

CMPC PULP

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Wolfgang Leitner, CEO Andritz Group:

“Santa Fe project is an opportunity to showcase our technology, people, and project management capabilities in Chile”

CMPC in Brief

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85 years
of CMPC



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Dear Friends,

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It is with pleasure that I introduce the second of our quarterly newsletters bringing you the latest news on our Company and our plans for growth.

As you will see in the article of the topic, I am happy to report that construction of the second line at our Santa Fe Eucalyptus mill is on schedule, as expected. Moreover, since our last newsletter CMPC has celebrated its 85th anniversary, making it the oldest pulp producer in Chile and amongst the oldest in the southern hemisphere: this octogenarian has never been in better shape!

In this issue we also include an interview with Mr Wolfgang Leitner, president of Andritz, the main EPC contractor involved in building the new pulp line. We also give you more detailed information about the construction work in order to show how the building is progressing and the main challenges we have ahead of us.

Finally customer service, as always, remains a priority for CMPC Pulp as you can see from our programme of continuous improvement of the quality of our pulp and our logistical service. We do not take lightly the preference that our customers have shown for our products, and we mean to ensure that we can keep it in the future,

Regards,



Guillermo Mullins

"CMPC has completed 85 years of existence. A whole life marked by people who have made it a great Chilean industrial company. The positive content of our history is mainly due to those who have worked for it, directors, executives and its outstanding employees, who with self-sacrifice, commitment and intelligence have known how to meet the company's objectives and values.

We believe in CMPC that the principal social responsibility of companies is to remain active, profitable, competitive and productive. When this occurs, they not only bring a return for their shareholders but also generate desirable social consequences like new job opportunities through their expansion and investment and the provision of valuable goods and services for society, among others.

As part of its constant actions, CMPC is not only involved with the challenges and aspirations of the communities in which they are located but makes constant and significant social contributions to the communities in the areas of its forests, mainly Mapuche people, so that they can have access to better standards of living and develop their culture in fully. This relationship has been deepened by generating different activities including job plans for reducing the difficult conditions of poverty that exist, mainly in the rural zones of the 8th and 9th Regions. We believe that we cannot remain indifferent to this dramatic reality and therefore, often forsaking the possibility of using current technology that makes forestry work more effective, we carry out these processes with the work of our neighbours, thus providing them not only with an economic income but personal development. Within the framework of the Good Neighbourhood Plan, social courses are also given for training men and women in various fields, providing a valuable instrument for mutual understanding and collaboration.

PAST AND PRESENT

La Papelera (as CMPC is commonly known in Chile) was born in Puente Alto on 12 March 1920 as the result of the merger of two modest paper

85 years of CMPC

During the celebrations of the 85th anniversary of CMPC, the Chairman of the Company mister Eliodoro Matte, spoke about the company's principal landmarks and its mission in society. In this edition, we provide an extract from his speech.





CMPC has generated sustainable development bases for its long-term business management and the environmental dimension is inseparably incorporated in this and in every one of its processes. Management is convinced that this constitutes an indispensable element of competitiveness for the existence and progress of its businesses. And our experience to date has shown that they are right.

On the other hand, the matter of "corporate social responsibility" has been of growing importance in public debate and the company has again adopted a more formal organization and new name for activities that it has been carrying out since its inception. We have been firmly involved in the diffusion and promotion of this concept, not only in the forestry industry but in business in general. Socially-responsible companies build and strengthen their good reputation based on the trust of their publics. They therefore find a more favourable climate for developing their businesses and future projects.

We believe that social responsibility is a work and organization model that enables the company to be effectively linked with all its relationships. It is a way of doing business in a sustainable way and a wager on the company's durability over time.

We have 20 factories working and 500 thousand hectares of plantations. We have a presence in around 80 communities throughout Chile. These are generally poor communities, located in rural or semi-urban areas that lack facilities in every sense. We have concentrated our activity on support for the communities in education because we are convinced that this is the best way to combat poverty. We operate through the Fundación CMPC whose mission is to manage all the company's social contributions. In our educational support programmes, we seek to help improve the quality of teaching and management of the schools. We are today supporting 93 schools in 36 communities, benefiting more than 380 teachers and 15,000 children.

We are proud of a company that fights daily to meet its commercial objectives within a strict ethical



and establishing and expanding manufacturing facilities not only in Chile but also in Argentina, Peru and Uruguay.

Investments of 2,000 million dollars in the 1990s have enabled us to expand our forestry base and the production of woodpulp, sawn and speciality timber, newsprint, cardboard, tissue products and paper bags. And finally, all this has been possible with a moderate level of debt and with a heavy reinvestment of profits.

Today, we can say with pride and satisfaction that we have not stopped for one minute in the road to progress. Over the last five years, our forest reserves have increased by 100 thousand hectares; timber exports by 110,000 cubic meters; and pulp exports by 200 thousand tonnes. Sales of papers in their various kinds have increased by 70 % and CMPC's total sales by 47% (8% annually).

Investments over the last five years have amounted to US\$1,000 million and we are now facing a plan that involves additional investments of US\$1,500 million over the next 3 years, the principal one being a new pulp mill already under construction in the 8th Region which will involve an investment of US\$745 million, the most important ever made by the company. All this would not have been achieved without the support and collaboration of our 8,600 employees.

makers that used wood and cellulose pulp and which had a production capacity of just a couple of thousand tons and a capital of US\$ 2,500 at the time.

Since then, it has been able to interpret the requirements of the economic, social and environmental background and to adapt, sometimes anticipating these. The company has therefore incorporated, in its various aspects, pioneering and leadership activities that have contributed not only to consolidating itself economically but also to gaining a privileged position in its social insertion. Not in vain has it been selected, year after year, as among the most respected companies in Chile.

Over the last 20 years, we have faced the challenges of globalization decisively, broadening our production base in all the product lines, internationalizing various businesses

framework of respect for regulations, principles and basic values. CMPC is a great company that is investing and that believes in its country, in its employees and in its business. A company that has been faithful to its traditions and, at the same time, very innovative in its management. A fighting company that defends its way of doing things and, at the same time, produces changes. A company that is admired by many and is used as a model of a company that tries to do things well. We want to continue growing, to continue being a positive support for our country and its inhabitants; to develop better products, to have an increasingly better relationship with our shareholders, customers and suppliers, and that our employees and their families have greater opportunities. We want to continue along this road where dreams blend with reality, but always aspiring for excellence”.



CMPC in Brief

(Figures as of December 2004)

Sales	1.933	MMUS\$
EBITDA	519	MMUS\$
Net Profit	302	MMUS\$
Debt- Equity Ratio	0,38	
Number of Employees	8.600	

Forest Assets (Ha)*	
Pine	359.236
Eucalyptus	113.319
Other Species	17.966
To be planted	27.926
Other Uses	190.805
Total	709.805

*Chile and Argentina

OPERATION CAPACITY (TONS / CBM PER YEAR)

	CMPC Pulp	CMPC Tissue	CMPC Paper & Board*	Converted Products	Timber & Remanufacturing
Chile	1.230.000	91.000	700.000	209.000	930.000
Argentina		90.000		12.000	
Perú		25.000		12.000	
Uruguay		16.000			
Total	1.230.000	222.000	700.000	233.000	930.000

* Mainly Newsprint and Board sold in domestic market and South America.

The ENVIRONMENT



The company's industrial activities and forest management are carried out under the principles of sustainable development, as a competitive element that is indispensable for the existence and success of its businesses.

The subject of the environment is, for the company, an ethical challenge with future generations and a decisive element in its competitiveness. This commitment is the basis of its daily activity and of its strategic positioning. Technical requirements and information about the communities have been handled in a climate of collaboration that has brought satisfactory results.

INDUSTRIAL OPERATIONS OF CMPC PULP AND THE ENVIRONMENT

The company serves a select group of customers in Europe, Asia, America and Oceania that use pulp as a raw material in the manufacture of a wide range of papers and paper products. In the second stage of the value chain, its customers have to serve a vast number of consumers who show a growing sensitivity to the environmental performance of the producers of the goods they buy. This motivates CMPC Pulp to be constantly current with technological progress in environmental protection matters.

This industry is highly capital intensive and highly automated, whose principal machines and equipment are designed to have a long useful life.

All CMPC Pulp's plants are submitted to periodical technical revisions in order to improve their competitiveness and environmental performance.

ENVIRONMENTAL INVESTMENT PLAN 2003 - 2005



	Investment (Millions US\$)
Santa Fe Mill	
Odour abatement	6.9
Effluent treatment and others Line 2	58.0
Total Santa Fe Mill	64.9
Laja Mill	
Secondary effluents treatment plant	13.4
Oxygen delignification	23.3
Handling of solid industrial residues	1.8
Reduction of TRS emissions	1.3
Others	3.1
Total Laja Mill	42.9
Pacifico Mill	
Biomass boiler	55.1
Improvements to effluent treatment system	2.7
Reduction in TRS emissions	4.0
Expansion of oxygen delignification process	7.4
Total Pacifico Mill	69.2
Total Environmental Investments	177.0



Interview with Wolfgang Leitner:

“The Santa Fe project is an opportunity to showcase our technology, people, and project management capabilities in Chile.”

Wolfgang Leitner is President, CEO and main shareholder of the Andritz Group, a global supplier of complete pulp production and chemical recovery systems. Andritz was selected to provide the fiberline (cooking through pulp drying and bale handling), the recovery boiler, and white liquor production plant for Line 2 at the Santa Fe mill, increasing this mill's capacity by 780,000 tons per year. In this interview, he talks about the Andritz contribution to this important project.

Who is Andritz and what does it do?

Andritz is a global company of more than 5000 employees that supplies customized plants, systems, and services for the pulp and paper industry, the steel industry, and other specialized industries. We were founded over 150 years ago in Austria and still maintain our global headquarters in Graz. Most of our chemical pulping technology is centered in Finland.

Our Group sales are approximately 1.5 billion Euros a year. We are regarded as a market leader in providing full-line production systems and supporting services.

We have been active in Chile, one of the most successful pulp-producing countries in the world, for many years.

In fact, we have delivered systems for chemical recovery, mechanical pulping, and chemical pulping to other CMPC mills and have also done a modernization project on the existing pulping line at Santa Fe. We have an office in Santiago and a service center in Concepcion.

What is the scope of the work that Andritz is providing for Line 2?

We are very proud to provide the entire fiberline – from the cooking plant to wrapped pulp bales – for Line 2. When completed, the line will produce 780,000 tons per year of bleached eucalyptus pulp. The major systems in the fiberline are the cooking, washing, screening, and bleaching systems. This is followed by the plant for dewatering, drying, cutting, and baling the market pulp.

We are also supplying the chemical recovery boiler and the white liquor production plant (which are the major chemical recovery systems in the mill).

We are delivering this work on an EPC basis. This means that we will take over full responsibility for the engineering, procurement, construction of the line. We will cooperate and closely work with subcontractors in Chile (as well as abroad) which will provide their expertise in activities such as seismic and structural design, detailed piping, controls and electrical engineering, mechanical and piping installation, electrical installation, structural erection and construction management and services



“All of the technology at Santa Fe is the most advanced state-of-the-art systems which we offer, yet all has been proven in other installations.”

Wolfgang Leitner

How significant is this project for Andritz?

This is a very important project for us because CMPC is relying upon us for the complete line. It is also a very large project for the Andritz Group. However, due to our decentralized organization with centers of excellence located in the US (cooking), Finland(washing/bleaching, recovery island), Austria (pulp dewatering and baling) and Sweden (pulp drying) we have the capacity to execute such a large order without overloading our resources.

The schedule is aggressive, but certainly achievable within the 24 months from order signing to start-up – September 2004 to September 2006. I am watching the project closely and have pledged that Andritz will deliver on-time, on-schedule, as we have done for many other large projects.

What has been your previous experience with this type of project?

Looking back in our records, I can see that we have delivered over 150 EPC projects in the last 25 years – including projects in China, Brazil, Canada, the USA, Finland, Sweden, Estonia, and other countries. We have a very successful track record.

Our approach has been to involve the project execution team early in the process – even as part of the sales phase. This ensures a smooth transition to the project teams and good communications with our customers from the very beginning.

Our project teams are led by very experienced managers. Mr. Denis Fournier, head of our operations in Chile, is serving as the overall Project Director and coordinating all the local engineering and subcontractor activities. Our team includes Andritz

employees from the Americas (Canada, USA, Brazil, and Chile) as well as Europe (Finland, Sweden and Austria).

Is there any special Andritz technology being installed at Santa Fe?

All of the technology at Santa Fe is the most advanced state-of-the-art systems which we offer, yet all has been proven in other installations. In addition to producing high quality pulp, every system has the best available technology for safe operation and least environmental impact.

In the fiberline, our advanced processes will be implemented: for feeding chips to the cooking vessel we are using our TurboFeed™ chip delivery technology and in the digester we are using our Lo-Solids® cooking process giving a high yield of very strong fibers. High-efficiency washers are being used for the most efficient washing and bleaching operations, using substantially less bleaching chemicals than any other available technology, and at the same time preserving the strength of the fiber.

We are installing a very large, low-odor recovery boiler, again with the latest technology for control of air emissions. The filtration units in the white liquor plant are all also of the latest design.

Santa Fe will utilize our latest single-line technology for pulp drying. We recently successfully started up similar large systems in China and Brazil.

How are your people responding to the challenge?

Our people enjoy the challenge of large projects. They know the importance of the project to CMPC and also to Andritz. They particularly



What preparations and actions are you taking to ensure a smooth start-up?

The biggest factors in a quick, smooth start-up are extensive equipment/process control checks before actual start-up and thoroughly trained operators that are fully familiar with the process, the machinery, and the control systems. Andritz is creating a "dynamic simulator" (computer software that completely simulates the mill processes) so that checkout and training can be conducted well before the actual equipment is started up.

What this means is that the complete process control is checked and the operators can sit at a computer monitor and "control" all the steps – starting up, adjusting, changing pulp grades, and shutting down – before the equipment is actually installed. We can simulate the production in such a way that the operators see no difference between the simulation and running an actual mill. This work is being carried out by our IDEAS Simulation Division

How is the cooperation and teamwork with the CMPC team?

The cooperation and support is excellent because we all share the same goals. CMPC's top management with Mr. Arturo Mackenna, CEO CMPC and Mr. Sergio Colvin, MD CMPC Pulp, challenged us during all of the project development phase to design the most modern, economical, and environmentally friendly pulp mill using the most advanced, yet already proven technologies. We feel distinguished to have been chosen as main supplier. Now we all are working to complete Line 2 on-time, within budget and to the complete satisfaction of CMPC and its customers.

I would like to comment here about the level of sophistication and professionalism of our Chilean subcontractors. They have been excellent partners from the early design and estimating stages of the project. Our major subcontractors, Sigdo Koppers (civil, structural, mechanical, piping, and electrical installation work), DSD (recovery boiler complete erection) and Cade-AMEC and ARA (engineering) are very capable and knowledgeable. They join us, and the very competent CMPC team, to deliver a successful project.

and also to Andritz. They particularly appreciate the open, constructive and professional approach of the CMPC project team led by Mr. Eugenio Grohnert, Project Director. They know this mill will be a showcase in the global market pulp business and are proud to be involved in a large and important project.

The goal is high quality pulp produced in an environmentally secure way. How does Andritz contribute to this goal?

Our contribution started with our R&D lab work even before we were selected for the project. Together with CMPC, we studied the performance of the Santa Fe Line 1 running *Eucalyptus nitens*, and also

in our laboratory carried out extensive tests of the drainage effects for various ages of the trees. We performed laboratory cooks and bleaching tests at our R&D center in the USA, we performed trials on Line 1 at Santa Fe, and we even ran trials of our drying equipment by having pulp shipped from Chile to Austria. This helped us design the processes correctly to ensure the level of quality needed by CMPC and its customers.

We have pioneered many of the environmental enhancements in the chemical pulping industry – reduced bleaching chemicals, low water consumption, low odor boilers, very low effluent, and very low air emissions.



Santa Fe Line 2 Progress



PROJECT PROGRESS

As of 30 April, the overall project progress was 38%, thus providing some assurance that it will be completed on time: in September 2006. The earth movement and soil improvement (piles) works are now finished and work is progressing on the construction of the foundations (32%). The foundations of the recovery boiler were handed over to Andritz who have begun the assembly of the building structure. The EPC contractors (Andritz, Metso and HPD) are already installed and starting their assembly work.

The products warehouse is 70% advanced, to be ready by late May for receiving the first batches of equipment.

The infrastructure works, like a new truck access road, rail connection and the installation of water and effluents ducts to the river Biobío, are 60% advanced.

CONTRACT CONDITIONS

CMPC Pulp has decided to use EPC-structured contracts (engineering, procurement and construction) for the areas of wood preparation, fibre line



from cooking to the bale finishing, and the recovery and energy areas. This implied an important development of basic engineering in the first phases of the project by CMPC Pulp in order to permit a proper definition of the scope of the contracts.

The EPC contractors have sub-contracted the construction and electro-mechanical assembly works with leading Chilean companies in these areas, which allows us to remain very confident about the performance of these associations during the construction phase.

SAFETY AND THE ENVIROMENT

More than 2,000 people are currently working on the construction, 900 of them from Nacimiento. Particular emphasis has been placed on personal safety, specialized risk-prevention advisory services having been contracted with Chile's leading occupational safety institution.

An environmental management system has been implemented to enable our works engineers and inspectors to constantly monitor all the project's environmental commitments and obligations.

1 and 4. Products warehouse.

2. Recovery boiler foundations and start of assembly work of structures.

3. Foundations of the continuous digester area.



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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CMPC PULP

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