

CMPC PULP

05
September
2006

Santa Fe Line2
Has Reached Its Final Stage

Changshu
Our Gateway to China

CMPC Foundation
CMPC's commitment towards
Education

Interview with Arturo Mackenna:

**"CMPC is Planning For
The Future With Great
Dynamism"**

Zero Fault Program

Giving shape to a world-class company



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newsletter

Dear Friends,

This is our fifth Santa Fe Expansion Project newsletter, and it seems appropriate to mention that we have been impressed with the extent of our readers' interest and feedback regarding the articles we have included so far.

The purpose of these newsletters is not only to keep you informed about the latest developments at CMPC Pulp but also for you to learn about our company, our people, and our business philosophy.

In this issue we have an interview with Arturo Mackenna, our Group CEO, which I am sure will be of interest to many of you. It is in no small measure thanks to his clear-sighted leadership that CMPC has become what it is today.

We also touch on our Zero Fault Program, a mill construction site accident-avoidance-scheme which has involved every worker in our company.

China has become one of the fastest growing markets for our pulp, and we have great plans for the sales of our Santa Fe pulp there. Logistics play a very important part in our China strategy which requires that our customers receive their pulp in excellent condition and on time. In this regard Westerlund Corporation and their operation at Changshu port has been crucial to our success. They are our strategic partners in China for logistics, and we hope to achieve great things together there.

Our Santa Fe project is now nearing completion, with most of the work behind us. However we still have more than 7,500 workers on-site and we have decided - for the good of the project - to delay the start-up by 4 weeks to late October. This will ensure a start up that is as close to flawless as possible.

Finally, we have had an unusually wet July here in Chile, with severe flooding to the towns near our mills. The response of our mill workers and managers in helping the communities cope with the problems brought on by the weather has been truly remarkable. We are very proud of the difference their efforts have made to local people, whose difficulties would have been compounded without their help.


Warm regards,
Willie Mullins



Santa Fe Line 2

Has Reached Its Final Stage

We are three months away from the start-up of Santa Fe Line 2 and the overall work is over 90 per cent completed.

Services such as electricity, industrial water and compressed air are now available. The main power supply rooms have been energized and the recovery boiler's electromechanical assembly is virtually finished.

In the fibre area, drying machine, evaporators, causticizing and turbines, the electromechanical assembly is swiftly making progress so as to conclude the work within the stipulated deadline. The installation of the plant's control

and instrumentation has already started. The operators have completed their training sessions and they have now taken control of the equipment's commissioning stage.

In order to ensure an effective and expeditious start up, while simultaneously reducing to a minimum the likelihood of an environmental incident and guaranteeing that the product will be of optimum quality from the very first bale, a series of changes have been introduced in terms of the project's implementation. This has resulted in a 30-day delay, and consequently, the start-up has been rescheduled for October 30th,

2006. We are certain that this will have no impact on our trade commitments but rather quite the opposite. It will allow us to fulfill them more efficiently.

During the last few months, the workforce involved in the Santa Fe Line 2 project has exceeded 7,500 people. We have worked according to high security standards, and there have been no major accidents. Our joint efforts have prevented the occurrence of environmental incidents, and therefore, CMPC is not only satisfied with these results but also very proud of our team work.

Changshu

Our Gateway to China



In view of its size and economic success, China has become the focus of attention for all exporters around the world, particularly for those who export raw materials and commodities.

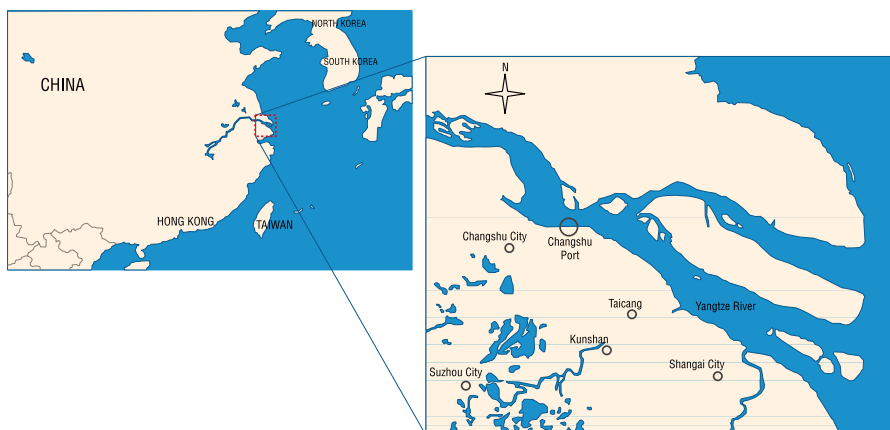
CMPC is no exception to this rule. The forthcoming start-up of Santa Fe Plant's Line 2 has led the company to look for the best way to tackle the increase in sales that is expected to occur in China.



Jean Jacques Westerlund, President of Westerlund Group

The steady increase in exports to China has led CMPC to look for a distribution hub which, apart from being located in those provinces that experience the highest growth rate in terms of their paper-producing capacity, may be efficient and allow the distribution of pulp throughout the entire country, delivering quality service to CMPC and its customers.

China is presently producing around 20 million tons of paper and cardboard a year in factories located in the "new China", or else in modern factories which started to be built in 1996. This represents virtually 50 per cent of the whole country's production. Eighty per cent of the production that comes from the "new China" is concentrated in the provinces of Guangdong, Zhejiang, Jiangsu and Shandong.



the support provided by the Changshu Port Authority has played a key role.

“We wish to transform Changshu into a gateway for forest products to China. Furthermore, we are analyzing the possibility of developing a platform in the South of China, where until now no major investments have been made.”

Jean Jacques admits that the difference between operating a terminal in China and one in Europe lies on the fact that in the Asian country, there has been no previous experience that could help shape the future of the operation. “We are paving the way as we go, and in doing so, we’ve had to train many people, teaching them pulp and paper handling techniques.”

The relationship between CMPC and Westerlund dates back to the eighties, when CMPC was using the port of Antwerp in Europe. “These have been years of outstanding collaboration and friendship. The fact that we are now working together in Changshu is nothing but the result of the good partnership that we’ve enjoyed over the years”, declared the President of Westerlund Group.

Westerlund-Changshu Terminal

The Westerlund-Changshu Terminal is the distribution hub that CMPC has chosen for its operations in this Asian country.

Located on the border between the provinces of Zhejiang and Jiangsu, on the banks of Yangtze River, Westerlund-Changshu is 75 per cent owned by the Belgian company Westerlund Group NV, who also have operations in Antwerp (Belgium), Rouen (France) and Tilbury (UK). The remaining 25 per cent belongs to a partnership between Panunited (Australia) and Changshu’s Port Authority.

In May, 1997, the Terminal began to operate with some difficulties. In that year, Westerlund-Changshu moved approximately 10 thousand tons. At present, thanks to a sustained growth pattern, they’ve succeeded in gaining recognition from large pulp producers in Canada, Brazil and New Zealand, among others, thus managing to move 1 million tons in 2005 and expecting to reach close to 1.2 million in 2006. Out of this volume, 95 per cent is accounted for by pulp and the rest by paper.

They hold 20 hectares of land and 62 thousand square metres of warehouses with capacity for 220,000 tons of pulp; in addition, they operate on a quay 1,500 metres in length and 13.5 metres in depth that allows for an easy unloading of Open Hatch type vessels.

Outlook

In the year 2005, Westerlund-Changshu transshipped 300 thousand tons of cargo going to destinations such as Dagang, Shanghai, Qingdao, as well as to other countries such as Indonesia. Its privileged location allows expeditious access to major paper-producing companies like UPM-Changshu, Stora Enso-Suzhou, APP Gold East-Dagang and Nine Dragons-Taicang.

According to Jean Jacques Westerlund, President of Westerlund Group, China has had a very successful experience in which

In a country where everything is big, particularly with regard to distances, it is necessary to have an efficient distribution hub, capable of managing inventories in an optimum fashion and allowing at the same time to distribute pulp to the rest of China, delivering quality service to CMPC and its customers.

Country	People’s Republic of China
Population	1,300 million inhabitants 38 % urban 62 % rural
Demographic growth	1 % annual 1996/2000 0.6 % annual 2000/2020 forecasted
GDP	9.5 % estimated for 2005
GDP per capita	US\$ 1,700
Paper consumption	42 kilos per capita

CMPC

A Bright Future Ahead

CMPC's general manager talks about the company, its presence in Chile, Argentina, Peru, Uruguay and Mexico via its five business areas (Forestry, Pulp, Tissue, Paper and Paper products) and its most recent investment plan.



"CMPC as a company is both loyal to its traditions and at the same time, it is innovative and dynamic, admired as an example of excellence in project execution. We are proud to say that we have not rested on our laurels for a minute: our investment in the last five years has totaled over US\$ 1 billion and we are now executing a plan involving an additional US\$ 1.5 billion, the largest component of which is the new pulp line at our Santa Fe Mill. This will require an investment of US\$ 745 million, the largest single outlay in the history of our company" –says Arturo Mackenna, CMPC's Group CEO.

WORLD CLASS PULP FACTORIES



What is your view on the Santa Fe Line 2 project?

We are satisfied. It has stayed within budget and is progressing according to plan. We estimate it will be up and running by the last quarter of 2006. The project has fulfilled all the requirements imposed by the environmental regulator (Environmental Permit, EP)

These include full compliance with environmental legislation and the application of the mitigation, compensation and reparation measures contained in the EP. We have also assigned great importance to safety issues, allocating both time and resources to ensure full compliance in this regard.

Another project that is being developed by CMPC Pulp is PROFAL IV...

That's right. Its development involves an investment of US\$ 42 million consisting of an oxygen delignification process and a series of other environmental improvements at the Laja Mill. Also in our pulp business area, towards the end of 2006 a biomass boiler at our Pacífico Mill will come on stream, with a generation capacity of up to 150 t/h of high pressure vapour. The investment cost of this project is US\$ 55 million.

INVESTMENTS IN OTHER AREAS OF THE COMPANY



Are important investment projects underway in other areas of the company?

At our Maule Plant, which produces folding boxboard, there is an ongoing factory enlargement process by which capacity will grow by eighty thousand tons – an investment of US\$ 38.5 million. We have also been using a new machine to produce tissue paper at the Talagante Plant since the second semester of 2005. In our forestry business, we have begun using our rebuilt sawmill line at Mulchen, which has a production capacity of 420,000 cubic metres per year and required a US \$26 million investment. On top of this, we are currently constructing a new plywood board plant there. At Papeles Cordillera, the corrugating paper factory's capacity was enlarged, which will increase to 280,000 tons per year an investment of US \$35.5 million, and a secondary effluent treatment process has also recently come on line. Similar secondary effluent treatment processes have come on

line at INFORSA, our newspaper plant and at our plywood board plants in Maule and Valdivia.

CORPORATE SOCIAL RESPONSIBILITY



Mackenna says the company is an active and committed member of the adjacent communities, constantly making significant contributions to community and CMPC-initiated projects which are all aimed at improving local people's quality of life. "For instance, in our forestry area we have developed the "Good Neighbourhood Plan" designed to benefit our neighbours, who are mainly Mapuche Indian communities. It consists mainly but not exclusively in providing job opportunities to help reduce poverty in the area."

Mackenna adds that another component of CMPC's approach to Corporate Social Responsibility is the support that the CMPC Foundation gives to 93 schools in 36 districts throughout the country, benefiting over 380 teachers and 15,000 students.

With regard to the environment, the CMPC's CEO notes that "as a world class company and a market leader, we are deeply committed to the concept of sustainable development. A company cannot develop economically without wholeheartedly embracing a sustainable development strategy and the value of being an environmentally responsible company"

CMPC: A ENVIRONMENTALLY RESPONSIBLE COMPANY

According to Mackenna, the market boycott of CMPC towards

the end of 2002 by a group of environmentalists in the US alleging damage to native forests may prove to have been the acid test for CMPC, making clear the value of environmentally impeccable conduct. "These activists, lacking accurate information, attributed to Chilean companies environmentally damaging conduct based on hypotheses that were completely divorced from reality. We set up a constructive dialogue, which finally resulted in a visit by both the North American and Chilean NGOs which had initiated the boycott. This allowed them to see for themselves what was actually going on in Chile. The process ended successfully with the signing of a collaboration agreement between the two main forestry companies in Chile and these NGOs. This was the beginning of an unlikely and fruitful relationship of communication and trust between environmental groups and CMPC, which has contributed to this day to dispelling false stereotypes, paradigms and misinformation.

In what sense do you feel your company contributes to the care of the environment?

Plantations, clean processes, replacement of fossil fuels by biomass, and use of recycled paper are the main contributions of this company to the environment, and allow sustainable development over the long run.

Recuadro: El gerente general de CMPC se refiere al presente de esta empresa, y sus nuevas inversiones, la que tiene presencia industrial en Chile, Argentina, Perú, Uruguay y México, a través de cinco centros de negocios: Forestal, Celulosa, Tissue, Papeles y Productos de Papel.





CMPC's commitment towards

Education

More than 300 teachers have benefited from the public schools support programs conducted by the CMPC Foundation.



Since the year 2000, the CMPC Foundation has been conducting social programs in public schools located in the localities where the company owns land or carries out production operations.

The main focus of this activity is to provide support to children at a pre-school and elementary school level, by training teachers in the two most important educational areas: language and communication and math skills. These programs aim at having a positive impact on the learning process and personal development of the whole educational community.

Teachers from more than 45 schools have participated in these programs. Through group and individual training and accompanying sessions, teachers are given the opportunity to reflect on various issues which are essential components of education, refresh their knowledge with regard to the goals and content of the subjects, and upgrade their skills to handle different methodologies.

Action Guidelines

The task aimed at achieving effective school performance implies providing direct support to teachers and school principals, starting from the planning stage and up to the evaluation stage.

“The task accomplished by teachers at the working sessions was very enriching”

(Testimony by a Teacher in Yerbas Buenas)

“The activities have been very stimulating for the work we carry out.”

(Testimony by a Teacher in Mulchén)

“Planning together allows us to share ideas and experiences.”

(Testimony by a Teacher in Mulchén)

Through upgrading workshops and consulting services tailored to the different needs of each school, the CMPC Foundation provides the necessary tools to strengthen the knowledge and improve the skills of teachers and principals in areas such as leadership, school management and pedagogical procedures. To this end, on-site support activities are carried out based on what has been observed in the classroom and modeling of classroom activities.

Furthermore, this project envisages the delivery of books and teaching material consistent with the methodologies that have been proposed in the upgrading courses and based on the needs observed in each school. This material facilitates the teacher's task, enriching his/her professional work and offering the students the possibility of having available high-quality learning resources.

Results

These programs have resulted in a progressive and substantial improvement of the learning process in the public schools involved. In the year 2005, these schools achieved higher scores in the national examination conducted in Chile to assess the students' knowledge and integration of the subjects studied.

An environmental and security-related innovative strategy

Zero Fault Program

Giving shape to a world-class company

CMPC Celulosa is at the industry's forefront in terms of technology as a result of its new investments, particularly in Santa Fe Plant's Line 2, which is being built according to the most stringent global environmental standards. In parallel, a major and significant strategy in the field of human resources management is being developed.



Control Room at the Santa Fe Mill



Eckart Eitner, Business Director

Ever since the advent of globalization, thousands of companies expanded their markets even further...while many others were forced to adapt their technologies and processes in order to comply with the strictest world standards. Some of them succeeded, while others were defeated.

Those who succeeded shared a least common denominator: people. They were the mainstay for cultural change and are essential when it comes to adding value to your business and for shareholders. They also play a key role in preventing environmental and security accidents.

Since its inception, **CMPC Pulp** began to shape its future by gearing its efforts, resources and energy towards the establishment of a high-performance organization, respectful of the environment and concerned for its community. Consequently, it is now implementing its **Zero Fault Program** strategy that seeks one single purpose: a flawless performance, i.e., "faultless" compliance within the highest standards of excellence, particularly with regard to environmental and security matters. The main aim of this strategy is to make all collaborators become environmental and security agents, constantly striving to improve the

company's performance in such manner that the environmental factor be taken into account in all their decisions, "incorporating it into their blood stream and into their genetics", as stated by the Managing Director.

This is indeed a major challenge, given the fact that according to the experience gathered at an international level, it can be stated that the feature that distinguishes a world-class company are the people who work in it, their attitude and their degree of expertise, commitment and alignment with it.

Bearing in mind these facts, the board of directors entrusted Sergio Colvin, Managing Director of CMPC Pulp, with the task of implementing the abovementioned **Zero Fault Program**, focusing primarily on human resources. Said strategy involved the following three aspects:

- Educating people so that they may become permanent environmental and security agents.
- Updating the operating and emergency procedures so as to ensure that activities will not have an impact on our neighbours or on the environment.
- Streamlining the facilities by introducing modern and well-proven systems and technologies that minimize and control the emissions originating from the process.

According to Eckart Eitner, Business Director of CMPC Pulp, the **Zero Fault Program** strategy aims at articulating those actions that are necessary to consolidate a culture of excellence that will ensure outstanding performance and service throughout the whole organization, so that our clients



Sergio Colvin, Managing Director

may always deem us as a top quality pulp supplier.

Consistent with the foregoing, **CMPC Pulp**, through its Human Resources division, began to train environmental monitors who are considered as the originators of the strategic cultural approach that is being developed by the company at all levels in order to attain the faultless goal. Along those lines, the environmental and security superintendents, known as SIMAS for its acronym in Spanish, of the three plants (Laja, Pacífico and Santa Fe) were incorporated into the managerial structure.

The purpose of training is to develop among all CMPC Pulp workers (either permanent employees or contractors) a behaviour that will safeguard the environment.



CMPC Group Results

(Millions of US\$)

	2006 January-June	2005 January-June	%
Operating Revenue	1.108	960	15,4%
EBITDA	248	255	-2,8%
Operating Profit	144	170	-15,3%
Net Profit	85	127	-33,1%



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 (380,000 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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