

In Santa Fe Pulp Mill expansion project

Local work, Safety and Environment

Group Forest Certification

Interview with Eugenio Grohnert

"The expansion of Santa Fe
Pulp Mill is the biggest project
ever undertaken by CMPC"

CMPC Pulp Sales



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welcome

Dear Friends,

We have been going through exciting times in the last few months as the pulp market undergoes major structural changes: on one hand pulp mills are closing down in North America, while on the other new mills are being built in the Southern Hemisphere. Most of the new capacity currently under construction is in Eucalyptus pulp, a grade that when it was introduced some years ago was frowned upon by papermakers, but is now set to become the biggest market pulp grade by 2008. Eucalyptus is currently being used all over the world, with very encouraging demand growth in Asia as new state-of-the-art paper machines are built there in large numbers.

This is indeed very heartening for us as our Santa Fe mill expansion project is proceeding as scheduled for startup in September this year. The worksite is currently a beehive of activity, with close to 7,000 people working at the construction site – as most of the buildings are already finished you can now clearly see the grandeur of the new mill. We have included an interview with Eugenio Grohnert, Director of the Santa Fe expansion Project, so he can give us some insight as to how this project was conceived and executed.

We have also included an article on health and safety issues for the workforce of such a large project, and an account of how we have managed those risks successfully so far.

Finally the environment has been making headlines recently as people in general are more concerned about conservation issues. One of the most important issues is that of forest certification. All CMPC's forests are PEFC certified and we have no potential problems with native forests as we use only plantation wood. We have now started a Group Certification scheme in order to help small local forest owners get certification for their plantations and therefore enjoy the benefits of providing certified wood to the market.

Finally, I would like to thank our customers once again for their ongoing support. It is thanks to this support that we have been able to move forward with this project, and we are sure that we will not disappoint them when our mill is up and running.



*Warm regards,
Willie Mullins*

In Santa Fe Pulp Mill expansion project

Local Work

Safety and Environment

The project started eighteen months ago, with a current labour force of approximately seven thousand people



The issue of safety at Santa Fe Pulp Mill 2 has been set out as an essential component of the building process, and has been incorporated into all contracts entered into for the project. Requirements in this field materialise through the generation of safety programs for each contractor company, which should be measurable, auditable and clearly aimed at "Zero Accidents with No Time Lost".

Almost half a year after the beginning of the project and with a labour force of approximately seven thousand people in the month of April 2006, we have suffered a total of 70 accidents with time lost. Although the mere fact of having accidents is not a good indicator, the building of the second line at Santa Fe Pulp Mill shows low accident rates comparing these figures to those of similar projects, which motivates us to continue to improve in this field. Besides, a growing concern over safety may be observed on the part of workers. A good indicator of this is the fact that the accident rate has not increased although the number of workers grows day by day.

SAFETY REQUIREMENTS

The project's safety requirements include the condition that before entering the facilities each worker must attend and pass a training course on the existing risks and relevant precautionary measures. Workers are also informed of and get involved with the challenges that the project has imposed in respect of safety matters.

Additionally, prior to any activity, at least once a day, information must be provided on the risks of the specific duties to be developed. Finally, a motivation program on this subject has been carried out jointly with the Operations Management of CMPC Celulosa, through the delivery of safety at work brochures.

ENVIRONMENT

The approved budget for the project is of US\$745 million. Of this amount, about US\$60 million correspond to environmental investments.

The main environmental investments are associated to the production of 100% elemental chlorine-free (ECF) pulp in both production lines. This implies oxygen deslignification, a gas recovery system, and a system offering low odour emissions for both lines, a common secondary effluent treatment for both lines, the building of a new diffuser in the Bio-Bio river, as well as the construction of a new area for controlled disposal of solid wastes from the production lines.

During the project development, special care has been taken both in the quotation of prices and the purchase of leading-edge equipment and technology, to meet state-of-the art industry requirements, and which have proven successful in similar facilities throughout the world. These equipment have the corresponding warranties and include control elements for emissions and discharges into the environment to assure by all means compliance with the Chilean environmental regulation and the highest international standards in this regard.

LOCAL WORK

To pro-actively encourage the hiring of local labour force, the population is being trained in order to increase their employment possibilities. To such effect, technical programs are being



Trades	Training Organisation	No. of People Trained
FRP Pipe Joints	CIP Chile	17
HDPE Termofusion	CIP Chile	12
Concrete Placement	Ready Mix	24
Tracers and Masons	Intecap Ltda.	19
Hygienic Cooking and Food Handling Techniques	Central de Restaurantes	24
Chemical Analyst in Pulp Processes	University of Concepcion/INACAP	24
Small Business Management Techniques	University of Concepcion	50
Training in Green Areas Creation and Management	Guillermo Rodriguez	20
Effective Communication and Change Agents	Pensum	40
Risk Prevention Assistants	IPVG	10

delivered by an institute belonging to the main university of the region, which help almost 90 people to become high level technicians: instrumentation and control technicians; industrial plant operators; and electro-mechanic specialists.

Furthermore, several training courses are being given to the population by leading institutes and companies in their respective fields (see table below).

Another activity being developed is the support and incentive for the generation of micro entrepreneurs, who will be able to generate, in turn, new employment

opportunities. To illustrate the foregoing we can mention the successful creation of a micro company manufacturing industrial clothing.

As part of our commitment to the community, we have established as a project target to privilege the recruitment of local labour force, so that at least 60% of people working in the project are residents of the Bio-Bio province.

It is important to point out that most of people benefited with training have found a job, not only in the project but also outside the area.

Interview with Eugenio Grohnert

“The expansion of Santa Fe Pulp Mill is the biggest project ever undertaken by CMPC”



Eugenio Grohnert has been the Project Director of CMPC Pulp since 1998. He has a wide experience in the direction of pulp-related projects, including the Pacifico Pulp Mill, and the expansions of Laja, Pacifico and Santa Fe Pulp Mills.

Why is this project so significant to CMPC?

The expansion of Santa Fe Pulp Mill is the biggest project ever faced by CMPC independently.

In order to address its development in the best possible way, the preparation of the working group took a long time. The organization has appointed around 30 persons from both CMPC Pulp and other areas of the Company, to work in the project on full time basis. This group of persons has been organized as follows: an engineering group, a procurement group, and a building group.

The engineering was entrusted to Cade-Amec, a joint venture between Cade Idepe, the largest engineering company in Chile, and Amec, an international engineering services company.

This project was principally conceived under an EPC arrangement, the main contractors being Andritz, which is responsible for the fibre line, the recovery boiler, the causticizing plant, and the lime kiln; Metso, responsible for the wood preparation area; and HPD, in charge of the evaporators plant.

CMPC Pulp has taken direct charge of the civil works, the foundations up to ground level and the so-called “Balance of Plant”, corresponding to service areas,



such as water treatment, effluent treatment, electric power generation and distribution plants and interconnections between these areas.

How is work among the different EPC's co-ordinated?

Agreements were designed so as to avoid conflicts of space and time among EPC's, and the project group is in charge of co-ordinating them.

Andritz, Metso and HPD have joined Sigdo Koppers, DSD and Salfa, the most important building and assembly companies in the country, to establish exceptional working groups both as regards their human quality, experience, and equipment infrastructure made available to CMPC. We are sure that the final result of the effort made by all will be successful.

What is the degree of advance of the project?

As of March 31 the project has a global advance of 88%, the

building progress being approximately 65%. The engineering and purchases stages are practically completed. There are some areas already completed, such as the process control facility, the area for controlled disposal of solid industrial wastes, the railroad and road accesses, as well as the water pipe line. All these areas are already in service for the operation of line 1.

We are very close to attain some milestones for this project, such as the energisation of the switchgear in the month of April, the water run and the start-up of the secondary treatment plant.

According to the current progress degree, we may confirm that the start-up will take place as originally estimated, by the end of September this year.

How many people are currently working in the project?

In the building of line 2 we are currently going through a labour

force peak with almost 7,000 people. We are happy because in March this year we provided employment to 3,053 people from the Province of Bio-Bio, 1,218 of whom are from Nacimiento.

How has the project managed the environmental impacts inherent in construction?

In Chile there is an environmental impact evaluation system that considers a governmental organisation to co-ordinate environmental management (CONAMA), a regulatory committee, weekly visits by inspectors, and ongoing control of all our activities. Law No. 19,300 on General Bases for the Environment, which is as strict as European laws, has been in force since the year 1994, and all new projects are subject to it.

Inspectors verify compliance with the commitments and obligations undertaken through the environmental permit given to the project (Environmental



development, with active participation of mutual insurance companies related to the building and assembly companies, and continuous professional attention. In addition, we have one helicopter - with its pilot - stationed in a field in the event there are injured people to be taken to other medical care centres. All steps taken have prevented people from suffering serious accidents to date.

How has the community been involved during the project development? What has been the community's response?

Both the community and the authority have been permanently informed, through periodical meetings, of the activities carried out in the project development.

Besides, weekly visits to the Pulp Mill are organised so that different community organisations may get to know the facilities and works. To date, we have had more than 30 visits, with the participation of approximately 670 people.

Furthermore, several visits and meetings have been organized inside and outside the Pulp Mill, with authorities and other groups concerned, in order to report on the project development.

On the other hand, we have preferred to hire local labour force, to which effect the Municipality of Nacimiento has provided lists of personnel available and their respective qualifications/skills. We have financed several courses, including 3 programs to graduate as a high-level technician given by an institute belonging to the main university of the region. These programs, with duration of four semesters each, are: instrumentation and control technician; industrial plant operator; and electro mechanic. We have 90 graduated students, many of whom have already been hired in the Pulp Mill's recruitment program. This program has enabled us to meet one of our targets: favouring the hiring of employees who live in the locality.

Qualification Resolution – RCA). They also verify compliance with all applicable laws, including the sanitary code, which deals with the operation of canteens, occupational health, quality and handling of wood packings, etc.

Several months ago we organised the Start-up Group, headed by the Pulp Mill Manager, responsible for scheduling and co-ordinating in detail commissioning and start-up activities. This group must ensure that tests are performed in a given sequence, that they are carried out as established in the RCA, and that risks of events causing damage to the environment are minimised.

A group of persons from CMPC has been appointed to supervise compliance with our obligations and to prevent actions involving environmental risk. The policy of Empresas CMPC prescribes unrestricted compliance with the provisions of the RCA.

Additionally, some measures have been taken to minimise environmental impacts during the

building process. The main measures are as follows:

- Careful disposal of building wastes such as debris, used lubricants, cuttings, etc. in authorised dumping places.
- Incineration of packing material to prevent the generation of plagues.
- Mitigation of dust generation resulting from the circulation of dozens of lorries and construction machinery. To such effect, there is a contractor whose duty is to constantly moisten the roads, circulation and packing areas.
- Installation of two portable plants for domestic waste treatment.

A special effort has also been made by CMPC Pulp to promote proper use of personal protection elements and safe work planning, especially for height operations. There are 4 polyclinics at the Pulp Mill, 3 of which have been especially set up for the project

Outlook year 2005

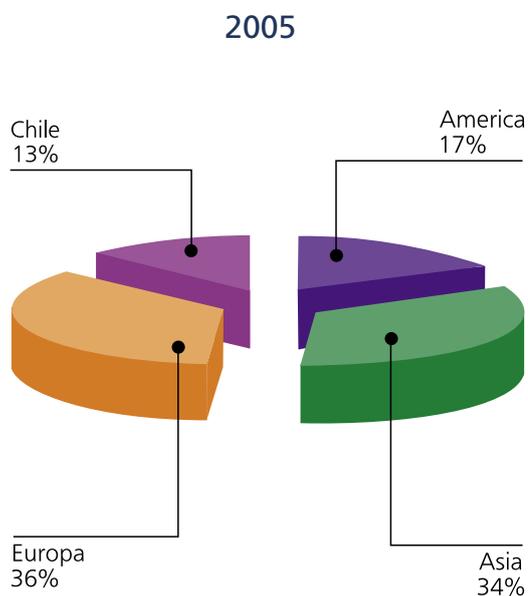
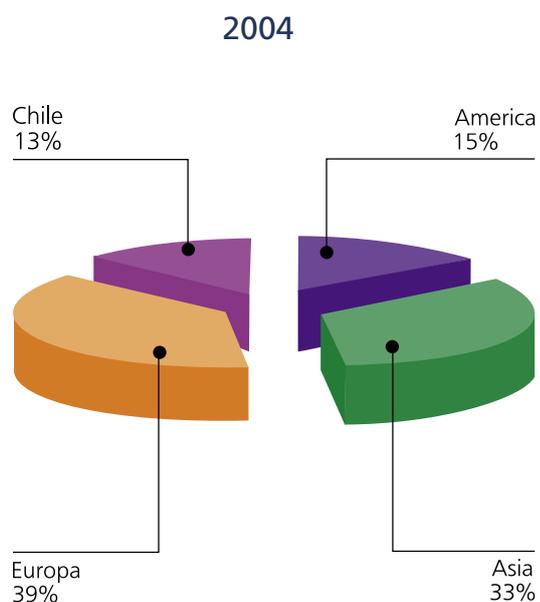
Production 2005 v/s 2004

	2005	2004
Newsprint (tons)	202,000	200,000
Board (tons)	230,000	246,000
P&W, Testliner & other (tons)	280,000	290,000
Pulp (tons)	1,232,000	1,230,000
Tissue (tons)	220,000	207,000
Sawn Timber (m3)	770,000	907,000
Converted Products (tons)	266,000	230,000
Total	3,200,000	3,310,000

Results CMPC 2005 v/s 2004 millions of US\$

	2005	2004
Turnover	2,129	1,933
EBITDA	499	563
Operational Result	310	393
Net Profit	240	302

CMPC Pulp Sales





Group

Forest Certification

In recent years, the way Forest Resources are managed has been under close observation not only by forest companies but also by Non-Governmental Organisations (NGO's), and consumer groups, who when it comes to choosing wood & forest products are more and more prone to prefer those that prove to have a known origin, and that have been manufactured in an environmentally friendly manner, having high regard for local communities.

Forest Certification is the mechanism designed to ensure that forest & wood products have been obtained sustainably, i.e. in a responsible manner, balanced between the economic, social and environmental aspects.



At CMPC Pulp we have understood this new style of doing business, and hence our forests have obtained, since early 2004, Sustainable Forest Management Certification from CERTFOR (Chile's National Forest Certification Program). Once this first important step has been successfully taken, we have decided to direct our efforts to generating and consolidating a "Strategic Alliance" with one of the most important segments in the Chilean forest industry: Small and medium-sized forest owners.

This alliance pursues a series of benefits for forest owners, including; Sustainable Forest Management Certification of their forests, the possibility to enter or maintain their presence in increasingly demanding markets, technological transfer and integral advice on forest issues by CMPC Pulp.

An analysis of the different options available to small and medium-

sized forest owners in order to obtain certification, in addition to other experiences, indicate that the most viable alternative in the long term is Group Certification. Based on this, CMPC Pulp has organised the Group Certification Scheme known as "Mininco Group", which joins together small and medium-sized forest owners from the 7th, 8th and 9th regions.

The Guiding Principles of "Mininco Group" are as follows:

- a) To promote Sustainable Forest Management of small and medium-sized forest owners' forests in the 7th, 8th and 9th regions of the country.
- b) To always operate using state of the art information and technology.
- c) To attain the group's development and growth, strictly respecting the legislation in force.

- d) To always act with the integrity and transparency that characterise CMPC Pulp.
- e) To act with leadership and excellence.

The main benefits resulting from this Strategic Alliance are as follows:

- Reduction of the Sustainable Forest Management Certification costs.
- Generation of economies of scales for members of the group (supplies, technical assistance, insurance, fire protection, etc.).
- Financing options for forest certification.
- Recognition as responsible Owner of Excellence.
- Access to global markets demanding quality and certified products.



selection criteria defined by “Mininco”, and who have been symbolically called “Funding Owners”. Subsequently and after obtaining forest certification from CERTFOR, other forest owners interested in managing their forests sustainably are able to join the group.

One of the most significant activities carried out with group members is undoubtedly training of forest owners and their workers.

- We have trained over 160 forest workers who work directly in the Founding Owners’ forests.
- We have transmitted our know how in the Health, Safety, and Environmental fields.
- We have jointly developed Emergency Plans to act in case of Fire, Oil Spillage and Accidents.

We have generated links between the academic world and small and medium-sized forest owners, through a long term agreement with the Department of Silviculture of the University of Concepción. This has translated into support to students, graduates, professionals and teaching staff of the University, in the characterisation of native flora and fauna resources in the properties of group member forest owners.

Our projections and commitment indicate us that we will continue to provide such support and generate other alliances, disseminating our Group Scheme Management System to an increasing number of forest owners.

At CMPC Pulp we are deeply convinced that through this Strategic Alliance materialised via the “Mininco Group” Scheme, we are developing an historical process for our country, where we, the forest sector as a whole, companies, small-sized owners and university, will be taking the necessary steps forward to Sustainably Manage Forest Resources.

- Option to establish long-term business relationships.

The main contributions made by “Mininco Group” to its member owners are related to:

- Information and training on Forest Certification Standards, especially of CERTFOR, and the new requirements imposed by demanding international markets.
- Training in health, safety and the environment, for forest management and production activities.
- Information and training on forest, environmental, labour and security/safety legislation.
- Updating of rural property mapping and description of areas of high environmental and cultural value.
- Exploration and monitoring of native flora and fauna resources of rural properties.

- Joint elaboration of forest management master plans.

All these opportunities for improvement are being addressed to the extent that a growing trust relationship has been developed between owners and our company. To this end we have the best specialists available inside CMPC Pulp and our related companies, in addition to external consultants. They all have committed their experience and expertise, convinced that the only way for small and medium-sized forest owners to achieve forest certification grow and improve their management and performance levels is by joining a Group Scheme such as “Mininco Group”.

From the outset of this project in the early year 2005, we have contacted over 40 forest owners from the 7th, 8th and 9th regions, of which we rigorously selected 12, verifying that they meet all



CMPC PULP

Production and distribution of woodpulp based on Radiata Pine and Eucalyptus. The mills are Pacifico (480,000 tons softwood), Laja (350,000 tons softwood) and Santa Fe (370,000 tons eucalyptus). This woodpulp is exported to countries in Asia, Europe, Oceania and the Americas.

news

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