



cmpec Pulp18 news

july 2011

Indian pulp market

Analysis by Hawkins Wright

Hernán Rodríguez

Interview with new CEO of CMPC

CMPC PULP:

Facts & Figures 1q2011

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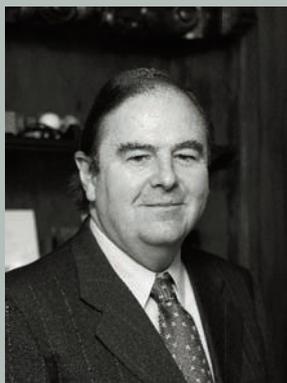
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welcome

Dear Friends,

All the events of the past months have reminded me of the Chinese curse: “May you live in interesting times.” This is an apt description of current conditions, a time of uncertainty for our customers who are squeezed between a rise in the cost of their raw materials and the difficulty of increasing paper prices because of fierce competition due to excess capacity.

There are no easy solutions: paper demand is not growing as it used to, due both to the general economic conditions and also competition from digital media. However, we are still very optimistic about the future of paper: the industry has seen off similar threats in the early eighties – recall the concept of the paperless office – and paper has merits as a “green” material that will prove increasingly valuable as environmentally-driven demand grows.

Moreover, paper still has a vital role to play that cannot be replaced by the electronic media, and much of the world will not have access to the electronic media for quite some time, making their fast growing economies drivers of growth for our industry. Digital media is, of course, here to stay, and will reduce growth in paper consumption, but I am confident that both products can prosper and grow side by side.

In this issue of the newsletter we have news about changes in CMPC’s top management: Arturo Mackenna, CMPC Group’s CEO for the last 24 years, and Sergio Colvin, CMPC Celulosa’s CEO, have both retired. We also take a look at the Indian market for Pulp, and as winter is upon us here in the Southern Hemisphere we explore skiing in Chile.

I hope you enjoy this new issue of our newsletter and we trust that the coming months bring reduced uncertainty to world markets,

Yours

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

Guillermo Mullins
Commercial Director of CMPC Pulp



Hernán Rodríguez

**“We will
continue to grow
in a responsible
manner”**

“We envisage positive future prospects, and we believe in the pulp market, therefore we are strongly betting on this” comments new Chief Executive Officer of CMPC.

The new Chief Executive Officer of CMPC Group has spent his entire professional career working for this Company. He joined in 1987, upon obtaining his Civil Industrial Engineer diploma at Pontificia Universidad Católica de Chile (Catholic University). While serving as head of studies he was sent to undergo specialization in the United States. Upon his return to Chile, he was appointed finance assistant manager and then chief financial officer. Subsequently he was appointed corporate finance manager and ultimately in the year 2004, CEO of CMPC Forestry; position he held until April 28, 2011 when alongside assuming his new position, he joined the Board of Directors of CMPC Pulp.

Hernán Rodríguez Wilson (48) married and has five children.





"We hope that by the end of this year or beginning of 2012 to clearly define the essence of the project in itself and thus submit it to the Board of Directors for consideration and final decision."



GROWTH

What is the current strategic position of CMPC Group?

The Company has had an extraordinary development in recent years. We have evolved from a national to a regional company, with production processes in 8 countries throughout Latin America.

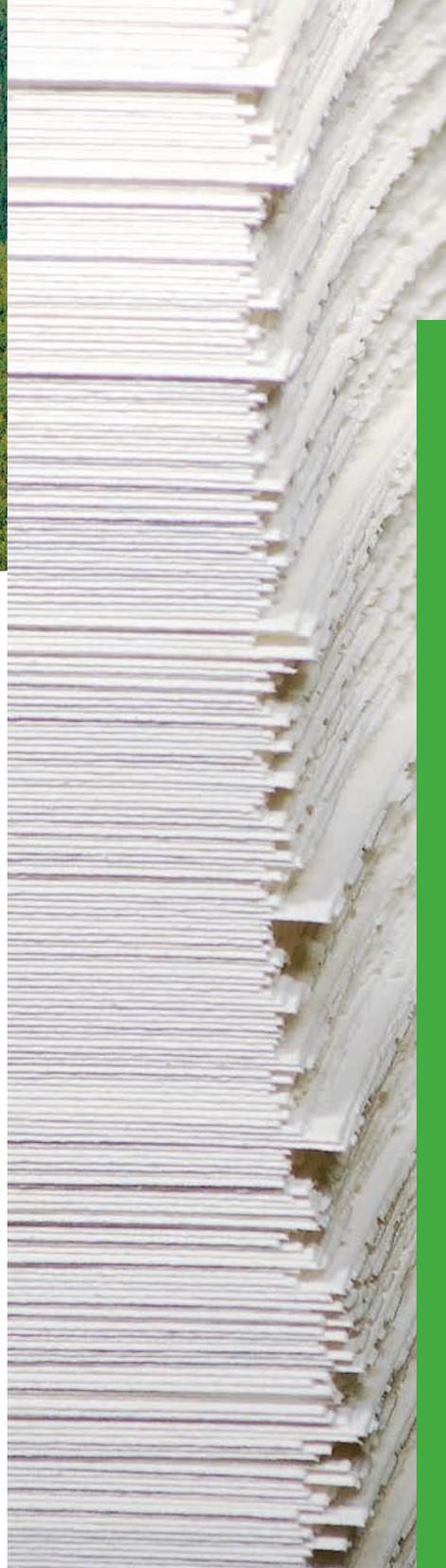
From this perspective, what are the main challenges of your administration?

The mandate from our shareholders is clear: we must be able to continue growing together with achieving a return on the huge investment we have developed. However, we must also maintain our way of doing business. CMPC is a modern and accountable company. We should never lose track of that.

Today, a growth and development path has been traced and is in the need of management. This will be my main mission. In conjunction with this, we will continue to explore new possibilities of growth both in Chile and abroad, with the firm conviction of doing business in a responsible manner.

CMPC Group has announced investments of US\$1.3 billion for the period 2011 – 2012. To what purpose?

We are investing to a certain extent in virtually every country where we have mills in order to improve our production and reach more markets. Last year we made an investment in our paper sacks mill in Argentina; in Peru, on the other hand, we are constantly investing in our tissue operations, whereas in Brazil we are heavily



investing in pulp and tissue and in Mexico we are growing in sacks and tissue and we have recently inaugurated a tissue mill in Colombia. Last but not least, in Chile we are also undergoing a strong investment process in pulp mills, as well as in a new corrugated boxes mill and in the expansion of the tissue mill.

Which are CMPC's business areas with greatest growth prospects?

Today the Company's five business areas have growth projects in pipeline seeking to grow both in Chile and abroad. Evidently, the expansion of the Pulp Unit in Guaíba – Brazil is a project which involves a lot of work, as well as significant investment; thus this is where we are placing a great deal of our efforts. Nevertheless, we have ongoing developments in the Tissue business in Brazil, Mexico, Colombia and Chile, as well as in the paper sack business in Mexico and corrugated boards, plywood and pulp in Chile which are of utmost importance to us and to which we are also devoting much work and dedication.

PULP

What trends do you see in the pulp market?

It is very difficult to make projections in a business like this. We obviously see that there are good prospects and we believe in this market, thus we are betting heavily on it as well as investing in new technologies and mills. The increasing global demand for all types of products predicts a good future for pulp.

What progress has been made in the Guaíba Mill in Brazil?

We are currently undergoing the engineering phase and establishing the magnitude of the project, its production capacity, facts which will enable us to quantify the investment we must make.

The Guaíba Unit expansion project is under schedule. As usual, we would definitely like to move on a little faster and make progress, but the size of this business requests us to be very accurate in our analysis in order not to make mistakes and make the right decisions. We are making good progress and hope that by the end of this year or early 2012, we will be able to obtain a decision from the Board of Directors and set the date for start up of the construction.

ENERGY

How does the company deal with energy risk?

The energy issue has been a constant concern for CMPC for many years now; reason why the Company's main mills have their own supplies based on the use of biomass as fuel and on long term supply contracts.

Although we have achieved a high degree of energy independence, we are investing in order to increase power generation and consumption efficiency. This is an issue that we follow very carefully.

New front line

Arturo Mackenna, Chief Executive Officer of CMPC for 24 years, has been replaced as from 28 April 2011 by Hernán Rodríguez, former CEO of CMPC Forestry, the subsidiary that manages the group's forests and wood production in Chile and Argentina.

Arturo Mackenna will remain closely linked to the company as a member of the board of directors of the parent

company and of its subsidiaries, CMPC Pulp and CMPC Tissue. This is in recognition to the important contribution he has made towards the development of the company, whose assets increased from US\$420 million to US\$7,5 billion during his administration.

On a similar basis, Sergio Colvin, CEO of CMPC Pulp, retired upon completion of

MANAGERS OF CMPC'S SUBSIDIARIES

Washington Williamson

replaces Sergio Colvin as

Chief Executive Office of

CMPC Pulp



CMPC Pulp

Washington Williamson
CEO

He has served in several areas since he joined the company in 1981. Performed as commercial manager of CMPC Tissue and general manager of Prosan, Protisa (Argentina), CMPC Boards and CMPC Papers.



CMPC Forestry

Francisco Ruiz-Tagle
CEO

He joined CMPC in 1991 as head of finance of CMPC Pulp. Since 2007, he held office as CEO of CMPC Paper Products.

In line with a company tradition, CMPC's senior executives who attained age 65 retired in order to ensure generational replacement in management.

15 years of a successful career within the company and joined the board of directors of the company, as well as that of CMPC Papers and of CMPC Celulose Riograndense in the capacity of chairman. Washington Williamson, who served as CEO of CMPC Papers since 2006, has been appointed in his replacement.

These changes have led to other movements within the Group. CMPC Forestry's management has been assigned to Francisco Ruíz-Tagle, prior CEO of CMPC Paper Products. The latter position has been replaced by Jorge Navarrete, former manager of the Forsac .

Eduardo Serrano, hitherto CEO of Tissue Chile, took office in CMPC Papers.



CMPC Tissue

Jorge Morel
CEO

He has held this position since the year 2000 up- to- date.



CMPC Papers

Eduardo Serrano
CEO

He joined CMPC in 1983. Since 2002, he served as CEO of Tissue Chile.



CMPC Paper Products

Jorge Navarrete
CEO

He joined CMPC in 1985. He was the CEO of Forsac since 2002.

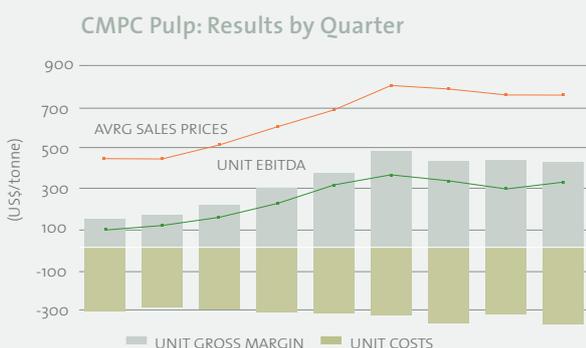
CMPC PULP: Facts & Figures 1Q2011

Operating Results (thousand US\$)

	2009	2010	Y/Y	1Q2010	1Q2011	Q/Q
Sales	991	1.662	68%	363	482	33%
Cost of Sales	594	725	22%	165	224	36%
Gross Margin	398	937	135%	198	258	30%
Administrative & Selling Expenses	139	242	74%	42	58	38%
EBITDA	258	695	169%	156	200	28%
EBITDA/Sales	26%	42%		43%	41%	
Shareholders Equity	1.597	1.727	8%	1.593	1.870	17%
Total Assets	3.323	4.413	33%	4.110	4.430	8%
Sales (thousand tonnes)	1.950	2.158	11%	527	619	17%
Average sales price (US\$/tonne)	508	770	51%	689	779	13%

CMPC Pulp EBITDA reached US\$ 258 million during the 1Q2011, a figure that is 28% higher than during the same period last year. Nevertheless, compared with the previous quarter, this figure amounts only a 12% growth. Improved prices and volume sales were partially reversed by higher prices of certain raw materials, chemicals and freights.

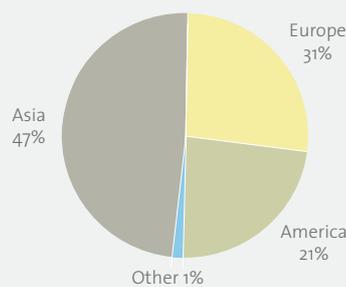
Exchange rates have also adversely affected our results. Since June 2010 the Chilean \$ and the Brazilian Real have experienced a steadily revaluation, reaching 14% against the US dollar as of April 29, 2011.



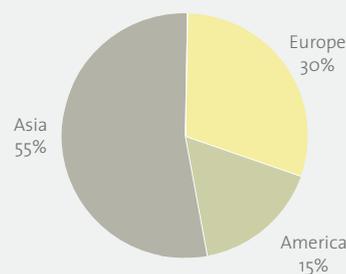
Our sales data during the 1Q2011 show that market pulp demand recovery in Europe and America has allowed us to continue reducing our dependence on Asian (China) markets. We have already overcome the effects of the 27/02 Earthquake and our market pulp sales increased over the same quarter last year 19% (volume) and 35% (value).



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



CMPC: Market Pulp Sales 1Q2010
(450 thousand tonnes)



Indian pulp market



At first glance, India appears to have many important commonalities with China - a large population (1.2 billion v 1.33 billion) and rapid economic growth of 8% to 9% expected in the next five years. India's development started to accelerate some ten years after China. This raises the question as to whether the sub-continent will follow China's explosive growth of its pulp and paper industries; also, in view of the limited fibre resources of both countries, whether there will be similar exciting opportunities for international pulp suppliers.

With 1.2 billion people consuming less than 10 million tonnes a year of paper and board, it is tempting to surmise that such a low per capita consumption of 8.3 kg implies limitless potential for growth.

A closer analysis at the demographics and structure of the Indian economy, however, suggests that this is unlikely. Although millions of people have improved their living standards, millions of Indians live in abject poverty and do not represent potential consumers. In 2007, an official study found that some 750 million people lived on less than US\$0.43 a day; a similar number do not have access to sanitation.

Newsprint accounts for almost two thirds of India's imports with packaging grades and coated printings next most important.

by Hawkins Wright

The urban middle classes who do have some disposable income are estimated to number about 60 million; coincidentally, this is almost equal to the population of the United Kingdom where annual demand for paper and board is also 10 million tonnes.

The structure of the respective Indian and Chinese economies also differs markedly. China's government is highly interventionist in directing investment to certain industries and sectors. This is reflected by the high proportion of China's GDP accounted for by investment in fixed assets, including infrastructure and manufacturing. The export sector is highly developed and over a third of China's apparent consumption of paper and board is exported, either converted or unconverted.

In India, a much more relaxed approach is adopted by the government and there is more investment in less tangible sectors such as software, bio-technology or creative industries. The service sectors account for 64% of India's GDP; I.T.-enabled services such as outsourcing business processes continue to grow. India's large English-speaking skilled work force has made the nation a major exporter of software services in contrast to China's manufactured goods.

PULP, PAPER AND BOARD...

Annual Paper and Board consumption is about 10 million t, (production 8.9Mt, imports 1.4Mt and exports 0.25Mt). Newsprint accounts for almost two thirds of India's imports with packaging grades (15%), and coated printings (12%) next most important.

Domestic production includes some 3.5 million t of wood free printings and writings, 90% of which is uncoated. Almost half of the printings and writings

is low quality which may be made from wood, bamboo, bagasse, rice or wheat straw reed and RCF. For cultural reasons, tissue consumption is not important with production under 100,000t/y.

Wood pulp consumption is about two million tonnes and this includes 400,000 of imports. Domestic wood pulp production of 1.1 Mt is based on hardwoods and bamboo. Imports of BHKP (300,000t) come mainly from Indonesia with Latin America supplying 50-60,000t.

Ballarpur Industries (BILT), ITC and JK Paper are the leading white paper producers in India and each have integrated hardwood and bamboo pulp production. BILT is the most important user of imported BHKP but this may change in the near future as they reduce their purchases from third parties. BILT are expanding BHKP production at their integrated P&W mill in Sabah, Malaysia and will supply over 100,000t/y to their mill in Bhigwan, Maharashtra; also they are rebuilding a pulp line purchased from Finland at the Ballarpur mill in the same province. Even though new paper machines are being installed, they will be pretty well self-sufficient in BHKP.

Other new P&W paper machines built in 2010 and to be completed this year involve JK Paper, West Coast Paper, ITC, Andhra Pradesh Paper, Tamil Nadu and Whitefield Paper. Because of the high costs involved in servicing distant markets, the scale of these machines is far smaller than in China or even Korea being typically 100-200,000 tonnes annual capacity. Most of these projects include integrated pulp lines, hardwood and bamboo.

For these reasons, the Indian pulp market will continue to be relatively small both in terms of the total market and the number of customers.

MEETING WITH OUR CUSTOMERS IN CHINA



A day before the opening of the 6th China Pulp & Recycled Fibre Conference, CMPC Celulosa offered a special reception to its customers in China, which was attended by approximately 40 people. Guillermo Mullins, the company's commercial director, welcomed this meeting on behalf of the company.

This conference, held in Xiamen City on 23 and March 24, 2011, is a platform for communication and cooperation amongst all professionals in the pulp and paper industry.



PACÍFICO MILL PROMOTES AGRICULTURAL AND SOCIAL DEVELOPMENT

CMPC Pulp's Pacífico Mill, in partnership with the Municipality of Renaico, is carrying out an agricultural development project in the vocational technical school in the district, which is attended by over 200 students. The company has financed the preparation of 9 hectares of land for growing vegetables and building a greenhouse of 700 m², in order to support this facility for a period of 5 years to achieve a production level that allows it to operate as a self-sustainable unit. Other objectives are also the promotion of innovation and generation of certified products.

This support program, launched in July 2010, will be developed over five years.





Portillo / Jonathan Sellowitz

Some of the best ski resorts in the world are located in this country.

Ski in Chile

Skiing season in Chile is between June and October. The country has around 10 winter resorts. One of the most outstanding resorts and of the oldest in South America is Portillo. It was here where the world record of 200 km/h in speed skiing was broken for the first time. Another famous resort is Valle Nevado, home of the world championship in the snowboard specialty. It has the largest ski area in the Southern

Hemisphere and is considered one of the most modern in the region.

The most popular ski resort in Chile is El Colorado, located just 60 km from the capital, Santiago. In the south of the country we find another resort Termas de Chillán, with a 13 km long track which is the longest in South America.



CMPC PULP

Production and distribution of pulp based on Radiata Pine and Eucalyptus. The mills are Pacifico (500,000 tons Radiata Pine), Laja (260,000 tons Radiata Pine), Santa Fe (1.2 million tons Eucalyptus), Guaba (450,000 tons Eucalyptus). This pulp is exported to countries in Asia, Europe, Oceania and the Americas.

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news

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