



cm pc **Pulp**08 news

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First Year of Operations at Santa Fe 2

Organized by CMPC Pulp:
A Celebration in London
for the First Year of
Operations at Santa Fe 2

PROAMP
New Environmental Project at
CMPC's Pacífico Mill

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London We

Speech by the Managing Director of CMPC Pulp, Sergio Colvin, at the dinner hosted by CMPC at the Imperial War Museum in London, in celebration of almost a year of operations at Santa Fe 2.

Ladies and Gentlemen:

"26 years ago we started selling pulp in Europe. We were then a small company, producing about 140,000 tonnes of semi-bleached and unbleached radiata pine pulp and we were completely new to the European market.

When people asked where we were from, most had no idea where Chile was, even after they were told that we were from South America. Many thought that we were from near Mexico because of the Mexican chile con carne dish. Globalization was then in its infancy. This was the late seventies, when things which are now an integral part of everyday life, like the fax, the pc, the internet, mobile phones, international telecommunications, the Pix index and even political correctness did not exist. We made great use of the telex, which was universally held to be amazing and invincible. Those were the days when pulp was priced quarterly, there were no stocks at European ports and the NorScan producers dictated to the market and were the stars.

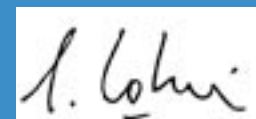
At that time nobody wanted our pulp, thinking that South American producers could never be reliable, produce good quality pulp AND deliver on time.

Much has changed. We have come of age, proving that we are a long-term, reliable pulp producer, and we now produce over 2 million tonnes of pulp for the market. Moreover, the industry has changed: eucalyptus is now a fibre of choice, we all carry Blackberries, talk about indexes, derivatives and pulp futures, we worry about the dollar, oil, China's future, the weather, taxes in Russia, the US housing market, closures in Canada, and even the divorce of President Sarkozy.

In Chile we have experienced strong, uninterrupted growth for the last 25 years, creating an environment in which major investment decisions are now being made with confidence... Our second line at Santa Fe is almost one year old, which makes us very proud. This has been an enormous industrial challenge, just to give you an idea, it required 1 million hours of engineering and 20 million hours for the construction and erection of the mill.

The electrical cables joined together could connect London to Frankfurt and enough concrete was used at the mill to build a dual carriageway of about 80 kms long.

Our performance has been the best ever with top quality pulp thanks to state-of-the-art equipment and a remarkable team at CMPC who have worked very hard to make this all happen."



Sergio Colvin

Managing Director CMPC Pulp

Santa Fe 2:

First Year of Operations Exceeds all Expectations

A year after operations began at Santa Fe 2, the largest project ever undertaken by CMPC Companies has surpassed its objectives in production capacity, development in the region and minimising its impact on the environment.

December 2007 is the anniversary of Santa Fe 2 and it has exceeded all expectations with regard to production and product quality. Francis Backhouse, Manager of Santa Fe Mill, states that the operations were 'Zero Error' and that to date there is a production surplus of 71,000 tonnes, which is the equivalent to 32 design production days.

"The first significant result obtained regarding our objectives was the production of the first wood pulp bale in December 2006. We achieved the

second important target by exceeding the design average of 30 consecutive days, with 2,227 adt/day, a record for mills of this size. July was the month with the largest production, averaging a daily production of 2,374 adt, which corresponds to 108% of the design. With regard to the quality of the production we can report that it was all saleable and complied with regulations, constituting a significant achievement for initial operations at a wood pulp plant of this size", comments Backhouse.

Santa Fe 2: Community and environment

Santa Fe 2 has not only performed extremely well in terms of production efficiency, but it also shows substantial achievements regarding matters of concern to CMPC: the environment, the health and safety of the workforce and the community. Francis Backhouse states that "environmental monitoring has been rigorous, thus nine months of environmental auditing undertaken by an external company, at the request of



CONAMA, has clearly proven our strong commitment to these issues".

In addition, the new mill has received a large number of visitors, which to date has already exceeded 2000. Also during this period training programmes have been developed for members of the local community.

What are the future plans for Santa Fe 2?

"The projection for Santa Fe Mill with its two production lines – as an industrial complex capable of producing 1.140 million tonnes of wood pulp a year, complying with the strictest standards and parameters in terms of the environment and product quality – will be to achieve a production of approximately 1.400 million tonnes in the future. If we just take into consideration Santa Fe 2 that was designed to produce 780,000 tonnes per year, our immediate objective there will be to achieve a production of 1 million tonnes per year in the next few years", concludes Backhouse.



It is expected that Santa Fe 2 will reach a production of 1 million tonnes per year in the next few years.

Guillermo Mullins reviews Santa Fe 2's first year:

“We are Reaching the main Markets of the Region with a Quality Product”

Santa Fe 2 has been in operations for a year with positive results in all areas, observes Guillermo Mullins, Commercial Director of CMPC Pulp. “The new Line 2 shows a significant advance in its ‘learning curve’ and all the optimisation work on the supply chain has been successful. This has allowed us to easily reach the main regional markets with a very uniform, quality product, similar to the product with which our regular Line 1 clients are already familiar.



But the new production capacity of CMPC, is also due to the efforts of almost 50 years of international presence, states Mullins. “During all this time, we have gained the loyalty of a select portfolio of clients, who have an excellent impression of our company, our products and the service that we supply; this has enabled us to widen our presence in the main consumer markets of wood pulp”, he explains.

CMPC, the supplier favoured by customers

“We have discovered that customers use the Line 2 wood pulp mainly for fine printing and writing paper, tissue paper and in packaging for mass consumer products, and that they are impressed by the high quality. “They have quickly managed to benefit from the physical and mechanical attributes of the product, differentiating it and making it the ideal fibre for these types of applications.

Also some customers have improved the quality of their printing and writing paper through using Line 2 wood pulp in their production. “They have obtained cost reductions through decreasing the use of long fibre, due to the fact that the resistance of our eucalyptus wood pulp is better”, he states. The production of Santa Fe 2 wood pulp reaches the highest resistance levels with low levels of refining, this means energy savings for customers and means that CMPC is the preferred supplier amongst its competitors.

The short fibre eucalyptus produced by Santa Fe 2, will become the most important component in paper production in the next few years.





Ricardo Cortés-Monroy

Half a Century at CMPC Pulp

Ricardo Cortés-Monroy is an excellent example of loyalty and commitment to one of the most renowned companies in our country. His willingness every day to be part of the efficiency and stability of a company which is continually expanding like CMPC, has motivated him to stay for 50 years.

Cortés-Monroy started work at CMPC in 1957, becoming part of the growing export business. He participated actively in the sales of newsprint and wood pulp until 1969. At that time more than 50% of sales went to Argentina, which led CMPC to set up Celpapel S.A. with Ricardo Cortés-Monroy responsible for its management for almost 11 years.

When he returned to Chile he took charge of Latin American sales and was responsible for opening up Asian markets to the company's products. After that, from 1997, he concentrated on Latin America and the opening up of other markets including Australia, United States and the Middle East.

"I feel deeply satisfied and proud to have been part of the successful management that has enabled CMPC to become currently one of the main suppliers of wood pulp in the world."

You have had constant contact with the company's customers, what role have they played in your career path and what message would you like to convey to them?

"From the beginning CMPC was determined that our primary objective would be to establish long term relationships with all our customers and in this we have been very successful. Today, we have numerous customers in our portfolio who have been with us for decades and some indeed right from the beginning. I send my personal appreciation and gratitude to all our customers. CMPC was, is and always will be on the side of its customers."

How do you understand CMPC's market success?

"It is at the same time very easy and very difficult to achieve, but when a company is serious, responsible and offers quality products, at competitive prices and an excellent service, it becomes trustworthy and it is that which the customer looks for and appreciates.

Apart from that, CMPC is different from the rest of the companies in Chile because over time it has developed its own very special culture, by being a very old company, very stable in its ownership, which has been managed in a professional way from the start, with directors, professional, technicians and workers that have always felt well integrated. Today almost 10,000 people work at CMPC, however we continue to be a large family and we have the leadership of outstanding men such as Jorge Alessandri and Ernetso Ayala"

Organized by CMPC Pulp:

A Celebration in London for the First Year of Operations at Santa Fe 2



A gala dinner for European customers was arranged with great success at the Imperial War Museum in London.



More than 100 European guests gathered at the dinner organized by CMPC Pulp in London to celebrate almost a year since the start of operations of Line 2 at Santa Fe Mill.

The invitees spent an entertaining evening at London's Imperial War Museum, where a large part of British wartime history has been collected together. There they sampled a meal that combined typically Chilean ingredients and enjoyed a show consisting of a Japanese percussion group and singing from Diva's Incognito. In addition, the guests received cufflinks and earrings handmade in Chile by Mapuches as a souvenir.



PROAMP

New Environmental Project at CMPC's Pacífico Mill

The environment forms part of CMPC's policy on sustainable development, and is therefore present in every one of its projects and is highlighted by the ongoing concern for optimising resource use, applying leading edge technology and complying with the demands of current regulations.



PROAMP is a new environmental project that CMPC is implementing at Pacífico Mill in order to obtain more efficient and cleaner production. Gustavo Vera, Mill Manager, explains that the basic engineering has been finished to date and that in January 2008 detailed engineering will begin. It is anticipated that the arrival of materials and construction will begin in April and June next year, respectively. According to the established programme, the project must in operation by December 2009. With regard to investment, taking into consideration direct and indirect costs, this amounts to US\$55 million.



CMPC believes in truly applying the principle of sustainable development: Harmonising the development of production with the legitimate right of future generations to live in a healthy and suitable environment.

“One of the main reasons underlying the development of this project is complying permanently and fully with the current relevant environmental regulations, as well as anticipating future requirements, not only associated with legislation but also with the demands that the markets impose on our product such as BAT (Best Available Technologies)”, clarifies Vera.

Implementation of PROAMP

The PROAMP project for Pacifico Mill aims to improve production quality, be consistent with CMPC's commitment to the environment and be a decisive element in competitiveness, both nationally and internationally. The development of PROAMP involves the combined efforts of several professionals and specific suppliers, who will deliver this project in the best possible way. “In the basic engineering phase our Project Manager consulted a Swedish company (AF-Process) and a Chilean-Canadian consortium (Cade-Amec), both with broad experience of projects of this size. With regard to the number of suppliers, this will depend on the tender packages, but three or four large companies are envisaged, in addition to the construction companies responsible for the civil works phase and assembly”, Gustavo Vera emphasises.

Also, during the project development all the preventative measures have been taken into consideration that

could have an affect on the community or the environment, such as noise control, dust emission, and traffic on access roads.

PROAMP considers the following as the main stages:

- New effluent treatment system in the bioreactors
- Collection and treatment system of diluted non condensable gases (DNCG)
- Increase in the capacity of the collection and treatment system of diluted non condensable gases (DNCG)
- Increase in the evaporation capacity
- Control and management of rainwater.

Gustavo Vera comments that “the carrying out of each stage will depend on the time taken to supply and set up the equipment and connect to the current systems, hence many of these measures will happen when the factory stops annually in 2008 and 2009.”

Once PROAMP is operating fully the benefits will be found in air emissions, such as control of odours and particles. With regard to effluents, it is considered that there will be improvements in the control and recovery of spillages, control of rainwater and cleaning of condensed gases, reducing the burden on the treatment system. In addition, the recovery of methanol will be one of the benefits, as well as the production of sodium bisulphate and less use of chemicals.



PROAMP will enable the reduction of air emissions, better control of liquid spillages, rainwater and cleaning of condensed gases, an increase in the recovery of methanol, production of sodium bisulphate and reduction in the use of chemicals.

Market Development in 2007

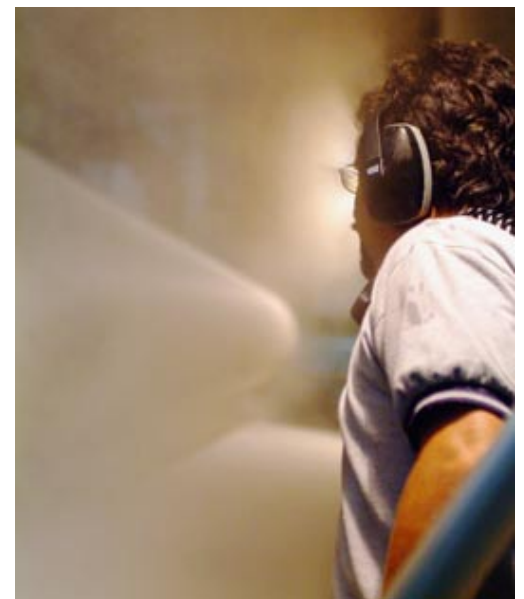
General View of the Wood Pulp Market

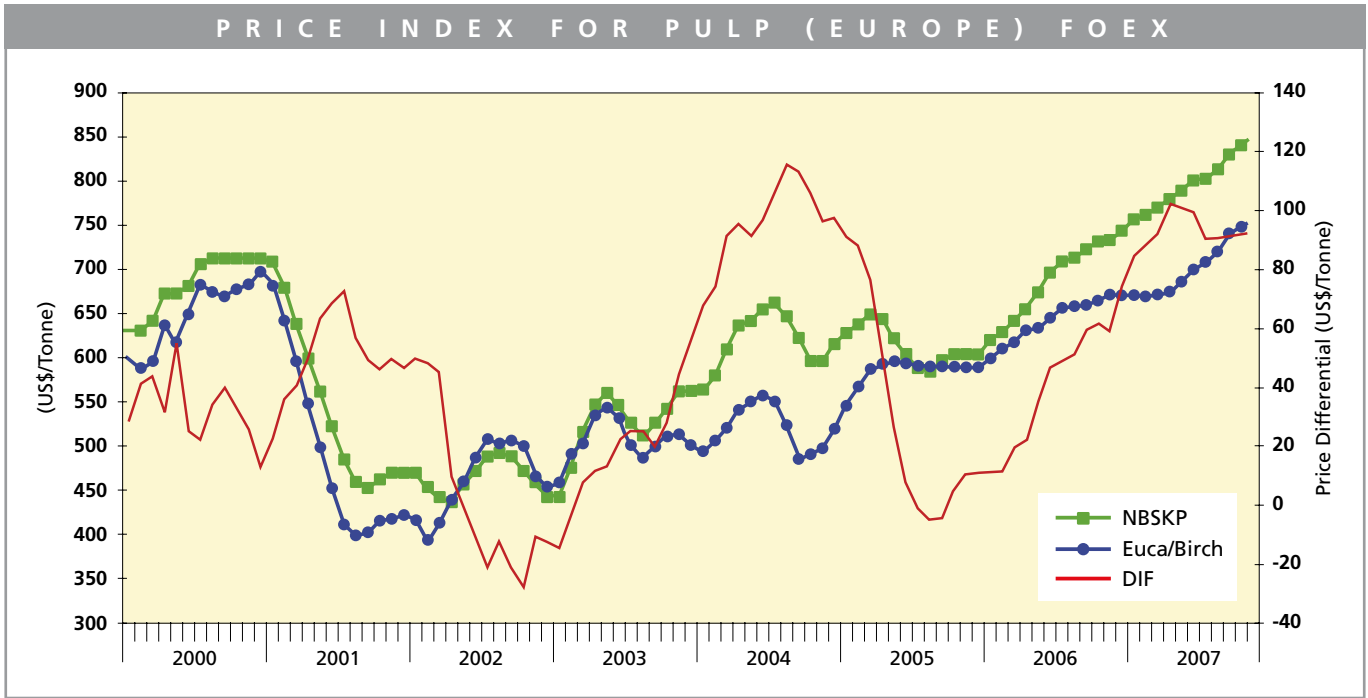
- Contrary to what the analysts predicted at the end of 2006, international prices of wood pulp rose steadily during 2007, but much more slowly than other traded commodities. The growth rate of the world economy slowed down compared to last year, decreasing the growth in the demand for wood pulp, and in these circumstances, China was a determining factor as 50% of the growth in demand was concentrated there. From the point of view of supply, a series of chance events caused severe restrictions in the full use of producers' production capacity (shortage of wood, strikes, equipment failure), which were key factors in the price rises.
- The drop in the value of the dollar compared to the other currencies

during the year is worth a special mention. This has two interpretations, on the one hand it lessens the impact of the price rises in costs for paper companies in the countries that are consumers of wood pulp, and on the other hand it creates rising costs for the producers of wood pulp outside of the US. Thus, the price index for wood pulp in Europe (FOEX) for long fibre with regard to the end of 2006 rose by 16% expressed in dollars, but only 5% expressed in euros. In the case of short fibre the rise in dollars was 12% and only 1% in euros.

- The international prices of short fibre wood pulp rose more moderately than long fibre, surprising the analysts who had predicted a decrease, considering that in 2007 there would be a significant increase in the production capacity of this type of wood pulp due to expansions in

Brazil, Chile and Uruguay. The demand for short fibre wood pulp remained strong, growing by approximately 6% in relation to the previous year, partly driven by the price differential between the two types – which averaged US\$90 per tonne -, and also motivated by a larger consumption of short fibre as opposed to long fibre. A long list of factors limited the growth in world production of the latter type of wood pulp and in summary, the supply grew in line with demand. Consequently, the producers' records of this type of wood pulp maintained an average dispatch of approximately 35 days, the same as the previous year.





Cristián Alfero:

New Assistant Business Director of CMPC Pulp

He's in charge of the market in the Americas, following on from Ricardo Cortés-Monroy, who worked for the company for 50 years. However, Alfero has also had an important career path, given that 15 years ago he started at Papelex and then worked for Inforsa.



What do you hope will be your personal mark or stamp on this post?

It seems to me that the main issue, at least initially, is business continuity in the markets that I manage, trying to foster in our clients and network of agents the necessary trust so that they perceive that Richard's departure and my arrival will in no way change the business policies of the company and that relationships that have been built over time will continue to be highly valued. On the other hand, my career path leading to the CMPC group, has allowed me to accumulate experience in international business linked to newsprint: 5 years at

Papelex, exporting Inforsa's and Papeles Bio-Bio's production to Latin America and then 10 years at Inforsa itself, where we were also in charge of the national market, together with logistics knowledge, provides me with a different viewpoint and enables me to add value in a number of areas.

What has been the business strategy enabling CMPC to maintain continued growth in the international markets and evident development?

There are many variables involved, some internal and some external. For

the former I believe that the building blocks of success have been a long-term business view, clear policies on business flexibility and conservative management of credit risk. The characteristics that are an integral part of the "culture of CMPC" within a well-defined valued framework, consist of clear leadership and valuable human resources, of which our agent network are the foundations of the success of the company.

The perseverance with regard to this business style means that over time customers start to recognise a trustworthy and safe supplier in CMPC.



CMPC PULP

Production and distribution of woodpulp based on Radiata Pine and Eucalyptus. The mills are Pacifico (500.000 tons Radiata Pine), Laja (360.000 tons Radiata Pine) and Santa Fe (1.2 million tons Eucalyptus). This woodpulp is exported to countries in Asia, Europe, Oceania and the Americas.

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