

CMPC PULP

news

06

January
2007

Santa Fe 2 Up and Running

Improved Employment in

Nacimiento

CMPC

Commits to Sustainable
Forest Management

Gearbulk

A partner that diminishes distances



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WELCOME

Dear Friends,

It is indeed a privilege to be writing to inform you of the startup of our Santa Fe line 2 pulp mill. The hard work of many dedicated professionals has resulted in the construction of arguably the best mill in the world. It is this spirit that makes me proud to work at CMPC.

It is heartening to note that the nearby city of Nacimiento has benefited greatly as a result of the construction of this mill as most of the residents have participated directly or indirectly in its construction, taking local unemployment to almost zero. Many will continue to be involved with the operation of the mill, one way or another.

This issue brings you the latest information on the startup of the mill, together with some project highlights. It is a beautiful mill, built around leading-edge technology that we are sure will produce superlative Eucalyptus pulp. We hope to bring you more information on the running of the mill in the next issue.

Gearbulk has been for many years our main shipping partner, taking our pulp to Europe and Asia. Their modern and specialized ships provide us with peace of mind that our pulp will reach our customers in perfect condition. In this article we look at the working relationship between our companies.

Finally, our wholehearted commitment to forest management is discussed in an article on our company's policy on the matter.

I hope you enjoy this newsletter. If you have comments on any of these subjects or would like to get more information please do not hesitate to contact me directly at gmullins@celulosa.cmpc.cl



*Warm regards,
Willie Mullins*



Students from La Frontera University in Temuco visiting Santa Fe Mill

Santa Fe 2:

Improved Employment in Nacimiento

Unemployment levels in the city were reduced to zero, two years after the works began.

CMPC firmly believes that the means of obtaining results is as important as the end result; thus from the beginning the Santa Fe 2 Project regarded the community as a relevant aspect of the business.

The expansion of the mill, which required an investment of US\$ 745 million, was developed placing special emphasis on and direction of resources towards, the safety of people, the protection of the environment and the development of the community of Nacimiento.

THE COMMUNITY

Social and business responsibility and commitment to the community of Nacimiento, was accomplished through working jointly with the city council and the Centre of Regional Studies of the University of Bío Bío.

The actions were implemented through a variety of projects and programmes focussing on the education of people from Nacimiento and the surrounding areas, with the objective of giving

them tools with which to improve the development of their technical and personal skills and employment opportunities.

To this end, CMPC carried out projects in different areas.

Training programmes were created in addition to skills certification specialising in concreting, operating topographical instruments, cooking techniques and food hygiene, specialisation for chemical workers in pulp processes, techniques for managing small



Asociation of Lorry Drivers



Fire Brigade of Nacimiento



Training Program for Suppliers

businesses, creating and maintaining green areas, effective communication and change agents, and training assistants in risk prevention, amongst other skills.

Regarding education, higher-level technical careers were developed in three specialisations in collaboration with the Virginio Gómez Professional Institute: electro mechanical technician, instrumentation and industrial control technician, and industrial plant operating technician.

In the area of health, a campaign regarding AIDS and sexually transmitted diseases was created in conjunction with Nacimiento Hospital and educational centres, and works to improve and expand the general hospital in Lautaro were initiated.

With regard to the road network, the paving of several streets and cul-de-sac in Nacimiento was financed, in addition to improving all the streets in the commune for use by heavy machinery.



Visit of Governor Esteban Krause



Group of Elderly People

CMPC Foundation in Nacimiento

Since the year 2000, the CMPC Foundation has developed a programme to improve the education of primary school children in Nacimiento.

The plan has enabled educational shortages to be identified in local schools near the company site or mills, and to support the improvement of the teaching personnel, as well as the management of educational centres, obtaining quality education and a suitable social environment and personal development between members of the school community.

The schools of Nacimiento have benefited from the development of this project with land advice for teachers, the creation of teaching materials for team working between parents and pupils and the implementation of 'School Libraries', amongst other initiatives.

CMPC Foundation works with the belief that it is possible to contribute towards poverty reduction through education, narrowing existing gaps in opportunities, and providing better prospects for the future.

EMPLOYMENT

From the beginning of the project the company's objective was for more than 60% of the workers on the expansion to be from Bío Bío Province. In order to achieve that objective, a training and skills capability programme for school leavers in the commune was developed.

In addition, the company supported and gave direct incentives to generating micro companies as sources of future work.

More than eight thousand workers were employed in the construction of line two of the mill, generating

zero unemployment in Nacimiento during the two and half year duration of the project.

COMMUNITY INTEGRATION

To make the community part of the business involves developing very good relations. For that reason, right from the beginning of the expansion project, the company established contact not only with the City Council of Nacimiento, but also with local social organisations and residents.

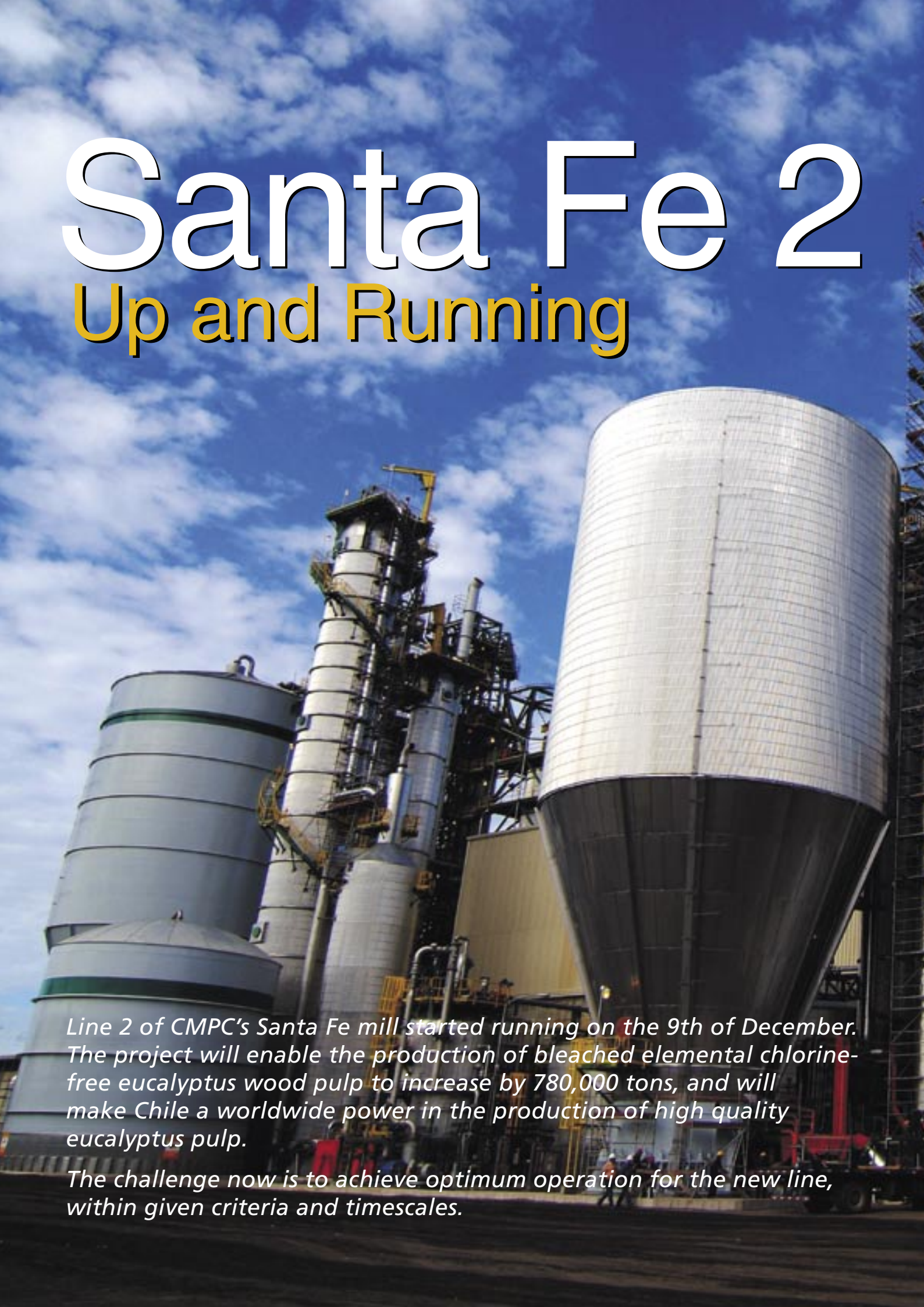
CMPC established an open door policy resulting in numerous organisations coming on a weekly basis to view the site and the work.

Through the visits, they became familiar with the pulp making process, the system of work, the care towards the environment and the company's quality control and safety systems.

More than 1.500 people participated in the mill visits, and there were meetings at Santa Fe 2 and elsewhere with authorities and other interested groups providing information about the development of the project. Contact was established, and working relationships developed with local residents' groups, town counsellors, non-governmental organisations and university students, amongst others.

Santa Fe 2

Up and Running



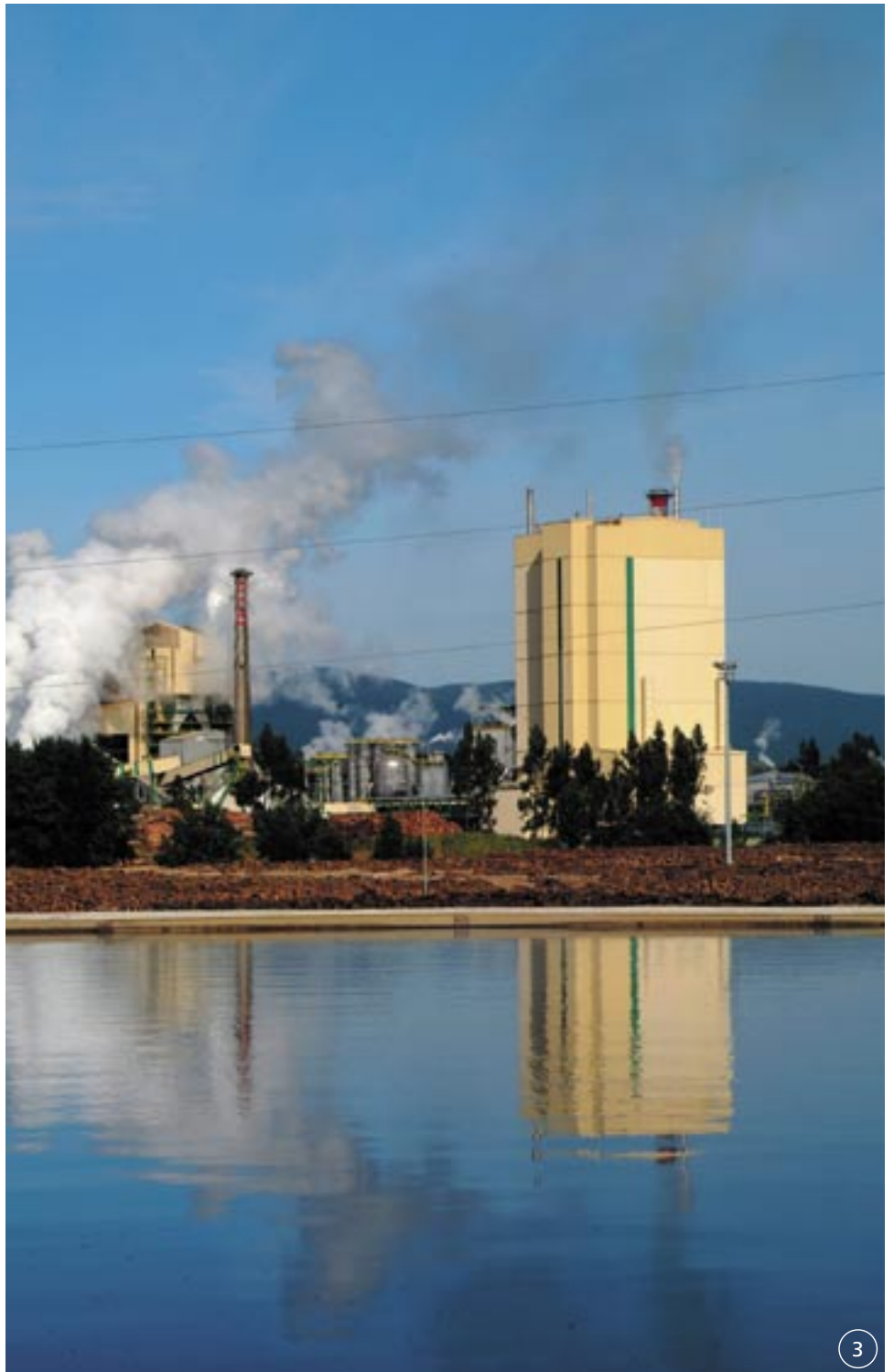
Line 2 of CMPC's Santa Fe mill started running on the 9th of December. The project will enable the production of bleached elemental chlorine-free eucalyptus wood pulp to increase by 780,000 tons, and will make Chile a worldwide power in the production of high quality eucalyptus pulp.

The challenge now is to achieve optimum operation for the new line, within given criteria and timescales.





1. Santa Fe Mill
2. Emission Control
3. Recovery Boiler





1



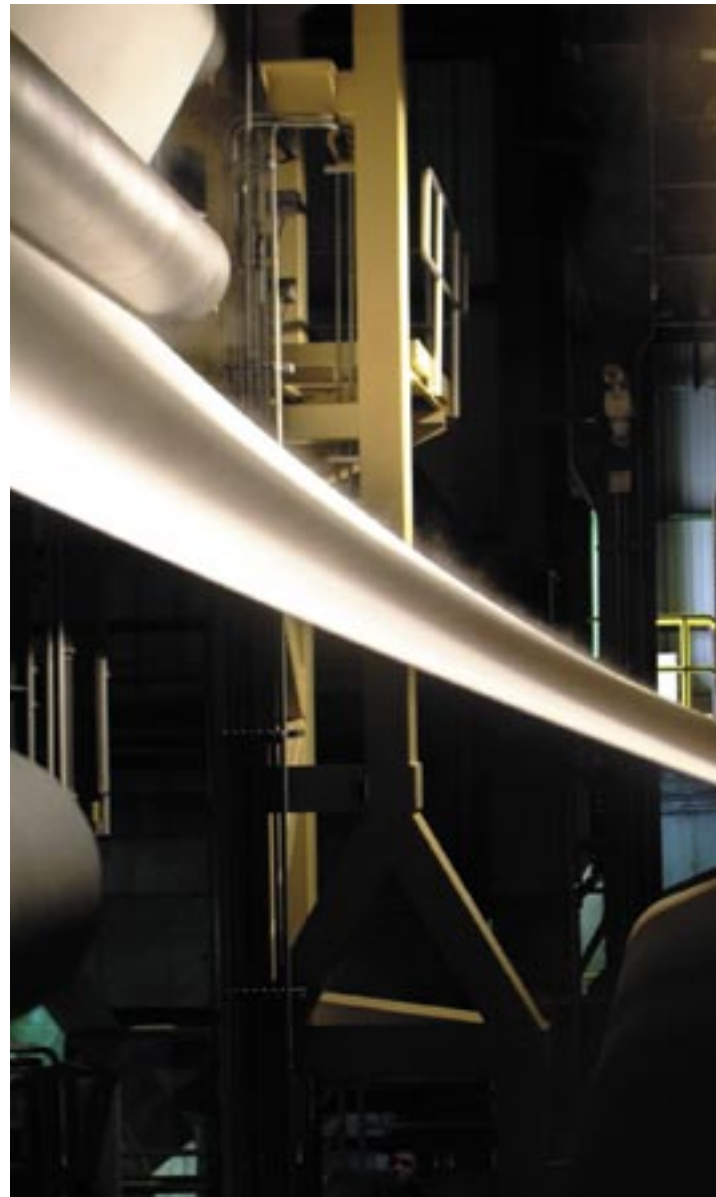
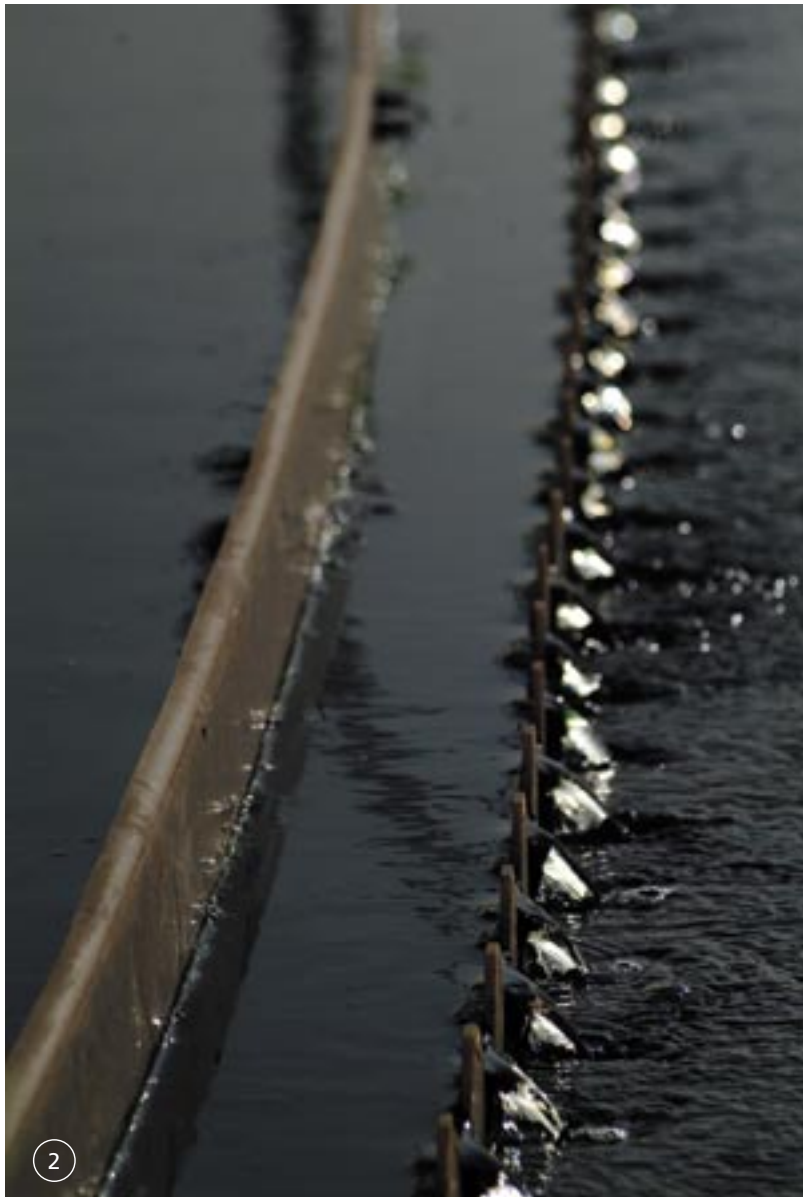
Guillermo Mullins, Commercial Director

“ In business terms, the objective is to sell the output from Santa Fe line 2 to markets with good long term returns, making the most of our comparative advantages. This entails important growth in all areas and in particular in Asia. The start of operations at Santa Fe 2 will confirm Chile and CMPC as a world power in the production of eucalyptus pulp, offering a high quality product and representing an attractive alternative to the traditional producers such as Brazil”

The implementation of the Santa Fe 2 project required an investment of US\$ 745 million, the largest in the history of the company, and of which US\$ 60 million related to environmental investment.

The main environmental investments corresponded to the production of 100% ECF (elemental chlorine free) wood pulp in both production lines, enabling amongst other measures:

- Transformation of the current line
- Removal of lignin with oxygen
- Gas and emission recuperation systems to minimise odour for both lines
- A secondary effluent treatment system for both lines
- A new diffuser in the Bío-Bío river and a new controlled disposal area to deposit solid residues from both the production lines





Francis Backhouse, Mill Manager, Santa Fe

“ The commissioning programme and the project implementation has been carried out according to plan, with some adjustments. The results of the tests have been entirely satisfactory. With regard to the environment, we have completely met the demands established by the Resolution of Environmental Quality for the project. In addition, we have endeavoured not to generate emissions with negative impacts, such as smell, noise, effluence, etc. adhering to the Zero Error Wood Pulp Strategy”.



1. Control Room
2. Clarifier
3. Presses



During the development of the project, special care has been taken to acquire the latest equipment and technology. The new machinery and tools include control elements so that emissions and discharges into the environment comply with current Chilean legal standards and with the demands of the international market.

The new mill will be capable of producing long runs of quality ECF, destined mainly for Europe. Also, if necessary, Santa Fe 2 will be able to service special markets requiring pulp with higher brightness.



Eckart Eitner, Business Director

“The primary objective is to take the mill production to its highest capacity as quickly and as safely as possible. We endeavour to achieve this without environmental incident and ensuring product quality. Our team is prepared and eager to confront this challenge and we are certain of accomplishing this in the near future. The second objective is to transport the output to our clients' warehouses on time and as scheduled. In order to achieve this we have contracted the best logistics suppliers in the world. This team is also prepared. Good environmental outcomes are our aims in everything we do. We want to achieve these objectives proud of having met the expectations of everyone: no environmental mistakes”



The project will reduce operating costs, due to lower levels of chemicals required in the bleaching process; it will also decrease shipping costs, thanks to the increased dryness of the finished product. With regard to the mill's liquid waste products, these will also be decreased.

CMPC's objective is that Santa Fe 2 develops in harmony with the community, the authorities, environmental regulations and with the most stringent safety levels, in order to obtain the greatest economic benefits in terms of better job opportunities, infrastructure, training and progress in general.



Eugenio Grohnert, Project Director



“ One of the long term goals is to maintain the good relations that have been established with the local community during the construction period, through constant visits to the plant, prompt and clear replies to their concerns and maintaining an operation in harmony with the environment”

Sergio Colvin, Managing Director



“ Today our mill has the most advanced technology, is of a competitive size, has low production costs and makes minimal impact on the environmental. In four words: a world class mill”



Gearbulk

A partner that diminishes distances

Gearbulk is the company that will transport annually more than 1 million tons of CMPC wood pulp to Europe, Asia and Australia in the next three years.



The new wood pulp production line at Santa Fe, which began operations in december, will be the second largest BEKP mill in the world, with an annual capacity of 1.16 million tons of production.

If we add to this the wood pulp production of the Laja and Pacífico mills we have an annual volume of 2 million tons, of which around 1.5 million are destined for European, Asian, US and Australian markets.

In order for Chile to compete with worldwide producers in the above markets, it is essential to have efficient and reliable transportation with the appropriate technology for transporting wood pulp.

CMPC has entrusted this task to its partner and supplier, Gearbulk Pool Ltd., with whom the company has been working since 1979, shipping initially to Northern Europe and then different destinations in Asia.

A SPECIALIST IN THE TRANSPORTATION OF FOREST PRODUCTS

Gearbulk began its operations in 1968, and today is established and incorporated in Bermuda as Gearbulk Holding Limited. The Jebesen family own a 60% share of the Company, and Mitsui O.S.K. Lines Ltd, through a wholly owned subsidiary, own a 40% share.

Gearbulk is an important carrier of forest products and operates the world's largest fleet of Open Hatch Gantry Craned (OHGC) vessels, amounting to approximately 33.5% of the world's OHGC vessels in operation. The OHGC vessels are specially designed and equipped to transport unitized forest products among other products, (mainly wood pulp, timber, plywood, and different types of paper and paperboard). Gearbulk owns a fleet of 68 vessels of which 55 are OHGC vessels, totalling approximately 2.2 million DWT. They also own and operate terminals and warehouses in various locations in Europe, Asia and America.



South America is the world centre for growth in wood pulp supply. Between 2004 and 2008 an additional 5 million tons of wood pulp is expected and its transportation will require 17 to 18 additional vessels or even an increase of 12% of the current capacity of OHGC vessels.

Eugenio Moreno, Managing Director of Gearbulk Chile



NEW DESTINATIONS

The new agreement between Gearbulk and CMPC Pulp is for three years (2007-2009) and is for annual volumes of over one million tons of pulp, which represents approximately 75% of the wood pulp shipped to markets outside of South America.

Although Gearbulk has been working with CMPC for many years, on this occasion there will be new destinations like South Korea. The ports being considered are Flushing, Brake, Sheerness and La Pallice in Europe and Changshu, Yokohama, Taichung, Inchon, Busan and Burnie in Asia and Australia.

Eugenio Moreno, Managing Director of Gearbulk Chile, states that they are making all the necessary investments to continue providing a quality service.

WHAT HAS IT BEEN LIKE FOR GEARBULK TO PARTICIPATE IN THE DEVELOPMENT OF THE WOOD PULP INDUSTRY IN CHILE?

It has been very motivating. It is a great experience to take part in

the growth of the forest industry and to contribute to the development of the port in the VIII Region. We are pleased to be able to continue contributing through linking the export of CMPC pulp to its clients in Northern Europe and Asia.

When we began our activities in Chile in 1979, approximately 60,000 tons of wood pulp were transported to Northern Europe each year for CMPC. In 2005, 540,000 tons of wood pulp were shipped for CMPC which includes shipments to Northern Europe and Asia.

WHAT SORT OF EXPERIENCE HAS IT BEEN TO WORK WITH CMPC?

Almost 26 years have gone by since the beginning of the CMPC-Gearbulk relationship and I must say that the experience has been both positive and constructive and a great learning curve for both parties, successfully facing situations and fluctuations in the pulp market through the years.

We are very proud that CMPC continues to be our client after so many years.

WHAT DO YOU CONSIDER COULD BE IMPROVED TO MAKE THE SYSTEM MORE EFFICIENT?

The investments made by the main ports in the VIII Region will be beneficial for the shipments and most of the shipping lines they use. Currently the port operations are generally quite efficient but they could still be improved, especially with regard to port equipment, handling of cargo and loading operations, which will need to be able to cope with the higher volumes of wood pulp which will be shipped in the future. This is something that we are encouraging among all parties involved, in order to anticipate right now all the necessary changes that will have to be made.

HOW DOES GEARBULK VIEW THE IMPORTANCE OF LATIN AMERICA AS A WOOD PULP PRODUCER IN THE FUTURE, AND TO WHAT EXTENT HAVE THEY INCORPORATED THIS INTO THEIR BUSINESS STRATEGY?

The growth of the forest sector in South America, especially the wood pulp industry, has made this region the most important supplier to the

world market; we therefore consider our company's presence in the region a priority. Thus we are committed to constantly improving the service provided to our clients through the addition of new vessels, enabling us to maintain high levels of competition.

WHAT MEASURES IS GEARBULK TAKING TO FACE THE IMPORTANT GROWTH IN THE DEMAND FOR FREIGHT?

The replacement and increase of our fleet is in progress. One new vessel has been delivered in the course of 2006 and another one will be delivered during the first half of 2007, while we have placed orders for four new sixth generation open hatch gantry craned vessels (72,000 DWT) for delivery from 2009 onwards. In addition there are orders in place for nine semiopen hatch vessels (6 x 62,000 DWT and 3 x 53,000 DWT) for delivery from 2009 onwards.



CMPC

Commits to Sustainable Forest Management

Defining and protecting existing native forests in their native forested lands, as well as not purchasing forestry land in which native forest has been destroyed in recent years, are some of the policies that CMPC has undertaken in its commitment to sustainable forest management in Chile.

CERTIFICATION OF SUSTAINABLE FOREST MANAGEMENT IN CHILE

For the past few years, the certification of sustainable forest management has become highly relevant to forestry, having become established as a requisite for access to and remaining in certain important world markets, driven by more demanding client requirements.

These greater market demands make it necessary to demonstrate that the products offered come from forests that have been managed in a responsible way,



both socially and environmentally, and with a long-term perspective.

In Chile, given these circumstances, efforts were concentrated on achieving the development of a national standard for forest certification that could be recognised at an international level. Thus in 2002, the National Standard for the Certification of Sustainable Forest Management, CERTFOR, was developed through a joint initiative of important public and private Chilean institutions, linked to the forestry industry. Today around 70% of forest plantations in Chile are certified by this standard.

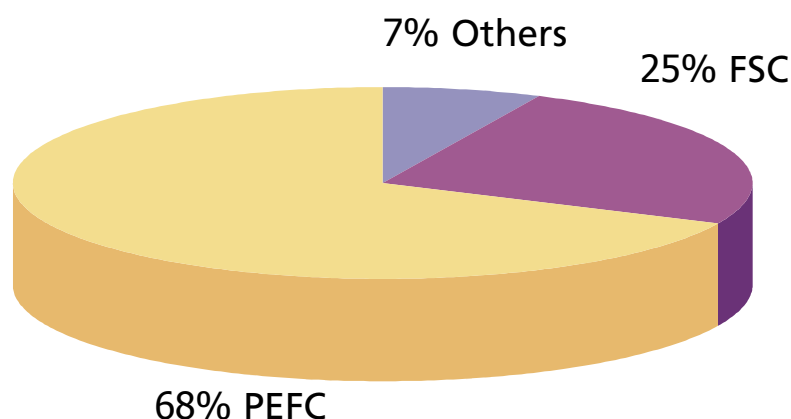
In October 2004 CERTFOR was officially approved by the PEFC Council, (Programme for the Endorsement of Forest Certification Schemes), thus obtaining international recognition from the largest forest certification system in the world.

At an international level, the PEFC is a certification scheme that evaluates and acknowledges the national forest certification standards that have been developed under strict processes involving the relevant interested parties, and are structured by mechanisms for promoting sustainable development recognised by 149 governments in the world.

To date the PEFC has endorsed 22 national schemes including, in addition to the Chilean standard, CERTFOR, the national standards of Canada (CSA), the United States (SFI), Brazil (CERFLOR), Australia (Australian Forest Certification Scheme), and 17 European countries, giving a total certified area of more than 187 million hectares of forests, which makes it the world's largest certification scheme.

To date, 9 other national schemes are at various stages of obtaining endorsement by the PEFC, one of which is the national standard of Russia, which has 22% of the world's forests.

Percentage of certified areas according to international standards



FOREST CERTIFICATION AND OTHER VOLUNTARY COMMITMENTS BY CMPC

At the end of 2002, CMPC entered into dialogue with a group of Chilean and North American NGOs lead by Forest Ethics, which included visits to forestry operations and during which important agreements were made. The main agreement reached consists of the participation in a constructive process for the protection of the native forest, based on mutually agreed upon goals. Through this process CMPC committed to defining and protecting existing native forests in their native forested lands, as well as not purchasing forestry land in which the native forest has been destroyed in recent years. For their part, the environmental groups agreed to recognise and contribute towards providing information about the high environmental quality of the forestry practices of the company. Since this agreement was reached, a good relationship has been maintained with these entities through periodical meetings with their representatives, within an atmosphere of mutual respect and increasing consensus, which has thus strengthened the company's image with regard to respect for the environment.

In the area of forestry certification, in addition to obtaining in 2001 the ISO 14.001 certification for the environmental management system relating to its forest administration, CMPC has also certified its plantations in January 2004 under the National Certification Standard for Sustainable Forest Management CERTFOR – PEFC.

Currently, CMPC Pulp has a certification protection chain from CERTFOR to PEFC, which proves that its products come from forests certified by sustainable forest management.

The certifications which CMPC has managed to acquire and maintain, together with the good relationship that it has secured with environmental NGOs, demonstrate the seriousness and commitment with which CMPC has become involved in the balance between success in business, and environmental and social responsibility, gaining a positive image and recognition in international markets.





CMPC PULP

Production and distribution of woodpulp based on Radiata Pine and Eucalyptus. The mills are Pacifico (500,000 tons softwood), Laja (360,000 tons softwood) and Santa Fe (1.2 millions tons including it's recently inaugurated second line with a new capacity of 780,000 tons. This woodpulp is exported to countries in Asia, Europe, Oceania and the Americas.

news

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CMPC PULP

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