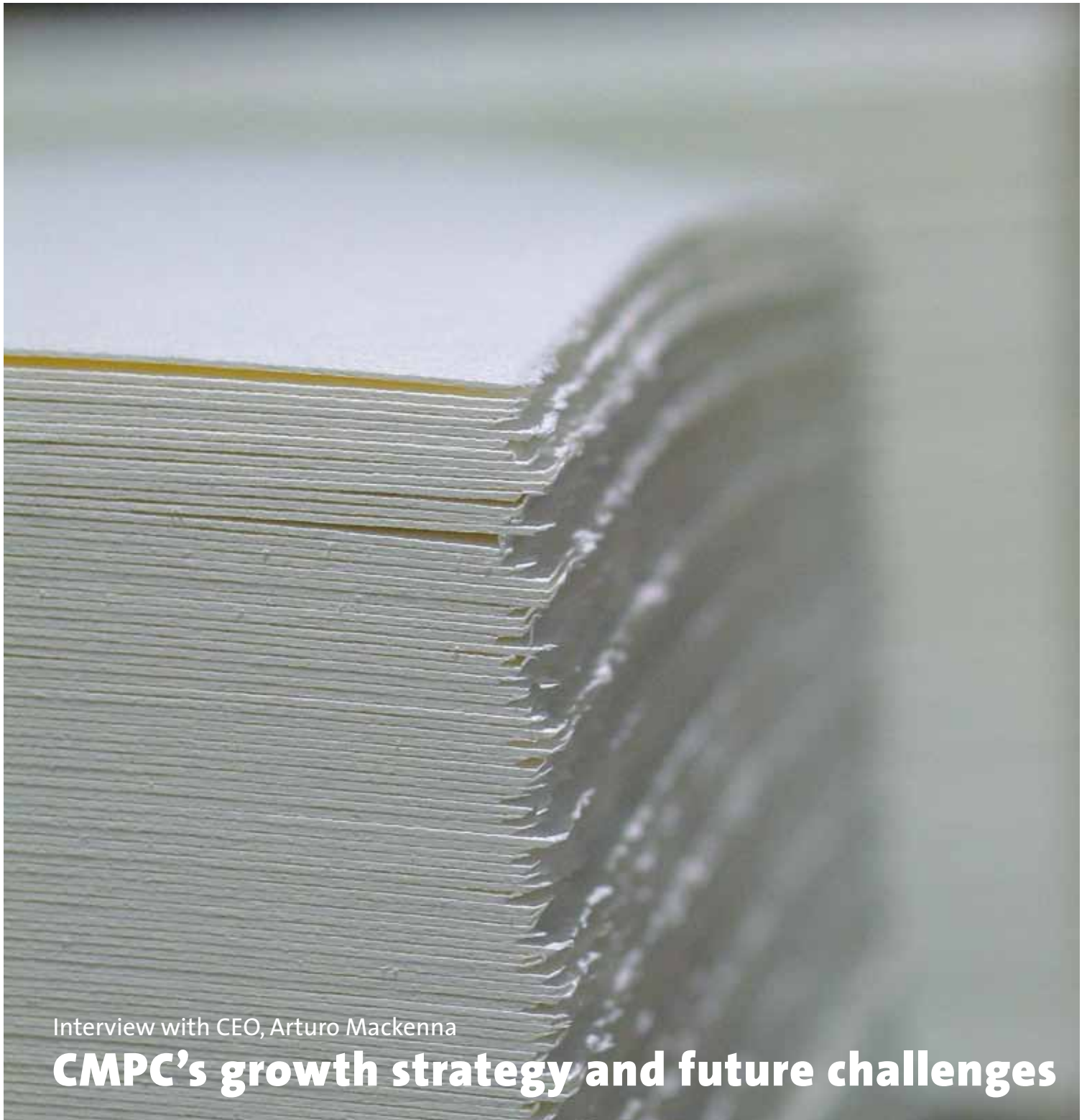




# cm pc Pulp 09 news

April 2008



Interview with CEO, Arturo Mackenna

## **CMPC's growth strategy and future challenges**

Silvicultural technology in CMPC  
**Advances in quality of pine  
and eucalyptus**

Our logistics setup  
**Improvements in efficiency  
at the ports**

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# welcome



Dear Friends,

Some time has passed since our last newsletter, but I think that it has been worth waiting as this issue is filled with interesting articles about CMPC and the world we live in.

CMPC had a very good year in 2007 and whom better to explain it than our group CEO, Mr. Arturo Mackenna in an article in which he looks at the last year's results, talks about CMPC's growth strategy and identifies the future challenges.

The key event for CMPC last year was the start-up of our new Santa Fe mill. This brought new challenges of all types, one of which was adjusting our logistics to handle this new volume in a very tight shipping market, along with increasing port costs and congestion. One of the articles in the magazine covers our logistics setup, designed to ensure that our customers receive the very best service.

Wood availability is one of the most pressing issues in the forest products sector today, making all yield improvements in forestry are of crucial importance to the future growth of our industry. CMPC has been a pioneer in silvicultural technology in Chile, which has allowed rapid improvement in wood yields in both our pine and eucalyptus forests.

There are many other issues that we would like to cover in this newsletter, like the forest certification debate and the biomass revolution, but we will keep them for future issues.

Finally, we would like to thank all our customers, agents, shipping companies and port operators that helped us to be fully successful in Santa Fe's first year of operation: the results surpassed our expectations.

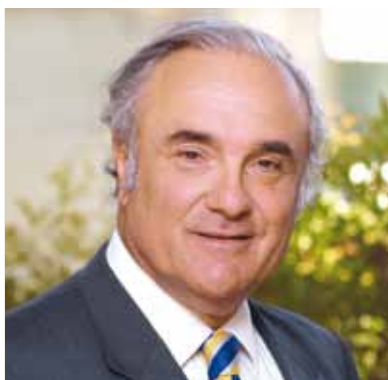
Best regards,

A handwritten signature in dark ink, appearing to read 'Willie Mullins'. The signature is written in a cursive style and is positioned above a horizontal line.

Willie Mullins  
Commercial Director of CMPC Pulp

# “We will continue with our ‘zero fault’ environmental management strategy”

## CHIEF EXECUTIVE OFFICER OF CMPC



*The company is carrying out new projects and studies to ensure that its plants remain competitive and comply with the environmental demands of the industry, according to Arturo Mackenna.*



“2007 was a very special year for our company”, declares Arturo Mackenna, Chief Executive Officer of CMPC for the past two decades. This integrated forestry group achieved consolidated sales of US\$2.7 billion after increasing its annual income by 35% thanks to greater sales volumes and better prices in all business areas, with the exception of newsprint. Expressed in nominal dollars, its consolidated EBITDA grew by 70% compared with 2006.

### **CMPC Companies has doubled its sales and profits in just five years. How has it achieved such high growth?**

Our company has invested more than US\$2.1 billion in the past four years. In 2007 there was the fortunate coincidence that the commissioning and consolidation of new projects, in particular the second production line at CMPC Pulp’s Santa Fe Mill, was accompanied by favourable prices. But, above all, the advances achieved in the last few years, both in sales as well as in profits, are the outcome of an enormous amount of work carried out by all the subsidiaries. With effort, vision and initiative, each one has developed the potential to create value in its respective business.

### **How did the relevant prices develop for the company in 2007?**

In contrast to predictions made at the end of 2006 by several analysts, international pulp prices showed an upward trend during 2007, although at a notably slower pace than other raw materials traded in international markets, like copper and oil.

### **What impact do oil prices have on CMPC?**

They have a very significant effect. Direct consumption of oil-based fuels represents more than US\$115 million, in consolidated terms. There are also indirect effects. Cargo ships and land transportation totals US\$300 million per year. Other supplies and services also rely on oil in some way. Overall, oil use across various areas cost CMPC US\$300 million per year. Therefore, we must strive to be more efficient in the use of energy in all of our processes.

### **What is the outlook for CMPC in this regard?**

Market conditions, both domestic and international, have caused intense pressure on the costs of our main supplies. In order to remain competitive it is necessary to double our efforts and thus counteract

these higher costs through strict controls on consumption, and by seeking innovative alternatives that will enable us to reduce our dependency on fossil fuels, which, in addition to being expensive, are also a risk in environmental terms.

#### **Regarding the environment, what measures will CMPC Pulp take next?**

At Pacifico Mill, the PROAMP project was approved, which with an investment of US\$55 million, will improve the environmental performance of the mill. Substantial improvements are being considered in order to reduce liquid and air emissions, including the replacement of the secondary treatment plant. This is likely to be finished towards the end of 2009, although some of the environmental benefits will be seen before then.

At Laja Mill during the second half of 2007, studies to propose long-term modernization alternatives were initiated so that the mill can remain competitive and in compliance with the industry's environmental requirements. The objective is to produce the necessary technical and economic information to make investment decisions during 2008.

In general, we will continue to implement the 'Zero Fault Strategy' in three main areas: firstly, modernising installations to minimize environmental risks, which in 2007 meant driving forward projects totalling US\$3 million; secondly, bringing all operational and emergency procedures up to date, and lastly, developing training for all staff and independent contractors in order to improve the management of environmental issues. In this regard, all the mills successfully applied for recertification to the ISO 14.001, ISO 9.001 and OSHAS 18.001 Standards.

#### **What was the key event in the forestry business of CMPC in 2007?**

Our subsidiary CMPC Forestry obtained a record number of plantations with over 30,000 hectares during the financial year, with 17,300 hectares of pine and 13,000 of eucalyptus.

In Argentina we have forestry estates of 67,000 hectares of plantations in which trading in sawn wood has been initiated in order to provide finance and to gain market knowledge for a potential sawing unit to be installed in the area, which is currently being evaluated.

In Chile, a plywood mill was commissioned



which, with an investment of US\$70 million, will produce 250,000 m<sup>3</sup> high quality boards a year. In October the first shipment was sent to Europe, and in November production started in two shifts. Fortunately for the project, market conditions have not been overly affected by the real-estate crisis in the United States.

In other areas, CMPC Forestry has notably been distinguished as one of the 35 best companies to work for in Chile, according to the 2007 study, Great Place to Work. It was also awarded the prize "Effective Action 2006" by the Chilean Insurance Association, for its work on staff healthy and safety over the last three years.

#### **What were the business results of CMPC Paper?**

The sales of our subsidiary CMPC Paper are a good reflection of the economies of Chile and export markets. The consolidated physical sales were 880,000 tonnes in 2007, with an increase of 12% compared with 2006, whilst turnover reached US\$690 million, 17% more than the previous year.

Papeles Cordillera had a very important achievement, namely an agreement with International Paper of Brazil for the supply of white printing and writing paper, which

will enable the old machines to focus on the production of paper for corrugating and industrial uses, achieving greater efficiency. Our subsidiary EDIPAC, which has become the most important paper merchant in the country, will become a sales representative of International Paper in the Chilean market.

#### **What should be highlighted in the area managed by CMPC Tissue?**

The economic situation of the countries in which this subsidiary has operations showed good growth compared with last year. There was an increase of 11% in consolidated physical sales and 18% in income. In 2007, there was a turnover of US\$670 million and EBDIT was US\$107 million (double the amount of five years ago); share profitability was 17%.

All this was affected by the increase in energy and fibre costs as well as labour costs, a situation afflicting the tissue businesses of all countries.

#### **What projects are being considered in this business area?**

Due to strong growth expected in physical sales in the countries in which we are competing, a decision has been made to undertake a number of investment



projects. Five new paper machines have been approved for CMPC Tissue, which will be installed in Chile, Argentina, Peru, Uruguay and Mexico. This is complemented by the necessary investment in conversion, in line with expected growth. The investment plan totals US\$150 million, and from the second half of 2008 this will allow to increase sales in these countries and exports to Brazil, Ecuador, Bolivia, Paraguay, Colombia and part of Central America.

#### **How was the year for CMPC Paper Products?**

All the companies of this subsidiary (Envases Impresos, Envases Roble Alto, PROPA and Chimolsa in Chile; FORSAC in Peru and FABI in Argentina) achieved growth in sales and profits.

#### **What investments are being developed in this subsidiary?**

In this area we have also been investing in order to increase capacity and modernize equipment. Last August a new PROPA production line at Chillán Mill started operations, which will supply 50 million multiwall sacks per year. The investment, including the warehouse expansions, came to US\$8.2 million.

During 2007, we approved projects for US\$6.1 million for our corrugated boxes subsidiary, (Roble Alto) and US\$1.4 million for our multiwall sack subsidiary in Argentina (FABI).

#### **In general, what are the new challenges for CMPC?**

Health and safety, the environment, labour unrest etc are not unfamiliar to life at our company nor will they be so in the future. They have become crucially important in the development of the businesses. We know that in order to address these issues properly we must make sure that we comply with the law and strengthen our relationship with communities, their social organizations and the respective authorities, with which we must maintain an frank and close relationship.

#### **What advances have been made in this area?**

The Good Neighbourhood Programmes, the activities of the Jorge Alessandri Park and the educational projects carried out by the CMPC Foundation have allowed us to obtain ongoing recognition from our neighbours and public and private institutions at a national level. In 2007 we had the honour

of receiving an important prize from the National Environment Commission and the College of Architects of Chile, for the Jorge Alessandri Park and its contribution to landscape architecture and the improvement of industrial surroundings.

#### **What is the company policy in terms of labour?**

We believe that it is necessary to have a good and open relationship with our workers, not only with the people who work directly for us, but also with the independent contractors who work at our installations every day. Although their contractual relationship is not our responsibility, their working conditions are. We try to ensure that these contractors that supply services formulate and apply policies for their workers, regarding human resources and health and safety, which are compatible with the corporate culture and the reality of the businesses to which they apply.

# Looking to the future



*The Forestry Technology*

*Management of CMPC*

*Forestry, has achieved*

*advances in the growth and*

*quality of pine and eucalyptus*

*wood and is also carrying*

*out research to face possible*

*climate change.*

Through its own detailed research and a network of international technical organisations in the USA, UK, Australia, South Africa, New Zealand and Brazil and other countries, CMPC Forestry focusses on improving the properties of pine and eucalyptus wood which are relevant to the industrial processes of the company and its customers, and making them suitable for the most extreme climatic conditions.

Gains of between 18% and 30% in the growth rate of pine and eucalyptus have been achieved thanks to the genetic improvement programmes developed for these species respectively since 1975 and 1990.

Thus it will be possible to reduce the harvest time of pine from 25 years to between 18 and 20 years, and the growth period of eucalyptus, which is currently 12 to 14 years, to between 8 and 12 years in the future. "This will enable costs to be reduced and will guarantee medium and long term industrial expansion for CMPC", explains Daniel

Contesse, Manager of Forest Technology for CMPC Forestry.

Through genetic selection processes, this organization has also managed to produce trees that reduce the quantity of wood required to produce a tonne of pulp by 8-13%, which, among other benefits, will enable to reduce costs and eventually to increase pulp output using the same equipment. In the case of radiata pine, efforts have been concentrated on improving, amongst other properties, the pulping ability of the wood which comes from thin trees, through the genetic selection of trees that have a high basic density at an early age (6 to 10 years).

Advances have also been made in frost tolerance. Eucalyptus hybrids have been created which are now able to withstand temperatures down to -10°C (four degrees colder than the original Eucalyptus globulus).

As a matter of priority and urgency,

all these results in research and development are being transferred to the commercial plantations through the company's nurseries.

**Climate Change**

In order to face the long-term risk of eventual climate change, the company is creating and testing genotypes (new varieties of trees) capable of adapting to extreme conditions and producing quality products. This is accomplished through forming hybrids with species with greater tolerance to the cold, drought or wind. Thus, they will be able absorb eventual climate risks to the business, and/or be grown in areas with more extreme climate conditions.

In addition, the company is starting to develop varieties with resistance and tolerance to pests and diseases, given that "these could be the main threats with regard to long-term change, or specific short-term events", according to Daniel Contesse.





**GABRIEL SPOERER** General Manager of CMPC Port Company

*To meet all the pulp shipment schedules was one of the greatest achievements of 2007, given the sharp increase in the volumes exported.*

## Our port logistics



Effective coordination between business management, the production plants and CMPC Port Business, in addition to considerable improvements in efficiency at the ports, enabled the logistical challenge to be overcome, increasing the volumes exported by CMPC Pulp by 68% following the start of Line 2 operations at Santa Fe Mill at the end of 2006.

In 2007, the unloading rate from train wagons from the company's three mills reached 450 tonnes per hour; stacking in port warehouses was more than 5 tonnes per m<sup>2</sup>, and the rate of unloading onto





special ships, Open Hatch Gantry Crane, was more than 20,000 tonnes per day.

The loading of wood pulp onto containers is mainly carried out at San Vicente Port, and the shipments of break bulk loads, at Lirquén and Coronel ports, all located no more than 180 km from Laja, Pacífico and Santa Fe Mills. “The ports are chosen according to warehouse availability and space for ships to be loaded quickly”, explained Gabriel Spoerer, General Manager of CMPC Port Company, a company that administrates the selection of ports and the distribution of cargos from the mills and sawmills of all CMPC subsidiaries.

CMPC Port Company also makes sure that the necessary conditions exist so that the products arrive at their final destination in excellent conditions. For domestic shipment the basic requirements are train wagons specially designed for pulp transportation, with doors that slide back on both sides and smooth floors; the use of cranes with clamps for handling pulp units, according to their dimensions and

weight, which depends on their quality and which mill they came from. The port warehouses must have smooth floors, adapted for rail access, with dimensions allowing wide stacking and must be free from contaminants. The ships’ holds, in addition to these conditions, must also have smooth walls preferably box shaped, with no metal jutting out and with adequate ventilation systems and covers to create an hermetic seal.

The stowage must be compact to avoid the cargo moving during the voyage, and it must be positioned for easier unloading at destination.

CMPC Port Company remains in constant contact with the ports and the subsidiaries of the CMPC holding through radio contact incorporated into its online systems, and SAP links.

For 2008, this company has proposed to reduce the time taken to process the export documentation for pulp. To achieve this, it will send electronic distribution guides from the mills to the loading ports, and it will coordinate the design of an automated control system with the National Customs Service.

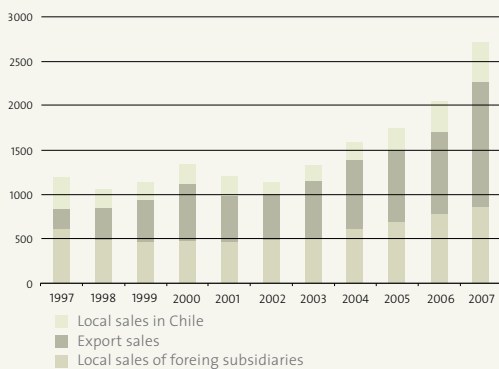


# Facts & Figures 2007

## CMPC GROUP

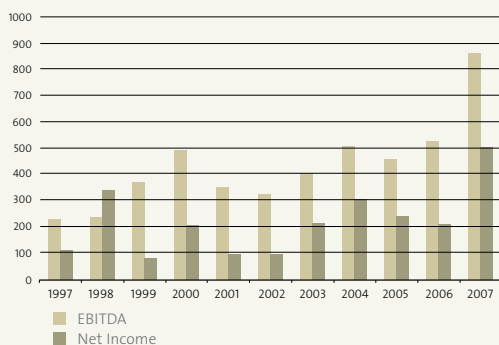
• In 2007, highlighting its market diversification strategy, 56% of CMPC consolidated sales corresponded to exports from Chile, and 14% to sales by foreign subsidiaries.

### Consolidated Sales (millions of dollars)



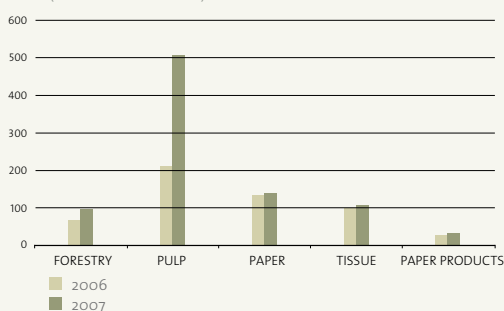
• A significant increase in sales due to the commissioning and consolidation of new projects, the increase in forest harvesting and better prices for most products, led to strong growth in the EBITDA of the company.

### Consolidated Results (millions of dollars)



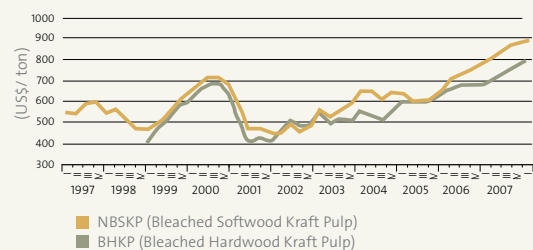
• The contribution made by the pulp business to the consolidated EBITDA grew significantly in 2007, mainly due to the large increase in sales / production volumes.

### EBITDA according to Business Area 2006-2007 (millions of dollars)



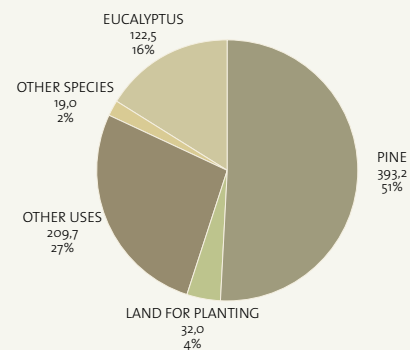
• The world economy growth rate slowed down during 2007 and market pulp demand, although still robust, reacted accordingly. In this context, China has been a determinant factor, capturing around 60% of the global market pulp demand growth. From the supply side, a series of fortuitous events imposed severe restrictions to the full capacity utilization in many mills in the world - wood shortages, labour actions, freight restrictions, major equipment failures - all of them, along with the US dollar weakness, had a direct impact on prices.

### European Pulp Prices (US\$/ton del. N. Europe - FOEX)



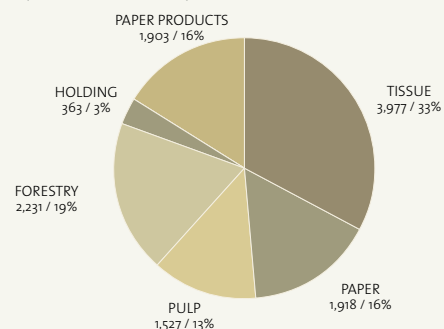
• The forestry subsidiary of CMPC reached a record number of plantations with over 30,000 during 2007.

### Forestry Assets 2007 (thousands of hectares)



• Almost 12,000 people work at CMPC. In 2007, 1,688 joined the company.

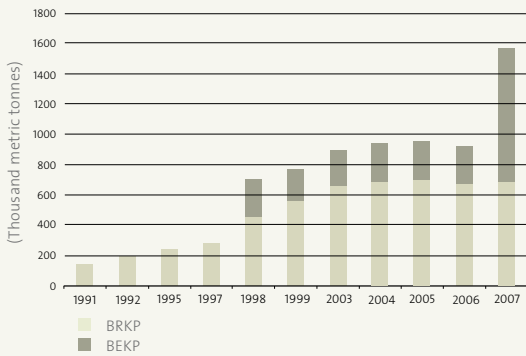
### CMPC Personnel December 2007 (number of workers)



## CMPC PULP

• The successful start-up process of Santa Fe Line 2, allowed to increase market pulp sales last year by 68% reaching 1.56 million tonnes.

**Market Pulp Sales 1991-2007**  
(thousand metric tonnes)



• EBITDA of CMPC Pulp reached US\$ 505.2 million, double last year's figure.

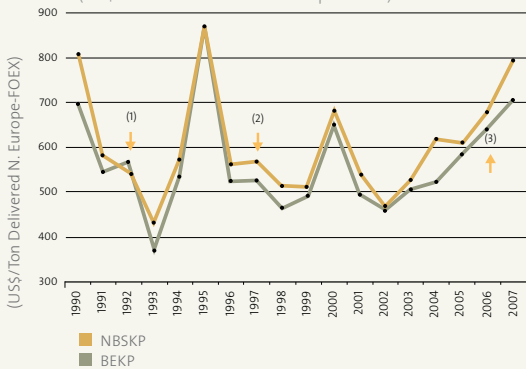
**Operating Results**  
(thousand US\$)

	2000	2004	2005	2006	2007
Sales	574	544	624	699	1,233
Cost of Sales	185	231	347	378	584
Gross Margin	388	314	277	321	649
Administrative & Selling Expenses	74	84	93	108	144
EBITDA	314	229	184	213	505
EBITDA/Sales	55%	42%	29%	31%	41%
Shareholders Equity	531	620	744	739	968
Total Assets	914	1,072	1,786	1,964	2,254

• For the first time in the history of the Company, a major investment project start-up was coincident with an upward trend in market prices.

### Prices

(US\$/Tonne Delivered N. Europe-FOEX)

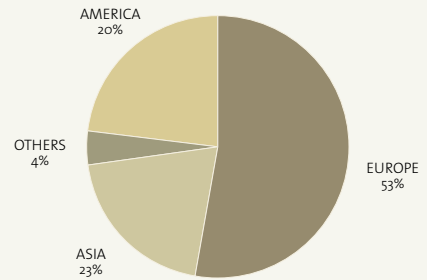


### Notes

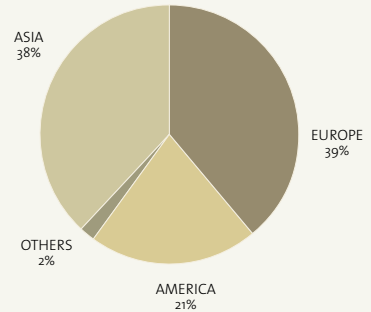
- (1) Pacifico Mill start-up as a joint venture with Simpson Paper – February 1992.
- (2) Laja Mill upgrade start-up – May 1997. CMPC bought 100% of Pacifico and Santa Fe mills – December 1997.
- (3) Start-up Santa Fe Line 2 – December 2006.

• The additional capacity enabled CMPC Pulp to meet growing demand from Asian markets, the destination of 48% of CMPC Pulp's exports.

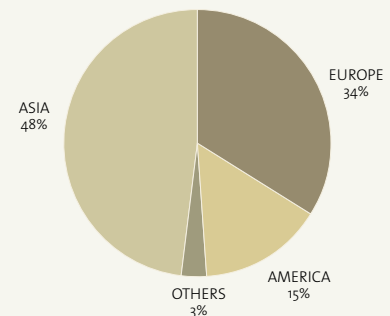
**Market Pulp Exports by Region 2000**  
753,000 tonnes



**Market Pulp Exports by Region 2006**  
918,000 tonnes



**Market Pulp Exports by Region 2007**  
1.56 million tonnes





CMPC PULP

Production and distribution of pulp based on Radiata Pine and Eucalyptus. The mills are Pacifico (500,000 tonnes Radiata Pine), Laja (360,000 tonnes Radiata Pine) and Santa Fe (1.2 million tonnes Eucalyptus). This pulp is exported to countries in Asia, Europe, Oceania and the Americas.

cmcp  
**Pulp**  
news

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