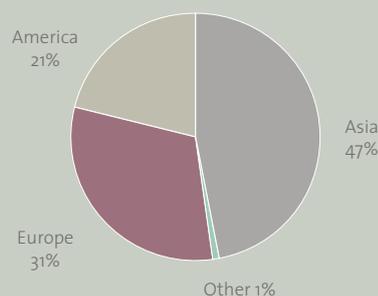
### CMPC Market Pulp Sales 1Q2012 - 1Q2011



### CMPC: Market Pulp Sales 1Q2012 (522 thousand tonnes)



### CMPC: Market Pulp Sales 1Q2011 (535 thousand tonnes)



# news

## CHANGE OF REPRESENTATIVES IN JAPAN

Hiroto Kajita, CMPC Pulp representative in Japan for the past 32 years has announced his retirement as agent as from July this year. In order to ascertain continuity, his chief executive, Toshio Nakajima has taken office at the Central National Gottesman (CNG), company which represents CMPC Pulp in Japan as from this date onwards.

CNG, company owned by the Wallach family and based in New York, is led by Jiro Mizoguchi in Japan, who reports directly to Tony Champion in Hong Kong.

CMPC Pulp expresses its gratitude for the excellent management of Hiroto Kajita, to whom CMPC owes much of its growing presence in this market.



*Hiroto Kajita*



*Jiro Mizoguchi*



## SUCCESSFUL INNOVATION BOOST

Students from the Andrés Alcazar school of Laja, with the support of CMPC Pulp, participated in the World Tournament of Lego Robotics, together with participants from another 67 countries.

In order to get this far, students had to start working in 2009, year in which they won a contest sponsored by the company in order to motivate public schools in Laja and Nacimiento area to participate in this international competition, which promotes innovation based on the use of Lego bits and pieces. They were then given a work kit and received guidance from the Laja Pulp Mill engineers. In the year 2010, the school was awarded the regional prize, and in 2011, the national prize; which gave them the opportunity to travel to the United States of America to participate in 2012 world tournament.

The group was comprised of 9 children, between the ages of 11 and 14, who participated in this competition with a robotic system to dehydrate fruits by using solar energy. Along with assessing the functionality of this invention, the jury took into account their capacity to work as a team, performance which earned their teacher Mizi Pacheco to be awarded with first prize as best coach of this tournament.

## STRATEGIC PLANNING WORKSHOP BASED ON HAX'S DELTA MODEL

From April 17<sup>th</sup> to 19<sup>th</sup>, as part of our ongoing effort to improve our customers' satisfaction, CMPC Pulp invited Arnoldo Hax, Professor Emeritus at the MIT Sloan School of Management, to conduct a strategic planning workshop called "The transformation of a company towards a customer's management focused".

The three days workshop was based on Hax's Delta Model, which offers a fresh and pragmatic approach to critical business thinking. Essentially this model suggests

companies should shift their strategies and business models from product differentiation to customer bonding, being the latter an excellent source of sustained competitive advantage.

During these three days, 40 executives from all the different areas of our organization committed themselves to start working in teams in a new agenda that had a clear focus on strengthening our customers' satisfaction and loyalty.

With a population of more than 5 million inhabitants, Santiago practically holds a third of Chile's total population. It is located in between the mountains, which gives this city a unique climate with well defined seasons and moderate temperatures; characteristic which, in conjunction with the on- growing cultural and business activities, has turned Santiago into an increasingly attractive tourist destination.

# Santiago



One of the greatest virtues of the capital city of Chile is its proximity with winter sports centres, as well as beaches and the wine valleys.



CMPC PULP

Production and distribution of pulp based on Radiata Pine and Eucalyptus. The mills are Pacifico (500,000 tons Radiata Pine), Laja (360,000 tons Radiata Pine), Santa Fe (1.5 million tons Eucalyptus), and Gualaiba (450,000 tons Eucalyptus). This pulp is exported to countries in Asia, Europe, Oceania and the Americas.

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**Pulp**  
news

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